

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2003 or
- Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission file number: 001-12421

NU SKIN ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

87-0565309

(IRS Employer
Identification No.)

75 West Center Street

Provo, UT 84601

(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:

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
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

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.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Based on the closing sales price of the Class A common stock on the New York Stock Exchange on June 30, 2003, the aggregate market value of the voting stock (Class A and Class B common stock) held by non-affiliates of the Registrant was approximately \$451 million. For purposes of this calculation, voting stock held by executive officers, directors, and stockholders holding more than 10% of the voting stock has been excluded.

As of February 27, 2004, 71,149,539 shares of the Registrant's Class A common stock, \$.001 par value per share, and 6,466 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 definitive Proxy Statement for the Registrant's 2004 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.

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SIGNATURES

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 OUR EXPECTATIONS OR BELIEFS CONCERNING, AMONG OTHER THINGS, FUTURE REVENUE, EARNINGS, GROWTH STRATEGIES AND OTHER FINANCIAL RESULTS, NEW PRODUCTS, FUTURE OPERATIONS AND OPERATING RESULTS, AND FUTURE BUSINESS AND MARKET OPPORTUNITIES. WE WISH TO CAUTION AND ADVISE READERS THAT THESE STATEMENTS INVOLVE RISKS 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 OUR BUSINESS, SEE "ITEM 1. BUSINESS – RISK FACTORS" BEGINNING ON PAGE 23.

In this Annual Report on Form 10-K, references to "dollars" and "\$" are to United States dollars. Nu Skin, Pharmanex, "6S Quality Process" and Big Planet are our trademarks. The italicized product names used in this Annual Report on Form 10-K are product names and also, in certain cases, our trademarks.

PART I

ITEM 1. BUSINESS

Nu Skin Enterprises is a leading, global direct selling company. We develop and distribute premium-quality, innovative personal care products and nutritional supplements that are sold worldwide under the Nu Skin and Pharmanex brands. We also market technology products and services and a line of home care products under the Big Planet brand. We are one of the largest direct selling companies in the world with 2003 revenue of \$986 million and a global network of approximately 678,000 active independent distributors. Approximately 29,000 of our active distributors have achieved executive distributor status. Our executive distributors play an important leadership role in our distribution network and are critical to the growth and profitability of our business. We currently operate in more than 30 countries throughout Asia, the Americas and Europe, and we recognize approximately 89% of our revenue in markets outside the United States, with our Japanese operations accounting for approximately 57% of our revenue. Because of the size of our foreign operations, our operating results can be negatively impacted by such factors as weakening of foreign currencies, regulatory issues and poor economic or political conditions in those markets.

We develop and market branded consumer products that we believe are well-suited for direct selling. Our distributors market and sell our products by educating consumers about the benefits and distinguishing characteristics of our products and by providing personalized customer service. Through dedicated research and development, we continually develop and introduce new products and enhance our existing line of products to provide our distributors with a differentiated product portfolio. We are able to attract and motivate high-caliber independent distributors because of our focus on developing innovative products, our attractive global compensation system and our advanced technological distributor support. The direct selling and nutritional supplement industries, however, are subject to extensive governmental

regulations throughout the world, which impose some restrictions on our business and create the risk that we could be fined or have our operations suspended if we fail to comply with these regulations.

Our Product Divisions

We have three product divisions: Nu Skin, which offers personal care products; Pharmanex, which offers nutritional products; and Big Planet, which offers high-technology products and services.

Presented below are the U.S. dollar amounts and percentages of revenue from the sale of Nu Skin, Pharmanex and Big Planet products and services for each of the years ended December 31, 2001, 2002, and 2003. This table should be read together with the information presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations," which discusses the costs associated with generating the aggregate revenue presented:

Revenue by Product Category
(in millions)⁽¹⁾

Product Category	Year Ended December 31, 2001		Year Ended December 31, 2002		Year Ended December 31, 2003	
	\$	%	\$	%	\$	%
Nu Skin	423.7	47.8	470.6	48.8	476.2	48.3
Pharmanex	396.3	44.8	439.0	45.5	472.1	47.8
Big Planet	65.6	7.4	54.5	5.7	38.2	3.9
Total	885.6	100.0	964.1	100.0	986.5	100.0

(1) In 2003, over 89% of our sales were transacted in foreign currencies that are converted to U.S. dollars for financial reporting purposes at weighted average exchange rates. Foreign currency fluctuations positively impacted reported revenue by 4% in 2003 compared to 2002, and negatively impacted reported revenue by 1% in 2002 compared to 2001.

Nu Skin. Nu Skin is our original product line and offers over 100 premium-quality personal care products in the areas of daily skin care, advanced skin treatments, ethnobotanical personal care and other advanced products.

Our strategy is to leverage our network marketing distribution model to establish Nu Skin as an innovative leader in the personal care market. We are committed to continuously improving and evolving our product formulations to incorporate innovative and proven ingredients while excluding those that we believe are detrimental to consumers. For example, we recently introduced *Tru Face Essence*, a facial firming serum that restores youthful contours to the face and neck area. Other examples include our *Tru Face Revealing Gel*, a daily treatment that refines skin appearance for a radiant complexion and *Epoch Ava Puhi Moni Anti-Dandruff Shampoo*, an "ethnobotanical" shampoo that combines ancient use of plants with modern day science. Our educated distributor force provides consumers with detailed

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information and instruction about our Nu Skin products and guidelines for using the products most effectively, thereby enabling us to bring more sophisticated ideas and technologies to market.

Nu Skin offers products individually and in comprehensive product sets that include a variety of products in each product line. The following table summarizes the current Nu Skin product line by category. Revenue percentages in the table are for the year ended December 31, 2003:

Category	Description	Selected Products
Daily Skin Care 44% of Nu Skin division revenue	Our premier line of daily skin care products consists of face and body products including cleansers, toners, moisturizers, specialty products and body care. <i>Nutricentials</i> products fortified with topically applied nutrients uniquely position this line.	<i>Night Supply Nourishing Cream</i> <i>Liquid Body Bar</i> <i>Enhancer</i> <i>Celltrex Ultra</i> <i>Perennial Intense Body Moisturizer</i>
Advanced Skin Treatments 23% of Nu Skin division revenue	Our advanced skin treatments are designed to supplement the benefits of a daily skin care routine, featuring products with ingredients scientifically proven to provide visible results for specific skin care needs from anti-aging to acne.	<i>Nu Skin 180° Anti-Aging Skin Therapy</i> <i>Tru Face Line Corrector</i> <i>Tru Face Essence</i> <i>Tru Face Revealing Gel</i> <i>Nu Skin Galvanic Spa System II</i> <i>Nu Skin Clear Action Acne Treatment System</i>
Ethnobotanicals 7% of Nu Skin division revenue	Our <i>Epoch</i> line is distinguished by utilizing the traditions of indigenous culture. Each Epoch product is formulated with botanical ingredients derived from renewable resources found in nature. In addition, we contribute a percentage of our proceeds from <i>Epoch</i> sales to charitable causes.	<i>Epoch Baby</i> <i>Glacial Marine Mud</i> <i>Ava Puhi Moni Shampoo</i> <i>Ice Dancer Leg Gel</i> <i>Fire Walker Foot Cream</i>

Other-Advanced Products

26% of Nu Skin division revenue

Our personal care portfolio also includes daily use products such as hair care and color cosmetics.

DailyKind Mild Shampoo
FreeFall Detangling Spray
Nutriol Hair Fitness Prep
Sunright Lip Balm
Nu Colour Skin Beneficial Tinted Moisturizer

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Pharmanex. We currently offer approximately 65 Pharmanex nutritional products. We are committed to providing our customers with high-quality, standardized and scientifically substantiated nutritional supplements. Pharmanex nutritional supplements include our flagship *LifePak* line of micronutrient and phytonutrient supplements, which we currently sell in all of our major markets. *LifePak* sales accounted for 20% of our total revenue and 43% of Pharmanex revenue in 2003. We also offer a line of targeted Pharmanex nutritional supplements, weight management products and other specialty products. We design Pharmanex nutritional products to promote healthy, active lifestyles and general well being when used in conjunction with proper diet and exercise.

We believe that direct selling is a more effective method of marketing high-quality nutritional supplements than traditional retailing channels because our distributors are able to educate consumers about the benefits of our nutritional supplements and to differentiate the quality and benefits of our products from those offered by competitors. Our strategy is to further expand our nutritional supplement business by continuing to introduce new, innovative products based on extensive research and development. To further extend our research capability, we have completed the build-out of a research center in Shanghai, China. This approximately 12,000 square foot facility will house Pharmanex research scientists and is one of three research and development centers (Shanghai, Beijing, and Provo, Utah) in the Pharmanex division. Our product development efforts are focused in the area of anti-aging, weight management and other nutrition issues. We recently introduced *ReishiMax GLP*, which promotes a healthy immune system, *TRA*, a weight management system, and *IgG Boost*, a colostrum supplement utilizing patented technology we recently acquired. We have never included stimulants, such as ephedra or anabolic steroids (and precursors) in our products. Any ingredients that are proven to have any long-term addictive or harmful effects are not considered for product development, even if the short-term effects may be desirable.

We are continuously looking for ways to help our distributors market our products more effectively. In 2003, we introduced a patented laser-based scanning tool that measures the level of carotenoids (a powerful antioxidant) in skin tissue. We believe we are the first nutrition company to make available a non-invasive tool that will measure the level of tissue antioxidant carotenoids after regular nutritional supplementation. We currently lease over 600 scanners to distributors in the United States, and anticipate making more of them available to other distributors during 2004 as we complete our development of a final production model. We lease the scanners to our distributors at a monthly lease rate ranging from \$199 to \$299 per month. We have placed scanners in our walk-in centers in Taiwan, Hong Kong and certain of our markets in Southeast Asia and Europe. We are currently evaluating the scanner for potential introduction in these and other international markets subject to favorable results of regulatory reviews and compliance with applicable regulations in foreign markets.

Another marketing tool for our distributors that we are promoting is an automatic reordering program whereby customers can subscribe for automatic monthly delivery of products. This program is well-suited for Pharmanex products, particularly the *LifePak* daily supplement line, which come in one-month supply packages. We have found that our distributors are able to generate a higher rate of repeat customers through the use of this program.

We have developed a "6S Quality Process" to standardize our nutritional supplements. We believe that this 6S Quality Process enhances our ability to provide consumers with safe, effective and consistent products. The 6S Quality Process generally involves the following steps:

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- **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 potential products and ingredients.
- **Sourcing.** Investigating potential sources, evaluating the quality of sources and performing botanical and chemical evaluations where appropriate.
- **Structure.** Determining the structural profile of natural compounds and active ingredients.
- **Standardization.** Standardizing the product dosage of its biologically relevant active ingredients.
- **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 also sells a *Vitameal* dehydrated food product made with a blend of enriched rice and lentils. *Vitameals* are highly nutritious and designed to serve as an emergency food supply. Pharmanex also supplies *Vitameal* as part of a humanitarian relief effort designed to satisfy the nutritional needs of children at risk of starvation. We have implemented a program that provides a convenient way for distributors to donate *Vitameal* products they purchase from us to relief organizations for use in humanitarian relief. This initiative is maintained under the Nourish the Children trademark. In the past 18 months, we have provided over 7 million meals to starving children through this program.

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The following table summarizes the current Pharmanex product lines by category. Revenue percentages in the table are for the year ended December 31, 2003:

Category	Description	Selected Products
Micronutrient Supplements	Our <i>LifePak</i> family of daily supplements is designed to provide a beneficial mix of nutrients	<i>LifePak</i> <i>LifePakWomen</i>

43% of Pharmanex division revenue	including vitamins, minerals and antioxidants.	<i>LifePakPrime</i> <i>LifePakTrim</i> <i>LifePakTeen</i>
Targeted Nutritional Solutions		
37% of Pharmanex division revenue	Our self-care dietary supplements contain consistent levels of botanical ingredients that are designed to provide consumers with targeted wellness benefits.	<i>ReishiMax</i> <i>Cortitrol</i> <i>Cholestin</i> <i>CordyMaxCs-4</i> <i>TeGreen97</i> <i>BioGingko27/7</i> <i>ImmuneFormula</i>
Weight Management		
11% of Pharmanex division revenue	Our <i>TRA</i> ephedra-free line of weight-management products was created to capitalize on the growing weight management category. <i>TRA</i> supplements are complementary to any diet program that is currently on the market.	<i>TRA</i> <i>Overdrive</i> <i>FibreNet</i> <i>CraveEase</i>
Other--Specialty Products		
9% of Pharmanex division revenue	Our portfolio of other nutritional products includes healthy drinks and other specialty wellness products.	<i>SplashC</i> <i>Appeal</i> <i>AloeDrink</i>

Big Planet. Big Planet offers innovative high technology products and services that appeal to mass markets often underserved by other companies because of the common complexities of high-tech products. We believe our Big Planet technology products help to attract a new, more technologically sophisticated demographic of distributors to our business. We believe that a significant number of these individuals are people who would not ordinarily be attracted to a more conventional direct sales business. However, our experience indicates that, upon joining our business, many distributors attracted by our Big Planet products and services also begin to purchase and distribute our Nu Skin and Pharmanex products. Our strategy for Big Planet moving forward is to expand the Big Planet product mix to include high-margin, high-technology products that focus on ease of use and that have application in broader markets across multiple geographies. This approach will allow Big Planet to achieve greater distribution through Nu Skin Enterprises' global distributor network and to profit from the higher margins associated with product categories such as software. For example, Big Planet recently announced the upcoming release of a cutting-edge Internet security software tool designed to protect Internet users from unauthorized access to their private information through "spyware" and other invasive devices.

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We also offer telecommunications and Internet services as a way of providing more opportunities to create commissionable spending, including Internet access and website hosting, domestic and international long distance telecommunications services and personal 800 numbers. Big Planet recently modified its strategy relating to these technology services. Effective July 1, 2003 we moved from a wholesaler of telecommunication services to a commissioned agent, allowing us to increase our operating profit margin on these services service. We also offer an affiliate online shopping website called the Big Planet Mall (www.bpmall.com). Moving forward, we will continue to actively review other existing product lines for opportunities to improve operating margins. In addition, in August 2003, Big Planet sold its professional employer organization ("PEO"), allowing Big Planet to focus on product initiatives that produce higher margins and that are more closely aligned with our long-term technology vision.

Big Planet also offers business tools designed to allow our distributors to increase their productivity by leveraging technology in the management of their direct selling activities. These products include individual, personalized distributor websites that grant customers easy and convenient access to information about our products and services. We host these websites for our distributors and provide content with relevant product and business information. Distributors also have the ability to configure their individual websites to customize their marketing efforts and to conduct e-commerce activities across our product line, by seamlessly integrating their sites and online ordering capabilities with our websites and back-end fulfillment systems. Online orders placed by a customer are credited to the appropriate distributor and are automatically routed through our electronic ordering system, and products are shipped by us directly to the customer. We believe this web-based approach greatly simplifies and enhances the ordering experience for our distributors and their customers while at the same time helping to reduce our overall operating costs. Other Big Planet products designed to enhance distributor activity include online business tools, which help our distributors to monitor their sales activity, as well as set up meetings, communicate with their sales organizations and conduct electronic-based marketing efforts.

As part of an overall business development initiative, Big Planet also manages product development in the growing home-care market product segment. Past initiatives have included developing environmentally friendly cleaning products under the Ecosphere brand name. Products in this segment also include water filtration products and other potential home-care categories. These products are not marketed under the Big Planet brand name.

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The following table summarizes the current Big Planet product lines by category. Revenue percentages in the table are for the year ended December 31, 2003⁽¹⁾:

Category	Description	Selected Products
Internet Services		
46% of Big Planet division revenue	Our Internet service products include dial-up Internet access, web hosting and other Internet tools and services.	<i>Business Center (U.S.)</i> <i>Personal Website (Japan)</i> <i>Global Web Page (other)</i> <i>ISP for U.S. - by Qwest</i> <i>ISP for Japan - by Nifty</i>

Telecommunications

8% of Big Planet division revenue

We offer competitively priced telecommunication services and enhanced telecommunication services.

Simplify Home
Simplify One
Qwest

Home Care

27% of Big Planet division revenue

Our current home care offering includes such products as laundry detergent, all purpose and glass and mirror cleaners.

Ecosphere Laundry
Ecosphere Dish
Ecosphere Surface
Ecosphere Glass & Mirror
Water Purifiers

(1) Big Planet revenue in 2003 also included \$9.1 million from our professional employer organization which was divested in July of 2003.

Sourcing and Production

Nu Skin. In order to maintain high product quality, we acquire our ingredients and products from suppliers that we believe are reliable, reputable and provide us with ingredients and products we believe to be of high quality. For approximately ten years, we have acquired ingredients and products from one unaffiliated supplier that currently manufactures approximately 39% of our Nu Skin personal care products. Our contract with our major supplier is for a one-year term that automatically renews for an additional one-year term unless either terminates the contract. We maintain a good relationship with our supplier and do not anticipate that either party will terminate the contract in the near term. We also have ongoing relationships with secondary and tertiary suppliers who supply almost all of our remaining products and ingredients. We believe that, in the event we are unable to source any products or ingredients from our major supplier, we could produce or replace those products or substitute ingredients from our secondary and tertiary suppliers without great difficulty or significant increases in our cost of goods sold.

Due to Chinese government restrictions on the importation and sale of finished goods for our method of operation, we established our own manufacturing facility in Shanghai, China in 2001. At this facility, we currently manufacture our personal care products sold through our retail stores in Mainland China. A small portion of the output from this facility is exported to our other markets. If necessary, this facility could be expanded or other facilities could be built in Mainland China to provide manufacturing capabilities for our other markets as a back-up to our major supplier in addition to our secondary and tertiary suppliers.

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The recent identification of bovine spongiform encephalopathy (BSE), or Mad Cow Disease, in one cow in the United States has not resulted in the suspension of importation licenses for our personal care products in any of our markets. However, Mainland China has suspended the importation of any finished goods or bulk cosmetic products from the United States, irrespective of whether or not they contain bovine-derived ingredients. Since substantially all of our personal care products sold through our retail stores in Mainland China are produced in our Shanghai facility, we were able to easily address this issue by accelerating the local manufacturing of the small number of products we were still exporting in bulk to Mainland China.

Pharmanex. Substantially all of our Pharmanex nutritional supplements and ingredients, including *LifePak*, are produced or provided by third party suppliers that we consider to be among the best suppliers of these products and ingredients. We currently rely on two unaffiliated suppliers, one of which supplies approximately 39% and the other of which supplies approximately 28% of our Pharmanex nutritional supplements. We believe that, in the event we were unable to source any products or ingredients from these suppliers or our other current suppliers, we could produce or replace these products or substitute ingredients without great difficulty or significant increases in our cost of goods sold. We also maintain an extraction and processing facility located in Zhejiang Province, China, where we currently produce the extracts for our *TeGreen 97* and *ReishiMax* products.

Substantially all of our Pharmanex revenue is generated from products that are encapsulated in gel capsules that are produced with bovine materials. In late 2003, bovine spongiform encephalopathy (BSE), or Mad Cow Disease, was identified in one cow in the United States, prompting a few countries, including Japan and South Korea, to suspend importation of nutritional supplements encapsulated with bovine-based gelatin produced in the United States. In addition, Japan enacted a prohibition on the sale of such products in the country after February 16, 2004. In response, we converted some gelatin encapsulated products into an all porcine-based gelatin form, and switched to tablet form for other products, including *LifePak* for the Japanese market. There are certain sourcing, regulatory and other risks associated with the implementation of these measures. For a more detailed discussion of the risks to our business associated with BSE, please refer to the section below entitled "Risk Factors".

To help ensure the quality of Pharmanex products, we have implemented an extensive quality control process designed to maintain tight quality controls through all stages of development, including the sourcing of raw materials and the manufacturing and packaging of our products. During investigations of potential sources of botanical raw materials, we conduct analyses of samples from each potential source. Suppliers are chosen based on the quality and concentration level of the active ingredients present in the source. We also maintain close working relationships with the manufacturers of our products and their quality control departments to implement quality assurance programs that meet our requirements. We regularly check and monitor their compliance with these programs. Our selection and retention of manufacturers is driven by their ability to meet our strict quality control criteria.

Big Planet. Other than web hosting, email, online distributor tools and Big Planet Mall, nearly all of the Big Planet services and products we offer are currently contracted or sourced from unaffiliated third parties pursuant to contractual arrangements. For example, we have contracted with Qwest Communications to provide long distance telephone and Internet access services. By contracting to provide these services or by acting as a commissioned agent for these services, we are able to avoid the large capital deployment and investment that would be required to build the infrastructure necessary to provide these services. However, our profit margins and ability to deliver quality services at competitive prices depend upon our ability to negotiate and maintain favorable terms with our third party providers.

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Distributors receive commissions based on our gross margin on each sale of Big Planet products or services, including monthly recurring service charges, or based on the commission received by us with respect to products sold directly by third party vendors to our distributors and customers. In addition to the online business tools we have developed internally, we source complementary tools from third party vendors to enhance our suite of distributor tools. We also source and manufacture our home-care products through various third party vendors.

Research and Development

We continually invest in our research and development capabilities. Our research and development expenditures were approximately \$7 million in each of 2001 and 2002 and were approximately \$6 million in 2003. The majority of our recent research and development activity has been directed towards our Pharmanex products. Much of our Pharmanex research to date has been conducted in Mainland China, where we benefit from a very low cost labor pool that enables us to conduct research and clinical trials at a much lower cost than we would incur in the United States. We also have a laboratory adjacent to our office complex in Provo, Utah, which houses both Pharmanex and Nu Skin research facilities and technical personnel. Because of our commitment to product innovation, we will continue to commit significant resources to research and development in the future.

We believe that we are one of the few nutritional supplement companies in the United States that has a research and development program modeled after the pharmaceutical industry. We believe that this research and development capability provides us with an important competitive advantage in the industry. We employ approximately 75 scientists at our dedicated research and development centers in Shanghai, China and Beijing, China and at our Provo, Utah offices. We also have working relationships with other independent scientists including an advisory board comprised of recognized authorities in various related disciplines. In addition, we evaluate a significant number of product ideas presented to us by outside sources.

We have established collaborative arrangements with two prominent universities and research institutions in Mainland China: Shanghai Medical University and Beijing Medical University. The staffs of these institutions include scientists with expertise in natural product chemistry, biochemistry, pharmacology and clinical studies. Our research and development center in Shanghai coordinates and validates our collaborative efforts with these institutions. We also occasionally collaborate with other major universities in the United States and other countries. Some of the university research centers that we have worked with include UCLA, the Rippe Center for Clinical Lifestyle Research, Columbia University, the University of Kansas, the University of Hong Kong School of Medicine and Taiwan Academia Sinica.

For product development support in our Nu Skin personal care line, we have established an aggressive licensing strategy and rely on an advisory board comprised of recognized authorities in various disciplines as well as an in-house staff of research and marketing professionals. We also have entered into an agreement with the Stanford University Medical Center for directed research and clinical trials of Nu Skin products and materials. These activities are conducted at the Nu Skin Center for Dermatological Research at Stanford University's School of Medicine. This center focuses on scientific investigation, dermatology research, product development and clinical trials. We believe our strategic alliances provide important access to innovative product concepts.

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Geographic Sales Regions

For information on revenue for each of the geographic regions in which we operated for the years ended December 31, 2001, 2002, and 2003, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 17 to our consolidated financial statements.

North Asia. The North Asia region currently consists of our markets in Japan and South Korea. Japan is our largest market globally with revenue of approximately \$559 million in 2003. According to the World Federation of Direct Selling Associations, the direct selling channel in Japan generated sales of approximately \$24.5 billion of goods and services in 2002, making Japan the second largest direct selling market in the world. Despite our revenue growth in Japan, the overall size of the direct selling channel in Japan has been negatively impacted over the last several years by economic and competitive conditions. Substantially all of our Nu Skin personal care products and a majority of our Pharmanex nutritional supplements, including *LifePak*, our leading multi-vitamin and mineral supplement, are available in the Japanese market. In 2003, we introduced in Japan *ReishiMax GLP*, a Pharmanex product that promotes a healthy immune system and *Tru Face Essence*, a facial firming serum from our Nu Skin division that restores youthful contours to the face and neck area. *Tru Face Essence* is now one of the top revenue generating products for the Nu Skin division. We have also introduced a number of our Big Planet technology products and services into Japan including Internet service offered through a third party provider, personalized websites, computers and online business tools.

According to the World Federation of Direct Selling Associations, the direct selling channel in South Korea generated sales of approximately \$4.6 billion of goods and services in 2002. Our revenue in this market was approximately \$59 million in 2003. We currently offer the majority of our Nu Skin personal care products and approximately one-half of our Pharmanex nutritional supplements in South Korea.

Greater China. The Greater China region currently consists of our markets in Taiwan, Hong Kong, and our retail operations in Mainland China. Taiwan was our largest revenue generating market in this region during 2003 with revenue of approximately \$73 million in 2003. Nu Skin Taiwan 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 \$1.3 billion in sales of goods and services in 2002, and over three million people (over 10% of Taiwan's population) are estimated to participate in direct selling. We offer most of our Nu Skin personal care products and approximately one-half of our Pharmanex nutritional products, including *LifePak*, in Taiwan. We currently offer Big Planet branded Internet service in Taiwan through a third party provider and a limited number of our other Big Planet products.

A significant component of our growth strategy is to continue to enter into and expand new markets, particularly Mainland China. Mainland China has restrictions that prevent us from operating our direct sales business model there. Therefore, we have adopted a retail sales model there in which an employed sales force sells products through fixed retail locations. We rely on this employed sales force to market and sell products at the various fixed retail locations supported by only modest advertising and promotional efforts. In January 2003, we significantly increased the number of retail locations we operate in Mainland China to 100 stores, and in late 2003 we further expanded our retail operations into five new cities. In addition, we introduced our Nu Skin-branded products to the market. Our revenue in Mainland China was approximately \$38 million in 2003, with \$18 million of revenue in the fourth quarter. Our retail model in Mainland China is largely based upon our ability to attract customers to our retail stores, to educate them about our products and to obtain repeat purchases from these customers. We currently sell

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32 Nu Skin products and an additional 58 personal care products marketed under local brand names. All product sales are transacted within our retail stores. Our employed sales force earns base pay and related benefits, as well as a bonus based upon their personal sales efforts. While our distributor leaders from other markets are able to introduce customers and sales people to our stores, their promotional efforts are significantly limited due to the restrictions on direct selling in this market. The number of full-time sales representatives we employ in Mainland China was 3,100 as of December 31, 2003. We enter into labor contracts with all potential new sales representatives, only a small percentage of which complete the qualification process and become full-time sales representatives. We provide these potential new sales representatives with a minimum base pay and other labor benefits. As of December 31, 2003, we had approximately 9,100 of such sales employees not yet considered full-time sales representatives.

As a result of its admission to the World Trade Organization, Mainland China has agreed to establish regulations regarding sales away from fixed retail locations by December 2004. If we view these new regulations to be an enhancement to our retail business model, we may revise our business model in Mainland China to alter our remuneration plan for our employed sales force, incorporate the use of a non-employee sales force and/or limit our reliance on retail stores. Subject to appropriate changes in direct selling laws, we believe that Mainland China could become one of the largest direct selling markets in the world over the next several years. Our operations in Mainland China are subject to a complex political and regulatory environment and we have been subject to significant regulatory scrutiny since expanding our operations in January 2003. See "Government Regulation" for more information on these regulatory issues.

North America. The North America region consists of our markets in the United States and Canada. According to the World Federation of Direct Selling Associations, the direct selling channel in the United States generated sales of approximately \$28.7 billion of goods and services in 2002, making the United States the largest direct selling market in the world. In 2003, we generated approximately \$113 million in revenue in the United States. Substantially all of our Nu Skin personal care products, our Pharmanex nutritional supplements and our Big Planet products and services are available in the United States. As of December 31, 2003, we had 2,577 executive distributors in the United States, which accounted for 90% of the total executive distributors within North America.

South Asia/Pacific. The South Asia/Pacific region currently consists of our markets in Thailand, the Philippines, Australia/New Zealand and Singapore/Malaysia. According to the World Federation of Direct Selling Associations, the direct selling channel in Thailand generated sales of approximately \$512 million of goods and services in 2002. In 2003, we generated approximately \$23 million in revenue in Thailand.

In December 2000, we commenced operations in Singapore. We offer Nu Skin products and a limited number of Pharmanex products, including *LifePak*, in this market. In addition, we expanded operations into Malaysia in November 2001. Because Malaysian law requires our Malaysian affiliate to be 70% locally-owned, we have entered into a shareholders' agreement with local partners that allows us to manage the day-to-day operations of the local affiliate, with veto control over all major decisions. In addition, we have entered licensing and distribution agreements with the local affiliate pursuant to which we sell products and receive license fees based on total sales to distributors in this market. Because of our ability to control the operations of our Malaysian affiliate, we consolidate all of the revenue from this market in our top-line revenue. The opening of Singapore and Malaysia has contributed significantly to our growth in Southeast Asia. In 2003, combined revenue from Singapore and Malaysia was approximately \$37 million. According to the World Federation of Direct Selling Associations, the direct

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selling channel in Singapore and Malaysia generated combined sales of approximately \$1.2 billion of goods and services in 2002.

Other Markets. Our Other Markets currently consist of the markets in Europe, Central America and Brazil. We currently distribute products in 17 countries in Central and Southern Europe and Scandinavia, including the United Kingdom, Ireland, France, Germany, Belgium, the Netherlands, Luxembourg, Spain, Portugal, Italy, Austria, Poland, Sweden, Iceland, Norway, Finland and Denmark. In 2003, our revenue from our European markets was approximately \$32 million. The majority of our Nu Skin personal care products and several of our Pharmanex products, including *LifePak*, are sold in Europe. We also distribute a limited number of Big Planet products in the European market. We have additional small operations in Brazil, Mexico and Guatemala.

According to the World Federation of Direct Selling Associations, the direct selling channel in Brazil generated sales of approximately \$2.0 billion of goods and services in 2002. We have recently implemented a modified direct selling model in Brazil that we believe provides an attractive opportunity for distributors in that market. We also believe that this model can be a useful prototype that will help us compete in less developed economies throughout the world, including our other current markets in Latin America and potential new markets in Eastern Europe, which we believe will be among the fastest growing direct selling regions in the World over the next several years. Approximately 45% of our Nu Skin personal care products have been introduced in Brazil, along with 41 locally produced products.

Distribution

Overview. The foundation of our sales philosophy and distribution system is network marketing. Except in Mainland China, we currently sell substantially all of our products through independent distributors who are not our employees. Our distributors generally purchase products from us for resale to consumers and for personal consumption. Because of the nature of our Big Planet products and services, distributors buy a limited number of our Big Planet products for resale but primarily act as independent sales representatives for our products and receive a commission on product sales from us.

We believe that network marketing is an effective vehicle to distribute our products because:

- distributors can educate consumers about our products in person, which we believe is more effective for premium-quality, differentiated 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, our distributors can provide 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.

In Mainland China, government regulations currently prevent us from implementing our direct sales business model there. As a result, we have implemented a modified business model utilizing retail stores and an employed sales force. Throughout this Annual Report on Form 10-K, we include full-time sales representatives in Mainland China in our "executive level" distributor numbers in order to provide some

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level of comparison between our China model with employed sales people and our global direct selling model. In addition, we have implemented a "preferred customer" program in Mainland China, and throughout this report we include these preferred customers in our "active distributor" numbers. While "preferred customers" are legally very different from distributors, both are considered customers of our products.

Our revenue is highly dependent upon the number and productivity of our distributors and sales representatives. Growth in sales volume requires an increase in the productivity and/or growth in the total number of distributors and sales representatives. As of December 31, 2003, we had approximately 678,000 active

distributors of our products and services, including 117,000 preferred customers in Mainland China. An active distributor is a distributor or preferred customer who has purchased products for resale or personal consumption during the previous three months. Approximately 29,000 of these active distributors had achieved “executive level” status, including 3,100 employed full-time sales representatives in Mainland China. Executive level distributors are the distributors who are most seriously pursuing the direct selling opportunity and must achieve and maintain specified personal and group sales volumes for a required period of time. 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. In Mainland China, employed full-time sales representatives are those sales representatives that have completed a qualification process and receive a salary, labor benefits and bonuses based on their personal sales efforts. As of each of the dates indicated below, we had the following number of executive distributors in the referenced regions:

Total Number of Executive Distributors by Region

Region	1999	2000	2001	2002	2003
North Asia	14,601	14,968	16,891	17,668	17,013
Greater China	2,988	2,609	2,698	3,564	5,991 ⁽¹⁾
North America	2,547	2,632	2,419	2,693	2,861
South Asia/Pacific	431	435	1,842	2,972	2,175
Other Markets	438	737	989	1,018	1,091
Total	21,005	21,381	24,839	27,915	29,131

(1) Following the opening of our retail business in Mainland China during 2003, executive distributors includes 3,100 employed, full-time sales representatives.

On a monthly basis, we evaluate a limited number of distributor requests for exceptions to the terms and conditions of the Global Compensation Plan, including volume requirements. While our general policy is to discourage exceptions, we believe that the flexibility to grant exceptions is critical in retaining distributor loyalty and dedication.

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Sponsoring. We rely on our distributors to recruit and sponsor new distributors of our products. While we provide product samples, brochures, magazines and other sales materials at cost, distributors are primarily responsible for recruiting and 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 a 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 and we do not pay any commissions for sponsoring new distributors. However, because of the financial incentives provided to those who succeed in building a distributor network that consumes and resells products, we believe that many of our distributors attempt, with varying degrees of effort and success, to sponsor additional distributors. People are often attracted to become distributors after using our products and becoming regular customers. Once a person becomes a distributor, he or she is able to purchase products directly from us 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 our policies and procedures.

Global Compensation Plan. We believe that one of our key competitive advantages is our Global Compensation Plan. Under our Global Compensation Plan, distributors are paid consolidated monthly commissions in the distributor’s home country, in local currency, for their own product sales and for product sales in that distributor’s downline distributor network across all geographic markets. Because of restrictions on direct selling in Mainland China, our sales employees within Mainland China do not participate in the Global Compensation Plan, but are compensated according to a retail sales model established for that market. Additionally, while distributor leaders are compensated based on sales activity of preferred customers and sales employees in Mainland China, sales in Mainland China do not accrue to satisfy applicable sales volume requirements within the Global Compensation Plan.

Commissions on the sale of an individual Nu Skin or Pharmanex product can reach approximately 58% of the wholesale price. The actual payout percentage, however, varies depending on a distributor’s level within the Global Compensation Plan. On a global basis, the overall commissions payout on these products has typically averaged approximately 41% to 43%. We believe that our commission payout as a percentage of total sales is among the most generous paid by major direct selling companies. Commissions are paid on the sales of Big Planet products and services as a percentage of our gross margins on those products. For Big Planet products and services purchased directly from our third party vendors by our distributors or customers, the commission is based on the total commission Big Planet receives from third parties with respect to those sales. Accordingly, the commissions paid to distributors of Big Planet products and services are less as a percentage of revenue than for our Nu Skin and Pharmanex products.

High Level of Distributor Incentives. Based upon management’s knowledge of our competitors’ distributor compensation plans, we believe that the Global Compensation Plan is among the most financially rewarding plans offered to distributors by leading direct selling companies. Currently, there are two fundamental ways in which our distributors can earn money:

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- through retail markups on sales of products purchased by distributors at wholesale; and
- through a series of commissions on product sales.

Each of our 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-sales taxes. As a distributor's business expands from successfully sponsoring other distributors into the business who in turn expand their own businesses, a distributor receives a higher percentage of commissions. 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 commissionable group increases as the number of executive distributorships directly below the executive increases.

Distributor Support. We are committed to providing high-level support services tailored to the needs of our distributors in each market. We attempt to meet the needs and build the loyalty of distributors by providing personalized distributor services and by maintaining a generous product return policy. Because the majority of our distributors are part-time and have only a limited number of hours each week to concentrate on their business, we believe that maximizing a distributor's efforts by providing effective distributor support has been, and will continue to be, important to our success.

Through training meetings, annual conventions, web-based messages, distributor focus groups, regular telephone conference calls and other personal contacts with distributors, we seek to understand and satisfy the needs of our distributors. We provide walk-in, telephonic and computerized product fulfillment and tracking services that result in user-friendly, timely product distribution. Several of our walk-in retail centers maintain meeting rooms, which our distributors may utilize for training and sponsoring activities. Because of our efficient distribution system, we do not believe that most of our distributors maintain a significant inventory of our products.

Technology and Internet Initiatives. We believe that the Internet has become increasingly important to our business as more consumers communicate online and purchase products over the Internet as opposed to traditional retail and direct sales channels. As a result, we have committed significant resources to enhancing our e-commerce capabilities and the abilities of our distributors to take advantage of the Internet. We have introduced a global web page that allows a distributor to have a personalized website through which he or she can sell products in many of our more than 30 global markets.

Rules Affecting Distributors. We closely monitor regulations in each market as well as the activity of distributors to ensure that our distributor activities comply with local laws. Our published distributor policies and procedures establish the rules that distributors must follow in each market. In addition, we generally participate in local direct selling associations and agree to abide by the policies required of those associations. We also monitor distributor activity to ensure that our distributors enjoy a level playing field and that distributors are not disadvantaged by the activities of another. We require our 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 our literature. Even though sponsoring activities can be conducted in many countries, our distributors may not conduct marketing activities outside of those countries in which we currently conduct business, and further they may not export for sale products from one country to another.

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Distributors must represent to us that their receipt of commissions is based on retail sales and substantial personal sales efforts. We must produce or pre-approve all sales aids used by distributors such as videotapes, audiotapes, brochures and promotional clothing. 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 us. Distributors may not use our trademarks or other intellectual property without our consent.

Except in Mainland China, products generally may not be sold, and our business opportunities may not be promoted, in traditional retail environments. We have made an exception to this rule by allowing some of our Pharmanex products to be sold in independently owned pharmacies and drug stores meeting specified requirements. 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 a manner to attract the general public into the establishment to purchase products.

In order to qualify for commission bonuses, our distributors generally must satisfy specific requirements including achieving at least 100 points, which is approximately \$100, in personal sales volume per month. In addition, individual markets may have requirements specific to that country based on regulatory concerns. For example, in the United States, distributors must also:

- document retail sales or customer connections to established numbers of retail customers; and
- sell and/or consume at least 80% of personal sales volume.

We systematically review reports of alleged distributor misbehavior. If we determine that one of our distributors has violated any of our distributor policies or procedures, we may terminate the distributor's rights completely. Alternatively, we may impose sanctions such as warnings, probation, withdrawal or denial of an award, suspension of privileges of a distributorship, fines, withholding commissions until specified conditions are satisfied or other appropriate injunctive relief. Except in Mainland China, our distributors are independent contractors who may terminate their distributorship at any time.

Product Guarantees. We believe that we are among the most consumer-protective companies in the direct selling industry. While the regulations and our operations vary somewhat from country to country, we generally follow a similar procedure for product returns. For 30 days from the date of purchase, our product return policy generally allows a retail customer to return any Nu Skin or Pharmanex product to us directly or to the distributor through whom the product was purchased for a full refund. After 30 days from the date of purchase, the end user's return privilege is in the discretion of the distributor. Our distributors can generally return unused products directly to us for a 90% refund for one year. Our experience with actual product returns has averaged less than 5% of annual revenue through 2003.

Payment. Distributors generally pay for products prior to shipment. Accordingly, we carry minimal accounts receivable. Distributors typically pay for products in cash, by wire transfer or 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 one of our distributors.

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Competition

Nu Skin and Pharmanex Products. The markets for our Nu Skin and Pharmanex products are highly competitive. Our competitors include manufacturers and marketers of personal care and nutritional products, pharmaceutical companies and other direct selling organizations, many of which have longer operating histories and greater name recognition and financial resources than we do. We compete in these markets by emphasizing the innovation, value and premium quality of our products and the convenience of our distribution system.

Big Planet Products and Services. The markets for our Big Planet products and services are highly competitive. Many of our competitors for these products and services have much greater name recognition and financial resources than we do. We compete in this market by delivering products that are more user-friendly than those of our competitors, developing unique features and product interfaces, partnering with leading technology vendors whose competitive positioning can assist us, and leveraging our direct selling channel strengths. The market for technology and telecommunication products is very price sensitive. We rely on our ability to acquire quality and reliable services from vendors at prices that allow our distributors to sell services at competitive prices and still generate attractive commissions.

Direct Selling Companies. We also compete with other direct selling organizations, some of which have a longer operating history and higher visibility, name recognition and financial resources than we do. The leading direct selling companies in our existing markets are Avon and Alticor (Amway). We compete for new distributors on the strength of our multiple business opportunities, product offerings, Global Compensation Plan, management strength and appeal of our international operations. In order to successfully compete in this market and attract and retain distributors, we must maintain the attractiveness of our business opportunities to our distributors.

Intellectual Property

Our major trademarks are registered in the United States and in each country where we operate or have plans to operate, and we consider our trademark protection to be very important to our business. Our major trademarks include Nu Skin, Pharmanex, Big Planet and *LifePak*. In addition, a number of our products are based on proprietary technologies and formulations, some of which are patented or licensed from third parties. We also rely on trade secret protection to protect our proprietary formulas and know-how. Our business is not substantially dependent on any single licensed technology from any third party.

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” schemes, that compensate participants for recruiting additional participants irrespective of product sales, use high pressure recruiting methods and/or do not involve legitimate products. The laws and regulations in our current markets often:

- impose cancellation/product return, inventory buy-backs and cooling off rights for consumers and distributors;
 - require us or our distributors to register with governmental agencies;
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- impose reporting requirements; and
 - impose upon us 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 laws and regulations governing direct selling are modified from time to time. For example, in South Korea new regulations were recently adopted that, among other things, restrict multi-level marketing companies from imposing certain personal sales quotas to obtain or maintain a distributorship or favorable compensation rates, modify product return requirements so that products must be returned within a shorter period of time, and require direct sales companies to show sufficient insurance or guarantee to reimburse customers and/or distributors for cancelled or unfilled orders. We have had to make some modifications to our compensation plan and policies to address some of these new rules. Based on our research conducted in opening existing markets, the nature and scope of inquiries from government regulatory authorities and our history of operations in those markets to date, we believe that our 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 we currently operate.

Because Mainland China has restrictions on direct selling activities that prevent us from direct selling products through independent contractors, we have implemented a retail store model utilizing an employed sales force. The regulatory environment in Mainland China is complex. Existing regulations are subject to discretionary interpretation by municipal and provincial level regulators. Because of the government’s significant concerns about direct selling activities, it scrutinizes very closely activities of direct selling companies and any activities that appear to suggest that direct selling activities are occurring. Interpretations of what constitutes permissible activities by regulators can vary from province to province and can change from time to time because of the lack of clearly defined rules regarding direct selling activities. As government regulators have reviewed and continue to review our retail business model in Mainland China, we expect that they will provide ongoing recommendations and/or direction as to our method of operations. Regulatory provisions require us to obtain a license for each store that we operate in Mainland China, and regulators have broad discretion in approving these licenses.

On January 8, 2003, we significantly expanded our operations in Mainland China, modified the remuneration program for sales employees and began selling Nu Skin products. This activity stimulated heightened scrutiny by both the media as well as government regulators regarding our method of operation and the activities of some distributors residing outside of Mainland China. The government inquiries into our business have been largely focused on whether or not we are engaging in any direct selling activities in Mainland China. At times, these reviews and related actions by government regulators have caused, and could cause in the future, an obstruction to our ability to conduct business, and have resulted in several cases in minor fines being paid by our Company. Fewer than 10% of our stores in Mainland China have been affected by these temporary obstructions. In each of these cases, we have been allowed to recommence operations after the government's review. For a more detailed discussion of the risks to our business associated with our operations in China, please refer to the section below entitled, "Risk Factors".

Regulators also periodically provide guidance and direction on certain aspects of our operations. This guidance has led to minor modifications in the method of remuneration for some of our sales employees and the size of the training meetings for sales employees. Additionally, regulators have expressed some concerns

about the number of sales employees per store in some locations and have recommended that we

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work to have a reasonable number of sales employees per store and focus in the near term on increasing the productivity of our sales employees rather than increasing the number of sales employees in each store. We have made and continue to make modifications to our operations to incorporate this guidance into our operations.

We anticipate that our business in Mainland China will continue to be scrutinized by the government, due principally to our direct selling model used in other markets as well as growth in revenue there. We also expect to receive continued guidance and direction as we work with regulators to address their concerns. We anticipate fully complying with the direction we receive as we work to establish a regulatory foundation from which we can build a long-term successful business in Mainland China. Because of the similar experience of direct selling companies in this market, we have expected such reviews and prepared for this level of scrutiny. We believe that such reviews at an early stage in our business will lead to a better understanding of our business in the long term. Additionally, we anticipate that in the next several years, new laws and regulations will be established that we believe will have a positive impact on our business. In connection with its admission to the World Trade Organization, Mainland China has agreed to establish regulations regarding sales away from fixed locations by December 2004. We are uncertain, however, as to what specific impact these regulations will have on our business there.

Regulation of Our Products. Our Nu Skin and Pharmanex products and related promotional and marketing activities are subject to extensive governmental regulation by numerous domestic and foreign governmental agencies and authorities, including the FDA, 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, Labor and Welfare in Japan and similar government agencies in each market in which we operate. For example, in Japan, the Ministry of Health, Labor and Welfare requires us to have an import business license and to register each personal care product imported into Japan. We must also reformulate many products to satisfy other Ministry of Health, Labor and Welfare regulations. In Taiwan, all “medicated” cosmetic and pharmaceutical products require registration. These regulations can limit our ability to import products into our markets and can delay introductions of new products into markets as we go through the registration and approval process for our 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.

Our Pharmanex products are strictly regulated in the markets in which we operate. These markets have varied regulations that apply to and distinguish nutritional health supplements from “drugs” or “pharmaceutical products.” For example, our 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, we will generally not be able to distribute that product in that market through our distribution channel because of strict restrictions applicable to drug and pharmaceutical products. On August 1, 2003, the EU Food Supplements Directive, aiming to harmonize

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the regulation of vitamins and minerals within nations of the European Union, entered into force. However, such harmonization may not be fully realized because of the Directive’s current exclusion of upper and lower levels as well as some sources of ingredients. Moreover, the legality of the Directive is being challenged in the UK courts. Other EU initiatives which may affect the marketing of our Pharmanex products are the proposed Regulation on Nutrition and Health Claims, the amendment of the existing Medicinal Products Directive to include traditional herbal medical products and to extend the definition of “medicinal products” to all pharmacological, immunological and metabolic action.

Most of our existing major markets also regulate product claims and advertising regarding the types of claims and representations that can be made regarding the efficacy of products, particularly dietary supplements. Accordingly, these regulations can limit our ability and that of our distributors to inform consumers of the full benefits of our products. For example, in the United States, we are unable to make any claim that any of our 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. In addition, all product claims must be substantiated. In Japan, our nutritional supplements are marketed as food products, which significantly limits our ability to make claims regarding the products.

To date, we have not experienced any difficulty maintaining our import licenses, but we have experienced complications regarding food and drug regulations for our nutritional products. Many of our 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 Europe has inhibited our ability to gain quick access to this market for our nutritional supplements. Recently, we have started to expand our nutritional product offering into more European markets by either reformulating existing products or developing new products to comply with local regulations.

In the United States, we are also subject to a consent decree with the FTC and various state regulatory agencies arising out of investigations that occurred in the 1990s of certain alleged unsubstantiated product and earnings claims made by our distributors. The consent decree requires us to, among other things, supplement our procedures to enforce our policies, not allow our distributors to make earnings representations without making certain average earnings disclosures, and not allow our distributors to make unsubstantiated product claims.

Other Regulatory Issues. As a United States entity operating through subsidiaries in foreign jurisdictions, we are subject to foreign exchange control and transfer pricing laws that regulate the flow of funds between our subsidiaries and us for product purchases, management services and contractual obligations such as the payment of distributor commissions. We believe that we are operating in compliance with all applicable foreign exchange control and transfer pricing laws.

As is the case with most companies that operate in our product categories, we receive inquiries from government regulatory authorities, from time to time, regarding the nature of our business and other issues such as compliance with local direct selling, transfer pricing, customs, taxation, foreign exchange control, securities and other laws. Although to date none of these inquiries has resulted in a finding materially adverse to us, negative publicity resulting from inquiries into our operations by United States and state government agencies in the early 1990s, stemming in part from alleged inappropriate product

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and earnings claims by distributors, and in the late 1990s resulting from adverse media attention in South Korea, harmed our business and results of operations.

Employees

As of December 31, 2003, we had approximately 7,158 full- and part-time employees, approximately 3,100 of whom are employed full-time sales representatives in our Mainland China operations. We also had labor contracts with an additional 9,122 potential new sales representatives, only a small percentage of whom are expected to complete the qualification process and become full-time sales representatives. None of our employees are represented by a union or other collective bargaining group, with the exception of the limited number of employees involved in our operations in Brazil. We believe that our relationship with employees is good, and we do not currently foresee a shortage in qualified personnel necessary to operate our business.

Available Information

Our Internet address is www.nuskinenterprises.com. We make available free of charge on or through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Note Regarding Forward-Looking Statements. Certain statements made in this filing under the caption "Item 1- 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," "expect," "intend," "will continue," "anticipate," "estimate," "project," "believe" 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 future economic performance in countries where it operates. 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. We assume no responsibility or obligation to update these statements to reflect any changes. The forward-looking statements and associated risks set forth herein relate to, among other things:

- the expectation that our relationship with our current primary suppliers will not end in the near term, and the belief that we could produce or source our personal care products from other suppliers and expand manufacturing capabilities in China, and replace our primary suppliers of Pharmanex products without great difficulty or increased cost;
- our plans to continue developing new products and improving and evolving our existing product formulations;
- our plans to commit significant resources to research and development in the future;

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- our plans to continue to enter and expand new markets and to successfully operate a retail business in China;
- our belief that China will become one of the largest direct selling markets in the world over the next several years and our anticipation that we will be able to successfully navigate the regulatory challenges in this market;
- our plans to launch the scanner in our international markets to promote Pharmanex products;
- our belief that Eastern Europe will be among the fastest growing direct selling regions in the world and our intended expansion of operations across Eastern Europe; and
- our belief that we are in material compliance with applicable laws and regulations in the countries in which we operate.

These and other forward-looking statements are subject to various risks and uncertainties including those described below under "Risk Factors" and in "Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risk Factors

We face a number of substantial risks. Our business, financial condition or results of operations could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and they should be considered in connection with the other information contained in this Annual Report on Form 10-K. These risk factors should be read together with "Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations."

Currency exchange rate fluctuations could lower our revenue and net income.

In 2003, we recognized approximately 89% of our revenue in markets outside of the United States in each market's respective local currency. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenue and expenses in foreign countries from their local currencies into U.S. dollars using weighted average exchange rates. If the U.S. dollar strengthens relative to local currencies, particularly the Japanese yen inasmuch as we generated approximately 57% of our 2003 revenue in Japan, our reported revenue, gross profit and net income will likely be reduced. Given our inability to predict the degree of exchange rate fluctuations, we cannot estimate the effect these fluctuations may have upon future reported results or our overall financial condition. Although we attempt to reduce our exposure to short-term exchange rate fluctuations by using foreign currency exchange contracts for the Japanese yen, we cannot be certain these contracts or any other hedging activity will effectively reduce exchange rate exposure.

Because our Japanese operations account for a majority of our business, any adverse changes in our business operations in Japan would harm our business.

Approximately 57% of our 2003 revenue was generated in Japan. Various factors could harm our business in Japan, such as worsening economic conditions. Economic conditions in Japan have been poor in recent years and may worsen or not improve. Many of our competitors have seen their businesses contract in the

last few years. The volume of goods sold through the direct selling channel has decreased

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from \$26.2 billion in 1998 to approximately \$24.5 billion in 2002, we believe primarily as a result of difficult economic conditions. We believe our operating results have been negatively impacted in the past in part because of economic conditions. Continued or worsening economic and political conditions in Japan could further impact our revenue and net income. In addition, we also face significant competition from existing and new competitors in Japan. Our financial results would be harmed if our products, business opportunity or planned growth initiatives fail to retain and generate continued interest and enthusiasm among our distributors and consumers in this market.

If we are unable to retain our existing independent distributors and recruit additional distributors, our revenue will not increase and may even decline.

We distribute almost all of our products through our independent distributors, and we depend on them to generate virtually all of our revenue. Our distributors may terminate their services at any time, and, like most direct selling companies, we experience high turnover among distributors from year to year. As a result, in order to maintain sales and increase sales in the future, we need to continue to retain existing distributors and recruit additional distributors. To increase our revenue, we must increase the number of and/or the productivity of our distributors.

We have experienced periodic declines in both active distributors and executive distributors in the past. Our growth depends upon our ability to increase the number of active distributors and executive distributors. However, the number of our active and executive distributors may not increase and could decline once again in the future. While we take many steps to help train, motivate and retain distributors, we cannot accurately predict how the number and productivity of distributors may fluctuate because we rely primarily upon our distributor leaders to recruit, train and motivate new distributors. Our operating results could be harmed if we and our distributor leaders fail to generate sufficient interest in our business to retain existing distributors and attract new distributors.

The number and productivity of our distributors also depends on several additional factors, including:

- any adverse publicity regarding us, our products, our distribution channel or our competitors;
- a lack of interest in, or the technical failure of, existing or new products;
- 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 over 10% of the population is already involved in some form of direct selling. The maturity of several of our markets could also affect our ability to attract and retain distributors in those markets.

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Our expansion of operations in China has resulted in governmental scrutiny, and our operations in China may be harmed by the results of such scrutiny.

The Chinese government banned direct selling activities in China in 1998, subject to certain limited exceptions. The government has rigorously monitored and enforced this ban. In the past, the government has taken significant actions against companies that the government found were engaging in direct selling in violation of applicable law, including shutting down their businesses and imposing substantial fines. Although a few of our global direct selling competitors have authorization to conduct limited direct selling activities after the 1998 ban, we have not received such authorization. Consequently, we have not implemented our direct sales model in China. Instead, we have implemented a business model that utilizes retail stores and an employed sales force that we believe complies with applicable regulations. We also allow distributor leaders from outside of China to help us recruit, find, train and motivate our employed sales force in China. Frequently, individuals, including our competitors, complain to local regulatory agencies that our China business model violates applicable regulations on direct selling. As a result, we regularly visit with regulators to address their questions and concerns and explain our local business model. We also use our best efforts to train our China sales force on our business model.

The regulatory environment in China is evolving, and officials in the Chinese government often exercise discretion in deciding how to interpret and apply applicable regulations. We have made some modifications to our business model and policies in response to concerns expressed by governmental authorities prior to and since we opened for business in January 2003. At times, these reviews and related actions by government regulators have caused, and could cause in the future, obstructions to our ability to conduct business, and have resulted in several cases in minor fines being paid by us. Occasionally, we have been asked to cease sales activity in some stores while the regulators review our operations. In each of these cases, we have been allowed to recommence operations after the government's review.

In addition, some of our distributors living outside of China and some of our employed sales representatives in China have engaged in activities that violated our policies in this market and resulted in some regulatory concern and some adverse publicity. Although we have worked closely with both national and local governmental agencies in implementing our plans, our efforts to comply with local laws may be harmed by a rapidly evolving regulatory climate, concerns about activities resembling direct selling and any subjective interpretation of laws. Any determination that our operations or activities, or the activities of our employed sales representatives or distributors living outside of China, are not in compliance with applicable regulations could result in the imposition of substantial fines, extended interruptions of business, restrictions on our ability to open new stores or expand into new locations, changes to our business model, the termination of required licenses to conduct business, or other actions, all of which would harm our business.

If regulators prevent us from hiring sales employees or opening new stores in China as quickly as we would like, our ability to grow our business there could be negatively impacted.

Because of concerns about the potential number of sales employees we could hire in some cities, regulators in a few cities in China initially recommended that we maintain a reasonable level of sales employees per store. If the level of employees that regulators determine to be reasonable is less than we anticipate or

believe reasonable, or if regulators otherwise impose restrictions on the number of sales employees we may hire, our revenue could be negatively impacted, which could reduce our revenue or slow our growth rate in China. Additionally, regulatory provisions require us to obtain a license for each store that we operate in China, and regulators have broad discretion in approving these licenses. If

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regulators fail to approve licenses for new stores at a rate that meets our growth demands, this could harm our growth potential.

If we are unable to successfully manage rapid growth in China, our operations may be harmed.

As a result of Chinese regulations prohibiting us from implementing our direct selling model in China, we have opened over 100 of our own retail stores and hired a large and rapidly growing employed sales force. In addition, due to import restrictions in China, we have built and operate our own manufacturing plant to produce the products that we sell in our stores in China. We have spent approximately \$10 million to date building our stores and factory and expect to spend an additional \$7 to \$10 million in the next year. We have limited experience in operating manufacturing facilities and dealing with an employed sales force, and we cannot assure you that we will be able to successfully manage rapid expansion of manufacturing operations and a rapidly growing and dynamic sales force. We also can not assure you that we will not experience difficulties in dealing with or taking employment related actions (such as hiring, terminations and salary administration, including social benefit payments) with respect to our employed sales representatives, particularly given the highly regulated nature of the employment relationship in China. If we are unable to effectively manage such growth and expansion of our retail stores, manufacturing operations or our employees, our government relations may be compromised and our operations in China may be harmed.

Intellectual property rights are difficult to enforce in China.

Chinese commercial law is relatively undeveloped compared to most of our other major markets, and, as a result, we may have limited legal recourse in the event we encounter significant difficulties with patent or trademark infringers. Limited protection of intellectual property is available under Chinese law, and the local manufacturing of our products may subject us to an increased risk that unauthorized parties may attempt to copy or otherwise obtain or use our product formulations. As a result, we cannot assure you that we will be able to adequately protect our product formulations.

Manufacturing and production cost issues associated with our laser-based scanner could negatively impact the success of our scanner program and our ability to make a sufficient number of scanners available to interested distributors, which could harm our business.

Our introduction of a laser-based scanner that measures the levels of carotenoid antioxidants in the skin has generated considerable enthusiasm among some of our distributors, particularly in the United States. We have not had experience in developing, manufacturing and marketing sophisticated technology products such as the scanner. As with any new technology, we have experienced delays and technical and production cost issues in developing a large-scale production model that meets required specifications and performs at a consistent level. We are currently only manufacturing 40 to 50 units each week at a cost of approximately \$7,500 per unit. If we are unable to timely resolve technical issues or otherwise fail to deliver scanners that perform to a standard expected by our distributors or if we are unable to make a sufficient number of scanners available to interested distributors at reasonable lease rates, we could dampen distributor enthusiasm and harm our business, particularly in the United States where many distributors have been focusing their marketing activities around the introduction of the scanner. Because of the substantial investment in the scanner initiative, we may not be able to recoup our investment or may have to record an expense that would negatively impact earnings if the scanner program fails for any reason.

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If our laser-based scanner is determined to be a medical device in a particular geographic market, this could inhibit or delay our ability to market the scanner in such market.

We believe that our laser-based scanner can be marketed in the United States as a non-medical device. However, the FDA has questioned the status of the scanner as a non-medical device. If the FDA were to make a determination that the scanner is a medical device, or if it determines that our distributors are using the scanner to make medical claims, we would be required to obtain FDA clearance to market the scanner as a medical device, which could delay significantly or otherwise inhibit our ability and the ability of our distributors to use the scanner in the United States. In addition, we are facing similar uncertainties and regulatory issues in other markets, including Japan, with respect to the status of the scanner as a non-medical device, which could delay or inhibit our ability to introduce the scanner in these markets.

Although we are in the process of preparing an application for FDA clearance to market the scanner as a medical device in the United States in the event such clearance is required, obtaining FDA clearance or similar clearance in other markets could require us to provide documentation concerning the clinical utility of the scanner and to make some modifications to the design, specifications and manufacturing process of the scanner in order to meet stringent standards imposed on medical device companies. There can be no assurance we would be able to provide such documentation and make such changes promptly or in a manner that is satisfactory to regulatory authorities. We are also subject to regulatory restrictions that limit the claims or representations that we and our distributors can make about the scanner because we are not using it as a medical device, which could adversely impact our success in utilizing the scanner. Any delay, restriction or limitation of our anticipated use of this tool caused by regulatory issues could harm our business, particularly in the United States where we have experienced the strongest interest in the scanner.

Governmental regulations relating to the marketing and advertising of our products and services, in particular our nutritional supplements, may restrict or inhibit our ability to sell these products.

Our products and our related marketing and advertising efforts are subject to extensive governmental regulations by numerous domestic and foreign governmental agencies and authorities. These include the FDA, the FTC, the Consumer Product Safety Commission and the Department of Agriculture in the United States, State Attorneys General and other state regulatory agencies and the Ministry of Health, Labor and Welfare in Japan along with similar governmental agencies in other foreign markets where we operate. We also believe that the regulatory attitude towards dietary supplements in the United States, Japan and other markets is worsening.

Our markets have varied regulations concerning product formulation, labeling, packaging and importation. These laws and regulations often require us to, among other things:

- reformulate products for a specific market to meet the specific product formulation laws of that country;
- conform product labeling to the regulations in each country; and

- register or qualify products with the applicable governmental authority or obtain necessary approvals or file necessary notifications for the marketing of our products.

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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, regardless of the existence of research and independent studies that may support such claims. These product claim restrictions could prevent us from realizing the potential revenue from some of our products.

The recent discovery of Bovine Spongiform Encephalopathy (BSE), commonly referred to as “Mad Cow Disease”, in the United States could harm our business if we are not able to successfully implement contingency plans to address regulatory issues surrounding BSE.

Some countries, including Japan, have banned the importation or sale of products that contain bovine materials sourced from locations where BSE has been identified. Approximately 90% of our Pharmanex revenue, accounting for over 40% of our total revenue, is generated from products that are encapsulated in gel capsules that are currently produced with bovine materials. We have recently been sourcing substantially all of our bovine materials, used primarily in the gel capsules of our nutritional supplements, from India and the United States, which were both BSE-free countries. At the end of December 2003, a single cow imported from Canada into the United States was found to have BSE, which has prompted some countries to temporarily suspend imports of beef and bovine related products from the United States as they review the situation. We have implemented alternative production plans to utilize gelatin capsules sourced from BSE-free countries or non-bovine gelatin capsules, and produce certain products in tablet form, which we believe will allow us to avoid material stock outages of our major products. If we experience production difficulties, quality control problems, or shortages in supply, this could result in stock outages of key products or customer satisfaction issues, which could harm our business. In the event that the BSE issue is not resolved satisfactorily in the United States in a timely manner or if BSE becomes an issue in other countries, this could result in additional risk of product shortages or write-offs of inventory that no longer can be used. In addition, our business could be harmed if consumers become unduly concerned about the risks of BSE with respect to our bovine-sourced gelatin capsules or, alternatively, if consumers react negatively to our switching from capsules to tablets on some products as part of our contingency plans.

The sources and ingredients of our products are also subject to additional governmental regulations by numerous domestic and foreign governmental agencies and authorities regarding product ingredients. We may be unable to introduce our products in some markets if we fail to obtain the necessary regulatory approvals or if any product ingredients are prohibited, which could harm our business.

Recent negative publicity concerning stimulant-based supplements have spurred efforts to change existing laws and regulations with respect to nutritional supplements that, if successful, could result in more restrictive and burdensome regulations. There have been some recent injuries and deaths that have been attributed to the use of nutritional supplements that contain ingredients that are controversial and have generated negative publicity. This publicity has resulted in efforts to adopt new regulations applicable to nutritional supplements that could impose further restrictions and regulatory controls over the nutritional supplement industry. Although we are committed not to market nutritional supplements that contain any stimulants, steroids or other substances that are controversial and could pose health risks, our operations could be harmed if governmental laws or regulations are enacted that restrict the ability of companies to market or distribute nutritional supplements or impose additional burdens or requirements on nutritional supplement companies as a result of public reaction to the recent injuries and deaths caused by supplements that do contain these controversial ingredients.

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If we are unable to expand operations in any of the new markets we have currently targeted, we may have difficulty achieving our long-term objectives.

A significant percentage of our revenue growth over the past decade has been attributable to our expansion into new markets. For example, the revenue growth we experienced in recent years was due in part to our successful expansion of operations into Singapore, Malaysia and Mainland China. Moreover, our growth over the next several years depends on our ability to successfully introduce our products and our distribution system into new markets, including further development of Mainland China and Eastern Europe. In addition to the regulatory difficulties we may face in gaining access into these new markets, we could face difficulties in achieving acceptance of our premium-priced products in developing markets. In the past, we have struggled to operate successfully in developing country markets, such as Latin America. This may also be the case in Eastern Europe and the other new markets into which we currently intend to expand. If we are unable to successfully expand our operations into these new markets, our opportunities to grow our business may be limited, and, as a result, we may not be able to achieve our long-term objectives.

Adverse publicity concerning our business, marketing plan or products could harm our business and reputation.

The size of our distribution force and the results of our operations can be particularly impacted by adverse publicity regarding us, the legality of our distributor network, our products or the actions of our distributors. Specifically, we are susceptible to adverse publicity concerning:

- suspicions about the legality of network marketing;
- the ingredients or safety of our or our competitors' products;
- regulatory investigations of us, our competitors and our respective products;
- the actions of our current or former distributors; and
- public perceptions of direct selling businesses generally.

In addition, in the past we have experienced negative publicity that has harmed our business in connection with regulatory investigations and inquiries. We may receive negative publicity in the future, and it may harm our business and reputation.

Although our distributors are independent contractors, improper distributor actions that violate laws or regulations could harm our business.

Distributor activities in our existing markets that violate governmental laws or regulations could result in governmental actions against us in markets where we operate. Except in China, our distributors are not employees and act independently of us. We implement strict policies and procedures to ensure our distributors will comply with legal requirements. However, given the size of our distributor force, we experience problems with distributors from time to time. For example, product claims made by some of our distributors in 1990 and 1991 led to an investigation by the FTC, which resulted in our entering into a consent decree with the FTC as described below.

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Failure of new products to gain distributor and market acceptance could harm our business.

A critical component of our business is our ability to develop new products that create enthusiasm among our distributor force. If we fail to introduce new products planned for introduction, our distributor productivity could be harmed. In addition, if any new products fail to gain market acceptance, are restricted by regulatory requirements or have quality problems, this would harm our results of operations. Factors that could affect our ability to continue to introduce new products include, among others, government regulations, the loss of key research and development staff from our divisions, the termination of third party research and collaborative arrangements, proprietary protections of competitors that may limit our ability to offer comparable products and any failure to anticipate changes in consumer tastes and buying preferences.

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 determination that we or 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 create negative publicity. Negative publicity could detrimentally affect our efforts to recruit or motivate distributors and attract customers and, consequently, could reduce revenue and net income.

In the early 1990s, we entered into voluntary consent agreements with the FTC and other state regulatory agencies relating to investigations of our distributors' product claims and practices. These investigations centered around allegedly unsubstantiated product and earnings claims made by some of our distributors. We believe that the negative publicity generated by this FTC action, as well as a subsequent action in the mid-1990s related to unsubstantiated product claims, harmed our business and results of operations in the United States. Pursuant to the consent decrees, we agreed, among other things, to supplement our procedures to enforce our policies, to not allow distributors to make earnings representations without making additional disclosures relating to average earnings and to not make, or allow our distributors to make, product claims that were not substantiated. We have taken various actions, including implementing a more generous inventory buy-back policy, publishing average distributor earnings information, supplementing our procedures for enforcing our policies, and reviewing distributor product sales aids, to address the issues raised by the FTC and state agencies in these investigations. As a result of the previous investigations, the FTC makes inquiries from time to time regarding our compliance with applicable laws and regulations and our consent decree. Any further actions by the FTC or other comparable state or federal regulatory agencies, in the United States or abroad, could have a further negative impact on us in the future.

In addition, we are susceptible to government-initiated campaigns that do not rise to the level of formal regulations. For example, the South Korean government, several South Korean trade groups and members of the South Korean media initiated campaigns in 1997 and 1998 urging South Korean consumers not to purchase luxury or foreign goods. We believe that these campaigns and the related media attention they received, together with the economic recession that occurred in the late 1990s in the South Korean economy, significantly harmed our South Korean business. We cannot assure you that similar government, trade group or media actions will not occur again in South Korea or in other countries where we operate or that such events will not similarly harm our operations.

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The loss of key high-level distributors could negatively impact our distributor growth and our revenue.

As of December 31, 2003, we had approximately 678,000 active distributors and 29,000 executive distributors. Approximately 385 distributors currently occupy the highest distributor level under our Global Compensation Plan. These distributors, together with their extensive networks of downline 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 the distributor's network of downline distributors, whether by their own choice or through disciplinary actions by us for violations of our policies and procedures, could negatively impact our distributor growth and our revenue.

Laws and regulations may prohibit or severely restrict our direct sales efforts and cause our revenue and profitability to decline.

Various government agencies throughout the world regulate direct sales practices. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" schemes, that compensate participants for recruiting additional participants irrespective of product sales, use high pressure recruiting methods and/or do not involve legitimate products. The laws and regulations in our current markets often:

- impose order cancellations, product returns, inventory buy-backs and cooling-off rights for consumers and distributors;
- require us or our distributors to register with governmental agencies;
- impose reporting requirements to regulatory agencies; and/or
- require us to ensure that distributors are not being compensated based upon the recruitment of new distributors.

Complying with these widely varying and sometimes inconsistent rules and regulations can be difficult and require the devotion of significant resources on our part. If we are unable to continue business in existing markets or commence operations in new markets because of these laws, our revenue and profitability will decline. Countries where we currently do business could change their laws or regulations to negatively affect or prohibit completely direct sales efforts. In addition, 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. If any governmental authority were to bring a regulatory enforcement action against us that interrupts our business, revenue and earnings would likely suffer.

Challenges by private parties to the form of our network marketing system could harm our business.

We may be subject to challenges by private parties, including our distributors, to the form of our network marketing system or elements of 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 and to distinguish between legitimate network marketing distribution plans and unlawful pyramid schemes.

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We have adopted rules and policies based on case law, rulings of the FTC, discussions with regulatory authorities in several states and domestic and global industry standards. 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. 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, particularly in any civil challenge by a current or former distributor.

Increases in duties on our imported products in our markets outside of the United States could reduce our revenue and harm our competitive position.

Historically, we have imported most of our products into the countries in which they are ultimately sold. These countries impose various legal restrictions on imports and typically impose duties on our products. In any given country, regulators may increase duties on imports and, as a result, reduce our profitability and harm our competitive position relative to locally produced goods.

Governmental authorities may question our inter-company transfer pricing policies or change their laws in a manner that could increase our effective tax rate or otherwise harm our business.

As a U.S. company doing business in international markets through subsidiaries, we are subject to foreign tax and inter-company pricing laws, including those relating to the flow of funds between our company and our subsidiaries. Regulators in the United States and in foreign markets closely monitor our corporate structure and how we effect inter-company fund transfers. If regulators challenge our corporate structure, transfer pricing mechanisms or inter-company transfers, our operations may be harmed, and our effective tax rate may increase. Tax rates vary from country to country, and, if regulators determine that our profits in one jurisdiction may need to be increased, we may not be able to fully utilize all foreign tax credits that are generated, which will increase our effective tax rate. For example, our corporate income tax rate in the United States is 35%. If our profitability in a higher tax jurisdiction, such as Japan where the corporate tax rate is currently set at 42%, increases disproportionately to the rest of our business, our effective tax rate may increase. We cannot assure you that we will continue operating in compliance with all applicable customs, exchange control and transfer pricing laws, despite our efforts to be aware of and comply with such laws. If these laws change, we may need to adjust our operating procedures and our business may suffer.

The loss of suppliers could harm our business.

For approximately ten years, we have acquired ingredients and products from one unaffiliated supplier that currently manufactures approximately 39% of our Nu Skin personal care products. We currently rely on two unaffiliated suppliers, one of which supplies approximately 39% and the other of which supplies approximately 28% of our Pharmanex nutritional supplements. We obtain some of our nutritional supplements from sole suppliers in China. We also license the right to distribute some of our products from third parties. Because of the concentrated nature of our suppliers and manufacturers, the loss of any of these suppliers or manufacturers, or the failure of suppliers to meet our needs, could restrict our ability to produce or distribute some products and harm our revenue as a result.

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We depend on our key personnel, and the loss of the services provided by any of our executive officers or other key employees could harm our business and results of operations.

Our success depends to a significant degree upon the continued contributions of our senior management, many of whom would be difficult to replace. These employees may voluntarily terminate their employment with us at any time. We may not be able to successfully retain existing personnel or identify, hire and integrate new personnel. We do not carry key person insurance for any of our personnel. While we have signed offer letters from most of our senior executives, we only have one formal employment agreement with Joseph Chang, President of Pharmanex. Takashi Bamba, President of Nu Skin Japan, retired at the end of 2003 and was replaced by Robert Conlee, President of our North Asia region. If we lose the services of our executive officers or key employees for any reason, our business, financial condition and results of operations could be harmed.

Our markets are intensely competitive, and market conditions and the strengths of competitors may harm our business.

The markets for our Nu Skin and Pharmanex products are intensely competitive. Our 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. For example, our Nu Skin products compete directly with branded, premium retail products. We also compete with other direct selling organizations. The leading direct selling companies in our existing markets are Avon and Alticor (Amway). We currently do not have significant patent or other proprietary protection, and our competitors may introduce products with the same ingredients that we use in our products. Because of regulatory restrictions concerning claims about the efficacy of dietary supplements, we may have difficulty differentiating our products from our competitors' products, and competing products entering the nutritional market could harm our nutritional supplement revenue.

We also compete with other network marketing companies for distributors. Some of these competitors have a longer operating history and greater visibility, name recognition and financial resources than we do. Some of our competitors have also adopted and could continue to adopt some of our successful business strategies, including our Global Compensation Plan for distributors. Consequently, to successfully compete in this market and attract and retain distributors, we must ensure that our business opportunities and compensation plans are financially rewarding. We cannot assure you that we will be able to successfully compete in this market.

There is uncertainty whether the SARS epidemic could return, particularly in those Asian markets most affected by the epidemic in 2003.

It is difficult to predict the impact, if any, of a recurrence of a SARS epidemic on our business. Although such an event could generate increased sales of health/immune supplements and certain personal care products, our direct selling and retail activities and results of operations could be harmed if the fear of SARS or other communicable diseases that spread rapidly in densely populated areas causes people to avoid public places and interaction with one another.

Product liability claims could harm our business.

We may be required to pay for losses or injuries purportedly caused by our products. Although we have had a very limited product claims history, we have recently experienced difficulty in finding insurers

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that are willing to provide product liability coverage at reasonable rates due to insurance industry trends and the rising cost of insurance generally. As a result, we have elected to self-insure our product liability risks for our core product lines. Until we elect and are able to obtain product liability insurance, if any of our products are found to cause any injury or damage, we will be subject to the full amount of liability associated with any injuries or damages. This liability could be substantial. We cannot predict if and when product liability insurance will be available to us on reasonable terms.

System failures could harm our business.

Because of our diverse geographic operations and our complex distributor compensation plan, our business is highly dependent on efficiently functioning information technology 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. In April 2002, we adopted a Business Continuity/Disaster Recovery Plan, which is in the process of being implemented. All of our data sets are archived and stored at third party, secure sites, but we have not contracted for a third party recovery site. 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.

The market price of our Class A common stock is subject to significant fluctuations due to a number of factors that are beyond our control.

Our Class A common stock closed at \$8.99 per share on March 1, 2002 and closed at \$19.15 per share on February 27, 2004. During this two-year period, our Class A common stock traded as low as \$7.10 per share and as high as \$20.61 per share. Many factors could cause the market price of our Class A common stock to fall. Some of these factors include:

- fluctuations in our quarterly operating results;
- the sale of shares of Class A common stock by our original or significant stockholders;
- general trends in the market for our products;
- acquisitions by us or our competitors;
- economic and/or currency exchange issues in those foreign countries in which we operate;
- changes in estimates of our operating performance or changes in recommendations by securities analysts; and
- general business and political conditions.

Broad market fluctuations could also lower the market price of our Class A common stock regardless of our actual operating performance.

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Our original stockholders, together with their family members, estate planning entities and affiliates, control approximately 44% of the combined stockholder voting power, and their interests may be different from yours.

Prior to October 2003, the original stockholders of our Company, together with their family members and affiliates, collectively owned more than 90% of the combined voting power of the outstanding shares of Class A common stock and Class B common stock. These stockholders held all of the outstanding Class B common stock, which has ten-to-one voting privileges over shares of the Class A common stock. In connection with a stock repurchases transaction in October 2003, these stockholders agreed to convert all of their Class B common stock into Class A common stock.

However, this original stockholders group, together with their family members and affiliates, continue to have the ability to influence the election and removal of the board of directors and, as a result, future direction and operations of our company. Currently, these stockholders own approximately 44% of the voting power of the outstanding shares of Class A common stock. Accordingly, they may influence decisions concerning business opportunities, declaring dividends, issuing additional shares of Class A common stock or other securities and the approval of any merger, consolidation or sale of all or substantially all of our assets. They may make decisions that are adverse to your interests.

If our stockholders sell a substantial number of shares of our 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. Any decision by any of our principal stockholders to aggressively sell their shares could depress the market price of our Class A common stock.

As of January 31, 2004, we had 70,974,819 shares of common stock outstanding. All of these shares are freely tradable, except for approximately 28 million shares held by certain stockholders who participated in our October 2003 recapitalization transaction wherein we repurchased approximately 10.8 million of our shares from our original stockholders and their affiliates and facilitated their resale of approximately 6.2 million additional shares to a group of private equity investors. Under the terms of our repurchase, our original stockholders agreed that they will not sell or otherwise dispose of any shares of Class A common stock on the open market or without the prior written consent of a majority of our independent directors prior to October 22, 2005. This agreement is subject to the following exceptions:

- certain charitable donations to religious organizations;
- transfers to us;
- transfers of common stock to immediate family members or related persons who or estate planning entities that agree to be bound by similar restrictions;

- transfers pursuant to an existing call option for 2 million shares granted by one of our original stockholders, Sandra Tillotson, or an existing put option for up to 3.5 million shares obtained by Ms. Tillotson in a recent transaction; and

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- the pledge of shares as security for loans up to \$10 million, provided certain conditions are met, including our right to purchase any shares upon the occurrence of an event of default at a price equal to 50% of the average closing price for the 15 days immediately prior to the event of default.

These stockholders also agreed that, after the expiration of the two-year lock-up agreement in October 2005, they will be subject to certain volume limitations with respect to open market transactions. In the event these lock-up restrictions were removed, the resulting sales could cause the price of our Class A common stock to decline.

ITEM 2. PROPERTIES

We generally lease our warehouse, office or distribution facilities in each geographic region in which we currently have operations. We believe that our existing and planned facilities are adequate for our current operations in each of our existing markets. The following table summarizes, as of December 31, 2003, our major leased office and distribution facilities:

Location	Function	Approximate Square Feet
Provo, Utah ⁽¹⁾	Distribution center	198,000
Provo, Utah ⁽¹⁾	Corporate offices	125,000
Los Angeles, California	Warehouse	35,000
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	37,000
Taoyuan, Taiwan	Warehouse/distribution center	47,000
Ontario, Canada	Office/warehouse	31,000
Venlo, Netherlands	Warehouse/offices	20,000
Seoul, South Korea	Corporate offices	29,000
Shanghai, China	Manufacturing	69,000
Zhejiang Province, China	Manufacturing	16,140

(1) These facilities are leased from related parties.

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We currently also lease approximately 130,000 square feet of retail space in Mainland China in more than 100 different locations in connection with our retail business in this market, as well as approximately 151,000 square feet of administrative office space.

ITEM 3. LEGAL PROCEEDINGS

We are not currently a party nor is any of our property currently the subject of any material pending legal proceedings.

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, 2003.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Class A common stock is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "NUS." The following table is based upon the information available to us and sets forth the range of the high and low sales prices for our Class A common stock for the quarterly periods during 2002 and 2003 based upon quotations on the NYSE.

Quarter Ended	High	Low
March 31, 2002	\$ 11.19	\$ 7.10
June 30, 2002	14.86	10.01
September 30, 2002	14.25	8.50
December 31, 2002	13.09	9.67
Quarter Ended	High	Low
March 31, 2003	\$ 13.40	\$ 8.82
June 30, 2003	10.50	8.75
September 30, 2003	12.90	10.22
December 31, 2003	17.98	12.77

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

The closing price of our Class A common stock on February 27, 2004, was \$19.15. The approximate number of holders of record of our Class A common stock as of February 27, 2004 was 815. This number of holders of record does not represent the actual number of beneficial owners of shares of our 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. We have a small number of outstanding Class B shares held by one individual that were not converted to Class A shares as

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of December 31, 2003. These remaining Class B shares will be converted to Class A shares in connection with our annual shareholder meeting to be held in May 2004.

We declared and paid a \$0.06 per share dividend for all classes of common stock in March, June, September and December of 2002, and a \$0.07 per share quarterly dividend for all classes of common stock in March, June, September and December of 2003. The board of directors declared a quarterly cash dividend of \$0.08 per share. The quarterly cash dividend will be paid on March 24, 2004, to stockholders of record on March 5, 2004. Management believes that cash flows from operations will be sufficient to fund this and future dividend payments, if any.

We expect to continue to pay dividends on our common stock. However, the declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors.

Equity Compensation Plan Information

The following table provides information as of December 31, 2003 about our Class A common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans (including individual arrangements):

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	7,005,000 ⁽¹⁾	\$ 10.68	4,952,000 ⁽²⁾
Equity compensation plans not approved by security holders	--	\$ --	--
Total	7,005,000	\$ 10.68	4,952,000

- (1) Does not include information for options assumed in connection with acquisitions by us of other companies. As of December 31, 2003, a total of 66,000 shares of Class A common stock were issuable upon exercise of such assumed options, at a weighted-average exercise price per share of \$7.62. All of these shares correspond to options we assumed in our acquisition of Pharmanex.
- (2) Consists of 4,819,000 shares available for future issuance under the Company's Second Amended and Restated 1996 Stock Incentive Plan and 133,000 shares available for future issuance under the Company's 2000 Employee Stock Purchase Plan. The authorized shares purchasable by participants under the 2000 Employee Stock Purchase Plan may be increased by 75,000 shares each year beginning in 2003 and ending in 2009.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 have been derived from the audited consolidated financial statements.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(U.S. dollars in thousands, except per share data)				
Income Statement Data:					
Revenue	\$ 894,249	\$ 879,758	\$ 885,621	\$ 964,067	\$ 986,457
Cost of sales	151,681	149,342	178,083	190,868	176,545
Gross profit	742,568	730,416	707,538	773,199	809,912
Operating expenses:					
Selling expenses	346,951	345,259	347,452	382,159	407,088
General and administrative expenses	265,770	294,744	288,605	285,229	289,925
Restructuring and other charges	--	--	--	--	5,592
Total operating expenses	612,721	640,003	636,057	667,388	702,605
Operating income	129,847	90,413	71,481	105,811	107,307
Other income (expense), net	(1,411)	5,993	8,380	(2,886)	432
Income before provision for income taxes	128,436	96,406	79,861	102,925	107,739
Provision for income taxes	41,742	34,706	29,548	38,082	39,863
Net income ⁽¹⁾	\$ 86,694	\$ 61,700	\$ 50,313	\$ 64,843	\$ 67,876
Net income per share:					
Basic	\$ 1.00	\$ 0.72	\$ 0.60	\$ 0.79	\$ 0.86
Diluted	\$ 0.99	\$ 0.72	\$ 0.60	\$ 0.78	\$ 0.85
Weighted average common shares outstanding (000s):					
Basic	87,081	85,401	83,472	81,731	78,637
Diluted	87,893	85,642	83,915	83,128	79,541
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$ 110,162	\$ 63,996	\$ 75,923	\$ 120,341	\$ 122,568
Working capital	74,561	122,835	152,513	180,639	143,568
Total assets	643,215	590,803	582,352	611,838	623,747
Current portion of long-term debt	55,889	--	--	--	17,915
Long-term debt	89,419	84,884	73,718	81,732	147,488
Stockholders' equity	309,379	366,733	379,890	386,486	290,248
Supplemental Operating Data (at end of period):					
Approximate number of active distributors ⁽²⁾	510,000	497,000	558,000	566,000	678,000
Number of executive distributors ⁽²⁾	21,005	21,381	24,839	27,915	29,131

(1) In January 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Assuming no amortization of goodwill and other indefinite-lived intangibles for all periods presented prior to adoption, net income would have been \$93 million, \$68 million and \$57 million for each of the years ended December 31, 1999, 2000, and 2001, respectively. For 2003, net income includes a pre-tax non-recurring charge of \$6 million due to restructuring and other charges incurred during the third quarter.

(2) Active distributors are those distributors who were resident in the countries in which we operated and who 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. Following the opening for retail business in Mainland China during 2003, active distributors includes 117,000 preferred customers and executive distributors includes 3,100 employed, full-time sales representatives.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, which are included in this Annual Report on Form 10-K.

Overview

We are a leading, global direct selling company. We develop and distribute premium-quality, innovative personal care products and nutritional supplements that are sold worldwide under the Nu Skin and Pharmanex brands. We also market technology products and services and a line of home care products under the Big Planet brand. We had revenue of \$986 million in 2003 and a global network of approximately 678,000 active independent distributors. Approximately 29,000 of our active distributors have achieved executive distributor status under our Global Compensation Plan. Our executive distributors play an important leadership role in our distribution network and are critical to the growth and profitability of our business. We develop and market branded consumer products that we believe are well suited for direct selling. Our distributors market and sell our products by educating consumers about the benefits and distinguishing characteristics of our products and by providing personalized customer service. Through dedicated research and development, we continually develop and introduce new products and enhance our existing line of products to provide our distributors with a differentiated portfolio of premium products. We are able to attract and motivate high-caliber independent distributors because of our focus on developing innovative products, our attractive global compensation system and our advanced technological distributor support.

We currently operate in over 30 countries throughout Asia, North and South America and Europe. In 2003, approximately 89% of our revenue was generated in markets outside of the United States and is translated into U.S. dollars from each market's local currency using quarterly weighted average exchange rates. Approximately 84% of our revenue was generated from our Asia markets, with revenue from Japan representing approximately 57% of our revenue. As a result, our financial results can be negatively impacted by the weakening of foreign currencies relative to the U.S. dollar and economic and business conditions in Asia, particularly in Japan.

The following table sets forth revenue information by region for the time periods indicated. This table should be reviewed in connection with the tables presented under "Results of Operations," which disclose selling expenses and other costs associated with generating the aggregate revenue presented.

Revenue by Region	Year Ended December 31,					
	2001		2002		2003	
	(U.S. dollars in millions)					
North Asia	\$ 553.9	63%	\$ 593.9	62%	\$ 617.7	63%
Greater China	93.4	10	104.9	11	135.5	14
North America	155.9	18	145.9	15	122.8	12
South Asia/Pacific	56.9	6	91.1	9	75.8	8
Other Markets	25.5	3	28.3	3	34.7	3
	<u>\$ 885.6</u>	<u>100%</u>	<u>\$ 964.1</u>	<u>100%</u>	<u>\$ 986.5</u>	<u>100%</u>

Our revenue depends upon the number and productivity of independent distributors who purchase products and sales materials from us in their local currency for resale to their customers or for personal use. Information concerning the number of active and executive distributors for the past three years is provided below under the heading "Distributor Information." Because we distribute almost all of our products through our independent distributors, our failure to retain our existing distributors and recruit additional distributors could have an adverse effect on our revenue.

Our business and the direct selling and nutritional supplement industries are subject to extensive governmental regulations throughout the world, which impose some restrictions on our business and create certain business risks, including the imposition of fines or suspension of our operations if we fail to comply with such regulations. Some of the more significant regulatory risks facing our business today include regulatory risks in Mainland China where we are not allowed to operate using our direct selling model and we continue to be subject to regulatory scrutiny, uncertainty regarding the status of our Pharmanex Biophotonic Scanner as a non-medical device in the United States and Japan, and efforts to enact more stringent laws and regulations related to nutritional supplements as a result of adverse publicity related to deaths associated with ephedrine, a supplement we have never marketed.

We source the majority of our products from manufacturers located in the United States. In connection with our operations in Mainland China, we acquired a manufacturing facility in Mainland China and are manufacturing our own products for distribution in Mainland China. Cost of sales primarily consists of the cost of products purchased from third party vendors, generally in U.S. dollars, and the freight cost of shipping these products to distributors, as well as import duties for the products. Cost of sales also includes the cost of sales materials sold to distributors at or near cost. Sales materials sold to distributors at or near cost 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. Because we purchase a significant majority of our goods in U.S. dollars and recognize revenue in local currencies, we are subject to exchange rate risks in our gross margins.

Selling expenses (previously referred to as distributor incentives), classified as operating expenses, are our most significant expense. Our global sales compensation plan is an important factor in our ability to attract and retain distributors. Selling expenses are paid to several levels of distributors on each product sale. The amount of the incentive paid varies depending on the purchaser's position within our Global Compensation Plan. Selling expenses are paid monthly and are based upon a distributor's personal and group product volumes, as well as the group product volumes of up to six levels of executive distributors in their downline sales organizations. Distributors also have the opportunity to make retail profits by selling the products they purchase from us at wholesale and selling them to retail customers with a retail mark-up. We do not pay commissions on these retail sales by distributors to their customers and do not recognize any revenue or commission expense from these retail sales by distributors to their retail customers. In some markets, we allow individuals who are not distributors to buy products directly from us at preferred prices. We pay commissions to the referring distributors and sales employees on these sales made directly by us to the "preferred customers." 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 our distributor force of approximately 678,000 active distributors, the fluctuation in the overall payout is relatively small. The overall payout has typically averaged from 41% to 43% of global product sales. We also make modifications and enhancements to our compensation plan to help motivate distributors and develop leadership characteristics, which can have an impact on selling expenses. Sales materials and starter kits are not subject to selling expenses. We previously referred to

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“selling expenses” as “distributor incentives” in our financial statements. The reason for the change in title is because the sales representatives in Mainland China are employees, as opposed to independent distributors.

General and administrative expenses (previously referred to as selling, general and administrative expenses) include wages and benefits, depreciation and amortization, rents and utilities, travel, promotion and advertising including costs of distributor conventions, which are expensed in the period in which they are incurred, research and development, professional fees and other operating expenses. The most significant portion of our general and administrative expenses is labor expenses, which accounts for a majority of our total general and administrative expenses.

Provision for income taxes depends on the statutory tax rates in each of the jurisdictions in which we operate. For example, statutory tax rates are 16% in Hong Kong, 25% in Taiwan, 30% in South Korea, 46% in Japan and 33% in Mainland China; however, we are currently benefiting from a tax holiday in Mainland China. We are subject to taxation in the United States at a statutory corporate federal tax rate of 35% and we also pay taxes in various states. However, we receive 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. We have historically experienced high effective foreign tax rates in comparison to the overall effective tax rate, which is due to the impact of: (1) foreign activities with pre-tax losses that provide a tax benefit in the United States, but not in the foreign jurisdictions; (2) higher tax rates in certain foreign jurisdictions, particularly Japan, which accounts for a significant portion of the foreign pre-tax income each year; and (3) the effect of foreign withholding taxes, which factor into the total tax provision, but are not based on income. We experienced a higher foreign tax rate in 2003 compared to 2002 and 2001 due to reduced taxable foreign income, coupled with consistent foreign withholding taxes, which are non-income based taxes. Our effective U.S. tax rates in comparison to our overall effective tax rate are lower due to the impact of applicable foreign tax credits in the U.S. income tax expense breakdown.

From September 1999 to August 2003, we operated a professional employer organization that outsourced personnel and benefit services to small businesses in the United States. We sold the professional employer organization during the third quarter of 2003. Revenue for the professional employer organization consisted of service fees paid by its clients. For our professional employer organization, cost of sales included the direct costs, such as salaries, wages and other benefits, associated with the worksite employees.

Critical Accounting Policies

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

Revenue. We recognize revenue when products are shipped, which is when title passes to our independent distributors. With some exceptions in various countries, we offer a return policy whereby distributors can return unopened and unused product for up to 12 months subject to a 10% restocking fee. Reported revenue is net of returns, which have historically been less than 5% of gross sales. A reserve for product returns is accrued based on historical experience. We classify all selling discounts as a reduction

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of revenue. Our Global Compensation Plan for our distributors is focused on remunerating distributors based upon the selling efforts of the distributors and their downline, and not their personal purchases.

Income Taxes. We account for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes.” This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise’s activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. We pay income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between us and our foreign affiliates. Deferred tax assets and liabilities are created in this process. As of December 31, 2003, we have net deferred tax assets of \$74.1 million. These net deferred tax assets assume sufficient future earnings will exist for their realization, as well as the continued application of current tax rates. We have considered projected future taxable income and ongoing tax planning strategies in determining that no valuation allowance is required. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination was made.

We are subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. We account for such contingent liabilities in accordance with SFAS No. 5, “Accounting for Contingencies” and believe that we have appropriately provided for income taxes for all years. Several factors drive the calculation of our tax reserves. Some of these factors include (i) the expiration of various statutes of limitations, (ii) changes in tax law and regulations, (iii) issuance of tax rulings, and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to our reserves, which would impact our reported financial results.

Intangible Assets. Under the provisions of Statements of Financial Accounting Standards No. 142 (“SFAS 142”), “Goodwill and Other Intangible Assets,” our goodwill and intangible assets with indefinite useful lives are no longer amortized, but instead are tested for impairment at least annually. In addition, our intangible assets with definite lives are recorded at cost and are amortized over their respective estimated useful lives to their estimated residual values, and are reviewed for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lives Assets” (Note 5).

We are required to make judgments regarding the useful life of our intangible assets. With the implementation of SFAS No. 142, we determined certain intangible assets to have indefinite lives based upon our analysis of the requirements of SFAS 141 and 142 as well as an independent third party evaluation of such lives, which was conducted in 2001. These intangible assets include our trademarks and trade names, our distributor network, and our marketing rights to operate the Nu Skin business in various foreign markets. In connection with a registration statement we filed in October 2003, the Staff of the Securities and Exchange Commission has commented on and sought additional support for the indefinite life designation of these assets. This review is on-going and if it is determined that any of these assets has a finite life, we would amortize the value of that asset over the remainder of such finite life, which annual amortization

expense we do not believe would be material to our operating results. The amortization expense would be a non-cash expense that would not impact the Company's cash flow from operations.

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Results of Operations

The following table sets forth our operating results as a percentage of revenue for the periods indicated:

	Year Ended December 31,		
	2001	2002	2003
Revenue	100.0%	100.0%	100.0%
Cost of sales	20.1	19.8	17.9
Gross profit	79.9	80.2	82.1
Operating expenses:			
Selling expenses	39.2	39.6	41.3
General and administrative expenses	32.6	29.6	29.4
Restructuring and other charges	--	--	0.5
Total operating expenses	71.8	69.2	71.2
Operating income	8.1	11.0	10.9
Other income (expense), net	.9	(.3)	--
Income before provision for income taxes	9.0	10.7	10.9
Provision for income taxes	3.3	4.0	4.0
Net income	5.7%	6.7%	6.9%

2003 Compared to 2002

Revenue

Overview. Revenue in 2003 increased 2% to \$986.5 million from \$964.1 million in 2002. Excluding the impact of changes in foreign currency exchange rates, we experienced a revenue decline of 2% for 2003 compared to 2002. This resulted from the sale of our professional employer organization in the United States in August 2003 and our transition away from certain Big Planet offerings, both of which were eliminated as part of our continued efforts to eliminate low-margin products and services. Although these actions negatively impacted 2003 to 2002 revenue comparisons by \$22.0 million, we believe that they positively impacted gross and operating margins in the fourth quarter of 2003 and will continue to have a positive impact on gross and operating margins going forward.

Revenue in 2003 was positively impacted by significant revenue growth from our expanded operations in Mainland China. In addition, growth in our U.S. nutrition business also positively impacted 2003 results. These improvements were largely offset by declines in local currency revenue in South Korea, Singapore and Malaysia, and in Japan for the year ended December 31, 2003. The negative year-over-year comparisons were related in part to the shift of attention of distributor leaders away from their home markets during the first quarter of 2003 to focus on Mainland China, the positive impact on revenue results in 2002 from distributor enthusiasm surrounding and incentives related to our planned expansion of operations in Mainland China, and geo-political conflicts and weak economic conditions. After two

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consecutive quarters of year-over-year declines in Japan, revenue stabilized in this market during the last half of 2003.

In late December 2003, the Company received notification that Japanese and South Korean regulators had suspended the importation of nutritional supplements in bovine-based capsules, which includes many of our Pharmanex products. A few weeks later, Japanese regulators also determined they would no longer allow these same products to be sold by nutrition companies after February 16, 2004. As a result, we have transitioned our production to non-bovine capsules and tablets and expect all of our key Pharmanex products to remain in stock. Although we expect these measures to result in some additional expenses for production costs, inventory write-offs and expedited shipping fees during the first quarter of 2004, we do not believe that these expenses will have a material impact on our overall projected 2004 financial results.

North Asia. The following table sets forth revenue for the North Asia region and its principal markets (U.S. dollars in millions):

2002	2003	Change
------	------	--------

Japan	\$ 529.8	\$ 558.7	5%
South Korea	64.1	59.0	(8)
	<hr/>	<hr/>	
North Asia total	\$ 593.9	\$ 617.7	4
	<hr/>	<hr/>	

Excluding the impact of changes in foreign currency exchange rates, revenue in North Asia decreased 3% in 2003 compared to 2002. In local currency, revenue in Japan decreased 2% in 2003 compared to 2002. Local currency revenue in Japan during 2003 was negatively impacted by the factors noted in “Revenue – Overview” above. In local currency, revenue in South Korea decreased 12%. The decrease in revenue in South Korea was primarily a result of the factors discussed in “Revenue – Overview” above, as well as regulatory changes requiring a modification to our sales incentive plan towards the end of 2002, which was disconcerting to our distributor leaders in this market.

Greater China. The following table sets forth revenue for the Greater China region and its principal markets (U.S. dollars in millions):

	2002	2003	Change
Taiwan	\$ 78.9	\$ 73.1	(7%)
Mainland China	2.0	38.5	1,825
Hong Kong	24.0	23.9	--
	<hr/>	<hr/>	
Greater China total	\$ 104.9	\$ 135.5	29
	<hr/>	<hr/>	

Revenue in Greater China increased primarily as a result of the expansion of operations in Mainland China. Foreign currency fluctuations from 2002 to 2003 did not have a notable impact on this region. Revenue in Mainland China was \$38.5 million in 2003, following our expansion of retail operations and the introduction of Nu Skin branded products in Mainland China in January 2003. On a sequential basis, revenue in Mainland China increased 67% from the third quarter to the fourth quarter. This growth is attributed to an increased number of preferred customers and employed sales representatives in Mainland China. The success of our product launches and product promotions as well as our employment opportunities provide an attraction to many unemployed or underemployed sales people in Mainland China. As our business expands in Mainland China, we continue to experience government scrutiny due to our international reputation as a direct selling company. Although we conduct retail operations and not direct selling operations in Mainland China, we expect the government scrutiny

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to continue throughout 2004 when new direct selling laws and regulations are anticipated. For a more detailed discussion of the risks and challenges we face in Mainland China, please refer to “Notes Regarding Forward-Looking Statements”. We currently operate in a total of 23 cities in 8 provinces in Mainland China.

The increase in revenue in Mainland China was somewhat offset by the decline in revenue in Taiwan. We believe that the SARS epidemic negatively impacted revenue in Taiwan and Hong Kong during the first half of 2003. In addition, revenue in Taiwan and Hong Kong during the second, third and fourth quarters of 2002 was positively impacted by distributor enthusiasm surrounding our planned expansion of operations in Mainland China in 2003.

North America. The following table sets forth revenue for the North America region and its principal markets (U.S. dollars in millions):

	2002	2003	Change
United States	\$ 136.6	\$ 113.4	(17%)
Canada	9.4	9.4	--
	<hr/>	<hr/>	
North America total	\$ 146.0	\$ 122.8	(16)
	<hr/>	<hr/>	

The decline in revenue in the United States is principally a result of a \$22.0 million revenue decline in Big Planet in 2003 compared to the prior year. This decline was due primarily to the sale of our professional employer organization and the restructuring of Big Planet telecommunication products, both of which transitions are part of our continued efforts to eliminate or modify low-margin products. The North America region was also negatively impacted by year-over-year hedging losses of approximately \$5.3 million in 2003 compared to hedging gains of \$4.5 million in 2002 related to foreign currency forward contracts. In addition, revenue in 2002 in the United States included \$6.0 million of sales to foreign distributors during the third quarter of 2002 at the global distributor convention held in the United States, which did not recur in 2003.

Increasing distributor activity tied to the Pharmanex BioPhotonic Scanner program, a focus on signing up more consumers on monthly reorder programs, the introduction of new weight-management products and implementation of distributor leadership incentives, however, resulted in 36% growth in our Pharmanex revenue in the United States from \$48.3 million in 2002 to \$65.6 million in 2003, excluding sales to foreign distributors at the 2002 global convention held in the United States. Nu Skin revenue held relatively constant in 2003 compared to 2002, excluding sales to foreign distributors at the same 2002 global convention. Moreover, we experienced an 18% increase in our 2003 executive distributors in the United States and a 20% increase during 2003 of automatic delivery orders compared to 2002. Early in 2003, the FDA questioned the status of the Pharmanex BioPhotonic Scanner as a non-medical device. We believe the scanner can be marketed as a non-medical device, but the FDA has not responded yet to our request to classify the scanner as a non-medical device. In the event the FDA concludes that the scanner requires medical device clearance, this could delay or inhibit our ability to market the scanner. We currently intend to contest any conclusion by the FDA that the scanner is a medical device.

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South Asia/Pacific. The following table sets forth revenue for the South Asia/Pacific region and its principal markets (U.S. dollars in millions):

	2002	2003	Change
Singapore/Malaysia	\$ 64.3	\$ 36.7	(43%)
Thailand	13.0	22.7	75
Australia/New Zealand	11.0	13.5	23
Philippines	2.8	2.9	4
South Asia/Pacific total	\$ 91.1	\$ 75.8	(17)

Excluding the impact of changes in foreign currency exchange rates, revenue in South Asia/Pacific decreased 21% in 2003 compared to 2002. The decrease in revenue in this region was due primarily to the combined decrease in Singapore and Malaysia. Both Singapore and Malaysia were opened in the last two years. We often experience a revenue contraction after an initial period of rapid revenue growth following the opening of the market. This revenue contraction occurred later than usual in Singapore and Malaysia and was more pronounced than anticipated. We believe that this was due in part to distributor enthusiasm related to the planned opening of expanded operations in Mainland China in January 2003, which drove revenue growth throughout 2002. This decrease was somewhat offset by an increase in revenue in both Thailand and combined Australia/New Zealand.

Other Markets. The following table sets forth revenue for our Other Markets (U.S. dollars in millions):

	2002	2003	Change
Europe	\$ 25.6	\$ 31.9	25%
Latin America	2.7	2.8	4
Other Markets total	\$ 28.3	\$ 34.7	23

This increase was primarily due to a 25% increase in revenue in Europe, which included the 17% favorable impact of currency fluctuations in 2003 compared to 2002.

Gross profit

Gross profit as a percentage of revenue increased to 82.1% in 2003 compared to 80.2% in 2002. Our gross profit was positively impacted by the divestiture of our professional employer organization, the decline in low-margin revenue from Big Planet, a new personal care manufacturing plant in Mainland China and the positive impact of fluctuations in foreign currency in 2003 compared to 2002. We anticipate these factors will continue to positively impact gross profit throughout 2004 with gross margins expected to range from 83.0% to 84.0% in 2004 consistent with our reported gross margin of 83.4% during the fourth quarter of 2003.

Selling expenses

Selling expenses as a percentage of revenue increased to 41.3% in 2003 from 39.6% in 2002. In U.S. dollars, selling expenses increased to \$407.1 million in 2003 from \$382.2 million in 2002. The increase in selling expenses was due to the increase of sales employee labor and commission expenses in Mainland China. In addition, selling expenses as a percent of revenue increased due to the divestiture of our professional employer organization, which paid no commissions, and by the introduction of leadership incentives in Japan and in the United States. We anticipate these factors will continue to impact our

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selling expenses throughout 2004 with selling expenses expected to range from 42.0% to 43.0% similar to reported results during the fourth quarter of 2003, which were 42.2%.

General and administrative expenses

General and administrative expenses as a percentage of revenue remained nearly level at 29.4% in 2003 from 29.6% in 2002. In U.S. dollars, general and administrative expenses increased to \$289.9 million in 2003 from \$285.2 million in 2002. The U.S. dollar increase during 2003 in general and administrative expenses was primarily due to the incremental costs associated with the expansion of retail operations in Mainland China in 2003, as well as the negative impact of foreign currency fluctuations on operating expenses in 2003. These increases were somewhat offset by the reduction in labor expenses resulting from our restructuring that occurred in the third quarter of 2003. We anticipate incurring distributor convention expenses of approximately \$6.5 million in 2004 relating to our global distributor convention in the United States in the first quarter and approximately \$4.0 million relating to our 2004 Japan distributor convention in the fourth quarter, which represents an overall increase in 2004 of approximately \$6.5 million in convention expenses compared to 2003.

Restructuring and other charges

Restructuring and other charges of \$5.6 million recorded in the third quarter of 2003 include \$5.1 million of expenses resulting from an early retirement program and other employee separation charges. As a result of these employee terminations, our overall headcount was reduced by approximately 130 employees, the majority of which were employees at our U.S. headquarters. These restructuring expenses consisted primarily of severance and other compensation charges. The savings associated with these reductions in force have been refocused on revenue growth initiatives throughout the company. In connection with these restructuring charges, we also completed the divestiture of our professional employer organization operated through Big Planet resulting in a charge of approximately \$0.5 million.

Other income (expense), net

Other income (expense), net was \$0.4 million of income in 2003 compared to \$2.9 million of expense in 2002. This increase in other income (expense), net of \$3.3 million is primarily related to the foreign exchange fluctuations to the U.S. dollar on the translation of yen-based bank debt and other foreign denominated

intercompany balances into U.S. dollars for financial reporting purposes. We anticipate interest expense increasing to approximately \$6.0 million in 2004 from approximately \$3.0 million in 2003 resulting from additional debt incurred in October 2003.

Provision for income taxes

Provision for income taxes increased to \$39.9 million in 2003 from \$38.1 million in 2002. This increase was largely due to the increase in operating income as compared to the prior year. The effective tax rate remained at 37.0% of pre-tax income for 2003 and 2002.

Net income

As a result of the foregoing factors, net income increased to \$67.9 million in 2003 from \$64.8 million in 2002. Earnings per share were positively impacted by the repurchase of 10.8 million shares of our Class A common stock, which occurred in October 2003.

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2002 Compared to 2001

Revenue

Overview. Revenue in 2002 increased 9% to \$964.1 million from \$885.6 million in 2001 primarily due to the growth in the North and South Asia/Pacific regions as discussed below, which was somewhat offset by the decline in the North America region. Excluding the impact of changes in exchange rates, we experienced growth of 10% for 2002 compared to the prior year. Successful new product introductions, the addition of Singapore and Malaysia in the last two years and distributor interest surrounding our expansion of retail operations in Mainland China contributed to revenue growth in 2002.

North Asia. The following table sets forth revenue for the North Asia region and its principal markets (U.S. dollars in millions):

	<u>2001</u>	<u>2002</u>	<u>Change</u>
Japan	\$ 508.1	\$ 529.8	4%
South Korea	45.8	64.1	40
North Asia total	<u>\$ 553.9</u>	<u>\$ 593.9</u>	7

In local currency, revenue in Japan increased 7%. Revenue growth in Japan was driven by continued leveraging of technology tools for distributors as well as by successful product introductions and growth in automated orders. Reported U.S. dollar results reflect the negative impact of currency fluctuations. In local currency, revenue in South Korea increased 35%. Revenue growth in South Korea was driven by a 22% increase in executive distributors as well as successful product introductions. Our revenue growth in South Korea, which grew 67% in local currency in 2001, slowed in the second half of 2002 as a result of increased government regulations and political changes as well as weakening in the overall direct selling industry and the economy.

Greater China. The following table sets forth revenue for the Greater China region and its principal markets (U.S. dollars in millions):

	<u>2001</u>	<u>2002</u>	<u>Change</u>
Taiwan	\$ 70.2	\$ 78.9	12%
Hong Kong	21.7	24.0	11
Mainland China	1.5	2.0	33
Greater China total	<u>\$ 93.4</u>	<u>\$ 104.9</u>	12

Distributor interest surrounding our expansion of retail operations in Mainland China, which commenced in January 2003, spurred the growth in this region. In local currency, revenue in Taiwan increased 15%. Revenue growth in Taiwan was driven by a 27% increase in executive distributors primarily related to distributor enthusiasm throughout the Greater China region resulting from the planned retail expansion of operations in Mainland China.

North America. The following table sets forth revenue for the North America region and its principal markets (U.S. dollars in millions):

	<u>2001</u>	<u>2002</u>	<u>Change</u>
United States	\$ 149.0	\$ 136.6	(8%)
Canada	6.9	9.4	36
North America total	<u>\$ 155.9</u>	<u>\$ 146.0</u>	(6)

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This decrease in the North America region is due to the decline in revenue in the United States. The decrease in the United States is due to declines in Big Planet, including a decline of \$8.9 million in 2002 in our core Big Planet revenue and a \$2.7 million decline from our professional employer organization as we implemented initiatives centered on the more profitable personal care and nutritional supplement product categories. For the year, Nu Skin and Pharmanex revenue was flat, although revenue increased 19% in the fourth quarter of 2002 compared to the same period in 2001. These decreases were somewhat offset by the increase in revenue in Canada.

South Asia/Pacific. The following table sets forth revenue for the South Asia/Pacific region and its principal markets (U.S. dollars in millions):

	<u>2001</u>	<u>2002</u>	<u>Change</u>
Singapore/Malaysia	\$ 39.6	\$ 64.3	62%
Thailand	6.6	13.0	97
Australia/New Zealand	7.2	11.0	53
Philippines	3.5	2.8	(20)
South Asia/Pacific total	<u>\$ 56.9</u>	<u>\$ 91.1</u>	60

Excluding the impact of changes in exchange rates, our revenue in South Asia/Pacific increased 58% in 2002 compared to the prior year. Distributor interest surrounding our expansion of retail operations in Mainland China, which commenced in January 2003 and the opening of the Malaysian market in November 2001 spurred the growth in this region. The combined revenue of Singapore and Malaysia increased primarily as a result of the inclusion of a full year of operations in Malaysia in our 2002 results and distributor activity spurred over our plans to expand in Mainland China.

Other Markets. The following table sets forth revenue for our Other Markets (U.S. dollars in millions):

	<u>2001</u>	<u>2002</u>	<u>Change</u>
Europe	\$ 22.7	\$ 25.6	13%
Latin America	2.8	2.7	(4)
Other Markets total	<u>\$ 25.5</u>	<u>\$ 28.3</u>	11

This increase in revenue is primarily due to a 13% increase in revenue in Europe in U.S. dollars compared to the prior year. Excluding the impact of changes in exchange rates, our revenue in Europe increased approximately 4% compared to 2001 and in Latin America revenue increased 5% compared to 2001.

Gross profit

Gross profit as a percentage of revenue remained nearly constant at 80.2% in 2002 compared to 79.9% in 2001. The slight negative impact of fluctuations in foreign currency in 2002 was offset by a decrease of revenue related to low margin Big Planet products and services in 2002. We purchase a significant majority of our goods in U.S. dollars and recognize revenue in local currencies. Consequently, we are subject to exchange rate risks in our gross margins.

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Selling expenses

Selling expenses (previously referred to as distributor incentives) as a percentage of revenue increased to 39.6% in 2002 from 39.2% in 2001. In U.S. dollars, selling expenses increased to \$382.2 million in 2002 from \$347.5 million in 2001. The decline in revenue from Big Planet products and services, which pay lower commissions than our personal care and nutritional supplement product categories, contributed to the increase in selling expenses during 2002.

General and administrative

General and administrative expenses (previously referred to as selling, general and administrative expenses) as a percentage of revenue decreased to 29.6% in 2002 from 32.6% in 2001. Without the impact of \$10.5 million of amortization of intangibles recorded in 2001, which was not recorded in 2002 due to the implementation of SFAS No. 142, general and administrative expenses as a percentage of revenue would have been 31.4% in 2001. In 2002, we generated higher revenue while maintaining operating expenses primarily due to improved efficiencies from our cost-saving technology and automated reordering initiatives which allowed us to reduce labor expense as a percentage of revenue. These efficiencies in 2002, combined with the additional general and administrative expenses of approximately \$4.0 million we incurred in 2001 for a distributor convention held in Japan, which was not held in 2002, contributed to the remaining decrease in general and administrative expenses as a percentage of revenue. In U.S. dollar terms, general and administrative expenses decreased to \$285.2 million in 2002 from \$288.6 million in 2001.

Other income (expense), net

Other income (expense), net was \$2.9 million of expense in 2002 compared to \$8.4 million of income in 2001. The decrease in other income (expense), net is primarily related to the foreign exchange fluctuations to the U.S. dollar on the translation of yen-based bank debt and other foreign denominated intercompany balances into U.S. dollars for financial reporting purposes. In 2001, the net \$8.4 million of income primarily included foreign exchange gains due to a weakened Japanese yen relative to the U.S. dollar over 2000, while the net \$2.9 million of expense in 2002 was due to a strengthened Japanese yen relative to the U.S. dollar over 2001.

Provision for income taxes

Provision for income taxes increased to \$38.1 million in 2002 from \$29.5 million in 2001. This increase was largely due to the increases in operating income as compared to the prior year. The effective tax rate remained at 37.0% of pre-tax income for 2002 and 2001.

Net income

As a result of the foregoing factors, net income increased to \$64.8 million in 2002 from \$50.3 million in 2001.

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Liquidity and Capital Resources

Historically, our principal needs for funds have been for operating expenses including selling expenses, working capital (principally inventory purchases), capital expenditures and the development of operations in new markets. We have generally relied on cash flow from operations to meet our cash needs and business objectives without incurring long-term debt to fund operating activities.

We typically generate positive cash flow from operations due to favorable gross margins, the variable nature of selling expenses, which constitute a significant percentage of operating expenses, and minimal capital requirements. We generated \$109.0 million in cash from operations in 2003 compared to \$111.1 million in 2002. This decrease in cash generated from operations in 2003 compared to the prior-year period is largely related to the timing of payments of a higher amount of accrued expenses, including income taxes and commissions to distributors, during the year ended December 31, 2003, compared to the same prior-year period. These accrued expenses were substantially higher at December 31, 2002 than the amounts accrued at December 31, 2001 because revenue and profitability were significantly higher in 2002 compared to 2001. The negative impact of these timing differences was somewhat offset by our improved cash flow from inventory efficiencies.

As of December 31, 2003, working capital was \$143.6 million compared to \$180.6 million as of December 31, 2002. Cash and cash equivalents at December 31, 2003 were \$122.6 million and were \$120.3 million at December 31, 2002, following the use of \$45.0 million of our cash to repurchase shares of our common stock in October 2003 and \$20.0 million to pay off our revolving credit facility. This decrease in working capital was primarily due to the increase in accrued liabilities and in the current portion of long-term debt.

Capital expenditures, primarily for equipment, including the Pharmanex BioPhotonic Scanner, computer systems and software, office furniture and leasehold improvements, were \$23.5 million for the year ended December 31, 2003. In addition, we anticipate capital expenditures in 2004 of approximately \$30 million to \$35 million to further enhance our infrastructure, including enhancements to computer systems and software, further expansion of our retail stores, manufacturing and related infrastructure in Mainland China and approximately \$15 million to \$20 million in purchases of additional Pharmanex BioPhotonic Scanners, which we lease to our distributors.

We maintain a \$30.0 million revolving credit facility with Bank of America, N.A. and Bank One, N.A. for which Bank of America, N.A. acted as agent. Drawings on this revolving credit facility may be used for working capital, capital expenditures and other purposes including repurchases of our outstanding shares of Class A common stock. The revolving credit facility is set to expire on May 10, 2004.

In August 2003, we entered into a \$125.0 million multi-currency private uncommitted shelf facility with Prudential Investment Management, Inc. We utilized a portion of this shelf facility and a portion of the revolving credit facility in a transaction in October 2003 involving the repurchase of our shares of Class A common stock noted below. This portion of the long-term debt is U.S. dollar denominated, bears interest of approximately 4.5% per annum and will be amortized in two tranches over five and seven years. As of December 31, 2003, there were no outstanding balances under our revolving credit facility. As of December 31, 2003, we had \$75.0 million outstanding under our shelf facility, \$5.0 million of which is included in the current portion of long-term debt.

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In addition to the \$75.0 million currently outstanding under our long-term shelf facility, our long-term debt includes the long-term portion of Japanese yen-denominated ten-year senior notes issued to the Prudential Insurance Company of America in 2000. The notes bear interest at an effective rate of 3.03% per annum and are due October 2010, with annual principal payments beginning in October 2004. As of December 31, 2003, the outstanding balance on the notes was 9.7 billion Japanese yen, or \$90.4 million, \$12.9 million of which is included in the current portion of long-term debt. The Japanese notes and the revolving and shelf credit facilities are secured by guarantees issued by our material subsidiaries and by a pledge of 65% to 100% of the outstanding stock of our material foreign subsidiaries.

In October 2003, we repurchased approximately 10.8 million shares of Class A common stock from certain members of our original stockholder group for approximately \$141.6 million, which includes \$1.6 million of related expenses. These stockholders also sold approximately 6.2 million additional shares of Class A common stock to third party investors. The transaction also included the agreement among all participants in the transaction to convert all of their remaining shares of super-voting Class B common stock to Class A common stock and their agreement not to sell shares on the open market for two years subject to certain exceptions. We financed the repurchase with \$45.0 million from existing cash balances, approximately \$20.0 million from our revolving credit facility, which was repaid prior to December 31, 2003, and \$75.0 million in new long-term debt drawn under the \$125.0 million shelf facility. The terms and conditions of the repurchase were approved by a special committee of our board of directors comprised solely of independent directors. The special committee engaged its own financial and legal advisors in connection with the repurchase transaction.

Since August 1998, our board of directors has authorized us to repurchase up to \$90.0 million of our outstanding shares of Class A common stock. The repurchases are used primarily to fund our equity incentive plans. During the year ended December 31, 2003, in addition to the transaction referenced above, we repurchased approximately 0.8 million shares of Class A common stock for an aggregate amount of approximately \$8.4 million. Between August 1998 and December 31, 2003, we had repurchased a total of approximately 8.7 million shares of Class A common stock for an aggregate price of approximately \$81.6 million.

During each quarter of 2003, our board of directors declared cash dividends of \$0.07 per share for all classes of common stock. These quarterly cash dividends totaled approximately \$21.9 million and were paid during 2003 to stockholders of record in 2003. On January 28, 2004, the board of directors declared a dividend to be paid in March 2004 of \$0.08 per share for all classes of common stock. In addition, we anticipate that our board of directors will continue to declare quarterly cash dividends and that the cash flows from operations will be sufficient to fund our future dividend payments. Assuming a quarterly dividend declaration of \$0.08 per share in 2004, dividends for the year will total approximately \$24.0 million. However, the declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors.

We believe we have sufficient liquidity to be able to meet our obligations on both a short- and long-term basis. We currently believe that existing cash balances together with future cash flows from operations will be adequate to fund our cash needs. The majority of our historical expenses have been variable in nature and as such, a potential reduction in the level of revenue would reduce our cash flow needs. Within the past year, however, fixed costs associated with our retail store expansion in Mainland China and our manufacture of Pharmanex BioPhotonic Scanners have increased our capital needs beyond our historical business model. In the event that our current cash balances, future cash flow from

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operations and current lines of credit are not sufficient to meet our obligations or strategic needs, we would consider raising additional funds in the debt or equity markets or restructuring our current debt obligations. Additionally, we would consider realigning our strategic plans including a reduction in capital spending and a reduction in the level of stock repurchases or dividend payments.

The following table sets forth payments due by period for fixed contractual obligations as of December 31, 2003 (U.S. dollars in thousands):

	<u>Total</u>	<u>2004</u>	<u>2005-2006</u>	<u>2007-2008</u>	<u>Thereafter</u>
Long-term debt obligations	\$ 165,403	\$ 17,915	\$ 45,830	\$ 55,830	\$ 45,828
Capital lease obligations	--	--	--	--	--
Operating lease obligations ⁽¹⁾	60,358	11,088	21,080	18,861	9,329
Purchase obligations ⁽²⁾	61,651	36,235	17,002	1,894	6,520
Other long-term liabilities reflected on balance sheet ⁽³⁾	--	--	--	--	--
Total	\$ 287,412	\$ 65,238	\$ 83,912	\$ 76,585	\$ 61,677

(1) Operating leases includes corporate office and warehouse space with two entities that are owned by certain officers and directors of our company who are also founding shareholders. Total payments under these leases were \$3.3 million for the year ended December 31, 2003 with remaining long-term obligations under these leases of \$27.3 million.

(2) The Company is also party to acquisition agreements pursuant to which contingent payments of up to \$8.5 million and 1.2 million shares of the Company's Class A common stock may be made if certain development and revenue targets are met.

(3) Other long-term liabilities reflected on the balance sheet primarily consist of long-term tax related balances, which totaled \$52.8 million as of December 31, 2003.

Seasonality

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

Distributor Information

The following table provides information concerning the number of active and executive distributors as of the dates indicated. Active distributors are those distributors and preferred customers who were resident in the countries in which we operated and purchased products for resale or personal consumption during the three months ended as of the date indicated. An executive distributor is an active distributor who has achieved required monthly personal and group sales volumes.

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	<u>As of December 31, 2001</u>		<u>As of December 31, 2002</u>		<u>As of December 31, 2003</u>	
	<u>Active</u>	<u>Executive</u>	<u>Active</u>	<u>Executive</u>	<u>Active</u>	<u>Executive</u>
North Asia	319,000	16,891	322,000	17,668	321,000	17,013
Greater China ⁽¹⁾	74,000	2,698	73,000	3,564	187,000	5,991
North America	76,000	2,419	73,000	2,693	70,000	2,861
South Asia/Pacific	63,000	1,842	66,000	2,972	68,000	2,175
Other Markets	26,000	989	32,000	1,018	32,000	1,091
Total	558,000	24,839	566,000	27,915	678,000	29,131

(1) Following the opening of our retail business in Mainland China during 2003, active distributors includes 117,000 preferred customers and executive distributors includes 3,100 employed, full-time sales representatives.

Quarterly Results

The following table sets forth selected unaudited quarterly data for the periods shown:

	<u>2002</u>				<u>2003</u>			
	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>

	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
	(U.S. dollars in millions, except per share amounts)							
Revenue	\$ 216.1	\$ 244.9	\$ 252.9	\$ 250.2	\$ 219.6	\$ 240.7	\$ 250.2	\$ 275.9
Gross profit	172.0	196.3	203.2	201.7	178.0	195.4	206.5	230.0
Operating income	20.5	30.4	25.9	29.0	19.7	25.7	24.5	37.4
Net income	12.9	18.0	15.9	18.0	12.8	16.8	15.1	23.1
Net income per share:								
Basic	0.16	0.22	0.20	0.22	0.16	0.21	0.19	0.32
Diluted	0.16	0.22	0.19	0.22	0.16	0.21	0.19	0.31

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." We have adopted this standard and it did not have a significant effect on our financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. We have adopted this standard and it did not have a significant effect on our financial statements.

In December 2003, the FASB issued Interpretation No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This accounting standard will become effective beginning with the first quarter of 2004. We do not believe the adoption of this standard will have a significant effect on our financial statements.

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Currency Risk and Exchange Rate Information

A majority of our revenue and many of our 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. The local currency of each of our subsidiary's primary markets is considered the functional currency. All revenue and expenses are translated at weighted average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Media reports have indicated that the Chinese government may begin to allow the RMB to float more freely against the U.S. dollar and other major currencies. A strengthening of the RMB would benefit our reported revenue and profits and a weakening of the RMB would negatively impact reported revenue and profits. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, and results of operations or financial condition.

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

Our foreign currency derivatives are comprised of over-the-counter forward contracts with major international financial institutions. As of December 31, 2003, we had \$64.3 million of these contracts with expiration dates through December 2004. All of these contracts were denominated in Japanese yen. For the year ended December 31, 2003, we recorded losses of \$5.3 million in operating income, and losses of \$3.2 million, net of tax, in other comprehensive income related to the fair market valuation of our outstanding forward contracts. Because of our foreign exchange contracts at December 31, 2003, the impact of a 10% appreciation or 10% depreciation of the U.S. dollar against the Japanese yen would not represent a material potential loss in fair value, earnings or cash flows against these contracts. This potential loss does not consider the underlying foreign currency transaction or translation exposures to which we are subject.

Following are the weighted average currency exchange rates of U.S. \$1 into local currency for each of our international or foreign markets in which revenue exceeded U.S. \$5.0 million for at least one of the quarters listed:

	2002				2003			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Japan ⁽¹⁾	132.5	126.9	119.3	122.3	118.9	118.5	117.3	108.7
Taiwan	35.0	34.4	33.9	34.8	34.6	34.7	34.2	34.0
Hong Kong	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
South Korea	1,314.9	1,261.4	1,192.2	1,217.8	1,200.2	1,208.7	1,174.6	1,182.1
Singapore	1.8	1.8	1.8	1.8	1.7	1.8	1.8	1.7
Malaysia	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Thailand	43.7	42.7	42.1	43.4	42.8	42.2	41.3	39.8
China ⁽²⁾	--	--	--	--	8.3	8.3	8.3	8.3

(1) As of February 27, 2004 the exchange rate of U.S. \$1 into the Japanese yen was approximately 109.0.

(2) We commenced retail operations in Mainland China in January 2003.

Note Regarding Forward-Looking Statements

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

- our belief that existing cash and cash flow from operations will be adequate to fund cash needs;
- the expectation that we will spend \$25 million to \$30 million for capital expenditures during 2004 including approximately \$15 million to \$20 million for purchases of additional scanners;
- the anticipation that we will continue to declare quarterly cash dividends and that cash will be sufficient to pay future dividends;
- our belief that additional expenses related to the transition of some of our nutritional supplements to tablet form in response to recent Japanese regulatory actions will not have a material impact on our overall projected 2004 financial results, and our expectation that all of our key Pharmanex products will remain in stock in Japan;
- our belief that we can market the scanner as a non-medical device; and
- our belief that the sale of our PEO and other modifications to our Big Planet strategy as well as our self-manufacturing in China will continue to have a positive impact on gross and operating margins.

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

We wish to caution readers that our operating results are subject to various risks and uncertainties that could cause our actual results and outcomes to differ materially from those discussed or anticipated. Reference is made to the risks and uncertainties described below and factors described herein in "Item 1. – Business – Risk Factors" (which contain a more detailed discussion of the risks and uncertainties related to our business). We also wish to advise readers not to place any undue reliance on the forward-looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances or any changes in our beliefs or expectations. Some of the risks and uncertainties that might cause actual results to differ from those anticipated include, but are not limited to, the following:

- (a) Our expansion of operations in Mainland China is subject to risks and uncertainties. We have been subject to significant regulatory scrutiny and have experienced challenges including interruption of sales activities at certain stores and minor fines being paid in several cases. Because of restrictions on direct selling activities, we have implemented a modified business model for this market using retail stores and an employed sales force. We have at times received

guidance from local regulators on conducting our operations including limiting the size of our training meetings, controlling the activities of our sales employees, controlling the distribution of product outside of our stores, keeping the number of sales employees at reasonable levels and limiting the involvement of our overseas distributors. While we continuously update our operating model to address these concerns, we believe we could experience similar challenges in the future as we expand operations in Mainland China and continue to work with regulators to help them understand our business model. Our operations in Mainland China may be modified or otherwise harmed by regulatory changes, subjective interpretations of laws or an inability to work effectively with national and local government agencies. In addition, actions by overseas distributors or local sales employees in violation of local laws could harm our efforts.

- (b) As with any new technology, we have experienced technical, production and cost issues in developing the Pharmanex BioPhotonic Scanner. In addition, the FDA has questioned its status as a non-medical device, and we are facing similar uncertainties and regulatory issues in other markets, including Japan, with respect to the status of the scanner as a non-medical device, which could delay or negatively impact our plans for the scanner in these markets. If the full launch or use of this tool is delayed or otherwise inhibited by production or development issues, or if the FDA or other domestic or foreign government agency takes formal action to prevent us from distributing the scanner as a non-medical device, this could delay our distribution of the scanner and harm our business.
- (c) Because a substantial majority of our sales are generated in Asia, particularly Japan, significant variations in operating results including revenue, gross margin and earnings from those expected could be caused by:
- renewed or sustained weakness of Asian economies or consumer confidence;
 - weakening of foreign currencies, particularly the Japanese yen;
 - political unrest or uncertainty;
 - failure of planned initiatives to generate continued interest and enthusiasm among distributors in these markets or to attract new distributors;
or
 - any problems with our expansion of operations in Mainland China into new cities, increasing product offerings and attracting additional sales representatives.

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

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(e) There is uncertainty whether the SARS epidemic or other communicable diseases could return this winter, particularly in those Asian markets most affected by the epidemic earlier in 2003. It is difficult to predict the impact, if any, of a recurrence of SARS on our business. Although such an event could generate increased sales of health/immune supplements and personal care products, our direct selling and retail activities and results of operations could be harmed if the fear of SARS causes people to avoid public places and interaction with one another.

(f) Many countries have banned the importation of products that contain bovine materials sourced from locations where Bovine Spongiform Encephalopathy (BSE), commonly referred to as "mad cow disease", has been identified. The recent discovery of BSE in a single cow in the United States prompted Japan and certain other countries to ban the importation of bovine products, including supplements encapsulated in bovine-sourced capsules. In the event we are unable to successfully continue meeting product demand with non-bovine capsules or tablets in these markets as a result of supply issues or production problems, or if we experience quality problems, this could harm our business.

(g) Our ability to retain key and executive level distributors or to sponsor new executive distributors is critical to our success. Because our products are distributed exclusively through our distributors and we compete with other direct selling companies in attracting distributors, our operating results could be adversely affected if our existing and new business opportunities and products do not generate sufficient enthusiasm and economic incentive to retain our existing distributors or to sponsor new distributors on a sustained basis.

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 Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations-Currency Risk and Exchange Rate Information" and Note 15 to the Consolidated Financial Statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

1. Financial Statements. Set forth below is the index to the Financial Statements included in this Item 8:

	<u>Page</u>
Consolidated Balance Sheets at December 31, 2002 and 2003	61
Consolidated Statements of Income for the years ended December 31, 2001, 2002 and 2003	62
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2002 and 2003	63
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2002 and 2003	64
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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.

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Nu Skin Enterprises, Inc.

Consolidated Balance Sheets

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

	December 31,	
	2002	2003
ASSETS		
Current assets		
Cash and cash equivalents	\$ 120,341	\$ 122,568

Accounts receivable	18,914	15,054
Inventories, net	88,306	83,338
Prepaid expenses and other	48,878	53,777
	<u>276,439</u>	<u>276,737</u>
Property and equipment, net	55,342	60,528
Goodwill	118,768	118,768
Other intangible assets, net	69,181	67,572
Other assets	92,108	100,142
	<u>611,838</u>	<u>623,747</u>
Total assets	\$	\$
	<u>611,838</u>	<u>623,747</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 17,992	\$ 18,816
Accrued expenses	77,808	96,438
Current portion of long-term debt	--	17,915
	<u>95,800</u>	<u>133,169</u>
Long-term debt	81,732	147,488
Other liabilities	47,820	52,842
	<u>225,352</u>	<u>333,499</u>
Total liabilities		
	<u>225,352</u>	<u>333,499</u>
Stockholders' equity		
Class A common stock - 500,000,000 shares authorized, \$.001 par value, 35,707,785 and 70,700,497 shares issued and outstanding	36	71
Class B common stock - 100,000,000 shares authorized, \$.001 par value, 45,362,854 and 6,466 shares issued and outstanding	45	--
Additional paid-in capital	69,803	(68,191)
Accumulated other comprehensive loss	(68,988)	(70,849)
Retained earnings	385,590	431,615
Deferred compensation	--	(2,398)
	<u>386,486</u>	<u>290,248</u>
Total liabilities and stockholders' equity	\$ 611,838	\$ 623,747
	<u>611,838</u>	<u>623,747</u>

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

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

	Year Ended December 31,		
	2001	2002	2003
Revenue	\$ 885,621	\$ 964,067	\$ 986,457
Cost of sales	<u>178,083</u>	<u>190,868</u>	<u>176,545</u>
Gross profit	<u>707,538</u>	<u>773,199</u>	<u>809,912</u>
Operating expenses:			
Selling expenses	347,452	382,159	407,088
General and administrative expenses	288,605	285,229	289,925
Restructuring and other charges	--	--	5,592
Total operating expenses	<u>636,057</u>	<u>667,388</u>	<u>702,605</u>

Operating income	71,481	105,811	107,307
Other income (expense), net	8,380	(2,886)	432
	<hr/>	<hr/>	<hr/>
Income before provision for income taxes	79,861	102,925	107,739
Provision for income taxes	29,548	38,082	39,863
	<hr/>	<hr/>	<hr/>
Net income	\$ 50,313	\$ 64,843	\$ 67,876
	<hr/>	<hr/>	<hr/>
Net income per share:			
Basic	\$ 0.60	\$ 0.79	\$ 0.86
Diluted	\$ 0.60	\$ 0.78	\$ 0.85
Weighted average common shares outstanding (000s):			
Basic	83,472	81,731	78,637
Diluted	83,915	83,128	79,541

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

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Nu Skin Enterprises, Inc.
Consolidated Statements of Stockholders' Equity
(U.S. dollars in thousands, except share amounts)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Deferred Compensation	Total Stockholders' Equity
Balance at January 1, 2001	\$ 31	\$ 54	\$ 106,284	\$ (45,347)	\$ 306,458	\$ (747)	\$ 366,733
Net income	--	--	--	--	50,313	--	50,313
Foreign currency translation adjustments	--	--	--	(8,298)	--	--	(8,298)
Net unrealized gains on foreign currency cash flow hedges	--	--	--	8,776	--	--	8,776
Net gain reclassified into current earnings	--	--	--	(4,616)	--	--	(4,616)
Total comprehensive income							46,175
Repurchase of 2,491,000 shares of Class A common stock	(3)	--	(18,136)	--	--	--	(18,139)
Conversion of shares	5	(5)	--	--	--	--	--
Amortization of deferred compensation	--	--	--	--	--	747	747
Exercise of distributor and employee stock options	--	--	805	--	--	--	805
Cash dividends	--	--	--	--	(16,431)	--	(16,431)
Balance at December 31, 2001	33	49	88,953	(49,485)	340,340	--	379,890
Net income	--	--	--	--	64,843	--	64,843
Foreign currency translation adjustments	--	--	--	(10,031)	--	--	(10,031)
Net unrealized losses on foreign currency cash flow hedges	--	--	--	(6,567)	--	--	(6,567)
Net gain reclassified into current earnings	--	--	--	(2,905)	--	--	(2,905)
Total comprehensive income							45,340
Repurchase of 1,682,000 shares of Class A common stock (Notes 3 and 10)	(1)	--	(20,585)	--	--	--	(20,586)
Conversion of shares	4	(4)	--	--	--	--	--
Purchase of long-term assets	--	--	936	--	--	--	936
Exercise of distributor and employee stock options	--	--	1,261	--	--	--	1,261
Forfeiture of stock options	--	--	(762)	--	--	--	(762)
Cash dividends	--	--	--	--	(19,593)	--	(19,593)
Balance at December 31, 2002	36	45	69,803	(68,988)	385,590	--	386,486
Net income	--	--	--	--	67,876	--	67,876
Foreign currency translation adjustments	--	--	--	(1,736)	--	--	(1,736)
Net unrealized losses on foreign currency cash flow hedges	--	--	--	(3,171)	--	--	(3,171)
Net loss reclassified into current earnings	--	--	--	3,046	--	--	3,046
Total comprehensive income							66,015
Repurchase of 11,622,000 shares of Class A common stock (Note 10)	(12)	--	(149,997)	--	--	--	(150,009)
Conversion of shares	45	(45)	--	--	--	--	--
Issuance of employee stock awards	--	--	3,113	--	--	(3,113)	--
Amortization of deferred compensation	--	--	--	--	--	715	715
Exercise of distributor and employee stock options	2	--	8,890	--	--	--	8,892
Cash dividends	--	--	--	--	(21,851)	--	(21,851)
Balance at December 31, 2003	\$ 71	\$ --	\$ (68,191)	\$ (70,849)	\$ 431,615	\$ (2,398)	\$ 290,248

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

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

	Year Ended December 31,		
	2001	2002	2003
Cash flows from operating activities:			
Net income	\$ 50,313	\$ 64,843	\$ 67,876
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	31,679	21,602	22,369
Amortization of deferred compensation	747	--	715
(Gain)/loss on sale of assets	(2,328)	(1,328)	525
Changes in operating assets and liabilities:			
Accounts receivable	(1,127)	404	3,860
Related parties receivable	215	5,971	--
Inventories, net	(2,240)	(4,051)	4,968
Prepaid expenses and other	(891)	(3,674)	11,714
Other assets	8,491	12,473	(7,965)
Accounts payable	(1,104)	3,259	824
Accrued expenses	(10,706)	14,160	1,176
Related parties payable	(1,898)	(6,967)	--
Other liabilities	3,266	4,424	2,964
Net cash provided by operating activities	74,417	111,116	109,026
Cash flows from investing activities:			
Purchase of property and equipment	(15,126)	(19,026)	(23,518)
Purchase of long-term assets	--	(7,505)	--
Net cash used in investing activities	(15,126)	(26,531)	(23,518)
Cash flows from financing activities:			
Payments of cash dividends	(16,431)	(19,593)	(21,851)
Repurchase of shares of common stock	(18,139)	(14,158)	(150,009)
Exercise of distributor and employee stock options	805	1,261	8,892
Proceeds from long-term debt	--	--	75,000
Proceeds from revolving credit facility	--	--	20,000
Payments on revolving credit facility	--	--	(20,000)
Net cash used in financing activities	(33,765)	(32,490)	(87,968)
Effect of exchange rate changes on cash	(13,599)	(7,677)	4,687
Net increase in cash and cash equivalents	11,927	44,418	2,227
Cash and cash equivalents, beginning of period	63,996	75,923	120,341
Cash and cash equivalents, end of period	\$ 75,923	\$ 120,341	\$ 122,568

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

Nu Skin Enterprises, Inc. (the "Company") is a leading, global direct selling company. The Company develops and distributes premium-quality, innovative personal care products and nutritional supplements that are sold worldwide under the Nu Skin and Pharmanex brands. The Company also markets technology products and services and a line of home care products under the Big Planet brand. The Company reports revenue from five geographic regions: North Asia, which consists of Japan and South Korea; Greater China, which consists of Mainland China, Hong Kong (including Macau) and Taiwan; North America, which consists of the United States and Canada; South Asia/Pacific, which consists of Australia, Malaysia, New Zealand, the Philippines, Singapore and Thailand; and Other Markets, which consists of Brazil, Europe, Guatemala and Mexico (the Company's subsidiaries operating in these countries are collectively referred to as the "Subsidiaries").

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 accounting principles generally accepted in the United States of America 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 revenue 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 or market, using the first-in, first-out method. The Company had reserves for obsolete inventory totaling \$6.7 million, \$5.7 million and \$5.4 million as of December 31, 2001, 2002 and 2003, respectively.

Property and equipment

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

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

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.

Goodwill and other intangible assets

Under the provisions of Statements of Financial Accounting Standards No. 142 ("SFAS 142"), *Goodwill and Other Intangible Assets*, the Company's goodwill and intangible assets with indefinite useful lives are no longer amortized, but instead are tested for impairment at least annually. In addition, the Company's intangible assets with definite lives are recorded at cost and are amortized over their respective estimated useful lives to their estimated residual values, and are reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Note 5).

The Company is required to make judgments regarding the useful life of its intangible assets. With the implementation of SFAS 142, the Company determined certain intangible assets to have indefinite lives based upon its analysis of the requirements of SFAS 142 as well as an independent third party evaluation of such lives, which was conducted in 2001. These intangible assets include trademarks and trade names, distributor network, and marketing rights to operate the Company's business in various foreign markets. In connection with a registration statement the Company filed in October 2003, the Staff of the Securities and Exchange Commission has commented on and sought additional support for the indefinite life designation of these assets. This review is on-going and if it is determined that any of these assets has a finite life, the Company would amortize the value of that asset over the remainder of such finite life, which annual amortization expense the Company does not believe would be material to its operating results. The amortization expense would be a non-cash expense that would not impact the Company's cash flow from operations.

Revenue recognition

Revenue is recognized when products are shipped, which is when 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. Our global compensation plan for our distributors does not provide rebates or selling discounts to distributors who purchase our products and services.

Advertising expense

Advertising costs are expensed as incurred. Advertising expense incurred for the years ended December 31, 2001, 2002 and 2003 totaled approximately \$1.8 million, \$2.8 million and \$1.4 million, respectively.

Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

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 and totaled \$7.1 million, \$6.9 million and \$6.4 million in 2001, 2002 and 2003 respectively.

Income taxes

The Company follows the liability method 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. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized. The Company accounts for any income tax contingencies in accordance with SFAS No. 5, *Accounting for Contingencies*.

Net income per share

Net income per share is computed based on the weighted average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented.

Foreign currency translation

Most of the Company's business operations occur outside the United States. The local currency of each of the Company's subsidiary's primary markets is considered its functional currency. All assets and liabilities are translated into U.S. dollars at exchange rates existing at the balance sheet dates, revenue 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 carrying value of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate fair 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 in time, based on relevant market information.

Stock-based compensation

The Company measures compensation expense for its stock-based employee compensation plans, which are described in Note 11. SFAS No. 123, *Accounting for Stock-Based Compensation*, encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans based on the fair market value of options granted. The Company has chosen to account for stock-based compensation granted to employees using the intrinsic value method prescribed in Accounting

Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, because the grant price equals the market price on the date of grant for options issued by the Company, no compensation expense is recognized for stock options issued to employees. However, stock-based compensation granted to non-employees, such as the Company's independent distributors and consultants, is accounted for in accordance with SFAS No. 123. On December 31, 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, *Accounting for Stock Based Compensation – Transition and Disclosure*, which amended SFAS No. 123. SFAS No. 148 requires more prominent and frequent disclosures about the effects of stock-based compensation. The Company will continue to account for its stock based compensation granted to employees according to the provisions of APB Opinion No. 25. Had compensation cost for the Company's stock options been recognized based upon the estimated fair value on the grant date under the fair value methodology prescribed by SFAS No. 123, as amended by SFAS No. 148, the Company's net earnings and earnings per share would have been as follows (U.S. dollars in thousands, except per share amounts):

	December 31,		
	2001	2002	2003
Net income, as reported	\$ 50,313	\$ 64,843	\$ 67,876
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,886)	(5,450)	(5,274)
Pro forma net income	48,427	59,393	62,602

Earnings per share:

Basic - as reported	\$	0.60	\$	0.79	\$	0.86
Basic - pro forma	\$	0.58	\$	0.73	\$	0.80
Diluted - as reported	\$	0.60	\$	0.78	\$	0.85
Diluted - pro forma	\$	0.58	\$	0.71	\$	0.79

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 derivative instruments and hedging activities

The Company recognizes all derivatives as either assets or liabilities, with the instruments measured at fair value as required by Statement of Financial Accounting Standards No. 133 ("SFAS 133").

The Company's Subsidiaries enter into significant transactions with each other and third parties that may not be denominated in the respective Subsidiaries' functional currencies. The Company regularly monitors its foreign currency risks and seeks to reduce its exposure to fluctuations in foreign exchange rates through the use of foreign currency exchange contracts and through certain intercompany loans of foreign currency.

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

The Company hedges its exposure to future cash flows from forecasted transactions over a maximum period of 12 months. Hedge effectiveness is assessed at inception and throughout the life of the hedge to ensure the hedge qualifies for hedge accounting treatment. Changes in fair value associated with hedge ineffectiveness, if any, are recorded in the results of operations currently. In the event that an anticipated transaction is no longer likely to occur, the Company recognizes the change in fair value of the derivative in its results of operations currently.

Changes in the fair value of derivatives are recorded in current earnings or accumulated other comprehensive loss, depending on the intended use of the derivative and its resulting designation. The gains and losses in accumulated other comprehensive loss stemming from these derivatives will be reclassified into earnings in the period during which the hedged forecasted transaction affects earnings. The fair value of the receivable and payable amounts related to these unrealized gains and losses is classified as other current assets and liabilities. The Company does not use such derivative financial instruments for trading or speculative purposes. Gains and losses on certain intercompany loans of foreign currency are recorded as other income and expense in the consolidated statements of income.

New pronouncements

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The Company has adopted this standard and it did not have a significant effect on its financial statements.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Company has adopted this standard and it did not have a significant effect on its financial statements.

In December 2003, the FASB issued Interpretation No. 46R, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*. This accounting standard will become effective beginning with the first quarter of 2004. The Company does not believe the adoption of this standard will have a significant effect on its financial statements.

3. Related Party Transactions

Certain relationships with stockholder distributors

Two stockholders of the Company have been independent distributors for the Company since 1984. These stockholders are partners in an entity that receives substantial commissions from the Company. By agreement, the Company pays commissions to this partnership at the highest level of distributor compensation. The commissions paid to this partnership were \$3.5 million, \$3.3 million and \$3.2 million for the years ended December 31, 2001, 2002 and 2003, respectively.

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

Loan to stockholder

On May 3, 2002, a \$5.0 million loan to a non-management stockholder was repaid, together with accrued interest, with approximately 440,000 shares of the Company's Class A common stock.

Promissory Note

On August 14, 2002, the Company paid the remaining balance (approximately \$6.0 million) of the promissory note issued by the Company to a related party in connection with the Company's acquisition of Big Planet, Inc. in 1999. In addition, the Company negotiated a settlement of a receivable from a related party by

accepting a cash payment of \$2.4 million to satisfy an obligation related to outstanding distributor stock options, which obligation was previously payable upon exercise of each outstanding stock option.

Lease agreements

The Company leases corporate office and warehouse space from two entities that are owned by certain officers and directors of the Company. Total lease payments to these two affiliated entities were \$3.3 million for each of the years ended December 31, 2001, 2002 and 2003 with remaining long-term obligations under these operating leases of \$29.8 million and \$27.3 million at December 31, 2002 and 2003, respectively.

4. Property and Equipment

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

	December 31,	
	2002	2003
Furniture and fixtures	\$ 37,747	\$ 38,632
Computers and equipment	81,351	87,644
Leasehold improvements	28,032	36,123
Vehicles	1,939	2,580
	149,069	164,979
Less: accumulated depreciation	(93,727)	(104,451)
	\$ 55,342	\$ 60,528

Depreciation of property and equipment totaled \$16.6 million, \$17.2 million and \$18.3 million for the years ended December 31, 2001, 2002 and 2003, respectively.

5. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of the following (U.S. dollars in thousands):

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

	Carrying Amount at December 31,	
	2002	2003
Goodwill and other indefinite life intangible assets:		
Goodwill	\$ 118,768	\$ 118,768
Trademarks and tradenames	22,493	22,840
Marketing rights	12,266	12,266
Distributor network	4,081	4,081
	\$ 157,608	\$ 157,955

	December 31, 2002		December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Other finite life intangible assets:				
Developed technology	\$ 22,500	\$ 6,841	\$ 22,500	\$ 7,666
Other	25,105	10,423	27,201	13,650
	\$ 47,605	\$ 17,264	\$ 49,701	\$ 21,316

Amortization of finite-lived intangible assets totaled \$4.8 million, \$4.4 million and \$4.1 million for the years ended December 31, 2001, 2002 and 2003, respectively. Annual estimated amortization expense is expected to approximate \$4.5 million for each of the five succeeding fiscal years.

The Company adopted SFAS No. 142 effective January 1, 2002. Under the new standard, goodwill and indefinite life intangible assets are no longer amortized but are subject to annual impairment tests. Other intangible assets with finite lives, such as developed technology, will continue to be amortized over their useful lives. The transitional and annual impairment tests were completed and did not result in an impairment charge.

In accordance with SFAS No. 142, prior period amounts were not restated. A reconciliation of the previously reported net income and earnings per share for the year ended December 31, 2001, to the amounts adjusted for the reduction of amortization expense, net of the related income tax effect, is as follows (U.S. dollars in thousands, except per share amounts):

	<u>2001</u>	
Reported net income	\$	50,313
Add: amortization adjustment		6,352
Adjusted	\$	56,665
Reported basic EPS	\$.60
Add: amortization adjustment		.08
Adjusted	\$.68
Reported diluted EPS	\$.60
Add: amortization adjustment		.08
Adjusted	\$.68

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

6. Other Assets

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

	<u>December 31,</u>	
	<u>2002</u>	<u>2003</u>
Deferred taxes	\$ 65,708	\$ 70,010
Deposits for noncancelable operating leases	14,084	15,912
Other	12,316	14,220
	<u>\$ 92,108</u>	<u>\$ 100,142</u>

7. Accrued Expenses

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

	<u>December 31,</u>	
	<u>2002</u>	<u>2003</u>
Income taxes payable	\$ 10,761	\$ 7,792
Accrued commission payments to distributors	34,627	39,405
Other taxes payable	7,860	8,916
Accrued payroll and payroll taxes	12,595	14,618
Other accruals	11,965	25,707
	<u>\$ 77,808</u>	<u>\$ 96,438</u>

8. Long-Term Debt

The Company maintains a \$30.0 million revolving credit facility with Bank of America, N.A. and Bank One, N.A. for which Bank of America, N.A. acted as agent. Drawings on this revolving credit facility may be used for working capital, capital expenditures and other purposes including repurchases of the Company's outstanding shares of Class A common stock. The revolving credit facility is set to expire on May 10, 2004.

In August 2003, the Company entered into a \$125.0 million multi-currency private uncommitted shelf facility with Prudential Investment Management, Inc. The Company utilized a portion of this shelf facility and a portion of the revolving credit facility in a transaction involving the repurchase of its shares of Class A common stock, see Note 10. This portion of the long-term debt is U.S. dollar denominated, bears interest of approximately 4.5% per annum and will be amortized in two tranches over five and seven years. As of December 31, 2003, there were no outstanding balances under the revolving credit facility. As of December 31, 2003, the Company had \$75.0 million outstanding under the shelf facility, \$5.0 million of which is included in the current portion of long-term debt.

The Company's debt also includes Japanese yen-denominated ten-year senior notes issued to The Prudential Insurance Company of America in 2000. These notes bear interest at an effective rate of 3.03% per annum and are due October 2010, with annual principal payments beginning in October 2004. The outstanding balance on the notes was 9.7 billion Japanese yen, or \$81.7 million and \$90.4 million as of December 31, 2002 and 2003, respectively. As of December 31, 2003, the current portion of this long-term debt was \$12.9 million. The Japanese notes and the revolving and shelf credit facilities are

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

secured by guarantees issued by the Company's material Subsidiaries and by a pledge of 65% to 100% of the outstanding stock of its material foreign Subsidiaries.

Interest expense relating to the long-term debt totaled \$2.5 million, \$2.4 million and \$3.2 million for the years ended December 31, 2001, 2002 and 2003, respectively.

The notes and shelf facility contain other terms and conditions and affirmative and negative financial covenants customary for credit facilities of this type. As of December 31, 2003, the Company is in compliance with all financial covenants under the notes and shelf facility.

Maturities of all long-term debt at December 31, 2003, based on the year end exchange rate, are as follows (U.S. dollars in thousands):

<u>Year Ending December 31,</u>	
2004	\$ 17,915
2005	17,915
2006	27,915
2007	27,915
2008	27,915
Thereafter	45,828
	<hr/>
Total	\$ 165,403
	<hr/> <hr/>

9. 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, 2003 are as follows (U.S. dollars in thousands):

<u>Year Ending December 31,</u>	
2004	\$ 11,088
2005	10,713
2006	10,367
2007	9,727
2008	9,134
Thereafter	9,329
	<hr/>
Total minimum lease payments	\$ 60,358
	<hr/> <hr/>

Rental expense for operating leases totaled \$19.2 million, \$21.0 million and \$24.2 million for the years ended December 31, 2001, 2002 and 2003, respectively.

10. Capital Stock

The Company's authorized capital stock consists of 25 million shares of preferred stock, par value \$.001 per share, 500 million shares of Class A common stock, par value \$.001 per share and 100 million shares of Class B common stock, par value \$.001 per share. 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

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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. Substantially all of the Class B shares were converted to Class A shares in November 2003 and by May 2004 all remaining shares will be converted.

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,		
	2001	2002	2003
Basic weighted average common shares outstanding	83,472	81,731	78,637
Effect of dilutive securities:			
Stock awards and options	443	1,397	904
Diluted weighted average common shares outstanding	83,915	83,128	79,541

For the years ended December 31, 2001, 2002 and 2003, other stock options totaling 2.8 million, 2.7 million and 2.9 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

Repurchases of common stock

Since August 1998, the board of directors has authorized the Company to repurchase up to \$90.0 million of the Company's outstanding shares of Class A common stock. The repurchases are used primarily to fund the Company's equity incentive plans. During the years ended December 31, 2001, 2002 and 2003, the Company repurchased approximately 2.5 million, 1.2 million and 0.8 million shares of Class A common stock for an aggregate price of approximately \$18.1 million, \$14.2 million and \$8.4 million, respectively, in addition to the transaction referenced below. Between August 1998 and December 31, 2003, the Company had repurchased a total of approximately 8.7 million shares of Class A common stock for an aggregate price of approximately \$81.6 million.

Additionally, in October 2003, the Company repurchased approximately 10.8 million shares of Class A common stock from certain members of the Company's original stockholder group for approximately \$141.6 million, which included \$1.6 million of related expenses. These stockholders also sold approximately 6.2 million additional shares of Class A common stock to third party investors. The transaction also included the agreement among all participants in the transaction to convert all of their remaining shares of super-voting Class B common stock to Class A common stock. The terms and

conditions of the repurchase were approved by a special committee of the Company's board of directors comprised solely of independent directors. The special committee engaged its own financial and legal advisors in connection with the repurchase transaction. The Company financed the repurchase with \$45.0 million from existing cash balances, approximately \$20.0 million from its revolving credit facility, which was repaid prior to December 31, 2003 and \$75.0 million in new long-term debt drawn under the \$125.0 million shelf facility.

Conversion of common stock

During 2001, 2002 and 2003, the holders of the Class B common stock converted approximately 4.6 million, 3.5 million and 45.4 million shares of Class B common stock to Class A common stock, respectively. The conversion of 45.4 million shares of Class B common stock was part of the repurchase transaction described above. As of December 31, 2003, all but 6,466 shares of the outstanding Class B common stock had been converted to Class A common stock and by May 2004, these remaining shares will be converted to Class A common stock.

11. Equity Incentive Plans

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. On February 7, 2003, the board of directors authorized and the shareholders approved an amendment to the plan increasing the number of shares available for grant from 8 million to 13 million. As of December 31, 2003, approximately 8.2 million shares have been granted.

In 2001 the Company offered to exchange certain outstanding options to purchase shares of Nu Skin's Class A common stock held by eligible optionholders granted under the 1996 Stock Incentive Plan having an exercise price equal to or greater than \$10.00 per share for new options to purchase shares of Nu Skin's

Class A common stock. A total of 90 employees tendered 950,125 options to purchase the Company's Class A common stock, which options were cancelled on October 17, 2001, in return for commitments of new grants on the grant date of April 19, 2002. These new option grants were issued on April 19, 2002 at an exercise price of \$12.45 per share.

Effective November 21, 1996, the Company implemented a one-time distributor equity incentive program which provided for grants of options to selected distributors for the purchase of 1,605,000 shares of the Company's Class A common stock. The options were exercisable at a price of \$5.75 per share and vested one year from the effective date. The Company recorded distributor stock expense of \$19.9 million over the vesting period. As of December 31, 2003, this one-time distributor equity incentive program concluded. At that date, approximately 1.2 million of these options had been exercised throughout the years of the program and the remaining options were either cancelled or forfeited.

Pursuant to the acquisition of Pharmanex in 1998, the Company assumed outstanding options under two stock option plans. The options were converted into the right to purchase approximately 261,000 shares of the Company's Class A common stock.

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

The deferred compensation at December 21, 2003 represents a restricted stock award of 250,000 shares of the Company's Class A common stock granted to the Company's newly appointed Chief Executive Officer and President in 2003, which vests over four years. The Company is amortizing this deferred expense over the vesting period. Compensation expense for this restricted stock award totaled \$0.7 million in 2003.

A summary of the Company's stock option plans as of December 31, 2001, 2002 and 2003 and changes during the years then ended, is presented below:

	2001		2002		2003	
	Shares (in 000s)	Weighted Average Exercise Price	Shares (in 000s)	Weighted Average Exercise Price	Shares (in 000s)	Weighted Average Exercise Price
Outstanding - beginning of year	5,838.9	\$ 10.89	5,177.1	\$ 9.84	6,824.6	\$ 10.46
Granted at fair value	902.5	7.49	2,103.4	11.90	1,728.1	10.82
Exercised	(138.0)	5.76	(204.5)	6.34	(1,289.8)	6.82
Forfeited/canceled	(1,426.3)	13.03	(251.4)	13.25	(491.0)	6.34
Outstanding - end of year	5,177.1	9.84	6,824.6	10.46	6,771.9	11.54
Options exercisable at year-end	2,501.7	\$ 9.76	3,349.1	\$ 9.60	3,225.0	\$ 11.44

The following table summarizes information concerning outstanding and exercisable options at December 31, 2003:

Exercise Price Range	Options Outstanding			Options Exercisable	
	Shares (in 000s)	Weighted Average Exercise Price	Weighted Average Years Remaining	Shares (in 000s)	Weighted Average Exercise Price
\$0.92 to \$5.75	89.2	\$ 5.40	4.79	89.2	\$ 5.40
\$6.50 to \$11.00	2,974.5	8.21	7.42	1,650.1	7.84
\$11.50 to \$16.00	2,838.7	12.38	8.31	926.9	12.79
\$17.00 to \$28.50	869.5	20.82	7.49	558.8	20.82
	6,771.9	11.54	7.49	3,225.0	11.44

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2001	2002	2003
Risk-free interest rate	4.5%	3.6%	2.7%
Expected life	2.9 years	3.3 years	3.8 years
Expected volatility	60.0%	52.7%	54.2%
Expected dividend yield	2.8%	2.2%	2.3%

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

The weighted-average grant date fair values of options granted during 2001, 2002 and 2003 were \$3.12, \$4.18 and \$3.92, respectively.

Effective February 1, 2000, the Company's board of directors adopted the Employee Stock Purchase Plan (the "Purchase Plan"), which provides for the issuance of a maximum of 200,000 shares of Class A common stock. Eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of the Company's Class A common stock on every April 30, July 31, October 31 or January 31 (the "Purchase Date"). The price of the Class A common stock purchased under the Purchase Plan will be equal to 85% of the lower of the fair market value of the Class A common stock on the commencement date of each three-month offering period or Purchase Date. During 2003, approximately 19,000 shares were purchased at prices ranging from \$7.61 to \$9.72 per share. At December 31, 2003, approximately 133,000 shares were available under the Purchase Plan for future issuance.

12. Income Taxes

Consolidated income before provision for income taxes consists of the following for the years ended December 31, 2001, 2002 and 2003 (U.S. dollars in thousands):

	2001	2002	2003
U.S.	\$ 45,266	\$ 68,540	\$ 102,341
Foreign	34,595	34,385	5,398
Total	<u>\$ 79,861</u>	<u>\$ 102,925</u>	<u>\$ 107,739</u>

The provision for current and deferred taxes for the years ended December 31, 2001, 2002 and 2003 consists of the following (U.S. dollars in thousands):

	2001	2002	2003
Current			
Federal	\$ 1,812	\$ 2,800	\$ 1,709
State	2,078	4,548	3,049
Foreign	25,529	26,957	57,573
	<u>29,419</u>	<u>34,305</u>	<u>62,311</u>
Deferred			
Federal	3,330	6,819	16,641
State	(242)	(1,268)	676
Foreign	(2,959)	(1,774)	(39,765)
	<u>129</u>	<u>3,777</u>	<u>(22,448)</u>
Provision for income taxes	<u>\$ 29,548</u>	<u>\$ 38,082</u>	<u>\$ 39,863</u>

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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, 2002	December 31, 2003
Deferred tax assets:		
Inventory differences	\$ 5,878	\$ 4,390
Foreign tax credit	26,286	10,810
Distributor stock options and employee stock awards	4,484	48
Capitalized legal and professional	793	679
Accrued expenses not deductible until paid	21,931	20,097
Withholding tax	3,587	3,773
Minimum tax credit	16,143	18,380
Foreign deferred tax assets	--	18,919
Net operating losses	3,122	1,103
Controlled foreign corporation net losses	5,962	6,465
Capitalized research and development	6,856	8,803
Prepaid selling expenses	10,385	10,992
Other	--	2,200
Total deferred tax assets	<u>105,427</u>	<u>106,659</u>
Deferred tax liabilities:		

Foreign deferred tax	20,846	--
Exchange gains and losses	9,881	7,762
Pharmanex intangibles step-up	16,542	16,256
Amortization of intangibles	2,975	4,410
Other	6,005	4,115
	<hr/>	<hr/>
Total deferred tax liabilities	56,249	32,543
	<hr/>	<hr/>
Deferred taxes, net	\$ 49,178	\$ 74,116
	<hr/>	<hr/>

The components of deferred taxes, net on a classified basis are as follows (U.S. dollars in thousands):

	Year Ended December 31,	
	2002	2003
	<hr/>	<hr/>
Current deferred tax assets	\$ 39,719	\$ 36,649
Noncurrent deferred tax assets	65,708	70,010
	<hr/>	<hr/>
Total deferred tax assets	105,427	106,659
	<hr/>	<hr/>
Current deferred tax liabilities	10,665	1,369
Noncurrent deferred tax liabilities	45,584	31,174
	<hr/>	<hr/>
Total deferred tax liabilities	56,249	32,543
	<hr/>	<hr/>
Deferred taxes, net	\$ 49,178	\$ 74,116
	<hr/>	<hr/>

The Company has considered projected future taxable income and ongoing tax planning strategies in determining that no valuation allowance is required.

The net operating loss carryforwards expire in 2018, while the foreign tax credits expire during the years 2004 and 2005. Utilization of these loss and credit carryforwards is subject to annual limitations; however, management believes that it is more likely than not that the Company will generate sufficient

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

taxable income in the appropriate carry forward periods to realize the benefit of the net deferred tax assets.

The Company is subject to regular audits by federal, state and foreign tax authorities. These audits may result in proposed assessments that may result in additional tax liabilities. The Company accounts for any income tax contingencies in accordance with SFAS No. 5, *Accounting for Contingencies*.

The actual tax rate for the years ended December 31, 2001, 2002 and 2003 compared to the statutory U.S. Federal tax rate is as follows:

	Year Ended December 31,		
	2001	2002	2003
	<hr/>	<hr/>	<hr/>
Income taxes at statutory rate	35.00%	35.00%	35.00%
Foreign tax credit limitation (benefit)	--	.20	(1.80)
Non-deductible expenses	2.14	.22	.16
Branch remittance gains and losses	(.85)	(.55)	(.38)
Distributor stock options and employee stock awards	--	--	1.94
Other	.71	2.13	2.08
	<hr/>	<hr/>	<hr/>
	37.00%	37.00%	37.00%
	<hr/>	<hr/>	<hr/>

13. Employee Benefit Plan

The Company has a 401(k) defined contribution plan which permits participating employees to defer up to a maximum of 15% of their compensation, subject to limitations established by the Internal Revenue Code. Employees who work a minimum of 1,000 hours per year, who have completed at least one year of service and who are 21 years of age or older are qualified to participate in the plan. The Company matches 100% of the first 2% and 50% of the next 2% of

each participant's contributions to the plan. Participant contributions are immediately vested. Company contributions vest based on the participant's years of service at 25% per year over four years. The Company's contribution totaled \$1,038,000, \$1,249,000 and \$1,125,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

14. Executive Deferred Compensation Plan

The Company has an executive deferred compensation plan for select management personnel. Under this plan, the Company currently makes a contribution of 10% of each participant's salary. In addition, each participant has the option to defer a portion of their compensation up to a maximum of 100% of their compensation. Participant contributions are immediately vested. Company contributions vest based on the earlier of (a) attaining 60 years of age, (b) continuous employment of 20 years or (c) death or disability. The Company's contribution totaled \$338,000, \$367,000 and \$554,000 for the years ended December 31, 2001, 2002 and 2003, respectively. The Company had accrued \$1.6 million and \$3.3 million as of December 31, 2002 and 2003, respectively, related to the Executive Deferred Compensation Plan.

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

15. Derivative Financial Instruments

At December 31, 2002 and 2003, the Company held forward contracts designated as foreign currency cash flow hedges with notional amounts totaling approximately \$124.6 million and \$64.3 million, respectively, to hedge forecasted foreign-currency-denominated intercompany transactions. All such contracts were denominated in Japanese yen. As of December 31, 2002 and 2003, \$3.7 million of net unrealized losses and \$3.9 million of net unrealized loss, net of related taxes, respectively, were recorded in accumulated other comprehensive loss. The contracts held at December 31, 2003 have maturities through December 2004 and accordingly, all unrealized gains and losses on foreign currency cash flow hedges included in accumulated other comprehensive loss will be recognized in current earnings over the next 12 months. The pre-tax net gains on foreign currency cash flow hedges recorded in current earnings were \$7.6 million and \$4.5 million for the years ended December 31, 2001 and 2002, respectively, and the pre-tax net loss on foreign currency cash flow hedges recorded in current earnings was \$5.3 million for the year ended December 31, 2003.

During 2001, 2002 and 2003, the Company did not have any gains or losses related to hedging ineffectiveness. Additionally, no component of gains and losses was excluded from the assessment of hedging effectiveness. During 2001, 2002 and 2003, the Company did not have any gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges.

16. Supplemental Cash Flow Information

Cash paid for interest totaled \$2.4 million, \$2.3 million and \$2.7 million for the years ended December 31, 2001, 2002 and 2003, respectively. Cash paid for income taxes totaled \$18.4 million, \$18.8 million and \$26.6 million for the years ended December 31, 2001, 2002 and 2003, respectively.

17. Segment Information

The Company operates in a single reportable operating segment by selling products to a global network of independent distributors that operates in a seamless manner from market to market except for our operations in Mainland China. In Mainland China, we utilize an employed sales force to sell our products through fixed retail locations. The Company's largest expense (selling expenses) is the commissions and Mainland China sales employee expenses paid on product sales. The Company manages its business primarily by managing its global sales force. The Company does not prepare or use profitability reports on a segment basis for making business decisions. However, the Company does

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

recognize revenue in five geographic regions: North Asia, Greater China, North America, South Asia/Pacific and Other Markets.

Revenue generated in each of these regions is set forth below (U.S. dollars in thousands):

	Year Ended December 31,		
	2001	2002	2003
Revenue			
North Asia	\$ 553,910	\$ 593,860	\$ 617,677
Greater China	93,405	104,877	135,535
North America	155,935	145,952	122,762
South Asia/Pacific	56,885	91,110	75,816
Other Markets	25,486	28,268	34,667
	<hr/>	<hr/>	<hr/>
Total	\$ 885,621	\$ 964,067	\$ 986,457
	<hr/>	<hr/>	<hr/>

Revenue generated by each of its three product lines is set forth below (U.S. dollars in thousands):

	Year Ended December 31,		
	2001	2002	2003
Revenue			
Nu Skin	\$ 423,707	\$ 470,567	\$ 476,150
Pharmanex	396,307	439,019	472,107
Big Planet	65,607	54,481	38,200
Total	\$ 885,621	\$ 964,067	\$ 986,457

Additional information as to the Company's operations in the most significant geographical areas is set forth below (U.S. dollars in thousands):

Revenue

Revenue from the Company's operations in Japan totaled \$508,141, \$529,740 and \$558,654 for the years ended December 31, 2001, 2002 and 2003, respectively. Revenue from the Company's operations in the United States totaled \$148,975, \$136,580 and \$113,340 for the years ended December 31, 2001, 2002 and 2003, respectively.

Long-lived assets

Long-lived assets in Japan were \$20,210 and \$18,553 as of December 31, 2002 and 2003, respectively. Long-lived assets in the United States were \$276,030 and \$286,659 as of December 31, 2002 and 2003, respectively.

18. Restructuring and Other Charges

During the third quarter of 2003, the Company recorded restructuring and other charges of \$5.6 million, including \$5.1 million of expenses relating to an early retirement program and other employee separation charges. As a result, the Company's overall headcount was reduced by approximately 130 employees, the majority of which were related to the elimination of positions at the Company's U.S. headquarters. These expenses consisted primarily of severance and other compensation charges. The

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

Company also completed the divestiture of its professional employer organization resulting in a charge of approximately \$0.5 million. Revenue from the professional employer organization totaled \$24.7 million, \$22.0 million and \$9.1 million for the years ended December 31, 2001, 2002 and 2003, respectively.

The components of restructuring and other charges are summarized as follows (U.S. dollars in thousands):

	Total Incurred During the Third Quarter 2003	Amounts Paid in 2003	Accrued as of December 31, 2003
Severance and other compensation	\$ 5,067	\$ 4,114	\$ 953
Other	525	415	110
Total	\$ 5,592	\$ 4,529	\$ 1,063

This amount accrued as of December 31, 2003 is included within accrued liabilities, the majority of which is expected to be paid by March 31, 2004.

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 of 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. The Company and its Subsidiaries are defendants in litigation and proceedings involving various matters. In the opinion of the Company's management, based upon advice of its counsel handling such litigation and proceedings, adverse outcomes, if any, will not likely result in a material effect on the Company's consolidated financial condition, results of operations or cash flows.

20. Purchase of Long-Term Assets

In March 2002, the Company acquired the exclusive rights to a new laser technology related to measuring the level of certain antioxidants. The acquisition consisted of cash payments of \$4.8 million (including acquisition costs) and the issuance of 106,667 shares of the Company's Class A common stock valued at approximately \$900,000. In addition, the acquisition includes contingent cash payments up to \$8.5 million and up to 1.2 million shares of the Company's Class A common stock if certain development and revenue targets are met.

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Nu Skin Enterprises, Inc.

Notes to Consolidated Financial Statements

In April 2002, the Company acquired First Harvest International, LLC, a small dehydrated food manufacturer. The Company paid a total of \$2.7 million including the assumption of certain liabilities for this transaction.

21. Subsequent Event

In January 2004, the board of directors declared a quarterly cash dividend of \$0.08 per share for all classes of common stock to be paid on March 24, 2004 to stockholders of record on March 5, 2004.

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REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Nu Skin Enterprises, Inc. and its subsidiaries at December 31, 2002 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 5 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Salt Lake City, Utah

March 15, 2004

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission under the Exchange Act. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting. During the fourth quarter of 2003, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

The information required by Items 10, 11, 12, 13 and 14 of Part III is hereby incorporated by reference to our Definitive Proxy Statement filed or to be filed with the Securities and Exchange Commission not later than April 30, 2004.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

1. Financial Statements. See Index to Consolidated Financial Statements under Item 8 of Part II.
2. Exhibits: The following Exhibits are filed with this Form 10-K (reference to the "Company" shall mean Nu Skin Enterprises, Inc.):

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1	Agreement and Plan of Merger as of March 6, 2002 by and among the Company, Niksun Acquisition Corporation, a subsidiary of the Company, Worldwide Nutritional Science, Inc. (incorporated by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
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.
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 Registration Statement on Form S-3 (File No. 333-90716) (the "Form S-3")).
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	Note Purchase Agreement dated October 12, 2000, by and between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
10.2	First Amendment to Note Purchase Agreement between Nu Skin Enterprises, Inc. and The Prudential Insurance Company of America dated May 1, 2002 (incorporated by reference to Exhibit No. 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.3	Second Amendment to Note Purchase Agreement, dated as of October 31, 2003 between the Company and The Prudential Insurance Company of America.
10.4	Pledge Agreement dated October 12, 2000, by and between the Company and State Street Bank and Trust Company of California, N.A., acting in its capacity as collateral agent (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
10.5	Pledge Amendments executed by the Company dated December 31, 2003.

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.6	Collateral Agency Agreement dated October 12, 2000, by and between the Company, State Street Bank and Trust Company of California, N.A., as Collateral Agent, and the lenders and noteholders party thereto (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
10.7	Amendment to Collateral Agency and Intercreditor Agreement dated May 10, 2000, among State Street Bank and Trust Company of California, N.A., as Collateral Agent, The Prudential Insurance Company of America, as Senior Noteholder and ABN AMRO Bank N.V., as Senior Lender (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.8	Amended and Restated Collateral Agency and Intercreditor Agreement, dated as of August 26, 2003, by and among Nu Skin Enterprises, Inc. and various of its subsidiaries, U.S. Bank National Association, as Collateral Agent, and various lending institutions (incorporated by reference to Exhibit No. 10.2 to the Company's Quarterly Report on Form 10Q for the quarter ended September 30, 2003).
10.9	Credit Agreement dated as of May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.10	First Amendment dated December 14, 2001 to the Credit Agreement dated May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.43 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).

- 10.11 Second Amendment to Credit Agreement, dated as of October 22, 2003 between the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent.
- 10.12 Reconstituted Stock Purchase Agreement dated as of March 6, 2002 by and between Nutriscan, Inc., Worldwide Nutritional Sciences, Inc. and each of the Stockholders of Nutriscan, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
- 10.13 Membership Interest Purchase Agreement dated as of April 19, 2002, by and among the Company and the members of First Harvest International, LLC (incorporated by reference to Exhibit 2.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.14	Amendment and Release Agreement dated as of November 30, 2002, by and among the Company and the members of First Harvest International, LLC (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.15	Sale and Purchase Agreement between the Company and Dató Mohd Nadzmi Bin Mohd Salleh dated August 17, 2001 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
10.16	Sale and Purchase Agreement between the Company and Kiow Kim Yoon, Frankie Kiow dated August 17, 2001 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
10.17	Shareholders Agreement among the Company, Dató Mohd Nadzmi Bin Mohd Salleh and Kiow Kim Yoon Frankie Kiow dated effective as of September 25, 2001 (incorporated by reference to Exhibit 10.46 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.18	Sale & Purchase Agreement between Nu Skin Enterprises, Inc. and Datuk Mohd Nadzmi Bin Mohd Salleh entered into the 25th day of June, 2002 to be effective September 28, 2001 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.19	Supplemental Agreement dated September 28, 2001, to the Sale and Purchase of Shares Agreement dated August 17, 2001 between Nu Skin Enterprises, Inc. and Mr. Kiow Kim Yoon (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.20	Supplemental Agreement dated September 28, 2001, to the Sale and Purchase of Shares Agreement between Nu Skin Enterprises, Inc. and Dato' Mohd Nadzmi Bin Mohd Salleh (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.21	Form of Memorandum of Charge entered into by Nu Skin Enterprises, Inc. and Dato' Mohd Nadzmi Bin Kohd Salleh and Nu Skin Enterprises, Inc. and Kiow Kim Yoon, Frankie (incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.22	Management Services Agreement dated June 20, 2002 between Nu Skin International Management Group, Inc. and Nu Skin (Malaysia) Sdn Bhd (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.23	Distribution Agreement dated June 20, 2002 between Nu Skin Enterprises Hong Kong, Inc. and Nu Skin (Malaysia) Sdn Bhd (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.24	Trademark Licensing Agreement dated June 20, 2002 between Nu Skin International, Inc. and Nu Skin (Malaysia) Sdn Bhd (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.25	License Agreement dated June 20, 2002 between Nu Skin International, Inc. and Nu Skin (Malaysia) Sdn Bhd (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.26	Addendum to Distributor Agreement dated as of March 18, 1986 by and among Nu Skin International, Inc., Clara and James McDermott, Craig Tillotson and Craig Bryson (incorporated by reference to Exhibit 10.50 to Amendment No. 2 to the Company Registration Statement on Form S-3 filed July 22, 2002 (File No. 333-90716)).
10.27	Stock Purchase Agreement between Nedra Roney and Nu Skin Enterprises, Inc. dated May 3, 2002 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.28	Distributor Stock Option Payment Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
10.29	Master Lease Agreement dated January 16th 2003 by and between the Company and Scrub Oak, LLC (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.30	Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Scrub Oak, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).

10.31 Master Lease Agreement dated January 16, 2003 by and between the Company and Aspen Country, LLC (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

10.32 Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Aspen Country, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.33	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).
10.34	Employment Agreement by and between Pharmanex and Joseph Chang (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).
10.35	Amendment to Employment Agreement by and between Pharmanex and Joseph Chang (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.36	Form of Stock Option Agreement (Directors) (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.37	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).
10.38	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).
10.39	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).
10.40	Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (corrected version) (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.41	Amendment No. 1 to the Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
10.42	Base Form of Master Stock Option Agreement (incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.43	Summary Description of Nu Skin Japan Director Retirement Allowance Plan (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.44	Country/Region Executive-Incentive Plan (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
10.45	Employment Letter with Truman Hunt (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.46	Letter of Understanding with Corey Lindley effective August 8, 2002 (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.47	Letter of Understanding with Corey Lindley effective December 22, 2003 (Supplementing Letter of Understanding effective August 8, 2002).
10.48	Consulting Agreement between the Company and Woodclyffe Group, LLC effective April 1, 2003 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
10.49	Amendment #1 to Consulting Agreement dated July 31, 2003 between the Company and Woodclyffe Group, LLC.
10.50	Early Retirement Plan and Related Forms (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
10.51	Amended and Restated Registration Rights Agreement, dated as of September 18, 2003, by and among Nu Skin Enterprises, Inc., Sandra N. Tillotson, The Sandra N. Tillotson Family Trust and the Purchasers signatory thereto (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-3 filed October 20, 2003).
10.52	Private Shelf Agreement, dated as of August 26, 2003, between Nu Skin Enterprises, Inc. and Prudential Investment Management, Inc. (the "Private Shelf Agreement") (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30,

2003).

- 10.53 First Amendment to Private Shelf Agreement, dated as of October 31, 2003 between the Company and Prudential Investment Management, Inc.
- 10.54 Series A Senior Notes Nos. A-1 to A-5 and Series B Senior Notes B-1 to B-5 issued October 31, 2003 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement.

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.55	Stock Acquisition Agreement, dated as of August 1, 2003, by and among Nu Skin Enterprises, Inc., Orrin T. Colby, III and Cygnus Resources, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.56	Stock Repurchase Agreement, dated as of October 22, 2003, between the Company and certain of its shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
10.57	Registration Rights Agreement dated as of October 22, 2003, by and among the Company and certain third party purchasers of the Company's stock shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
10.58	Form of Lock-up Agreement executed by certain of the Company's shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
10.59	Nu Skin International, Inc. 1997 Key Employee Death Benefit Plan
10.60	Nu Skin Enterprises, Inc. Executive Incentive Plan, last revised January 1, 2004.
10.61	Restricted Stock Purchase Agreement between the Company and Truman Hunt.
10.62	Employment Letter with Robert Conlee effective November 26, 2003.
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP
31.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
32.2	Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(b)	<p>On October 23, 2003, the Company filed a Current Report on Form 8-K under Item 12, "Results of Operations and Financial Condition", wherein the Company furnished its press release announcing its results of operations for the three and nine months ended September 30, 2003.</p> <p>On October 23, 2003, the Company filed a Current Report on Form 8-K under Item 5, "Other Events", wherein the company reported the execution of an agreement to repurchase approximately 10.8 million shares of its common stock from certain members of the company's original shareholder group, as well as the negotiation by the same shareholder group of a private sale of approximately 6.2 million additional shares of common stock to third party investors.</p> <p>On October 27, 2003, the Company filed a Current Report on Form 8-K under Item 5, "Other Events", wherein the company reported the closing of the previously announced stock repurchase and private resale of common stock, and also reported the names of the participating shareholders and post-transaction beneficial ownership of shares.</p> <p>On November 17, 2003, the Company filed a Current Report on Form 8-K under Item 9, "Regulation FD Disclosure", wherein the company furnished a copy of a mid-year report containing financial highlights for the first six months of 2003 being presented to investors and analysts.</p>

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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 15, 2004.

NU SKIN ENTERPRISES, INC.

By: /s/ M. Truman Hunt
M. Truman Hunt, 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 15, 2004.

<u>Signatures</u>	<u>Capacity in Which Signed</u>
<u>/s/ Blake M. Roney</u> Blake M. Roney	Chairman of the Board
<u>/s/ M. Truman Hunt</u> M. Truman Hunt	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Ritch N. Wood</u> Ritch N. Wood	Chief Financial Officer (Principal Financial Officer and Accounting Officer)
<u>/s/ Sandra N. Tillotson</u> Sandra N. Tillotson	Senior Vice President, Director
<u>/s/ Brooke B. Roney</u> Brooke B. Roney	Senior Vice President, Director
<u>/s/ Daniel W. Campbell</u> Daniel W. Campbell	Director
<u>/s/ E. J. "Jake" Garn</u> E. J. "Jake" Garn	Director
<u>/s/ Paula F. Hawkins</u> Paula F. Hawkins	Director
<u>/s/ Andrew D. Lipman</u> Andrew D. Lipman	Director
<u>/s/ Jose Ferreira, Jr.</u> Jose Ferreira, Jr.	Director

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1	Agreement and Plan of Merger as of March 6, 2002 by and among the Company, Niksun Acquisition Corporation, a subsidiary of the Company, Worldwide Nutritional Science, Inc. (incorporated by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
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.
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- 3.4 Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Form S-1).
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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.5	Pledge Amendments executed by the Company dated December 31, 2003.
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10.16	Sale and Purchase Agreement between the Company and Kiow Kim Yoon, Frankie Kiow dated August 17, 2001 (incorporated by reference to Exhibit

10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).

- 10.17 Shareholders Agreement among the Company, Dató Mohd Nadzmi Bin Mohd Salleh and Kiow Kim Yoon Frankie Kiow dated effective as of September 25, 2001 (incorporated by reference to Exhibit 10.46 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
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10.45	Employment Letter with Truman Hunt (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.46	Letter of Understanding with Corey Lindley effective August 8, 2002 (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.47	Letter of Understanding with Corey Lindley effective December 22, 2003 (Supplementing Letter of Understanding effective August 8, 2002).
10.48	Consulting Agreement between the Company and Woodclyffe Group, LLC effective April 1, 2003 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
10.49	Amendment #1 to Consulting Agreement dated July 31, 2003 between the Company and Woodclyffe Group, LLC.
10.50	Early Retirement Plan and Related Forms (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
10.51	Amended and Restated Registration Rights Agreement, dated as of September 18, 2003, by and among Nu Skin Enterprises, Inc., Sandra N. Tillotson, The Sandra N. Tillotson Family Trust and the Purchasers signatory thereto (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-3 filed October 20, 2003).
10.52	Private Shelf Agreement, dated as of August 26, 2003, between Nu Skin Enterprises, Inc. and Prudential Investment Management, Inc. (the "Private Shelf Agreement") (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.53	First Amendment to Private Shelf Agreement, dated as of October 31, 2003 between the Company and Prudential Investment Management, Inc.
10.54	Series A Senior Notes Nos. A-1 to A-5 and Series B Senior Notes B-1 to B-5 issued October 31, 2003 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.55	Stock Acquisition Agreement, dated as of August 1, 2003, by and among Nu Skin Enterprises, Inc., Orrin T. Colby, III and Cygnus Resources, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.56	Stock Repurchase Agreement, dated as of October 22, 2003, between the Company and certain of its shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
10.57	Registration Rights Agreement dated as of October 22, 2003, by and among the Company and certain third party purchasers of the Company's stock shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
10.58	Form of Lock-up Agreement executed by certain of the Company's shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
10.59	Nu Skin International, Inc. 1997 Key Employee Death Benefit Plan
10.60	Nu Skin Enterprises, Inc. Executive Incentive Plan, last revised January 1, 2004.
10.61	Restricted Stock Purchase Agreement between the Company and Truman Hunt.
10.62	Employment Letter with Robert Conlee effective November 26, 2003.
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP
31.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Description</u>
32.2	Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION**

Nu Skin Asia Pacific, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, Does Hereby Certify:

First: That the Board of Directors of Nu Skin Asia Pacific, Inc. duly adopted a resolution setting forth a proposed amendment of the Certificate of Incorporation of the corporation, declaring the proposed amendment to be advisable and in the best interest of the corporation and its stockholders, and directing that the proposed amendment be considered at the next annual meeting of the stockholders of the corporation. The resolution setting forth the proposed amendment is as follows:

Resolved, that Paragraph 1. of the Certificate of Incorporation of the Corporation is hereby amended, subject to stockholder approval, to read in its entirety as follows:

“1. The name of the corporation is Nu Skin Enterprises, Inc. (the “Corporation”).”

Second: That thereafter, pursuant to resolution of its Board of Directors and upon the vote of its stockholders at the 1998 Annual Meeting of Stockholders, the necessary number of shares as required by statute were voted in favor of the amendment.

Third: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said corporation has caused this Certificate to be signed by Steven J. Lund, President and Chief Executive Officer, and attested by Keith R. Halls, Secretary, this 1st day of May 1998.

NU SKIN ASIA PACIFIC, INC.

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

ATTEST:

/s/ Keith R. Halls
Keith R. Halls
Secretary

THIS SECOND AMENDMENT dated as of October 31, 2003 (this “**Second Amendment**”) to the Note Purchase Agreement dated as of October 12, 2000, as amended through the date hereof (the “**Note Agreement**”) is between Nu Skin Enterprises, Inc., a Delaware corporation (the “**Company**”), and The Prudential Insurance Company of America (“**Prudential**”).

RECITALS

- A. The Company and Prudential have heretofore entered into the Note Agreement.
- B. The Company and Prudential now desire to amend the Note Agreement in the respects, but only in the respects, hereinafter set forth.
- C. Capitalized terms used herein shall have the respective meanings ascribed thereto in the Note Agreement unless herein defined or the context shall otherwise require.
- D. All requirements of law have been fully complied with and all other acts and things necessary to make this Second Amendment a valid, legal and binding instrument according to its terms for the purposes herein expressed have been done or performed.

NOW, THEREFORE, upon the full and complete satisfaction of the conditions precedent to the effectiveness of this Second Amendment set forth in Section 3 hereof, and in consideration of good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Company and Prudential do hereby agree as follows:

Section 1. Amendments to Note Agreement

1.1 Section 9.6 of the Note Agreement is hereby amended by deleting the title of such Section and inserting in place thereof “**Security; Execution of Pledge Agreement, Foreign Subsidiary Guaranty and Subsidiary Guaranty**”.

1.2 Section 9.6(a) of the Note Agreement is hereby amended by deleting the title of such Section 9.6(a) in its entirety and inserting in place thereof the following:

“(a) The Notes and other Senior Secured Indebtedness will, at the option of the Company, either be (x) secured by the Pledged Securities of each Material Foreign Subsidiary, or (y) guaranteed by each Material Foreign Subsidiary pursuant to a foreign subsidiary guaranty substantially in the form of the Subsidiary Guaranty (with such modifications as the Required Holders may reasonably request) (a “**Foreign Subsidiary Guaranty**”), in either case, as set forth below; provided that if the Company elects to cause a Material Foreign Subsidiary to deliver a Foreign Subsidiary Guaranty, such Material Foreign Subsidiary shall also deliver the same Foreign Subsidiary Guaranty to, and for the benefit of, each Senior Secured Creditor party to the Amended and Restated Collateral Agency and Intercreditor Agreement.

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(i) Pledged Securities of each Material Foreign Subsidiary. In each instance where the Company elects to comply with clause (x) of Section 9.6(a) above, within 5 days after the Company or any of its Restricted Subsidiaries acquires a Material Foreign Subsidiary or within 5 days after the Company delivers consolidating financial statements pursuant to Section 7.1 showing that any of Company’s existing Subsidiaries has become a Material Foreign Subsidiary, the Company shall cause the Pledged Securities of such Material Foreign Subsidiary to be pledged pursuant to a supplement to the Pledge Agreement (unless a pledge of such Pledged Securities (x) is legally unobtainable or (y) the consent of a governmental authority is required in order to obtain such pledge and such consent has not been obtained after the Company’s commercially reasonable efforts to obtain such consent, and Company delivers an opinion of outside counsel, in form and substance reasonably satisfactory to the holders of the Notes and their counsel, to the effect that such pledge was not legally obtainable or such consent was not obtained; provided, however, if the consolidated total revenues of NSE Korea Ltd., a Korean corporation, equal or exceed 10% of the consolidated total revenues during the four most recently ended fiscal quarters of the Company and its Subsidiaries during such period, then the Company shall be required to comply with this Section 9.6(a)(i) regardless of the foregoing). The Company shall promptly take all actions as may be necessary or desirable to give to the Collateral Agent, for the ratable benefit of the holders of the Notes and the other Senior Secured Creditors, a valid and perfected first priority Lien on and security interest in the Pledged Securities of such Material Foreign Subsidiary and shall promptly deliver to the holders of the Notes (i) a supplement to the Pledge Agreement executed by each Pledgor of the Pledged Securities of such Material Foreign Subsidiary, (ii) a certificate executed by the secretary or an assistant secretary of each Pledgor as to (a) the incumbency and signatures of the officers of such Pledgor executing the supplement to the Pledge Agreement, and (b) the fact that the attached resolutions of the Board of Directors of such Pledgor authorizing the execution, delivery and performance of the supplement to the Pledge Agreement are in full force and effect and have not been modified or rescinded, (iii) at the request of a holder of any Note, a favorable opinion of counsel, in form and substance reasonably satisfactory to the holders of the Notes and their counsel, as to (a) the due organization and good standing of such Pledgor, (b) the due authorization, execution and delivery by such Pledgor of the supplement to the Pledge Agreement, (c) the enforceability of the supplement to the Pledge Agreement, and (d) such other matters as the Required Holders may reasonably request, all of the foregoing to be satisfactory in form and substance to the holders of the Notes and their counsel; provided that the opinion described in this clause (iii) may be given by the Company’s in-house counsel and may contain reasonable assumptions, if necessary, relating to the fact that such counsel may not be admitted to practice law

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in the applicable jurisdiction, and (iv) such other assurances, certificates, documents, consents or opinions as the Required Holders reasonably may require.

(ii) Foreign Subsidiary Guaranty. In each instance where the Company elects to comply with clause (y) of Section 9.6(a) above, within 5 days after the Company or any of its Restricted Subsidiaries acquires a Material Foreign Subsidiary or within 5 days after the Company delivers consolidating financial statements pursuant to Section 7.1 showing that any of Company’s existing Subsidiaries has become a Material Foreign Subsidiary, the Company shall cause such Material Foreign Subsidiary to execute and deliver a Foreign Subsidiary Guaranty. The Company shall

promptly deliver to the holders of the Notes, together with the Foreign Subsidiary Guaranty, (i) a certificate executed by the secretary or an assistant secretary of such Material Foreign Subsidiary as to (a) the incumbency and signatures of the officers of such Material Foreign Subsidiary executing the Foreign Subsidiary Guaranty, and (b) the fact that the attached resolutions of the Board of Directors of such Material Foreign Subsidiary authorizing the execution, delivery and performance of the Foreign Subsidiary Guaranty are in full force and effect and have not been modified or rescinded, (ii) at the request of a holder of any Note, a favorable opinion of counsel, in form and substance reasonably satisfactory to the holders of the Notes and their counsel, as to (a) the due organization and good standing of such Material Foreign Subsidiary, (b) the due authorization, execution and delivery by such Material Foreign Subsidiary of the Foreign Subsidiary Guaranty, (c) the enforceability of the Foreign Subsidiary Guaranty, and (d) such other matters as the Required Holders may reasonably request, all of the foregoing to be satisfactory in form and substance to the holders of the Notes and their counsel; provided that the opinion described in this clause (ii) may be given by the Company's in-house counsel and may contain reasonable assumptions, if necessary, relating to the fact that such counsel may not be admitted to practice law in the applicable jurisdiction, and (iii) such other assurances, certificates, documents, consents or opinions as the Required Holders reasonably may require."

1.3 Section 10.4 of the Note Agreement is hereby amended in its entirety to read as follows:

"10.4 Minimum Consolidated Net Worth."

The Company will not, at any time, permit Consolidated Net Worth to be less than the sum of (i) \$271,935,200, (ii) an aggregate amount equal to 60% of Consolidated Net Income (but, in each case, only if a positive number) earned in (a) the six months ended December 31, 2000, and (b) unless clause (iii) below is operative for any given fiscal quarter (in which case such fiscal quarter shall be excepted from this clause (ii)), each complete fiscal

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quarter thereafter, (iii) for the fiscal quarter ended December 31, 2003 and each fiscal quarter ended thereafter to but not including the fiscal quarter in which Total Indebtedness is first reduced to \$120,000,000 or less, an aggregate amount equal to 70% of Consolidated Net Income (in each case to the extent a positive number) earned in each such fiscal quarter, and (iv) 50% of the net proceeds realized by the Company and its Restricted Subsidiaries from the sale of Equity Securities subsequent to June 30, 2000, excluding issuances of Equity Securities upon exercise of employee stock options or rights under any employee benefit plans (excluding such exercise by any Person that owns greater than 5% of the Equity Securities of the Company), issuances of Equity Securities in connection with acquisitions by the Company and its Restricted Subsidiaries and reissuances of up to \$60,000,000 of treasury securities purchased by the Company after October 12, 2000, so long as not purchased in the fourth quarter of 2003."

1.4 Section 11(l) of the Note Agreement is hereby amended in its entirety to read as follows:

"(l) a Foreign Subsidiary Guaranty ceases to be in full force and effect with respect to any Material Foreign Subsidiary (or any other Foreign Subsidiary executing such Foreign Subsidiary Guaranty), or any Material Foreign Subsidiary (or any other Foreign Subsidiary executing such Foreign Subsidiary Guaranty) contests the validity thereof; or"

1.5 Schedule A of the Note Agreement is hereby amended by inserting the following definition in proper alphabetical order:

"Foreign Subsidiary Guaranty" shall have the meaning specified in Section 9.6(a).

1.6 Schedule A of the Note Agreement is hereby further amended by amending and restating the definition of "Material Subsidiaries" in the following manner:

"Material Subsidiaries" means, at any time, (a) NSE Korea Ltd., a Delaware corporation, Nu Skin Japan Co., Ltd., a Japanese corporation, Nu Skin International, Inc., a Utah corporation, Nu Skin Enterprises Hong Kong, Inc., a Utah corporation, Nu Skin Taiwan, Inc., a Utah corporation, Nu Skin United States, Inc., a Delaware corporation, and Big Planet, Inc., a Delaware corporation; and (b) each other Subsidiary of the Company which (i) had revenues during the four most recently ended fiscal quarters equal to or greater than 5.0% of the consolidated total revenues of the Company and its Subsidiaries during such period (provided that (A) if the Company and Subsidiaries collectively own not more than 30% of the outstanding equity, by value, of Nu Skin Malaysia Holdings, then Nu Skin Malaysia Holdings and its subsidiaries shall not be deemed Material Subsidiaries by reason of this clause (i) unless their consolidated revenues during the four most recently ended fiscal quarters equaled or exceeded 15.0% of the consolidated total revenues of the Company and its Subsidiaries during such period, or (B) NSE Korea Ltd., a Korean corporation, shall not be deemed a Material Subsidiary by reason of this clause (i) unless its consolidated

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total revenues during the four most recently ended fiscal quarters equaled or exceeded 10% of the consolidated total revenues of the Company and its Subsidiaries during such period, or (ii) is an obligor under any Guaranty with respect to the Indebtedness of the Company under any Significant Credit Facility.

1.7 Schedule A of the Note Agreement is hereby further amended by amending and restating the definition of "Collateral Documents" in the following manner:

"Collateral Documents" means the Pledge Agreement, the Subsidiary Guaranty, the Amended and Restated Collateral Agency and Intercreditor Agreement, any Foreign Subsidiary Guaranty, and all other documents, evidencing, securing or relating to the Notes, the payment of

the indebtedness evidenced by the Notes and all other amounts due from the Company or any Restricted Subsidiary evidenced or secured by this Agreement, the Notes or the Collateral Documents.

1.8 Schedule A of the Note Agreement is hereby further amended by amending and restating the definition of “Consolidated Net Worth” in the following manner:

“**Consolidated Net Worth**” means, at any time, (a) the consolidated stockholders’ equity of the Company and the Restricted Subsidiaries, as defined according to GAAP, plus (b) to the extent funded with the proceeds of a debt offering and cash and not with proceeds of any equity issuance, the amount (not to exceed \$150,000,000) paid by the Company in the fourth quarter of 2003 for repurchases of its outstanding common stock, less (c) the sum of (i) to the extent included in clause (a), all amounts attributable to minority interests, if any, in the securities of Restricted Subsidiaries, and (ii) the amount by which Restricted Investments exceed 20% of the amount determined in clause (a).

Section 2. Representations and Warranties and Covenants of the Company.

2.1 To induce Prudential to execute and deliver this Second Amendment (which representations shall survive the execution and delivery of this Second Amendment), the Company represents and warrants to Prudential that:

- (a) this Second Amendment has been duly authorized, executed and delivered by it and this Second Amendment constitutes the legal, valid and binding obligation, contract and agreement of the Company enforceable against it in accordance with its terms, except as enforcement may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);
- (b) the Note Agreement, as amended by this Second Amendment, constitutes the legal, valid and binding obligation, contract and agreement of the Company enforceable against it in accordance with its terms, except as enforcement may be

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limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

- (c) the execution, delivery and performance by the Company of this Second Amendment (i) has been duly authorized by all requisite corporate action and, if required, shareholder action, (ii) does not require the consent or approval of any governmental or regulatory body or agency, and (iii) will not (A) violate (1) any provision of law, statute, rule or regulation or its certificate of incorporation or bylaws, (2) any order of any court or any rule, regulation or order of any other agency or government binding upon it, or (3) any provision of any material indenture, agreement or other instrument to which it is a party or by which its properties or assets are or may be bound, or (B) result in a breach or constitute (alone or with due notice or lapse or both) a default under any indenture, agreement or other instrument referred to in clause (iii)(A)(3) of this Section 2.1(c); and
- (d) as of the date hereof and after giving effect to this Second Amendment, no Default or Event of Default has occurred which is continuing.

2.2; The Company agrees that it shall promptly pay the reasonable fees and expenses of O’Melveny & Myers LLP in connection with the negotiation, preparation, approval, execution and delivery of this Second Amendment.

Section 3. Conditions to Effectiveness of This Amendment. This Second Amendment shall become effective as of October __, 2003 (the “**Second Amendment Effective Date**”) upon (i) the delivery to Prudential of executed counterparts of this Second Amendment, duly executed by the Company and the Required Holders, (ii) the execution of a counterpart to the Subsidiary Guaranty by NSE Korea Ltd., a Delaware corporation, (iii) the execution of a counterpart to the Amended and Restated Collateral Agency and Intercreditor Agreement by NSE Korea Ltd., a Delaware corporation, and (iv) the execution of a counterpart to the Amended and Restated Subordination Agreement by NSE Korea Ltd., a Delaware corporation.

Section 4. Certain Matters regarding NSE Korea Ltd. The Company and Prudential acknowledge that, notwithstanding the execution and delivery by NSE Korea Ltd., a Korean corporation domesticated under the laws of Delaware (“**NSE Korea Ltd.**”), of a counterpart to the Subsidiary Guaranty, certain laws and/or regulations in Korea may make the Subsidiary Guaranty (or certain provisions thereof) unenforceable with respect to NSE Korea Ltd. in Korea and/or restrict the ability of NSE Korea Ltd. to make payments under the Subsidiary Guaranty. Accordingly, Required Holders agree that (a) no representation or warranty (i) made by NSE Korea Ltd. in Section 3.2 or 3.3 of the Subsidiary Guaranty or (ii) made by the Company in Section 5.6 or 5.7 of the Note Agreement shall be deemed to be false or incorrect to the extent that such representation or warranty would be true absent the application of Korean laws and/or regulations; and (b) no Event of Default or Default shall occur under Section 11(d), 11(e) or 11(j) of the Note Agreement as a result of the Subsidiary Guaranty not being valid and enforceable under any Korean law or regulation. In consideration of the foregoing, within 60

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days following the Second Amendment Effective Date, to the effect that the pledge of the Equity Securities of NSE Korea Ltd., a Korean corporation, by the Company is not (x) legally obtainable or (y) the consent of a governmental authority is required in order to obtain such pledge and such consent has not been obtained.

Section 5. Miscellaneous.

5.1. This Second Amendment shall be construed in connection with and as part of the Note Agreement, and except as modified and expressly amended by this Second Amendment, all terms, conditions, and covenants contained in the Note Agreement and the Notes are hereby ratified and shall be and remain in full force and effect.

5.2. Any and all notices, requests, certificates and other instruments executed and delivered after the execution and delivery of this Second Amendment may refer to the Note Agreement without making specific reference to this Second Amendment but nevertheless all such references shall include this Second Amendment unless the context otherwise requires.

5.3. The descriptive heading of the various Sections or parts of this Second Amendment are for convenience only and shall not affect the meaning or construction of any of the provisions hereof.

5.4. This Second Amendment shall be governed by and construed in accordance with the laws of the State of New York.

5.5. The execution hereof by you shall constitute a contract between us for the uses and purposes hereinabove set forth, and this Second Amendment may be executed in any number of counterparts, each executed counterpart constituting an original, but all together only one agreement.

[Remainder of page intentionally left blank.]

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IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch Wood
Name: Ritch Wood
Its: Chief Financial Officer

**THE PRUDENTIAL INSURANCE
COMPANY OF AMERICA**

By: /s/ Iris Krause
Name: Iris Krause
Its: Vice President

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FORM OF PLEDGE AMENDMENT

This Pledge Amendment, dated December 31, 2003, is delivered pursuant to Section 6(b) of the Pledge Agreement referred to below. The undersigned hereby agrees that this Pledge Amendment may be attached to the Pledge Agreement dated October 12, 2000, between Nu Skin Enterprises, Inc., as Pledgor, and State Street Bank and Trust Company of California, N.A., as Secured Party (the "Pledge Agreement", capitalized terms defined therein being used herein as therein defined), and that the Pledged Shares listed on this Pledge Amendment shall be deemed to be part of the Pledged Shares and shall become part of the Pledged Collateral and shall secure all Secured Obligations.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
 Ritch Wood
 Chief Financial Officer

Notice Address

Nu Skin Enterprises, Inc.
 Attn: D. Matthew Dorny
 75 West Center Street
 Provo, Utah 84601
 (801)345-3800

[PLEDGE SHARE DETAILS TO FOLLOW]

<u>Issuer</u>	<u>Class of Stock</u>	<u>Stock Certificate Nos.</u>	<u>Par Value</u>	<u>Number of Shares</u>	<u>Number of Shares Issued and Outstanding</u>	<u>Percentage Represented by Pledged Shares</u>	<u>Holder of Shares Not Pledged</u>
NSE Korea, Ltd., a Delaware Corp.	Common	015	\$3,240,000	6,000	6,000	100%	N/A

FORM OF PLEDGE AMENDMENT

This Pledge Amendment, dated December 31, 2003, is delivered pursuant to Section 6(b) of the Pledge Agreement referred to below. The undersigned hereby agrees that this Pledge Amendment may be attached to the Pledge Agreement dated October 12, 2000, between Nu Skin Enterprises, Inc., as Pledgor, and State Street Bank and Trust Company of California, N.A., as Secured Party (the "Pledge Agreement", capitalized terms defined therein being used herein as therein defined), and that the Pledged Shares listed on this Pledge Amendment shall be deemed to be part of the Pledged Shares and shall become part of the Pledged Collateral and shall secure all Secured Obligations.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
 Ritch Wood
 Chief Financial Officer

Notice Address

Nu Skin Enterprises, Inc.
 Attn: D. Matthew Dorny
 75 West Center Street
 Provo, Utah 84601
 (801)345-3800

[PLEDGE SHARE DETAILS TO FOLLOW]

<u>Issuer</u>	<u>Class of Stock</u>	<u>Stock Certificate Nos.</u>	<u>Par Value</u>	<u>Number of Shares</u>	<u>Number of Shares Issued and Outstanding</u>	<u>Percentage Represented by Pledged Shares</u>	<u>Holder of Shares Not Pledged</u>
NSE Korea, Ltd.	Common	100001	420,000	1			
NSE Korea, Ltd.	Common	100002	420,000	1			
NSE Korea, Ltd.	Common	100003	420,000	1			
NSE Korea, Ltd.	Common	100011	4,200,000	10			
NSE Korea, Ltd.	Common	100012	4,200,000	10			
NSE Korea, Ltd.	Common	100013	4,200,000	10			

NSE Korea, Ltd.	Common	100014	4,200,000	10			
NSE Korea, Ltd.	Common	100101	42,000,000	100			
NSE Korea, Ltd.	Common	101001	420,000,000	1,000			
NSE Korea, Ltd.	Common	101002	420,000,000	1,000			
NSE Korea, Ltd.	Common	101003	420,000,000	1,000			
NSE Korea, Ltd.	Common	110001	4,200,000,000	10,000			
				13,143	13,143	100%	N/A

SECOND AMENDMENT

THIS SECOND AMENDMENT dated as of October 22, 2003 (this "Amendment") amends the Credit Agreement dated as of May 10, 2001 (as previously amended, the "Credit Agreement") among Nu Skin Enterprises, Inc. (the "Company"), various financial institutions (the "Lenders") and Bank of America, N.A., as administrative agent (in such capacity, the "Administrative Agent"). Terms defined in the Credit Agreement are, unless otherwise defined herein or the context otherwise requires, used herein as defined therein.

WHEREAS, the Company, the Lenders and the Administrative Agent have entered into the Credit Agreement; and

WHEREAS, the parties hereto desire to amend the Credit Agreement in certain respects as more fully set forth herein;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 Amendments. Subject to the satisfaction of the conditions precedent set forth in Section 3, the Credit Agreement is amended as follows.

1.1 Amendments to Section 1.1.

(a) The definition of "Consolidated Net Worth" is amended in its entirety to read as follows:

Consolidated Net Worth means, at any time, (a) the consolidated stockholders' equity of the Company and the Restricted Subsidiaries, as defined according to GAAP, plus (b) to the extent funded with the proceeds of a debt offering and cash and not with the proceeds of any equity issuance, the amount (not to exceed \$150,000,000) paid by the Company in the fourth quarter of 2003 for repurchases of its outstanding common stock, less (c) the sum of (i) to the extent included in clause (a), all amounts attributable to minority interests, if any, in the securities of Restricted Subsidiaries, and (ii) the amount by which Restricted Investments exceed 20% of the amount determined in clause (a).

(b) The following new definition of "Equity Securities" is added to Section 1.1 in appropriate sequence:

Equity Securities of any Person means (a) all common stock, Preferred Stock, participations, shares, partnership interests, membership interests or other equity interests in and of such Person (regardless of how designated and whether or not voting or non-voting), and (b) all warrants, options and other rights to acquire any of the foregoing.

1.2 Amendment to Section 2.2.2. Section 2.2.2 is amended by adding the following sentence at the end thereof: "Each written borrowing notice shall be in the form of Exhibit G with appropriate insertions."

1.3 Addition of New Section 9.17. The following new Section 9.17 is added to the Credit Agreement in appropriate sequence:

9.17 Tax Shelter Regulations. The Company does not intend to treat the Loans and/or the Letters of Credit and related transactions as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4). If the Company determines to take any action inconsistent with such intention, it will promptly notify the Administrative Agent thereof. If the Company so notifies the Administrative Agent, the Company acknowledges that any Lender may treat its Loans and/or its interest in Letters of Credit as part of a transaction that is subject to Treasury Regulation Section 301.6112-1, and such Lender will maintain the lists and other records required by such Treasury Regulation.

1.4 Addition of New Section 10.1.8. The following new Section 10.1.8 is added to the Credit Agreement in appropriate sequence:

10.1.8 Tax Shelter Documents. Promptly after the Company has notified the Administrative Agent of any intention by the Company to treat the Loans and/or the Letters of Credit and related transactions as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4), a duly completed copy of IRS Form 8886 or any successor form.

1.5 Amendment to Section 10.10.1. Section 10.10.1 is amended in its entirety to read as follows:

10.10.1 Minimum Consolidated Net Worth. Not, at any time, permit Consolidated Net Worth to be less than the sum of (i) \$271,935,200, (ii) an aggregate amount equal to 60% of Consolidated Net Income (but, in each case, only if a positive number) earned in (a) the six months ended December 31, 2000, and (b) unless clause (iii) below is operative for any given fiscal quarter (in which case such fiscal quarter shall be excepted from this clause (ii)), each complete fiscal quarter thereafter, (iii) for the fiscal quarter ended December 31, 2003 and each fiscal quarter ended thereafter to but not including the fiscal quarter in which Total Indebtedness is first reduced to \$120,000,000 or less, an aggregate amount equal to 70% of Consolidated Net Income (in each case to the extent a positive number) earned in each such fiscal quarter, and (iv) 50% of the net proceeds realized by the Company and its Restricted Subsidiaries from the sale of Equity Securities subsequent to June 30, 2000, excluding issuances of Equity Securities upon exercise of employee stock options or rights under any employee benefit plans (excluding such exercise by any Person that owns greater than 5% of the Equity Securities of the Company), issuances of Equity Securities in connection with acquisitions by the Company and its Restricted Subsidiaries and reissuances of up to \$60,000,000 of treasury securities purchased by the Company after October 12, 2000, so long as not purchased in the fourth quarter of 2003.

1.6 Amendment to Section 12.1.10. Section 12.1.10 is amended by deleting the reference to "Administrative Agent" therein and substituting "Collateral Agent" therefor.

1.7 Addition of Exhibit. A new Exhibit G is added to the Credit Agreement in the form of Exhibit G hereto.

SECTION 2 Warranties. The Company represents and warrants to the Administrative Agent and the Lenders that, after giving effect to the effectiveness hereof, (a) each warranty set forth in Section 9 of the Credit Agreement is true and correct in all material respects as of the date of the execution and delivery of this Amendment by the Company, with the same effect as if made on such date, and (b) no Event of Default or Unmatured Event of Default exists.

SECTION 3 Effectiveness. The amendments set forth in Section 1 above shall become effective when the Administrative Agent has received (i) counterparts of this Amendment executed by the Company and the Required Lenders and (ii) a Confirmation, substantially in the form of Exhibit A, signed by the Company and each Subsidiary Guarantor.

SECTION 4 Miscellaneous.

4.1 Continuing Effectiveness, etc. As herein amended, the Credit Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the effectiveness of this Amendment, all references in the Credit Agreement and the other Loan Documents to "Credit Agreement" or similar terms shall refer to the Credit Agreement as amended hereby.

4.2 Counterparts. This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.

4.3 Governing Law. This Amendment shall be a contract made under and governed by the laws of the State of New York (without regard to principles of conflicts of laws, other than Title 15 of Article 5 of the New York General Obligations Law).

4.4 Successors and Assigns. This Amendment shall be binding upon the Company, the Lenders and the Administrative Agent and their respective successors and assigns, and shall inure to the benefit of the Company, the Lenders and the Administrative Agent and the respective successors and assigns of the Lenders and the Administrative Agent.

4.5 Pricing. Notwithstanding anything in the Credit Agreement to the contrary, from the date hereof through the date on which the Company delivers a compliance certificate for the Fiscal Year ending December 31, 2003 pursuant to Section 10.1.3 of the Credit Agreement, the Floating Rate Margin, the Eurodollar/Yen LIBOR Margin, the Commitment Fee Rate and the rate per annum applicable for Letter of Credit fees shall be determined by reference to Level II on Schedule 1.1 of the Credit Agreement.

4.6 Certain Matters regarding NSE Korea Ltd. The Company, the Lenders and the Administrative Agent acknowledge that, notwithstanding the execution and delivery by NSE Korea Ltd., a Korean corporation domesticated under the laws of Delaware, of a counterpart of the Subsidiary Guaranty, certain laws and/or regulations in Korea may make the Subsidiary Guaranty (or certain provisions thereof) unenforceable with respect to NSE Korea Ltd. in Korea and/or restrict the ability of NSE Korea Ltd. to make payments under the Subsidiary Guaranty. Accordingly, the Lenders and the Administrative Agent agree that (a) no representation or warranty (i) made by NSE Korea Ltd. in Section 3.2 or 3.3 of the Subsidiary Guaranty or (ii) made by the Company in Section 9.2 or 9.5 of the Credit Agreement shall be deemed to be false or incorrect to the extent that such representation or warranty would be true absent the application of Korean laws and/or regulations; and (b) no Event of Default or Unmatured Event of Default shall occur under Section 12.1.9 of the Credit Agreement as a result of the Subsidiary Guaranty not being valid and enforceable under any Korean law or regulation. In consideration of the foregoing, the Company agrees that it will use reasonable commercial efforts to give to, and maintain in favor of, the Collateral Agent, for the ratable benefit of the Lenders and the other Senior Secured Creditors, a valid and perfected first priority Lien on and security interest in all of the stock NSE Korea Ltd. (and, if such pledge is obtained, the Company will deliver to the Lenders and the other Senior Secured Creditors appropriate documents of the types described in the second sentence of Section 10.8(a) of the Credit Agreement).

Delivered as of the day and year first above written.

NU SKIN ENTERPRISES, INC.

/s/ Ritch N. Wood

By: Ritch N. Wood

Title: Chief Financial Officer

BANK OF AMERICA, N.A.,

as Administrative Agent and as a Lender

/s/ Sharon Burks Horos

By: Sharon Burks Horos

Title: Vice President

BANK ONE, NA with its main office in Chicago, Illinois
(successor by merger to Bank One, Utah, NA)

/s/ Mark F. Nelson

By: Mark F. Nelson

Title: Vice President

Exhibit A

CONFIRMATION

Dated as of October 22, 2003

To: Bank of America, N.A., individually and as Administrative Agent (as defined below), and the other financial institutions party to the Credit Agreement referred to below

Please refer to (a) the Credit Agreement dated as of May 10, 2001 (the "Credit Agreement") among Nu Skin Enterprises, Inc., various financial institutions (the "Lenders") and Bank of America, N.A., as administrative agent (the "Administrative Agent"); (b) the other "Loan Documents" (as defined in the Credit Agreement), including the Guaranty and the Pledge Agreement; and (c) the Second Amendment dated as of the date hereof to the Credit Agreement (the "Amendment").

December 22, 2003

Mr. Corey Lindley
Via Email

RE: Employment Terms

Dear Corey:

This letter will confirm our understanding with respect to your terms of employment.

Your base annual salary will be \$350,000. In addition, your annual foreign service premium will be \$50,000.

Your family travel expense allowance will be increased to \$25,000/year, to use for travel expenses at your discretion.

You will receive an option grant of 100,000 shares, with 25% of the options vesting at the end of each calendar year, with the first tranche vesting on December 31, 2004. The exercise price will be fair market value on the effective date of this letter agreement. This option grant will be in addition to normal participation in the company's semi-annual option grants at a level commensurate with other comparable members of the company's Executive Committee.

You will continue to participate in all other incentive plans as may be in effect from time to time for the company's senior managers. You will also continue to receive all other ex pat benefits that are not specifically addressed in this letter agreement.

These employment terms are offered with the expectation that you will reside in and work from Shanghai until June 2005. In the event you relocate to the U.S. prior to this date for any reason other than the company's request, you will forfeit a pro rated portion of the 100,000 share option grant referenced above.

You will also be subject to all other key employee covenants to which all of the company's senior management members are subject.

The effective date of this letter agreement will be the date on which both you and the company have executed a copy of this letter.

Sincerely,

/s/ Truman Hunt
Truman Hunt
President and Chief Executive Officer

Agreed as of January 5, 2004:

/s/ Corey B. Lindley
Corey B. Lindley
EVP & President, Greater China

AMENDMENT #1 TO CONSULTING AGREEMENT

This Amendment #1 to Consulting Agreement ("Amendment") is made and entered into on July 31, 2003 by and between Nu Skin Enterprises, Inc. ("NSE"), a Delaware corporation having its principal place of business at 75 West Center Street, Provo, Utah 84601 and Woodclyffe Group, LLC ("Consultant") a _____ limited liability company having its principal place of business at 73 Turning Mill Lane, New Canaan, Connecticut 06840; each a "Party" and collectively the "Parties".

RECITAL

Effective as of April 1, 2003 the parties entered into a Consulting Agreement ("Agreement") wherein Consultant agreed to provide its services (as described in the Agreement) for a period of six months. The Agreement will expire on September 30, 2003 and it is the desire of the Parties that it be extended from that date until December 31, 2003 pursuant to the terms and conditions of this Amendment and the Agreement.

AGREEMENT

1. The Parties hereby agree to extend the Agreement from September 30, 2003 until December 31, 2003 ("Extended Term") at which time the Agreement shall automatically expire. During the Extended Term, Consultant shall continue to provide the services at the rates set forth in the Agreement and NSE shall continue to make payments as set forth therein.
2. Except as and if modified herein, the terms and provisions of the Agreement shall remain unmodified and continue in full force and effect. In the event of any conflict between the terms and provisions of the Amendment, the terms and provisions of this Amendment shall prevail.

IN WITNESS WHEREOF, the Parties to this Amendment have caused it to be executed on the date first above written.

Nu Skin Enterprises, Inc.

/s/ M. Truman Hunt

By: M. Truman Hunt

Its: President and CEO

Woodclyffe Group, LLC

/s/ Joe Ferreira

By: Joe Ferreira

Its: President and CEO

THIS FIRST AMENDMENT dated as of October 31, 2003 (this "**First Amendment**") to the Multi-Currency Private Shelf Agreement dated as of August 26, 2003 (the "**Private Shelf Facility**") is between Nu Skin Enterprises, Inc., a Delaware corporation (the "**Company**"), and Prudential Investment Management, Inc. ("**Prudential**").

RECITALS

- A. The Company and Prudential have heretofore entered into the Private Shelf Facility.
- B. The Company and Prudential now desire to amend the Private Shelf Facility in the respects, but only in the respects, hereinafter set forth.
- C. Capitalized terms used herein shall have the respective meanings ascribed thereto in the Private Shelf Facility unless herein defined or the context shall otherwise require.
- D. All requirements of law have been fully complied with and all other acts and things necessary to make this First Amendment a valid, legal and binding instrument according to its terms for the purposes herein expressed have been done or performed.

NOW, THEREFORE, upon the full and complete satisfaction of the conditions precedent to the effectiveness of this First Amendment set forth in Section 3 hereof, and in consideration of good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Company and Prudential do hereby agree as follows:

Section 1. Amendments to Private Shelf Facility

- 1.1 Section 9.6(a)(i) of the Private Shelf Facility is hereby amended by adding the following parenthetical before the period of the first sentence thereof:

"(unless a pledge of such Pledged Securities (x) is legally unobtainable or (y) the consent of a governmental authority is required in order to obtain such pledge and such consent has not been obtained after the Company's commercially reasonable efforts to obtain such consent, and Company delivers an opinion of outside counsel, in form and substance reasonably satisfactory to the holders of the Notes and their counsel, to the effect that such pledge was not legally obtainable or such consent was not obtained; provided, however, if the consolidated total revenues of NSE Korea Ltd., a Korean corporation, equal or exceed 10% of the consolidated total revenues during the four most recently ended fiscal quarters of the Company and its Subsidiaries during such period, then the Company shall be required to comply with this Section 9.6(a)(i) regardless of the foregoing)".

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- 1.2 Section 10.4 of the Private Shelf Facility is hereby amended in its entirety to read as follows:

"10.4 Minimum Consolidated Net Worth.

The Company will not, at any time, permit Consolidated Net Worth to be less than the sum of (i) \$271,935,200, (ii) an aggregate amount equal to 60% of Consolidated Net Income (but, in each case, only if a positive number) earned in (a) the six months ended December 31, 2000, and (b) unless clause (iii) below is operative for any given fiscal quarter (in which case such fiscal quarter shall be excepted from this clause (ii)), each complete fiscal quarter thereafter, (iii) for the fiscal quarter ended December 31, 2003 and each fiscal quarter ended thereafter to but not including the fiscal quarter in which Total Indebtedness is first reduced to \$120,000,000 or less, an aggregate amount equal to 70% of Consolidated Net Income (in each case to the extent a positive number) earned in each such fiscal quarter, and (iv) 50% of the net proceeds realized by the Company and its Restricted Subsidiaries from the sale of Equity Securities subsequent to June 30, 2000, excluding issuances of Equity Securities upon exercise of employee stock options or rights under any employee benefit plans (excluding such exercise by any Person that owns greater than 5% of the Equity Securities of the Company), issuances of Equity Securities in connection with acquisitions by the Company and its Restricted Subsidiaries and reissuances of up to \$60,000,000 of treasury securities purchased by the Company after October 12, 2000, so long as not purchased in the fourth quarter of 2003."

- 1.3 Schedule A of the Private Shelf Facility is hereby amended by amending and restating the definition of "Material Subsidiaries" in the following manner:

"Material Subsidiaries" means, at any time, (a) NSE Korea Ltd., a Delaware corporation, Nu Skin Japan Co., Ltd., a Japanese corporation, Nu Skin International, Inc., a Utah corporation, Nu Skin Enterprises Hong Kong, Inc., a Utah corporation, Nu Skin Taiwan, Inc., a Utah corporation, Nu Skin United States, Inc., a Delaware corporation, and Big Planet, Inc., a Delaware corporation; and (b) each other Subsidiary of the Company which (i) had revenues during the four most recently ended fiscal quarters equal to or greater than 5.0% of the consolidated total revenues of the Company and its Subsidiaries during such period (provided that (A) if the Company and Subsidiaries collectively own not more than 30% of the outstanding equity, by value, of Nu Skin Malaysia Holdings, then Nu Skin Malaysia Holdings and its subsidiaries shall not be deemed Material Subsidiaries by reason of this clause (i) unless their consolidated revenues during the four most recently ended fiscal quarters equaled or exceeded 15.0% of the consolidated total revenues of the Company and its Subsidiaries during such period, or (B) NSE Korea Ltd., a Korean corporation, shall not be deemed a Material Subsidiary by reason of this clause (i) unless its consolidated total revenues during the four most recently ended fiscal quarters equaled or exceeded 10% of the consolidated total revenues of the Company and its

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Subsidiaries during such period, or (ii) is an obligor under any Guaranty with respect to the Indebtedness of the Company under any Significant Credit Facility.

1.4 Schedule A of the Private Shelf Facility is hereby further amended by amending and restating the definition of "Consolidated Net Worth" in the following manner:

"**Consolidated Net Worth**" means, at any time, (a) the consolidated stockholders' equity of the Company and the Restricted Subsidiaries, as defined according to GAAP, plus (b) to the extent funded with the proceeds of a debt offering and cash and not with proceeds of any equity issuance, the amount (not to exceed \$150,000,000) paid by the Company in the fourth quarter of 2003 for repurchases of its outstanding common stock, less (c) the sum of (i) to the extent included in clause (a), all amounts attributable to minority interests, if any, in the securities of Restricted Subsidiaries, and (ii) the amount by which Restricted Investments exceed 20% of the amount determined in clause (a).

Section 2. Representations and Warranties and Covenants of the Company.

2.1 To induce Prudential to execute and deliver this First Amendment (which representations shall survive the execution and delivery of this First Amendment), the Company represents and warrants to Prudential that:

- (a) this First Amendment has been duly authorized, executed and delivered by it and this First Amendment constitutes the legal, valid and binding obligation, contract and agreement of the Company enforceable against it in accordance with its terms, except as enforcement may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);
- (b) the Private Shelf Facility, as amended by this First Amendment, constitutes the legal, valid and binding obligation, contract and agreement of the Company enforceable against it in accordance with its terms, except as enforcement may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);
- (c) the execution, delivery and performance by the Company of this First Amendment (i) has been duly authorized by all requisite corporate action and, if required, shareholder action, (ii) does not require the consent or approval of any governmental or regulatory body or agency, and (iii) will not (A) violate (1) any provision of law, statute, rule or regulation or its certificate of incorporation or bylaws, (2) any order of any court or any rule, regulation or order of any other agency or government binding upon it, or (3) any provision of any material indenture, agreement or other instrument to which it is a party or by which its properties or assets are or may be bound, or (B) result in a breach or constitute

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(alone or with due notice or lapse or both) a default under any indenture, agreement or other instrument referred to in clause (iii)(A)(3) of this Section 2.1(c); and

- (d) as of the date hereof and after giving effect to this First Amendment, no Default or Event of Default has occurred which is continuing.

2.2. The Company agrees that it shall promptly pay the reasonable fees and expenses of O'Melveny & Myers LLP in connection with the negotiation, preparation, approval, execution and delivery of this First Amendment.

Section 3. Conditions to Effectiveness of This Amendment. This First Amendment shall become effective as of October 31, 2003 (the "**First Amendment Effective Date**") upon (i) the delivery to Prudential of executed counterparts of this First Amendment, duly executed by the Company and the Required Holders, (ii) the execution of a counterpart to the Subsidiary Guaranty by NSE Korea Ltd., a Delaware corporation, (iii) the execution of a counterpart to the Amended and Restated Collateral Agency and Intercreditor Agreement by NSE Korea Ltd., a Delaware corporation, and (iv) the execution of a counterpart to the Amended and Restated Subordination Agreement by NSE Korea Ltd., a Delaware corporation.

Section 4. Certain Matters regarding NSE Korea Ltd. The Company and Prudential acknowledge that, notwithstanding the execution and delivery by NSE Korea Ltd., a Korean corporation domesticated under the laws of Delaware ("**NSE Korea Ltd.**"), of a counterpart of the Subsidiary Guaranty, certain laws and/or regulations in Korea may make the Subsidiary Guaranty (or certain provisions thereof) unenforceable with respect to NSE Korea Ltd. in Korea and/or restrict the ability of NSE Korea Ltd. to make payments under the Subsidiary Guaranty. Accordingly, Required Holders agree that (a) no representation or warranty (i) made by NSE Korea Ltd. in Section 3.2 or 3.3 of the Subsidiary Guaranty or (ii) made by the Company in Section 5.6 or 5.7 of the Private Shelf Facility shall be deemed to be false or incorrect to the extent that such representation or warranty would be true absent the application of Korean laws and/or regulations; and (b) no Event of Default or Default shall occur under Section 11(d), 11(e) or 11(j) of the Private Shelf Facility as a result of the Subsidiary Guaranty not being valid and enforceable under any Korean law or regulation. In consideration of the foregoing, within 60 days following the First Amendment Effective Date, the Company agrees that it will use reasonable commercial efforts to give to, and maintain in favor of, the Collateral Agent, for the ratable benefit of holders of the Notes and the other Senior Secured Creditors, a valid and perfected first priority Lien on and security interest in all of the stock NSE Korea Ltd., a Korean corporation (and, if such pledge is obtained, the Company will deliver to the Lenders and the other Senior Secured Creditors appropriate documents of the types described in the second sentence of Section 9.6(a)(i) of the Private Shelf Facility), or if such pledge is not obtained, the Company will deliver an opinion of outside counsel, in form and substance reasonably satisfactory to the holders of the Notes and their counsel, within 60 days following the First Amendment Effective Date, to the effect that the pledge of the Equity Securities of NSE Korea Ltd., a Korean corporation, by the Company is not (x) legally obtainable or (y) the consent of a governmental authority is required in order to obtain such pledge and such consent has not been obtained.

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Section 5. Miscellaneous.

5.1. This First Amendment shall be construed in connection with and as part of the Private Shelf Facility, and except as modified and expressly amended by this First Amendment, all terms, conditions, and covenants contained in the Private Shelf Facility and the Notes are hereby ratified and shall be and remain in full force and effect.

5.2. Any and all notices, requests, certificates and other instruments executed and delivered after the execution and delivery of this First Amendment may refer to the Private Shelf Facility without making specific reference to this First Amendment but nevertheless all such references shall include this First Amendment unless the context otherwise requires.

5.3. The descriptive heading of the various Sections or parts of this First Amendment are for convenience only and shall not affect the meaning or construction of any of the provisions hereof.

5.4. This First Amendment shall be governed by and construed in accordance with the laws of the State of New York.

5.5. The execution hereof by you shall constitute a contract between us for the uses and purposes hereinabove set forth, and this First Amendment may be executed in any number of counterparts, each executed counterpart constituting an original, but all together only one agreement.

[Remainder of page intentionally left blank.]

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IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Its: Chief Financial Officer

**PRUDENTIAL INVESTMENT
MANAGEMENT, INC.**

By: /s/ Iris Krause
Name: Iris Krause
Its: Vice President

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**NU SKIN ENTERPRISES, INC.
SERIES A SENIOR NOTE**

No. A-1

CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$11,257,000

ORIGINAL ISSUE DATE: October 31, 2003

INTEREST RATE: 4.00%

INTEREST PAYMENT DATES: April 30 and October 31

FINAL MATURITY DATE: April 30, 2008

PRINCIPAL PREPAYMENT DATES AND AMOUNTS: \$2,251,400 on October 31, 2004, April 30, 2005, April 30, 2006, and April 30, 2007

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the "**Company**"), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **THE PRUDENTIAL INSURANCE COMPANY OF AMERICA**, or registered assigns, the principal sum of **ELEVEN MILLION TWO HUNDRED FIFTY-SEVEN THOUSAND U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the "**Notes**") issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the "**Agreement**"), between Nu Skin Enterprises, Inc. (the "**Company**") and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood

Name: Ritch N. Wood

Title: Chief Financial Officer

**NU SKIN ENTERPRISES, INC.
SERIES A SENIOR NOTE**

No. A-2

CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$5,555,556

ORIGINAL ISSUE DATE: October 31, 2003

INTEREST RATE: 4.00%

INTEREST PAYMENT DATES: April 30 and October 31

FINAL MATURITY DATE: April 30, 2008

PRINCIPAL PREPAYMENT DATES AND AMOUNTS: \$1,111,111.20 on October 31, 2004, April 30, 2005, April 30, 2006, and April 30, 2007

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the "**Company**"), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **THE PRUDENTIAL INSURANCE COMPANY OF AMERICA**, or registered assigns, the principal sum of **FIVE MILLION FIVE HUNDRED FIFTY-FIVE THOUSAND FIVE HUNDRED FIFTY-SIX U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the “**Notes**”) issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the “**Agreement**”), between Nu Skin Enterprises, Inc. (the “**Company**”) and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder’s attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: Chief Financial Officer

**NU SKIN ENTERPRISES, INC.
SERIES A SENIOR NOTE**

No. A-3

CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$1,243,000

ORIGINAL ISSUE DATE: October 31, 2003

INTEREST RATE: 4.00%

INTEREST PAYMENT DATES: April 30 and October 31

FINAL MATURITY DATE: April 30, 2008

PRINCIPAL PREPAYMENT DATES AND AMOUNTS: \$248,600 on October 31, 2004, April 30, 2005, April 30, 2006, and April 30, 2007

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the “**Company**”), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **PRUCO LIFE INSURANCE COMPANY**, or registered assigns, the principal sum of **ONE MILLION TWO HUNDRED FORTY-THREE THOUSAND U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the “**Notes**”) issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the “**Agreement**”), between Nu Skin Enterprises, Inc. (the “**Company**”) and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder’s attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: Chief Financial Officer

**NU SKIN ENTERPRISES, INC.
SERIES A SENIOR NOTE**

No. A-4

CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$4,166,666

ORIGINAL ISSUE DATE: October 31, 2003

INTEREST RATE: 4.00%

INTEREST PAYMENT DATES: April 30 and October 31

FINAL MATURITY DATE: April 30, 2008

PRINCIPAL PREPAYMENT DATES AND AMOUNTS: \$833,333.20 on October 31, 2004, April 30, 2005, April 30, 2006, and April 30, 2007

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the “**Company**”), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **BAYSTATE INVESTMENTS, LLC**, or registered assigns, the principal sum of **FOUR MILLION ONE HUNDRED SIXTY-SIX THOUSAND SIX HUNDRED SIXTY-SIX U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the “**Notes**”) issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the “**Agreement**”), between Nu Skin Enterprises, Inc. (the “**Company**”) and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder’s attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: Chief Financial Officer

**NU SKIN ENTERPRISES, INC.
SERIES A SENIOR NOTE**

No. A-5

CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$2,777,778

ORIGINAL ISSUE DATE: October 31, 2003

INTEREST RATE: 4.00%

INTEREST PAYMENT DATES: April 30 and October 31

FINAL MATURITY DATE: April 30, 2008

PRINCIPAL PREPAYMENT DATES AND AMOUNTS: \$555,555.60 on October 31, 2004, April 30, 2005, April 30, 2006, and April 30, 2007

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the “**Company**”), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **GOLDEN AMERICAN LIFE INSURANCE COMPANY**, or registered assigns, the principal sum of **TWO MILLION SEVEN HUNDRED SEVENTY-SEVEN THOUSAND SEVEN HUNDRED SEVENTY-EIGHT U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the “**Notes**”) issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the “**Agreement**”), between Nu Skin Enterprises, Inc. (the “**Company**”) and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder’s attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: Chief Financial Officer

**NU SKIN ENTERPRISES, INC.
SERIES B SENIOR NOTE**

No. B-1
CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$22,514,000
ORIGINAL ISSUE DATE: October 31, 2003
INTEREST RATE: 4.45%
INTEREST PAYMENT DATES: April 30 and October 31
FINAL MATURITY DATE: April 30, 2010
PRINCIPAL PREPAYMENT DATES AND AMOUNTS: \$4,502,800 on April 30 of 2006 through 2009, inclusive

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the “**Company**”), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **THE PRUDENTIAL INSURANCE COMPANY OF AMERICA**, or registered assigns, the principal sum of **TWENTY-TWO MILLION FIVE HUNDRED FOURTEEN THOUSAND U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the “**Notes**”) issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the “**Agreement**”), between Nu Skin Enterprises, Inc. (the “**Company**”) and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: Chief Financial Officer

**NU SKIN ENTERPRISES, INC.
SERIES B SENIOR NOTE**

No. B-2

CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$11,111,111

ORIGINAL ISSUE DATE: October 31, 2003

INTEREST RATE: 4.45%

INTEREST PAYMENT DATES: April 30 and October 31

FINAL MATURITY DATE: April 30, 2010

PRINCIPAL PREPAYMENT DATES AND AMOUNTS: \$2,222,222.20 on April 30 of 2006 through 2009, inclusive

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the "**Company**"), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **THE PRUDENTIAL INSURANCE COMPANY OF AMERICA**, or registered assigns, the principal sum of **ELEVEN MILLION ONE HUNDRED ELEVEN THOUSAND ONE HUNDRED ELEVEN U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the "**Notes**") issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the "**Agreement**"), between Nu Skin Enterprises, Inc. (the "**Company**") and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: Chief Financial Officer

**NU SKIN ENTERPRISES, INC.
SERIES B SENIOR NOTE**

No. B-3

CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$2,486,000

ORIGINAL ISSUE DATE: October 31, 2003

INTEREST RATE: 4.45%

INTEREST PAYMENT DATES: April 30 and October 31

FINAL MATURITY DATE: April 30, 2010

PRINCIPAL PREPAYMENT DATES AND AMOUNTS: \$497,200 on April 30 of 2006 through 2009, inclusive

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the "**Company**"), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **PRUCO LIFE INSURANCE COMPANY**, or registered assigns, the principal sum of **TWO MILLION FOUR HUNDRED EIGHTY-SIX THOUSAND U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the "**Notes**") issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the "**Agreement**"), between Nu Skin Enterprises, Inc. (the "**Company**") and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: Chief Financial Officer

NU SKIN ENTERPRISES, INC.
SERIES B SENIOR NOTE

No. B-4

CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$8,333,334

ORIGINAL ISSUE DATE: October 31, 2003

INTEREST RATE: 4.45%

INTEREST PAYMENT DATES: April 30 and October 31

FINAL MATURITY DATE: April 30, 2010 **PRINCIPAL PREPAYMENT DATES AND AMOUNTS:** \$1,666,666.80 on April 30 of 2006 through 2009, inclusive

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the "**Company**"), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **BAYSTATE INVESTMENTS, LLC**, or registered assigns, the principal sum of **EIGHT MILLION THREE HUNDRED THIRTY-THREE THOUSAND THREE HUNDRED THIRTY-FOUR U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the “Notes”) issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the “Agreement”), between Nu Skin Enterprises, Inc. (the “Company”) and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder’s attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: Chief Financial Officer

NU SKIN ENTERPRISES, INC. SERIES B SENIOR NOTE

No. B-5
CURRENCY AND ORIGINAL PRINCIPAL AMOUNT: U.S. \$5,555,555
ORIGINAL ISSUE DATE: October 31, 2003
INTEREST RATE: 4.45%
INTEREST PAYMENT DATES: April 30 and October 31
FINAL MATURITY DATE: April 30, 2010
PRINCIPAL PREPAYMENT DATES AND AMOUNTS: \$1,111,111 on April 30 of 2006 through 2009, inclusive

FOR VALUE RECEIVED, the undersigned, **NU SKIN ENTERPRISES, INC.** (herein called the “Company”), a corporation organized and existing under the laws of Delaware, hereby promises to pay to **GOLDEN AMERICAN LIFE INSURANCE COMPANY**, or registered assigns, the principal sum of **FIVE MILLION FIVE HUNDRED FIFTY-FIVE THOUSAND FIVE HUNDRED FIFTY-FIVE U.S. DOLLARS**, payable on the Principal Payment Dates and in the amounts specified above, and on the Final Maturity Date as specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of any Make-Whole Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate.

Payments of principal, Make-Whole Amount, if any, and interest are to be made at The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the “Notes”) issued pursuant to a Private Shelf Agreement, dated as of August 26, 2003 (as from time to time amended, herein called the “Agreement”), between Nu Skin Enterprises, Inc. (the “Company”) and each Issuer Subsidiary which becomes party thereto, on the one hand, and Prudential Investment Management, Inc. and each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Agreement, and (ii) to have made the representations set forth in Section 6 of the Agreement. This Note is secured by the Collateral Documents and is guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder’s attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount), and with the effect provided in the Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood

Name: Ritch N. Wood

Title: Chief Financial Officer

NU SKIN INTERNATIONAL, INC.
1997 KEY EMPLOYEE DEATH BENEFIT PLAN

1. Establishment and Purpose.

By approval of the Board of Directors of Nu Skin International, Inc., a Utah corporation (the "Company"), there is hereby established a benefit plan for key employees to be known as the Nu Skin International, Inc. 1997 Key Employee Death Benefit Plan (the "Plan"). The purposes of the Plan are: (a) to enhance the growth and profitability of the Company and any subsidiaries it may have now or in the future by providing greater security to certain officers, directors, and employees and their families and (b) to attract and retain officers, directors, and employees of outstanding competence and ability.

2. Definitions.

For the purposes of this Plan, the following terms shall have the indicated meanings:

a. "Board of Directors" or "Board" shall mean the Board of Directors of the Company.

b. "Company" shall mean the Company and shall include each of its present and future subsidiaries, which are defined to include any corporation, partnership, or other organization in which the Company has proprietary interest by reason of share or equity ownership or otherwise, but only if the Company owns or controls, directly or indirectly, shares or other equity interests possessing not less than 50% of the total combined voting power of all classes of stock or other equity interests in such corporation, partnership, or organization. However, for purposes of determining whether a person is an officer or shareholder of the Company, the term "Company" shall not include any subsidiary.

c. "Committee" shall mean a Committee of members of the Board of Directors established by the Board of Directors to administer this Plan, or its functional successor, unless no committee has been designated by the Board of Directors to administer this Plan, in which case the entire Board of Directors shall constitute the Committee to administer this Plan. Committee members shall serve at the pleasure of the Board of Directors.

d. "Death Benefit" shall mean the insurance benefit payable to the designated beneficiary or beneficiaries of a Participant upon the death of the Participant pursuant to insurance obtained under to this Plan.

e. "Participant" shall mean any officer, director, or employee of the Company who has been designated as a Participant by the Committee, and any person on leave of absence from the Company while serving as a full-time missionary for any legally recognized ecclesiastical organization, who was designated as a Participant by the Committee prior to the commencement of such leave of absence.

3. Administration.

a. The Plan shall be administered by the Committee. Subject to the provisions of this Plan, the Committee shall have sole and complete authority to: (i) select Participants after receiving the recommendations of the management of the Company; (ii) determine the amount of any death benefit payable under this Plan; (iii) determine the amount and terms of such insurance obtained by the Company under this Plan; (iv) adopt, amend, and rescind such rules and regulations as, in its opinion, may be advisable for the administration of this Plan; (v) construe and interpret this Plan, the rules and regulations, and the instruments utilized hereunder; and (vi) make all determinations deemed advisable or necessary for the administration of this Plan. All determinations by the Committee shall be final and binding unless otherwise determined by the Board of Directors.

b. The Committee shall hold meetings at such times and places as it may determine. The Committee may request advice or assistance or employ such other persons as are necessary for proper administration of this Plan. A quorum of the Committee shall consist of a majority of its members, and the Committee may act by a majority vote of its members at a meeting at which a quorum is present, or without a meeting by a written consent to the action taken, signed by all members of the Committee. The Board of Directors may from time to time appoint members to the Committee in substitution of members previously appointed and fill any vacancies, however caused, in the Committee.

4. Designation of Participants.

The Committee shall, in its sole and absolute discretion, designate employees, officers and directors of the Company as Participants in the Plan, and the amount of Death Benefit to which each such Participant shall be entitled. Unless otherwise provided by the Committee, all persons who (1) are officers of the Company and have the rank of chairman of the board, president, chief executive officer, or vice president and are shareholders in the Company or (2) are designated by the Committee as key shareholders of the Company, shall be deemed designated as Participants in the Plan and shall be entitled to a Death Benefit of \$1,000,000. Unless otherwise provided by the Committee, all persons who are officers of the Company and have the rank of vice president, but are not shareholders in the Company, shall be deemed designated as Participants in the Plan and shall be entitled to a Death Benefit under the Plan of \$500,000.

5. Death Benefit.

The Company shall procure and pay all premiums for insurance upon the life of each Participant, providing to the Participant a Death Benefit in the amount established pursuant to Section 4 hereof, with the right to the Participant to designate the beneficiary of such insurance. The Participant shall have the right to assign all of the Participant's rights in the policy pursuant to U.C.A. §31A-22-412. The terms of any insurance policy obtained by the Company shall be determinative as to the right of any person to any benefit under such insurance policy. The Company may provide the benefits under this Plan through the adoption of a split-dollar arrangement with any or all of the participants, as the Company may determine, in its sole and absolute discretion.

6. Beneficiary Designation.

Designation of beneficiaries of insurance provided under this Plan shall be accomplished in accordance with the terms of such insurance.

7. Employment Rights.

Neither this Plan nor any action taken hereunder shall be construed as giving any employee of the Company the right to become a Participant nor any right to be retained in the employ of the Company.

8. Protection of Company.

The Company reserves the right not to pay any premium or other payment for any insurance procured by the Company under this Plan at any time, for any or no reason, provided, however, that to the extent that the insurance provided under this Plan may, under the terms of such insurance, be assumed and paid for by the Participant, the Participant may pay such premium or other payment and continue such insurance in force. The Company's sole obligation shall be to provide reasonable notice to the Participant of its determination not to pay any such premium or other payment.

9. Withholding.

The Company shall have the right to deduct or withhold from any other compensation payments made to the Participant, any Federal, state, or local taxes, including transfer taxes, required by law to be withheld or to require the Participant to pay any amount, or the balance of any amount, required to be withheld as a condition to receiving a benefit hereunder.

10. Relationship to Other Benefits.

No benefits under this Plan shall be taken into account in determining any benefits under any pension, retirement, group insurance, or other employee benefit plan of the Company, whether now existing or hereafter adopted. This Plan shall not preclude the shareholders of the Company, whether now existing or hereafter adopted. This Plan shall not preclude the shareholders of the Company, the Board of Directors or any committee thereof, or the Company from authorizing or approving other employee benefit plans or forms of incentive compensation, nor shall it limit or prevent the continued operation of other incentive compensation plans or other employee benefit plans of the Company or the participation in any such plans by Participation in this Plan.

11. No Trust or Fund Created.

Neither this Plan nor any benefit conferred hereunder shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person.

12. Accounts.

There shall be maintained separate accounts for the Participants under this Plan.

13. Expenses.

The expenses of administering this Plan shall be borne by the Company.

14. Indemnification.

Service on the Committee for purposes of this Plan only shall constitute service as a member of the Board of Directors so that members of the Committee shall be entitled to indemnification and reimbursement similar to directors of the Company pursuant to its Articles of Incorporation, By-Laws or resolutions of its Board of Directors or shareholders.

15. Tax Litigation.

The Company shall have the right to contest, at its expense, any tax ruling or decision, administrative or judicial, on any issue that is related to this Plan and that the Company believes to be important to the Company and to conduct any such contest or any litigation arising therefrom to a final decision.

16. Amendment and Termination.

The Board of Directors may modify, amend, or terminate this Plan in any respect at any time. The Company may terminate insurance under this Plan at any time.

17. Governmental and Other Regulations.

This Plan shall be subject to all applicable Federal and state laws, rules, and regulations and to such approvals by any regulatory or governmental agency which may, in the opinion of the counsel for the Company, be required. This Plan is not, nor is it intended to be, an "employee benefit plan" or "plan" as those terms are defined in Section 3(3) of the Employee Retirement Income Security Act of 1974.

18. Governing Law.

This Plan shall be construed and its provisions enforced and administered in accordance with the laws of the State of Utah.

19. Effective Date.

This Plan shall not be effective unless and until adopted by action of the Board of Directors, and shall be effective upon the day and date specified in the adoptive resolution of the Board of Directors.

DATED the 4th day of April, 1997.

By order of the Board of Directors

NU SKIN INTERNATIONAL, INC.

/s/ Blake M. Roney

By: Blake M. Roney

ATTEST:

/s/ Steven J. Lund
Secretary

Nu Skin Enterprises, Inc.
Amended and Restated
Executive Incentive Plan

I. Purpose

This *Amended and Restated Executive Incentive Plan* (the “Plan”) is adopted by Nu Skin Enterprises (the “Company”) to reward its executives through the payment of cash incentive awards (the “Incentive Awards”) for outstanding performance related to the accomplishment of strategic objectives and individual goals.

II. Objectives

The objectives of the Plan are to: i) attract, motivate, and retain an executive by emphasizing pay for performance incentives that provide the opportunity to earn total compensation competitive with the current market; ii) reward an executive for the achievement of the Company’s strategic business objectives and goals; iii) promote teamwork within and across divisions, regions, countries and departments; iv) enhance operational efficiency; v) generate new revenue while maintaining the current revenue base; vi) increase operating profit; and vii) motivate the achievement of individual goals.

III. Administration

The Plan shall be administered under the direction of the Compensation Committee. The Plan and all changes to the Plan are subject to the approval of the Compensation Committee of the Board of Directors of the Company.

IV. Terms of Plan

A. Eligibility

- (1) Participants. Executives who are to participate in the Plan shall be recommended by the CEO and approved by the Compensation Committee. Attached as Schedule I to this Plan is a schedule of the initial participants in the Plan (the “Participants”). Schedule I shall be amended from time to time to reflect the addition or deletion of Participants.
- (2) Participant Eligibility. To be eligible to receive an Incentive Award under this Plan, a Participant must, unless otherwise approved by the Compensation Committee:
 - a. be employed at the time of the payment of Incentive Award;
 - b. be actively employed (not on a leave-of-absence) by the Company or its affiliates for a minimum of six weeks during the applicable Incentive Period. In the event a Participant is not actively employed during the entire Incentive Period, the Incentive Award for such Incentive Period will be prorated based on the number of days the executive was actively employed during the Incentive Period divided by the total number of days in the Incentive Period.

B. Effective Date

The effective date of the Plan is January 1, 2004. The Plan shall remain in effect until terminated by the Compensation Committee. This Plan supercedes the *Executive Incentive Plan* adopted July 1, 2001, and all subsequent amendments thereto.

C. Modifications

The Plan can be terminated or modified by the Compensation Committee at any time. The Company shall provide written notification of any such termination or modification to all Participants.

D. Incentive Periods

- (1) Semi-Annual Incentive Periods. The Plan shall have two six-month incentive periods (the “Semi-Annual Incentive Periods”) each year commencing on January 1st and July 1st, respectively.
- (2) Quarterly Incentive Periods. In addition, the Plan shall have four quarterly incentive periods (the “Quarterly Incentive Periods”) commencing on the first day of each of the Company’s fiscal quarters. The Semi Annual Incentive Periods and the Quarterly Incentive Periods are collectively referred to as the “Incentive Periods,” and individually as an “Incentive Period.”

E. Incentive Targets

- (1) Critical Success Factors. Operating profit and revenue shall be the critical success factors used to determine whether an Incentive Award shall be paid for an Incentive Period and the amount of any such Incentive Awards to be paid to a Participant under the Plan.
- (2) Establishment of Incentive Targets. An operating profit target (the “OP Target”) and a revenue target (the “Rev Target”) shall be

established for each Incentive Period. The targets established under this Plan for purposes of determining the achievement of Incentive Awards are referred to in this Plan as the “Targets.” Targets shall be established for the Company on a consolidated basis. In addition, the Compensation Committee may approve the adoption of Targets for specified Participants based on revenue or operating profit for any region or division. In the event Targets are established for a region, they shall be determined by taking the sum of the Targets for each of the countries in such region except as otherwise provided by this Plan. The Compensation Committee must approve all Targets for each Incentive Period.

- (3) New Markets. Typically, a newly opened market will be treated outside this Plan in determining regional or country specific targets and results due to the uncertainty and volatility associated with the new market. Incentives for new markets will be determined by the CEO and the CFO and approved by the Compensation Committee, including the appropriate time for the new market to be included in the regional or country calculation for the Plan.
- (4) Calculation of Revenue and Operating Profit. For purposes of determining the achievement and amount of the Incentive Awards under this Plan, actual revenue and operating profit shall be the actual consolidated revenue and operating profit during the Incentive Period determined in accordance with GAAP, subject to the following exceptions: In translating local currency amounts to US dollars, the exchange rates used to establish the Targets shall be used in place of the weighted average exchange rates required by GAAP in order to eliminate the effect of foreign currency fluctuations. In the event Targets for a region are established, actual revenue and operating profit shall be determined by taking the sum of the revenue and operating profit for each of the countries in such region determined in accordance with GAAP with the same exception as set forth above to eliminate the impact of foreign currency fluctuations. The definition of operating profit may vary from region to region and will be defined by the CEO and the CFO. Subject to the approval of the Compensation Committee, adjustments can be made at any time to the method for calculating operating profit for purposes of this Plan by the CEO and CFO, to eliminate one-time charges, adjust for changes in transfer pricing, adjust for unjustified differences between operating expenditures and budgeted expenditures, and to adjust for any other factors that the CEO and CFO determine to be relevant.

F. Incentive Award Thresholds

- (1) Operating Profit Threshold. In the event that the actual operating profit for the Company is less than 90% of the OP Target for the applicable Incentive Period, no Incentive Award shall be paid to any Participant for such Incentive Period; provided, however, if a Participant has a regional OP Target, the portion of the Incentive Award for based on regional Targets may still be paid to such Participant if actual operating profit for such region is equal to or greater than 90% of the OP Target for such region.
- (2) Other Thresholds. In the event actual performance is less than 90% of a specified Target for a Participant in any given Incentive Period, the portion of the Incentive Award tied to such Target shall not be paid for such Incentive Period, but this shall not affect the payment of the portion of the Incentive Award tied to other Targets in which performance is equal to or greater than 90% of the applicable Target except as provide in Paragraph (1) above; provided, however, that Participants who have regional OP Targets shall not be paid any portion of the Incentive Award based on regional Targets if the operating profit for the region is less than 90% of the applicable OP Target for the region.
- (3) Performance Rating Threshold. A Participant must also be performing at a “competent” performance level as determined in accordance with the Company’s annual and semi-annual performance evaluations.

G. Incentive Awards

- (1) Incentive Awards. In the event the relevant operating profit threshold has been satisfied, the total Incentive Award for a Participant for any Incentive Period shall be determined by multiplying the Participant’s Base Salary, as in effect on the date the final Incentive Award is calculated, by the sum of all of the Adjusted Bonus Percentages applicable for such Incentive Period with respect to the Targets where the required performance thresholds have been met.
- (2) Bonus Percentages. Each Participant shall be assigned a specific Bonus Percentage for each Target for each Incentive Period. A schedule of the Targets and Bonus Factors shall be delivered to each Participant. Assigned Bonus Percentages shall be adjusted (the “Adjusted Bonus Percentages”) as set forth in Paragraphs (3) and (4) below for each Incentive Period based on actual performance in such Incentive Period.
- (3) Downward Adjustment of Bonus Percentages. In the event that actual performance is less than the specified Target, the Bonus Percentage for such Target for such Incentive Period shall be adjusted downward linearly in accordance with the following formula:

$$\text{Initial Bonus Percentage} * [1.0 -(5* (\text{Actual Performance}/\text{Target}))]$$

The formula results in 50% of the portion of the incentive award being paid to the executive at the threshold level (90% of Target), with the Incentive Award increasing linearly from the threshold level up to 100% of the Target, at which point 100% of that portion of the incentive award being achieved and paid.

- (4) Upward Adjustment of Bonus Percentages. In the event that actual performance is greater than the specified Target, the Bonus Percentage for such Target for such Incentive Period shall be increased by in accordance with the following formula:

$$\text{Bonus Percentage} * [1+ (\text{Bonus Multiplier} * (\{\text{Actual Performance}-\text{Target}\}/\text{Target}))]$$

The Bonus Multiplier(s) shall be established for each Participant. A different Bonus Multiplier may be adopted for higher performance. If two or more Bonus Multipliers are established for a Participant, then the Bonus Percentage shall be adjusted by applying each Bonus Multiplier to that portion of the percentage increase applicable to such Base Multiplier. For example, in the event the Bonus Multiplier is 5 for performance from 0 to 5% above target, and 10 for performance greater than 5% above target, and actual performance is 9% above

target, then the Bonus Percentage would be multiplied by 1.65 (1 plus the sum of (.05* 5) plus (.04 *10). In the absence of a designation of a Bonus Multiplier for a Participant, the Bonus Multiplier shall be 5, which is equal to the factor used to adjust the Bonus Percentage downward if a Target is not achieved.

- (5) Reduction of Incentive Award. In addition to the Targets, individual performance goals for each Participant shall also be established for each semi-annual incentive period. The goals for each Participant shall be established by his or her supervisor. The goals are intended to focus on aligning the Participant's activities with the strategic objectives and priorities of the Company, the region, the country and/or the division. Some individual goals may stretch for periods longer than the period under review. Performance levels for individual goals shall be determined based on evaluation by the supervisor of the Participant as approved by the CEO. In the event a Participant fails to meet any of his or her performance goals, the Incentive Awards otherwise payable under this Plan for such Incentive Period shall be reduced by 25%.
- (6) Nu Skin shall pay any Incentive awards within such time frames as established and approved by the Compensation Committee, which shall generally be within 60 days of the close of each quarter. Incentive Awards shall be paid net of applicable State and/or Federal tax withholdings.

H. Targeted Bonus Levels

The Plan is intended to provide Participant's with annual aggregate bonuses equal to a set percentage of base salary if actual performance is equal to targeted performance. This aggregate Bonus Percentages assigned to a Participant is based upon the Participant's scope of job responsibility and the position's ability to impact the Company's overall financial performance. The following are guidelines for the aggregate annual Bonus Percentages, prior to the upward and downward adjustments required by the Plan based on performance, for each executive group:

60% of salary	Chairman, CEO, CFO, Senior Vice Presidents, Members of the Executive Committee
50% of salary	CAO, CIO, CLO, Division Presidents, Regional Vice Presidents, US General Manager
30% - 40% of salary	Country Vice Presidents, Division Vice Presidents, Other Vice Presidents

**Nu Skin Enterprises, Inc.
Amended and Restated
Executive Incentive Plan**

**Schedule I
List of Participants**

Blake Roney – Chairman
 Brooke Roney – Sr. Vice President
 Sandie Tillotson – Sr. Vice President
 Truman Hunt – CEO and President
 Ritch Wood – CFO
 Corey Lindley – Regional Vice President and President, Greater China
 Robert Conlee – Regional Vice President, North Asia
 Joe Chang – President, Pharmanex Division
 Lori Bush – President, Nu Skin Division
 Larry Macfarlane – President, Big Planet Division
 Mark Wolfert – Regional Vice President, Americas and Europe
 Mike Smith – Regional Vice President, Southeast Asia and Pacific
 Mark Adams – CAO
 Matt Dorny – General Counsel
 Richard King – CIO
 Scott Schwerdt – General Manager, United States
 Gary Garrett – Vice President, Administration
 Brad Morris – Vice President, Distribution
 Sid Henderson – Vice President, Materials Management
 Claire Averett – Vice President, Human Resources
 Jodi Durrant – Vice President, Events and Recognition
 Charlie Allen – Vice President, Communications
 Rob Young – Vice President, Pharmanex Marketing
 Jack Peterson – Vice President, Pharmanex
 Carsten Schmidt – Vice President, Pharmanex Development
 Bart Mangum – Vice President, Nu Skin Operations
 Joe Ford – Vice President, Americas and Europe
 Elizabeth Thibadeau – Vice President, Nu Skin Marketing
 Luis Cerqueria – Vice President, Pharmanex Operations
 John Fralick – Vice President, IT Development
 Jim Frary – Vice President, IT Operations and Infrastructure
 Brent Ririe – Vice President, IT Legacy Systems

Brian Lords – Vice President, Treasurer
Chris Nielson – Vice President, Controller
Dane Van Pelt – Vice President, Tax
Keith Howe – Vice President, Internal Audit
Brett Nelson – Vice President, US market
Dan Chard – Vice President, Big Planet
Alex Treharne – Vice President, North Asia
Rich Hartvigsen – Vice President, Regulatory Affairs
Owen Messick – Vice President, Greater China, Finance

Contingent Stock Award Agreement

THIS AGREEMENT is entered into effective as of January 17, 2003 by and between Nu Skin Enterprises, Inc., a Delaware corporation, and M. Truman Hunt ("Employee").

1. **Definitions.** All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement.

- 1.1 Agreement shall mean this Contingent Stock Award Agreement.
- 1.2 Award Shares shall have the meaning assigned to such term in Section 2.1.
- 1.3 Code shall mean the Internal Revenue Code of 1986, as amended.
- 1.4 Committee shall mean the committee of the Board of Directors that administers the Plan.
- 1.5 Common Stock shall mean the Class A Common Stock of Nu Skin Enterprises, Inc.
- 1.6 Contingent Stock Award shall mean the contingent stock award represented by this Agreement.
- 1.7 Corporation shall mean Nu Skin Enterprises, Inc. and each of its Subsidiaries (as defined in the Plan).
- 1.8 Employee shall mean the employee identified in the first paragraph of this Agreement.
- 1.9 Forfeiture Event shall have the meaning set forth in Section 6.
- 1.10 Key Employee Covenants shall mean the Key Employment Covenants entered into by Employee in the form attached hereto as Exhibit A, as they may be amended from time to time by mutual written agreement.
- 1.11 Plan shall mean the Corporation's Second Amended and Restated 1996 Stock Incentive Plan.
- 1.12 Vesting Period shall have the meaning set forth in Section 2.1.

2. **Grant of Contingent Stock Award.**

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2.1 Grant of Stock Award. The Corporation hereby grants to Employee the right to receive 250,000 shares of Common Stock (the "Award Shares"). The Award Shares shall vest on the following dates (the "Vesting Dates") and in the following amounts provided that Employee remains in the continuous employment of the Corporation during the period commencing on the date of this Agreement and ending on each of the respective Vesting Dates (the "Vesting Period") except as otherwise provided in Section 5:

<u>Date</u>	<u>Number of Award Shares</u>
January 1, 2004	62,500
January 1, 2005	62,500
January 1, 2006	62,500
January 1, 2007	62,500

In the event of a change in voting control of the Company, all outstanding Award Shares shall be considered vested immediately prior to the announcement of any such transaction. The foregoing shall be in addition to any rights set forth in the Plan

2.2 Delivery of Certificates. Within a reasonable time following each Vesting Date, the Corporation shall issue and deliver a certificate or certificates for the Award Shares that vested on such Vesting Date in the name of Employee if Employee has remained in the continuous employment of the Corporation during the Vesting Period with respect to such Award Shares or if Employee or Employee's personal representative is otherwise entitled to Award Shares pursuant to Sections 5.2 (in which event a certificate for the number of Award Shares required to be issued pursuant to Section 5.2 shall be issued).

2.3 Stockholder Rights. Until such time as a certificate for the Award Shares is actually issued following the Vesting Date, the Award Shares shall not be treated as issued and outstanding and Employee shall have no rights (including voting, dividend and liquidation rights) with respect to the Award Shares or as a stockholder.

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3. **Securities Law Compliance.** Employee represents that Employee is familiar with the Company's filings with the SEC and has received a copy of the prospectus. Employee hereby acknowledges that Employee is aware of the risks associated with the Award Shares and that there can be no assurance the price of the Common Stock will not decrease in the future. Employee hereby acknowledges no representations or statements have been made to Employee concerning the value or potential value of the Common Stock. Employee acknowledges that Employee has relied only on information contained in the Prospectus and has received no representations, written or oral, from the Corporation or its employees, attorneys or agents, other than those contained in the Prospectus or this Agreement. Employee acknowledges that the Company has made no representations concerning the tax and other effects of this Contingent Stock Award and Employee represents that Employee has consulted with Employee's own tax and other advisors concerning the tax and other effects of the Contingent Stock Award.

4. **Transfer Restrictions.** Employee shall not transfer, sell, assign, encumber, pledge, grant a security interest in or otherwise dispose of this Contingent Stock Award, any rights under this Agreement, or any of the Award Shares that are subject to this Contingent Stock Award. Any such transfer, sale, assignment, encumbrance, pledge, security interest or disposition shall be void and shall result in the automatic termination of this Contingent Stock Award and this Agreement. The restrictions on the Award Shares set forth in this Section 4 shall terminate upon receipt of a certificate for such shares following the vesting of such shares in accordance with the vesting schedule set forth in Section 2.1.

5. **Termination of Employment.**

5.1 **Termination of Employment.** In the event the employment of Employee is terminated for any reason other than the death or long-term disability of Employee prior to the full vesting of the Contingent Stock Award, the Contingent Stock Award granted hereunder shall immediately terminate in full with respect to any Award Shares which have not vested and Employee shall not receive any of such Award Shares.

5.2 **Death and Disability.** Subject to Section 6 below, in the event the employment of Employee is terminated as a result of death or long-term disability prior to the full vesting of the Contingent Stock Award, then a portion of the Award Shares that would otherwise become vested on the next Vesting Dated shall be treated as vested and shall be issued following the next Vesting Date to Employee or his/her legal representative. The number of Award Shares to be treated as vested shall be equal to the product of (A) the total number of Award Shares scheduled to vest on the next Vesting Date multiplied by (B) a fraction, the numerator of which is the number of days that have elapsed from the date of the previous Vesting Date through the date of death or disability, and the denominator of which is 365, rounded down to the nearest whole share. Certificates for any Award Shares treated as vested shall be issued following the next Vesting Date in accordance with Section 2.2. All rights to the remaining Award Shares that are not treated as vested shall terminate in full upon the date of death or long-term disability, and neither Employee nor Employee's legal representative shall have any rights with respect to such shares. For purposes of Section 5.2 and Section 5.1, the term "long-term disability" means any

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long-term disability that qualifies Employee to receive long-term disability payments from the Corporation's governing long-term disability plan.

6. **Forfeiture.** If at anytime during Employee's employment or at any time during the 12 month period following termination of Employee's employment, a Forfeiture Event occurs, then Employee shall return to the Corporation for cancellation all Award Shares held by Employee plus pay the Corporation the amount of any proceeds received from (i) the sale of any Award Shares during the 12 month period immediately preceding the Forfeiture Event, and (ii) the sale of any Award Shares on the date of or at anytime after such Forfeiture Event. "Forfeiture Event" means the following: (i) conduct related to Employee'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 Corporation, (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 Corporation in violation of the Key Employee Covenants, or any other non-disclosure agreement with the Corporation or other duty of confidentiality or the Corporation's insider trading policy, or (vi) any other material breach of the Key Employee Covenants. The Committee, in its sole discretion, may waive at any time in writing this forfeiture provision and release Employee from liability hereunder.

7. **Governing Plan Document.** This Agreement incorporates by reference all of the terms and conditions of the Plan as presently existing and as hereafter amended. Employee expressly acknowledges and agrees that the terms and provisions of this Agreement are subject in all respects to the provisions of the Plan. Employee also hereby expressly acknowledges, agrees and represents as follows:

(a) Acknowledges receipt of a copy of the Plan and represents that Employee is familiar with the provisions of the Plan, and that Employee 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 Employee and upon all persons at any time claiming any interest through Employee in this Contingent Stock Award or any Award Shares 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 Employee from the requirements of Section 16(b) of the Exchange Act and any rules or regulations promulgated thereunder, and that Employee (to the extent Section 16(b) applies to Employee) shall not be exempt from such requirements pursuant to Rule 16b-3 unless and until Employee shall comply with all applicable requirements of Rule 16b-3, including without limitation, the possible requirement that Employee must not sell or otherwise dispose of any share of Common Stock acquired hereby unless and until a period of at least six months shall have elapsed between the date upon which such Contingent Stock Award was granted to Employee and the date upon which Employee desires to sell or otherwise dispose of any share of Common Stock acquired

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under this award.

8. **Representations And Warranties.** As a condition to the receipt of any Award Shares upon vesting, the Corporation may require Employee to make any representations and warranties to the Corporation that legal counsel to the Corporation may determine to be required or advisable under any applicable law or regulation, including without limitation, representations and warranties that the shares of Common Stock are being acquired only for investment and without any present intention or view to sell or distribute any such shares.

9. **Compliance With Law And Regulations.** The obligations of the Corporation 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 Common Stock is then listed and any other government or regulatory agency.

10. **Taxes.** Employee authorizes the Corporation to withhold, in accordance with applicable laws and regulations, from any compensation or other payment payable to Employee, all federal, state and other taxes attributable to taxable income realized by Employee as a result of the grant of this Contingent Stock Award or the vesting of any Award Shares. As a condition to the issuance of any Award Shares upon vesting, Employee shall remit to the Corporation the amount of cash necessary to pay any withholding taxes associated therewith or make other arrangements acceptable to the Corporation, in the Corporation's sole discretion, for the payment of any withholding taxes.

11. **General Provisions.**

11.1 **Assignment.** Employee may not assign any of his/her rights under this Agreement.

11.2 **No Employment or Service Contract.** Nothing in this Agreement or in the Plan shall confer upon Employee any right to continue in the employment or service of the Corporation for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation, which rights are hereby expressly reserved, to terminate Employee'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.

11.3 Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten (10) days advance written notice under this section to all other parties to this Agreement.

11.4 No Waiver. The failure of the Corporation in any instance to exercise any rights under this Agreement, including the forfeiture rights under Section 6, shall not constitute a waiver of any other rights that may subsequently arise under the provisions of this Agreement or any other agreement between the Corporation and Employee. No waiver of any breach or

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condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

12. Miscellaneous Provisions.

12.1 Employee Undertaking. Employee hereby agrees to take whatever additional action and execute whatever additional documents the Corporation may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Employee or the Award Shares pursuant to the provisions of this Agreement.

12.2 Agreement is Entire Contract. This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and shall in all respects be construed in conformity with the terms of the Plan.

12.3 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Utah without resort to that State's conflict-of-laws rules. In the event of any legal proceeding involving this Agreement, the prevailing party shall be entitled to recover its legal fees and expenses (including reasonable attorneys' fees).

12.4 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

12.5 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and upon Employee, Employee's permitted assigns and the legal representatives, heirs and legatees of Employee's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof. Employee may not assign this Agreement other than by the laws of decent and distribution.

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IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first indicated above.

Nu Skin Enterprises, Inc.

/s/ D. Matthew Dorny

By: D. Matthew Dorny

Title: Vice President

Employee

/s/ M. Truman Hunt

Name: M. Truman Hunt

November 22, 2003

Mr. Robert Conlee
Via Email

RE: Employment Terms

Dear Robert:

This letter will confirm our understanding with respect to your new position and the terms of engagement.

Your titles will be President, Nu Skin Japan, and President of the North Asia Region, which will include Japan and South Korea.

Effective November 26, 2003 your base annual salary will increase from \$250,000 to \$300,000. Your foreign annual service premium will increase from \$35,000 to \$50,000.

In addition to the ex pat benefits you already receive, you will be entitled to a total of two home leaves/year. The company will pay for business class travel for you and your spouse and for coach fare travel for your children in connection with these two home leaves.

You will receive an option grant of 100,000 shares, vesting 25% per year, on the same vesting dates as the 100,000 share option grant issued to you in July 2003. So the initial 25,000 shares will vest in July 2004. The exercise price will be the closing price on November 26, 2003, the date of grant.

For calendar year 2004, you will also be entitled to receive an annual cash bonus payment equal to the greater of (a) the actual bonus earned by you under the terms of the Company's standard cash incentive plan, or (b) \$125,000. The \$125,000 minimum cash bonus payment will be received, however, only if local currency revenue of Nu Skin Japan does not decline over the prior year's revenue. After calendar year 2004, your cash bonuses will be paid in accordance with the company's standard incentive plan.

Upon execution of this agreement, you will receive a "signing bonus" of \$100,000. Half of this bonus will be paid in the fourth quarter of 2003 and the remainder in the first quarter of 2004.

These employment terms are offered with the expectation that you will reside in and work from Tokyo at least until June 2007. In the event you relocate to the U.S. during this period of time for any reason other than the company's request, the terms above will be renegotiated. In addition, a relocation to the U.S. for any reason other than the company's request will require that you reimburse the company a prorated portion of the signing bonus referenced above.

You will also be subject to all other key employee covenants to which all of the Company's senior management members are subject.

Sincerely,

/s/ Truman Hunt

Truman Hunt
President and Chief Executive Officer

Agreed as of December 12, 2003:

/s/ Robert Conlee

Robert Conlee

Subsidiaries of Registrant

Nu Skin International, Inc., a Utah Corporation

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

Nu Skin Asia Investment, Inc., a Delaware corporation

Nu Skin Enterprises 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

Nu Skin Enterprises Singapore Pte. Ltd., a Singapore corporation

Nu Skin Europe, Inc., a Delaware corporation

First Harvest International, LLC, a Utah limited liability company

Nu Skin France, SARL, a French corporation

Nu Skin Germany, GmbH, a German corporation

Nu Skin Guatemala, S.A., a Guatemalan corporation

Nu Skin Enterprises Hong Kong, Inc., a Delaware corporation

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

Nu Skin Italy, Srl, an Italian corporation

Nu Skin Japan Company Limited, a Japanese corporation

Nu Skin Japan, Ltd., a Japanese corporation

NSE Korea Ltd., a Delaware corporation

NSE Korea, Ltd., a Korean corporation

Nu Skin Malaysia Holdings Sdn. Bhd., a Malaysian corporation

Nu Skin (Malaysia) Sdn. Bhd., a Malaysian corporation

Nu Skin Mexico, S.A. de C.V., a Mexico corporation

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

Nu Skin Enterprises New Zealand, Inc., a Utah corporation

Niksun Acquisition Corporation, a Delaware corporation

Pharmanex, LLC, a Delaware limited liability company

Pharmanex, Huzhou

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

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

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

Nu Skin Scandinavia A.S., a Denmark corporation

Shanghai Nu Skin Daily-Use and Health Products Co., Ltd., Chinese company

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

Nu Skin Taiwan, Inc., a Utah corporation

Nu Skin Personal Care (Thailand), Ltd., a Delaware corporation

Nu Skin Personal Care (Thailand), Ltd., a Thailand corporation

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

Nu Skin United States, Inc., a Delaware corporation

Zhejiang Cinogen Pharmaceutical Co., Ltd., a Chinese corporation

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-12073, 333-109836, and 333-110476) and in the Registration Statements on Form S-8 (Nos. 333-48611, 333-68407, 333-95033, and 333-102327) of Nu Skin Enterprises, Inc. of our report dated March 15, 2004 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Salt Lake City, UT

March 15, 2004

EXHIBIT 31.1
SECTION 302 – CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, M. Truman Hunt, Chief Executive Officer of the registrant, certify that:

1. I have reviewed this Annual Report on Form 10-K of Nu Skin Enterprises, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ M. Truman Hunt
M. Truman Hunt
Chief Executive Officer

EXHIBIT 31.2
SECTION 302 – CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Ritch N. Wood, Chief Financial Officer of the registrant, certify that:

1. I have reviewed this Annual Report on Form 10-K of Nu Skin Enterprises, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ Ritch N. Wood
Ritch N. Wood
Chief Financial Officer

EXHIBIT 32.1
SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

CERTIFICATION PURSUANT TO 18
U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Truman Hunt, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2004

/s/ M. Truman Hunt

M. Truman Hunt

Chief Executive Officer

EXHIBIT 32.2
SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

CERTIFICATION PURSUANT TO 18
U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ritch N. Wood, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2004

/s/ Ritch N. Wood

Ritch N. Wood

Chief Financial Officer