

NU SKIN ENTERPRISES INC  
Form 10-Q  
November 10, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

OR

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

Commission File Number: **001-12421**

**NU SKIN ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**87-0565309**

(IRS Employer  
Identification Number)

**75 West Center Street**

**Provo, UT 84601**

(Address of principal executive offices and zip code)

**(801) 345-1000**

(Registrant's telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

As of October 31, 2008, 64,561,484 shares of the registrant's Class A common stock, \$.001 par value per share were outstanding.

NU SKIN ENTERPRISES, INC.

2008 FORM 10-Q QUARTERLY REPORT THIRD QUARTER

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

**PART I. FINANCIAL INFORMATION**

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

(U.S. dollars in thousands)

	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 101,276	\$ 87,327
Current investments		5,225
Accounts receivable	22,167	23,424
Inventories, net	110,092	100,792
Prepaid expenses and other	40,947	49,576
	274,482	266,344
Property and equipment, net	83,193	88,529
Goodwill	112,446	112,446
Other intangible assets, net	83,157	86,163
Other assets	128,493	129,761
Total assets	\$ 681,771	\$ 683,243
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 18,588	\$ 24,108
Accrued expenses	104,117	115,620
Current portion of long-term debt	27,230	31,441
	149,935	171,169
Long-term debt	158,762	169,229
Other liabilities	65,296	67,836
Total liabilities	373,993	408,234
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Class A common stock - 500 million shares authorized, \$.001 par value, 90.6 million shares issued	91	91
Additional paid-in capital	216,877	209,821
Treasury stock, at cost - 27.0 million shares	(414,693)	(413,976)
Retained earnings	576,717	546,832
Accumulated other comprehensive loss	(71,214)	(67,759)
	307,778	275,009
Total liabilities and stockholders' equity	\$ 681,771	\$ 683,243

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

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

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

Three Months Ended September 30,		Nine Months Ended September 30,	
2008	2007	2008	2007

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	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
Revenue	\$ 310,266	\$ 290,711	\$ 930,068	\$ 851,592
Cost of sales	56,917	52,239	170,433	154,008
Gross profit	253,349	238,472	759,635	697,584
Operating expenses:				
Selling expenses	132,217	125,289	397,113	365,044
General and administrative expenses	90,880	93,963	275,915	274,745
Total operating expenses	223,097	219,252	673,028	639,789
Operating income	30,252	19,220	86,607	57,795
Other income (expense), net	(8,269)	6	(9,988)	109
Income before provision for income taxes	21,983	19,226	76,619	57,904
Provision for income taxes	5,223	5,681	25,769	20,067
Net income	\$ 16,760	\$ 13,545	\$ 50,850	\$ 37,837
Net income per share (Note 2):				
Basic	\$ .26	\$ .21	\$ .80	\$ .58
Diluted	\$ .26	\$ .21	\$ .79	\$ .57
Weighted-average common shares outstanding:				
Basic	63,567	64,616	63,528	65,022
Diluted	64,206	65,334	64,224	65,845

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

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

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net income	\$ 50,850	\$ 37,837
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,838	23,992
Stock-based compensation	5,908	6,209
Changes in operating assets and liabilities:		
Accounts receivable	440	(6,859)
Inventories, net	(11,411)	(8,564)
Prepaid expenses and other	9,025	1,272
Other assets	111	(35,591)
Accounts payable	(6,025)	7,502
Accrued expenses	(5,060)	(16,846)
Other liabilities	(2,895)	22,452

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	<b>Nine Months Ended September 30,</b>	
Net cash provided by operating activities	63,781	31,404
Cash flows from investing activities:		
Purchases of property and equipment	(11,980)	(16,883)
Proceeds from investment sales	19,135	112,775
Purchases of investments	(13,910)	(120,475)
Net cash used in investing activities	(6,755)	(24,583)
Cash flows from financing activities:		
Exercises of employee stock options	3,654	4,145
Proceeds from long-term debt		64,845
Payments of cash dividends	(20,965)	(20,470)
Payments on debt financing	(19,604)	(15,000)
Income tax benefit of options exercised	221	228
Repurchases of shares of common stock	(3,594)	(46,082)
Net cash used in financing activities	(40,288)	(12,334)
Effect of exchange rate changes on cash	(2,789)	2,184
Net increase (decrease) in cash and cash equivalents	13,949	(3,329)
Cash and cash equivalents, beginning of period	87,327	121,353
Cash and cash equivalents, end of period	\$ 101,276	\$ 118,024

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

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

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**1. THE COMPANY**

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited consolidated financial statements include the accounts of the Company and its Subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information as of September 30, 2008 and December 31, 2007, and for the three- and nine-month periods ended September 30, 2008 and 2007. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

**2. NET INCOME PER SHARE**

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented. For the three-month periods ended September 30, 2008 and 2007, other stock options totaling 5.1 million and 3.4 million, respectively, and for the nine-month periods ended September 30, 2008 and 2007, other stock options totaling 4.9 million and 3.3 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

**3. DIVIDENDS PER SHARE**

In February, May and August 2008, the Company's board of directors declared a quarterly cash dividend of \$0.11 per share for all shares of Class A common stock. These quarterly cash dividends of \$7.0 million were each paid on March 19, 2008, June 18, 2008 and September 17, 2008, respectively, to stockholders of record on February 29, 2008, May 30, 2008 and August 29, 2008, respectively. In October 2008, the Company's board of directors declared a quarterly cash dividend of \$0.11 per share for Class A common stock to be paid December 10, 2008 to stockholders of record on November 28, 2008.

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


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**4. DERIVATIVE FINANCIAL INSTRUMENTS**

At December 31, 2007, the Company did not hold any forward contracts designated as foreign currency cash flow hedges. At September 30, 2008, the Company held forward contracts to purchase 1.4 billion yen (\$13.2 million as of September 30, 2008). We applied mark to market accounting for this forward contract and the loss was not material to our results in the quarter. These forward contracts were fulfilled as of October 14, 2008.

**5. REPURCHASES OF COMMON STOCK**

During the three- and nine-month periods ended September 30, 2008, the Company repurchased approximately 93,500 shares and 213,100 shares of its Class A common stock under its open market repurchase plan for approximately \$1.6 million and \$3.6 million, respectively. During the three-month period ended September 30, 2007, the Company did not repurchase any shares of its Class A common stock under its open market repurchase plan. During the nine-month period ended September 30, 2007, the Company repurchased approximately 2,659,000 shares of its Class A common stock under its open market repurchase plan for approximately \$46.1 million.

**6. COMPREHENSIVE INCOME**

The components of comprehensive income, net of related tax, for the three- and nine-month periods ended September 30, 2008 and 2007, were as follows (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income	\$ 16,760	\$ 13,545	\$ 50,850	\$ 37,837
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(2,440)	(1,349)	(3,455)	(95)
Net unrealized gains (losses) on foreign currency cash flow hedges		(115)		(160)

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	Three Months Ended September 30,		Nine Months Ended September 30,	
Less: Reclassification adjustment for realized losses (gains) in current earnings		(8)		(263)
Comprehensive income	\$ 14,320	\$ 12,073	\$ 47,395	\$ 37,319

7. **SEGMENT INFORMATION**

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

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

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

Revenue:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
North Asia	\$ 142,759	\$ 142,590	\$ 443,218	\$ 428,542
Americas	57,294	52,482	164,963	140,270
Greater China	51,382	51,993	157,064	153,045
Europe	29,884	18,132	83,162	55,598
South Asia/Pacific	28,947	25,514	81,661	74,137
Totals	\$ 310,266	\$ 290,711	\$ 930,068	\$ 851,592

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

Revenue:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Nu Skin	\$ 159,826	\$ 123,020	\$ 457,335	\$ 359,494
Pharmanex	146,565	162,092	459,910	473,082
Big Planet	3,875	5,599	12,823	19,016
Totals	\$ 310,266	\$ 290,711	\$ 930,068	\$ 851,592

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

Revenue:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Japan	\$ 104,466	\$ 108,689	\$ 323,507	\$ 325,010

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	Three Months Ended September 30,		Nine Months Ended September 30,	
United States	48,459	47,217	141,631	125,250
South Korea	38,293	33,901	119,711	103,532
Europe	29,884	18,132	83,162	55,598
Taiwan	22,999	24,456	69,573	69,115
Mainland China	15,241	15,859	48,123	50,469

	September 30, 2008	December 31, 2007
<b>Long-lived assets:</b>		
Japan	\$ 11,148	\$ 11,907
United States	46,436	48,378
South Korea	2,246	3,391
Europe	2,797	2,638
Taiwan	2,395	3,299
Mainland China	9,982	9,908

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

**8. DEFERRED TAX ASSETS AND LIABILITIES**

The Company accounts for income taxes in accordance with SFAS 109. This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. The Company pays income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between the Company and its foreign affiliates. Deferred tax assets and liabilities are created in this process. As of September 30, 2008, the Company has net deferred tax assets of \$69.4 million. The Company has netted these deferred tax assets and deferred tax liabilities by jurisdiction.

**9. UNCERTAIN TAX POSITIONS**

In June 2006, the FASB issued FASB Interpretation Number 48 Accounting for Uncertainty in Income Taxes an Interpretation of SFAS 109 (FIN 48). The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a \$2.6 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balances of retained earnings and additional paid-in capital.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examination by tax authorities for years before 2005. In major foreign jurisdictions, the Company is no longer subject to income tax examinations for years before 2001. The Company is currently under examination in a few foreign jurisdictions; however, the final outcomes of these reviews are not yet determinable.

At December 31, 2007, the Company had \$31.9 million in unrecognized tax benefits of which \$9.1 million, if recognized, would affect the effective tax rate. The Company's unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. Due to potential increases in unrecognized tax benefits from the multiple jurisdictions in which the Company operates, as well as the expiration of various statutes of limitation, it is reasonably possible the Company's gross unrecognized tax benefits may change within the next 12 months by a range of approximately zero to \$5 million. The amount of unrecognized tax benefits did not change significantly during the nine months ended September 30, 2008.

**10. COMMITMENTS AND CONTINGENCIES**



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

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## **NU SKIN ENTERPRISES, INC.**

### **Notes to Consolidated Financial Statements**

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

In June 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognize the impact of a tax position in the Company's financial statements if that position is more likely than not to be sustained in an audit, based on the technical merits of the position. The provisions of FIN 48 became effective as of the beginning of the Company's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings.

Due to the international nature of the Company's business, the Company is subject from time to time to reviews and audits by the foreign taxing authorities of the various jurisdictions in which it conducts business throughout the world. In 1999, the Company implemented a duty valuation methodology with respect to the importation of certain products into Japan. For purposes of the import transactions at issue, the Company had taken the position that, under applicable customs law, there was a sale between the manufacturer and the Company's Japanese subsidiary, and that customs duties should be assessed on the manufacturer's invoice. The Valuation Department of the Yokohama customs authorities reviewed and approved this methodology at that time, and it had been reviewed on several occasions by the audit division of the Japan customs authorities since then. In connection with subsequent audits in 2004, the Yokohama customs authorities assessed the Company additional duties and penalties on these products imported into Japan from October 2002 to October 2004, based on a different valuation methodology than what was previously approved. With respect to the periods under audit, the customs authorities took the position that the relevant import transaction involved a sale between the Company's U.S. affiliate and its Japan subsidiary and that duties should be assessed on the value of that transaction. The Company disputed this assessment. The Company also disputed the amount of duties it was required to pay on products imported from November of 2004 to June of 2005 for similar reasons. The total amount assessed or in dispute is approximately \$25.0 million, net of any recovery of consumption taxes. Effective July 1, 2005, the Company implemented some modifications to the Company's business structure in Japan and in the United States that the Company believes will eliminate any further customs valuation disputes with respect to product imports in Japan after that time.

Because the Company believes the documentation and legal analysis supports its position and the valuation methodology it used with respect to the products in dispute had been reviewed and approved by the customs authorities in Japan, the Company believes the assessments are improper and it filed letters of protest with Yokohama customs with respect to this entire amount. Yokohama customs rejected the Company's letters of protest, and to follow proper administrative procedures the Company filed appeals with the Japan Ministry of Finance. In order to appeal, the Company was required to pay the \$25.0 million in custom duties and assessments related to all of the amounts at issue, which the Company recorded in "Other Assets" in its Consolidated Balance Sheet. On June 26, 2006, the Company was advised that the Ministry of Finance had rejected the appeals filed with their office relating

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

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## NU SKIN ENTERPRISES, INC.

### Notes to Consolidated Financial Statements

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#### 11. LONG-TERM DEBT

The Company maintains a \$25.0 million revolving credit facility that expires in May 2010. 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. As of September 30, 2008, there were no outstanding balances under this revolving credit facility.

The Company also has a \$205.0 million multi-currency private shelf facility with Prudential Investment Management, Inc. As of September 30, 2008, the Company had \$146.9 million outstanding under its shelf facility, with \$10.0 million of the U.S. dollar-denominated portion and \$4.2 million of the Japanese yen-denominated portion included in the current portion of long-term debt. Of this long-term debt, \$80.0 million is U.S. dollar denominated, bears interest of approximately 5.2% per annum and the related discount is amortized in four tranches between five and ten years. The remaining \$66.9 million as of September 30, 2008, is Japanese yen-denominated senior promissory notes in the aggregate principal amount of 7.1 billion Japanese yen. The notes bear interest of approximately 2.2% per annum, and the related discounts are amortized in three tranches between five and ten years with interest payable semi-annually.

The Company's long-term debt also 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 3.0% per annum and are due October 2010, with annual principal payments that began in October 2004. As of September 30, 2008, the outstanding balance on the notes was 4.2 billion Japanese yen, or \$39.1 million, \$13.0 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 the Company's material subsidiaries or by pledges of 65% of the outstanding stock of the Company's material foreign subsidiaries.

The following table summarizes the Company's long-term debt arrangements as of September 30, 2008:

Facility or Arrangement <sup>(1)</sup>	Original Principal Amount	Balance as of September 30, 2008 <sup>(2)</sup>	Interest Rate	Repayment terms
2000 Japanese yen denominated notes	9.7 billion yen	4.2 billion yen (\$39.1 million as of September 30, 2008)	3.0%	Notes due October 2010, with annual principal payments that began in October 2004.
2003 \$205.0 million multi-currency uncommitted shelf facility:				

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

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<b>Facility or Arrangement<sup>(1)</sup></b>	<b>Original Principal Amount</b>	<b>Balance as of September 30, 2008<sup>(2)</sup></b>	<b>Interest Rate</b>	<b>Repayment terms</b>
U.S. dollar denominated:	\$50.0 million	\$20.0 million	4.5%	Notes due April 2010 with annual principal payments that began in April 2006.
	\$40.0 million	\$40.0 million	6.2%	Notes due July 2016 with annual principal payments that begin in July 2010.
	\$20.0 million	\$20.0 million	6.2%	Notes due January 2017 with annual principal payments that begin in January 2011.
Japanese yen denominated:	3.1 billion yen	2.7 billion yen (\$25.1 million as of September 30, 2008)	1.7%	Notes due April 2014, with annual principal payments that began in April 2008.
	2.3 billion yen	2.3 billion yen (\$21.4 million as of September 30, 2008)	2.6%	Notes due September 2017, with annual principal payments that begin September 2011.
	2.2 billion yen	2.2 billion yen (\$20.4 million as of September 30, 2008)	3.3%	Notes due January 2017, with annual principal payments that begin in January 2011.
<b>2004 \$25.0 million revolving credit facility</b>	N/A	None	N/A	Credit facility expires May 2010.

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

<sup>(2)</sup> The current portion of the Company's long-term debt (i.e. becoming due in the next 12 months) is \$27.2 million and includes \$13.0 million of the balance on the Company's 2000 Japanese yen denominated notes, \$4.1 million of the balance of the Company's Japanese yen denominated debt under the 2003 multi-currency uncommitted shelf facility and \$10.0 million of the balance on the Company's U.S. dollar denominated debt under the 2003 multi-currency uncommitted shelf facility.

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

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**12. FAIR VALUE**

The Company adopted SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ), and the related FASB Staff Position FAS No. 157-2. The adoption of these pronouncements did not have a material impact on the Company's fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. On a quarterly basis, the Company measures at fair value certain financial assets, including cash equivalents and available-for-sale securities. SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;

Level 3 - unobservable inputs based on the Company's own assumptions.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2008 (U.S. dollars in millions):

	<b>Fair Value at September 30, 2008</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Auction Rate Securities	\$	\$	\$	\$
<b>Liabilities:</b>	\$	\$	\$	\$

The following table provides a summary of changes in fair value of the Company's Level 3 marketable securities (U.S. dollars in millions):

Balance at June 30, 2008:	\$	1.8
Purchases		
Sales		(1.8)
Balance at September 30, 2008:	\$	

Also effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). This standard permits companies, at their option, to choose to measure many financial instruments and certain other items at fair value. The Company has elected to not fair value existing eligible items.

**NU SKIN ENTERPRISES, INC.**  
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**13. OTHER INCOME (EXPENSE), NET**

During the third quarter of 2008, the Company recorded other expense of \$8.3 million related to significant weakening of foreign currencies against the U.S. dollar. This expense approximated \$6.7 million as a result of a large foreign currency translation loss with respect to intercompany receivables from certain international subsidiaries in the Company's markets that are newly opened or have remained in a loss position since inception. Generally, translation losses associated with these assets would be offset by gains related to the translation of yen-based bank debt. However, during the third quarter of 2008, the yen strengthened against the U.S. dollar while most foreign currencies weakened against the U.S. dollar. Other income (expense), net also includes approximately \$1.6 million in interest expense during the third quarter of 2008.

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

The following Management's Discussion and Analysis should be read in conjunction with Management's Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission (SEC) on February 29, 2008, and our other filings, including Current Reports on Form 8-K, filed with the SEC through the date of this report.

**Overview**

Revenue for the three and nine-month periods ended September 30, 2008 increased 7% and 9% to \$310.3 million and \$930.1 million compared to the same periods in 2007, respectively. Foreign currency exchange rate fluctuations positively impacted revenue by 2% and 5%, respectively, for the three and nine-month periods ended September 30, 2008. Strong growth in the United States, Canada, Latin America, Europe, South Korea and South East Asia drove our overall increase in revenue. Solid growth trends in our personal care product line, including the continued demand for the *Galvanic Spa System II* as well as the *Tru Face Essence* line, helped fuel the year-over-year improvement in these markets. Revenue results were negatively impacted by significant declines in local currency revenue in Japan and China.

Earnings per share for the third quarter and first nine months of 2008 were \$0.26 and \$0.79 compared to \$0.21 and \$0.57 for the same periods in 2007. The increase in earnings is largely due to our business transformation initiatives, which have contributed significantly to our improved operating margins, as well as the overall increase in revenue.

**Revenue**

North Asia. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2008 and 2007 for the North Asia region and its principal markets (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,			Change
	2008	2007	Change	2008	2007	Change	
Japan	\$ 104.5	\$ 108.7	(4%)	\$ 323.5	\$ 325.0		
South Korea	38.3	33.9	13%	119.7	103.5	16%	
North Asia total	\$ 142.8	\$ 142.6		\$ 443.2	\$ 428.5	3%	

Foreign currency exchange rate fluctuations positively impacted revenue in the region for the three- and nine-month periods ended September 30, 2008 by 2% and 6% compared to the same prior-year periods, as a significant strengthening of the yen offset the impact of a weakening of the South Korean won. Executive distributors in the region decreased 8% and active distributors remained level compared to the

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prior-year period.

Local currency revenue in Japan declined 12% for the three- and nine-month periods ended September 30, 2008 compared to the same periods in 2007, respectively. We continue to experience weakness in our distributor numbers and distributor activity in this market, with active and executive distributor counts decreasing 8% and 14%, respectively. We believe our business continues to be negatively affected by the increased regulatory and media scrutiny of the industry and by our increased focus on distributor compliance in response to this scrutiny and to the number of complaints to consumer centers regarding the activities of some of our distributors. During the quarter, we began to implement some new distributor initiatives that have been patterned after initiatives that have contributed to growth in our other markets in order to help generate increased distributor activity and productivity.

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South Korea continues to post solid growth with local-currency revenue increasing 29% and 26% for the three- and nine-month periods ended September 30, 2008, respectively. Successful and consistent product launches in both nutritional and personal care categories have contributed to a strong sponsoring environment for our distributors and significant growth in the number of our distributor leaders. The number of active distributors increased 26% and the number of executive distributors increased 17% in the third quarter of 2008 compared to the same prior-year period.

Americas. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2008 and 2007 for the Americas region and its principal markets (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
United States	\$ 48.4	\$ 47.2	3%	\$ 141.6	\$ 125.3	13%
Latin America	4.5	2.2	105%	11.5	6.7	72%
Canada	4.4	3.1	42%	11.8	8.3	42%
Americas total	\$ 57.3	\$ 52.5	9%	\$ 164.9	\$ 140.3	18%

Revenue in the United States for the third quarter of 2007 included approximately \$5 million in sales to foreign distributors attending our international convention in the United States. Excluding these sales, revenue for the third quarter of 2008 would have increased by approximately 15% compared to the prior-year period. We continue to experience significant growth in the United States with strong sales in the personal care brand. The revenue growth is being driven by strong interest in our *Galvanic Spa System II* as well as complementary products such as *Galvanic Spa Facial Gels*, *Tru Face Essence Ultra* and *Tru Face Line Corrector*. These products provide highly demonstrable results and are generating significant consumer interest. This interest has also driven growth in our distributors, with active distributors in the United States increasing 6% and executive distributors increasing 12% in the third quarter of 2008 compared to the same prior-year period.

Local currency revenue increased by 41% and 38% in Canada and by 98% and 68% in Latin America for the three- and nine-month periods ended September 30, 2008 over the prior-year periods, respectively. The growth in Latin America can be attributed to our opening of operations in Venezuela and strength in our Mexico market. Revenue growth in Latin America also benefited from a product price increase of approximately 15%-20% on average in the second quarter of 2008. Similar to the United States, revenue growth in Canada and Latin America is also being driven by the strong sales in our Nu Skin brand personal care products.

In the third quarter of 2008, active and executive distributors in the Americas region increased 10% compared to the same prior-year period.

Greater China. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2008 and 2007 for the Greater China region and its principal markets (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Taiwan	\$ 23.0	\$ 24.4	(6%)	\$ 69.6	\$ 69.1	1%
Mainland China	15.2	15.9	(4%)	48.1	50.5	(5%)
Hong Kong	13.2	11.7	13%	39.4	33.4	18%
Greater China total	\$ 51.4	\$ 52.0	1%	\$ 157.1	\$ 153.0	3%

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Foreign currency exchange rate fluctuations positively impacted revenue by approximately 5% and 6% in this region during the third quarter and first nine months of 2008, respectively. Active distributors decreased 15% and executive distributors increased 1% in the region.

On a local currency basis, revenue in Mainland China decreased 12% and 13% in the three- and nine- month periods ended September 30, 2008 compared to the same periods in 2007, respectively. Our revenue decline was primarily the result of a 20% decline in our preferred customers compared to the prior-year period. The number of employed sales representatives remained relatively level compared to the prior-year period. We currently have plans to introduce the *Galvanic Spa System II* to a limited number of sales leaders in China in the fourth quarter of 2008, with a general launch in the first quarter of 2009, which we expect will have a positive impact on revenue given its success in Hong Kong and other markets.

Local currency revenue in Taiwan was down 11% and 5% in the three- and nine- month periods ended September 30, 2008 compared to the same periods in 2007, respectively. We believe that the decline in Taiwan is primarily attributed to regulatory restrictions that currently prevent us from marketing the *Galvanic Spa System II* in this market and a softening of sales of our weight loss products. The third quarter executive distributor count in Taiwan was up 3%, while the number of active distributors was down 14% when compared to the prior-year period. Hong Kong local currency revenue was up 13% and 17%, for the three- and nine-month periods compared to the same prior-year periods, respectively, primarily as a result of the strength of our personal care initiatives. Executive distributors in Hong Kong were up 3% and the active distributors in Hong Kong remained level compared to the prior-year period.

Europe. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2008 and 2007 for Europe (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Europe	\$ 29.9	\$ 18.1	65%	\$ 83.2	\$ 55.6	50%

We continue to experience strong growth throughout our European markets. Growth in these markets is being driven by strong interest in the *Galvanic Spa System II* as well as momentum generated from the expansion of our business in Eastern Europe, which includes the markets of Hungary, Romania, Russia, Slovakia and Poland. In November, we plan to open the Czech Republic. We also opened operations in South Africa during the first quarter.

South Asia/Pacific. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2008 and 2007 for the South Asia/Pacific region and its principal markets (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Singapore/Malaysia/Brunei	\$ 12.1	\$ 9.9	22%	\$ 33.4	\$ 28.6	17%
Thailand	9.0	8.1	11%	25.9	23.0	13%
Australia/New Zealand	3.5	4.1	(15%)	10.4	12.3	(15%)
Indonesia	2.4	2.2	9%	6.9	6.6	5%
Philippines	1.9	1.2	58%	5.1	3.6	42%
South Asia/Pacific total	\$ 28.9	\$ 25.5	13%	\$ 81.7	\$ 74.1	10%

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Foreign currency exchange rate fluctuations positively impacted revenue in South Asia/Pacific by 1% and 5% in the third quarter and first nine months of 2008 compared to the same prior-year periods. Steady performances in the majority of our markets within this region contributed to the growth, driven primarily by strong sales of the *Galvanic Spa System II*. The growth in these markets was partially offset by a decline in Australia/New Zealand that is largely related to a transition away from *Photomax*, which has not proven to be a strong, long-term business initiative for our distributors. Active and executive distributors in the region increased 2% and 7%, respectively, in the third quarter compared to the same prior-year period.

**Gross profit**

Gross profit as a percentage of revenue decreased to 81.7% for the three- and nine- month periods ended September 30, 2008 from 82.0% and 81.9% for the same periods in 2007. This decline is due in large part to the revenue shift from Japan, which has higher gross margins, to markets such as the United States, with slightly lower gross margins. Additionally, the increase in sales of the *Galvanic Spa System II*, which has a slightly lower gross margin than our other personal care products, contributed to this decrease.

**Selling expenses**

Selling expenses as a percentage of revenue decreased to 42.6% and 42.7% for the three- and nine-month periods ended September 30, 2008 from 43.1% and 42.9% from the same prior-year periods, respectively. This improvement is largely related to the phase-in of compensation plan adjustments in several markets.

**General and administrative expenses**

General and administrative expenses as a percentage of revenue for the three- and nine-month periods ended September 30, 2008 decreased to 29.3% and 29.7% from 32.3% for each of the same periods in 2007. Our business transformation efforts have contributed to this improvement as we have been able to contain our costs while growing our revenue. In addition, we incurred approximately \$6 million in expenses related to our international convention in the third quarter of 2007, but did not have any convention or related expenses in the third quarter of 2008.

**Other income (expense), net**

Other income (expense), net for the three- and nine-month periods ended September 30, 2008 was approximately (\$8.3) million and (\$10.0) million compared to zero and \$0.1 million for the same periods in 2007. The large expense in 2008 is primarily related to significant weakening of foreign currencies against the U.S. dollar, which resulted in a large foreign currency translation loss with respect to intercompany receivables from certain international subsidiaries in markets that are newly opened or have remained in a loss position since inception. Generally, translation losses associated with these assets would be offset by gains related to the translation of yen-based bank debt. However, during the quarter the yen strengthened against the U.S. dollar while most other foreign currencies weakened against the U.S. dollar. Consequently, we did not have the benefit of an offsetting gain. Other income (expense), net also includes approximately \$1.6 million and \$4.2 million in interest expense for the three- and nine- month periods ended September 30, 2008.

**Provision for income taxes**

Provision for income taxes for the three- and nine-month periods ended September 30, 2008 was \$5.2 million and \$25.8 million of expense compared to \$5.7 million and \$20.1 million of expense for the same periods in 2007. The effective tax rate was 23.8% and 33.6% of pre-tax income during the three- and nine-month periods ended September 30, 2008, compared to a rate of 29.6% and 34.7% in the same prior-year periods. The decrease in tax rates in the third quarter from our historical rate of approximately 37-38% was due primarily to the expiration of the statute of limitations in certain tax jurisdictions during the quarter. We expect our tax rate to return in the fourth quarter to its historical rate of between 37.5% and 38.0%.

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**Net income**

Net income for the three- and nine-month periods ended September 30, 2008 increased to \$16.8 million and \$50.9 million compared to \$13.5 million and \$37.8 million for the same prior-year periods based on the factors described above.



## Liquidity and Capital Resources

Historically, our principal uses of cash have included operating expenses, particularly selling expenses, and working capital (principally inventory purchases), as well as capital expenditures, stock repurchases, dividends, debt repayment and the development of operations in new markets. We have generally relied on cash flow from operations to fund operating activities, and we have at times incurred long-term debt in order to fund strategic transactions and stock repurchases.

We typically generate positive cash flow from operations due to favorable gross margins and the variable nature of selling expenses, which constitute a significant percentage of operating expenses. We generated \$63.8 million in cash from operations during the first nine months of 2008, compared to \$31.4 million during the same period in 2007. This increase in cash generated from operations is due primarily to increased profitability in 2008 and is also impacted by the timing of cash payments related to fluctuations in operating assets and liabilities.

As of September 30, 2008, working capital was \$124.5 million, compared to \$123.2 million as of December 31, 2007. Cash and cash equivalents, including current investments, at September 30, 2008 and December 31, 2007 were \$101.3 million and \$92.6 million, respectively.

Capital expenditures in the first nine months of 2008 totaled \$12.0 million, and we anticipate capital expenditures of approximately \$20 million for 2008. These capital expenditures are primarily related to:

- purchases of computer systems and software, including equipment and development costs; and
- the build-out and upgrade of leasehold improvements in our various markets, including retail stores in China.

We currently have long-term debt pursuant to various credit facilities and other borrowings. The following table summarizes these long-term debt arrangements as of September 30, 2008:

Facility or Arrangement <sup>(1)</sup>	Original Principal Amount	Balance as of September 30, 2008 <sup>(2)</sup>	Interest Rate	Repayment terms
2000 Japanese yen denominated notes	9.7 billion yen	4.2 billion yen (\$39.1 million as of September 30, 2008)	3.0%	Notes due October 2010, with annual principal payments that began in October 2004.
2003 \$205.0 million multi-currency uncommitted shelf facility:				

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Facility or Arrangement <sup>(1)</sup>	Original Principal Amount	Balance as of September 30, 2008 <sup>(2)</sup>	Interest Rate	Repayment terms
U.S. dollar denominated:	\$50.0 million	\$20.0 million	4.5%	Notes due April 2010 with annual principal payments that began in April 2006.
	\$40.0 million	\$40.0 million	6.2%	Notes due July 2016 with annual principal payments that began in July 2010.

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<b>Facility or Arrangement<sup>(1)</sup></b>	<b>Original Principal Amount</b>	<b>Balance as of September 30, 2008<sup>(2)</sup></b>	<b>Interest Rate</b>	<b>Repayment terms</b>
	\$20.0 million	\$20.0 million	6.2%	Notes due January 2017 with annual principal payments that begin in January 2011.
Japanese yen denominated:	3.1 billion yen	2.7 billion yen (\$25.1 million as of September 30, 2008)	1.7%	Notes due April 2014, with annual principal payments that began in April 2008.
	2.3 billion yen	2.3 billion yen (\$21.4 million as of September 30, 2008)	2.6%	Notes due September 2017, with annual principal payments that begin September 2011.
	2.2 billion yen	2.2 billion yen (\$20.4 million as of September 30, 2008)	3.3%	Notes due January 2017, with annual principal payments that begin in January 2011.
<b>2004 \$25.0 million revolving credit facility</b>	N/A	None	N/A	Credit facility expires May 2010.

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

(2) The current portion of the Company's long-term debt (i.e. becoming due in the next 12 months) is \$27.2 million and includes \$13.0 million of the balance on the Company's 2000 Japanese yen denominated notes, \$4.1 million of the balance of the Company's Japanese yen denominated debt under the 2003 multi-currency uncommitted shelf facility and \$10.0 million of the balance on the Company's U.S. dollar denominated debt under the 2003 multi-currency uncommitted shelf facility.

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Our board of directors has approved a stock repurchase program authorizing us to repurchase our outstanding shares of Class A common stock on the open market or in private transactions. The repurchases are used primarily to offset dilution from our equity incentive plans and for strategic initiatives. During the first nine months of 2008, we repurchased approximately 213,100 shares of Class A common stock under this program for an aggregate amount of approximately \$3.6 million. At September 30, 2008, approximately \$84.0 million was available for repurchases under the stock repurchase program.

In February, May and August 2008, our board of directors declared a quarterly cash dividend of \$0.11 per share for Class A common stock. These quarterly cash dividends of \$7.0 million were each paid on March 19, 2008, June 18, 2008 and September 17, 2008, to stockholders of record on February 29, 2008, May 30, 2008 and August 29, 2008. Our board of directors declared a quarterly cash dividend of \$0.11 per share for Class A common stock to be paid December 10, 2008 to stockholders of record on November 28, 2008. Currently, we anticipate that our board of directors will continue to declare quarterly cash dividends and that the cash flows from operations will be sufficient to fund our future dividend payments. However, the continued declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors.

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

Due to the international nature of our business, we are subject from time to time to reviews and audits by the foreign taxing authorities of the various jurisdictions in which we conduct business throughout the world. In 1999, we implemented a duty valuation methodology with respect to the importation of certain products into Japan. For purposes of the import transactions at issue, we had taken the position that, under applicable customs law, there was a sale between the manufacturer and our Japan subsidiary, and that customs duties should be assessed on the manufacturer's invoice. The Valuation Department of the Yokohama customs authorities reviewed and approved this methodology at that time, and it had been reviewed on several occasions by the audit division of the Japan customs authorities since then. In connection with subsequent audits in 2004, the Yokohama customs authorities assessed us additional duties and penalties on these products imported into Japan from October 2002 to October 2004, based on a different valuation methodology than what was previously approved. With respect to the periods under audit, the customs authorities took the position that the relevant import transaction involved a sale between our U.S. affiliate and our Japan subsidiary, rather than a sale between the manufacturer and our Japan subsidiary, and that duties should be assessed on the value of that transaction. We disputed this assessment. We also disputed the amount of duties we were required to pay on products imported from November of 2004 to June of 2005 for similar reasons. The total amount assessed or in dispute is approximately \$25.0 million, net of any recovery of consumption taxes. Effective July 1, 2005, we implemented some modifications to our business structure in Japan and in the United States that we believe will eliminate any further customs valuation disputes on these issues with respect to product imports in Japan after that time.

Because we believe the documentation and legal analysis supports our position and the valuation methodology we used with respect to the products in dispute had been reviewed and approved by the customs authorities in Japan, we believe the assessments are improper and we filed letters of protest with Yokohama customs with respect to this entire amount. Yokohama customs rejected our letters of protest, and we filed appeals with the Japan Ministry of Finance. In order to appeal, we were required to pay the \$25.0 million in customs duties and assessments related to all of the amounts at issue, which we recorded in Other Assets in our Consolidated Balance Sheet. On June 26, 2006, we were advised that the Ministry of Finance had rejected the appeals filed with their office relating to the imports from October 2002 to October 2004. On December 22, 2006, we filed a complaint with the Tokyo District Court Civil Action Section to appeal the decision with respect to this period. In January 2007, we were advised that the Ministry of Finance also rejected our appeal for the imports from November 2004 to June 2005. We appealed this decision with the court system in Japan in July 2007. Currently, all appeals are pending with the Tokyo District Court Civil Action Section. One of the findings cited by the Ministry of Finance in its decisions was that we had treated the transactions as sales between our U.S. affiliate and our Japan subsidiary on our corporate income tax return under applicable income tax and transfer pricing laws. To the extent that we are unsuccessful in recovering the amounts assessed and paid, we will be required to take a corresponding charge to our earnings.

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### Critical Accounting Policies

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

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

**Income Taxes.** We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. We pay income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany

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transactions among our affiliates around the world. Deferred tax assets and liabilities are created in this process. As of September 30, 2008, we had net deferred tax assets of \$69.4 million. These net deferred tax assets assume sufficient future earnings will exist for their realization, as well as the continued application of current tax rates. In certain foreign jurisdictions valuation allowances have been recorded against the deferred tax assets specifically related to use of net operating losses. When we determine that there is sufficient taxable income to utilize the net operating losses, the valuation allowances will be released. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination was made.

In June 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of SFAS 109* ( FIN 48 ). We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized a \$2.6 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balances of retained earnings and additional paid in capital.

We file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With a few exceptions, we are no longer subject to U.S. federal, state and local income tax examination by tax authorities for years before 2005. In major foreign jurisdictions, we are no longer subject to income tax examinations for years before 2001. We are currently under examination in certain foreign jurisdictions; however, the final outcomes of these reviews are not yet determinable.

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At December 31, 2007, we had \$31.9 million in unrecognized tax benefits of which \$9.1 million, if recognized, would affect the effective tax rate. Our unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. Due to potential increases in unrecognized tax benefits from the multiple jurisdictions in which we operate, as well as the expiration of various statutes of limitation, it is reasonably possible that our gross unrecognized tax benefits may change within the next 12 months by a range of approximately zero to \$5 million. The amount of unrecognized tax benefits did not change significantly during the three months ended September 30, 2008.

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

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

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

**Stock-Based Compensation.** Effective January 1, 2006, we adopted the fair value recognition provisions of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123R ), using the modified prospective transition method. Under this method we recognize compensation expense for all share-based payments granted after January 1, 2006 and prior to but not yet vested as of January 1, 2006, in accordance with SFAS 123R. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation net of any estimated forfeitures on a straight-line basis over the requisite service period of the award. The fair value of our stock-based compensation expense is based on estimates using the Black-Scholes option-pricing model. This option-pricing model requires the input of highly subjective assumptions including the option's expected life, risk-free interest rate, expected dividends and price volatility of the underlying stock. The stock price volatility assumption was determined using the historical volatility of our common stock.

## Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position 157-2, *Effective Date of FASB Statement No. 158*, which delays the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to non-recurring, nonfinancial assets and liabilities. The adoption of SFAS 157 did not have a material impact on our consolidated financial statements. See Note 12, Fair Value, for additional information.

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In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). Under SFAS 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 159 for fiscal 2008; however, we did not elect to apply the fair value option to any financial instruments or other items upon adoption of SFAS 159 or during the three months ended September 30, 2008. Therefore, the adoption of SFAS 159 did not impact our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, ( SFAS 141R ), which changes how business combinations are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 141R is effective January 1, 2009, and will be applied prospectively. The impact of adopting SFAS 141R will depend on the nature and terms of future acquisitions.

In June 2007, the FASB's Emerging Issues Task Force reached a consensus on EITF No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*, that would require nonrefundable advance payments made by us for future research and development activities to be capitalized and recognized as an expense as the goods or services are received by us. EITF Issue No. 07-3 is effective with respect to new arrangements entered into beginning January 1, 2008. We have implemented this standard and it did not have a material impact on our consolidated results of operations or financial condition.

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ( SFAS 160 ), which changes the accounting and reporting standards for the noncontrolling interests in a subsidiary in consolidated financial statements. SFAS 160 recharacterizes minority interests as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders equity. SFAS 160 is effective January 1, 2009 and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We are currently evaluating the impact of SFAS 160 on our consolidated financial statements, but would not expect SFAS 160 to have a material impact on our consolidated results of operations or financial condition.

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

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In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ). This Standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 directs the hierarchy to the entity, rather than the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with generally accepted accounting principles. The Standard is effective 60 days following SEC approval of the Public Company Accounting Oversight Board amendments to remove the hierarchy of generally accepted accounting principles from the auditing standards. SFAS 162 is not expected to have an impact on our financial condition, results of operations or cash flows.

### Seasonality and Cyclicity

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

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

### Distributor Information

The following table provides information concerning the number of active and executive distributors as of the dates indicated. In the third quarter of 2008, global active and executive distributors each increased 2% compared to the same prior-year period. Active distributors are those distributors and preferred customers who purchased products for resale or personal consumption directly from us during the three months ended as of the date indicated. Executive distributors are active distributors who have achieved required monthly personal and group sales volumes as well as sales representatives in China who have completed a qualification process.

Region:	As of September 30, 2008		As of September 30, 2007	
	Active	Executive	Active	Executive
North Asia	323,000	13,453	324,000	14,621
Americas	171,000	4,934	155,000	4,469
Greater China	123,000	6,338	144,000	6,249
Europe	76,000	2,827	54,000	1,830
South Asia/Pacific	68,000	2,338	67,000	2,177
Total	761,000	29,890	744,000	29,346

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### Currency Risk and Exchange Rate Information

A majority of our revenue and many of our expenses are recognized outside of the United States, except for inventory purchases, which are primarily transacted in U.S. dollars from vendors in the United States. The local currency of each of our Subsidiaries primary markets is considered the functional currency. All revenue and expenses are translated at weighted-average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Given the large portion of our business derived from Japan, any weakening of the yen negatively impacts reported revenue and profits, whereas a strengthening of the yen positively impacts our reported revenue and profits. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing and results of operation or

financial condition.

We may seek to reduce our exposure to fluctuations in foreign currency exchange rates through the use of foreign currency exchange contracts, through intercompany loans of foreign currency and through our Japanese yen-denominated debt. We do not use derivative financial instruments for trading or speculative purposes. We regularly monitor our foreign currency risks and periodically take measures to reduce the impact of foreign exchange fluctuations on our operating results. At December 31, 2007, we did not hold any forward contracts designated as foreign currency cash flow hedges. At September 30, 2008, we held forward contracts to purchase 1.4 billion yen (\$13.2 million as of September 30, 2008). We applied mark to market accounting for this forward contract and the loss was not material to our results in the quarter. These forward contracts were fulfilled as of October 14, 2008.

#### **Note Regarding Forward-Looking Statements**

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

our plans to launch or to continue to roll out certain products, tools and other initiatives in our various markets, and our belief that these initiatives and other recent product launches and initiatives will positively impact our business going forward;

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

our plan to open the Czech Republic as a new market in November 2008;

our expectations regarding the timing and impact of the launch of the Galvanic Spa System II in the Mainland China market;

our belief that we have sufficient liquidity to be able to meet our obligations on both a short- and long-term basis and that existing cash balances together with future cash flows from operations and existing lines of credit will be adequate to fund our cash needs;

our belief that our expenses are variable in nature and that a potential reduction in the level of revenue would reduce our cash flow needs;

our belief that it is reasonably possible that our gross unrecognized tax benefits may change within the next 12 months by a range of approximately zero to \$5 million;

our belief that the \$25 million in customs assessments by the Yokohama customs authorities are improper and that the documentation and legal analysis support our position;

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

our expectation that our tax rate will return in the fourth quarter to its historical rate of between 37.5% and 38.0%;

our anticipation that capital expenditures will be approximately \$20 million for 2008; and

our expectations regarding the implementation of certain accounting pronouncements.

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

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

(a) Deteriorating economic conditions globally, including the current financial crisis, rising unemployment and declining consumer confidence may not improve or may worsen. Although such economic conditions may benefit our business initially as more individuals may become interested in supplementing their income, a more severe or a prolonged economic downturn can adversely impact our business by causing a decline in demand for our products. In addition, such economic conditions may adversely impact access to capital for us and our suppliers, may decrease our distributors' ability to obtain or maintain credit cards, and may otherwise adversely impact our operations and overall financial condition. Although we have historically met our funding needs utilizing cash flow from operations and while we believe we will have sufficient resources to meet current debt service obligations in a timely manner, no assurances can be given that we will not need to obtain additional equity or debt financing and that such financing will be available to us on terms that are favorable.

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

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

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

any weakening of the Japanese yen;

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

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

inappropriate activities by our distributors and any resulting regulatory actions;

any weakness in the economy or consumer confidence; and

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

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



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

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

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

(h) Distributor activities that violate applicable laws or regulations could result in government or third party actions against us. We have experienced an increase in complaints to consumer protection agencies in Japan and have taken steps to try to resolve these issues including providing additional training and restructuring our compliance group in Japan. We have also been in contact with general consumer agencies in Japan regarding some inappropriate activities by some distributors. If consumer complaints escalate to a government review or, if the current level of complaints does not improve, regulators could take action against us.

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

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

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

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

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

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of disclosure controls and procedures.**

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, our disclosure controls and procedures were effective as of September 30, 2008.

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

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

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## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Please refer to our recent SEC filings, including our Annual Report on Form 10-K for the 2007 fiscal year and subsequent Quarterly Reports on Form 10-Q for information regarding the status of certain legal proceedings that have been previously disclosed.

As previously reported, Bodywise International, LLC, a direct sales company headquartered in Tustin, California, filed claims in the Superior Court of the State of California for Orange County, against us and several Nu Skin distributors who had formerly been distributors for Bodywise as defendants. In July 2008, the parties resolved the matter by entering into a settlement agreement that included a release of all claims against us and our distributors. Pursuant to the terms of the settlement, this case was dismissed on July 23, 2008. The amount of the settlement was not material to our results.

### **ITEM 1A. RISK FACTORS**

Our 2007 Annual Report on Form 10-K includes a detailed discussion of our risk factors. The information presented below updates one of these risk factors and should be read in conjunction with the risk factors and information disclosed in that Form 10-K and in subsequent Quarterly Reports on Form 10-Q.

#### **Deteriorating economic conditions globally, including the current financial crisis, rising unemployment and declining consumer confidence may not improve or may worsen.**

Deteriorating economic conditions globally, including the current financial crisis, rising unemployment and declining consumer confidence may not improve or may worsen. Although such economic conditions may benefit our business initially as more individuals may become interested in supplementing their income, a more severe or a prolonged economic downturn can adversely impact our business by causing a decline in demand for our products. In addition, such economic conditions may adversely impact access to capital for us and our suppliers, may

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decrease our distributors' ability to obtain or maintain credit cards, and may otherwise adversely impact our operations and overall financial condition. Although we have historically met our funding needs utilizing cash flow from operations and while we believe we will have sufficient resources to meet current debt service obligations in a timely manner, no assurances can be given that we will not need to obtain additional equity or debt financing and that such financing will be available to us on terms that are favorable.

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

#### Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) <sup>(1)</sup>
July 1 - 31, 2008				\$ 87.6
August 1 - 31, 2008				87.6
September 1 - 30, 2008	93,500	\$ 16.86	93,500	86.1
Total	93,500			

<sup>(1)</sup> In August 1998, our board of directors approved a plan to repurchase \$10.0 million of our Class A common stock on the open market or in private transactions. Our board has from time to time increased the amount authorized under the plan and a total amount of \$335.0 million is currently authorized. As of September 30, 2008, we had repurchased approximately \$248.9 million of shares under the plan. There has been no termination or expiration of the plan since the initial date of approval.

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### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

### ITEM 5. OTHER INFORMATION

On November 7, 2008, we executed an amendment of a lease with Scrub Oak, LLC, an entity owned by the following executive officers, directors and 5% or greater stockholders, and their family members: Blake M. Roney, Sandra N. Tillotson and Steven J. Lund. The purpose of the amendment was to extend the term of the lease with respect to certain warehouse facilities for three years with an option to extend the lease an additional five years. Payments under the lease and the option are as follows:

Lease:

Months	Monthly Base Rent
1-12	\$ 9,000.00
13-24	9,270.00

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Months	Monthly Base Rent
25-36	9,548.10

Option:

Months	Monthly Base Rent
37-48	\$ 9,834.54
49-60	10,129.58
61-72	10,433.47
73-84	10,746.47
85-96	11,068.86

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**ITEM 6. EXHIBITS**

**Exhibits  
Regulation  
S-K  
Number**

**Description**

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

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**SIGNATURE**

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

**NU SKIN ENTERPRISES, INC.**

November 7, 2008

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

SIGNATURE

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