UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission file number: 001-12421

NU SKIN ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**87-0565309**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

75 West Center Street
Provo, UT 84601
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (801) 345-1000

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☒ No ☐

Based on the closing sales price of the Class A common stock on the New York Stock Exchange on June 30, 2006, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $828 million. All executive officers and directors of the Registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the Registrant.

As of February 15, 2007, 65,878,613 shares of the Registrant's Class A common stock, $.001 par value per share, and no shares of the Registrant's Class B common stock, $.001 par value per share, or preferred stock were outstanding.

Documents incorporated by reference. Portions of the Registrant's definitive Proxy Statement for the Registrant's 2007 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the Registrant's fiscal year end are incorporated by reference in Part III of this report.

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FORWARD-LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K, IN PARTICULAR "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," AND "ITEM 1. BUSINESS," INCLUDE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE STATEMENTS REPRESENT OUR EXPECTATIONS OR BELIEFS CONCERNING, AMONG OTHER THINGS, FUTURE REVENUE, EARNINGS, GROWTH STRATEGIES, NEW PRODUCTS AND INITIATIVES, FUTURE OPERATIONS AND OPERATING RESULTS, AND FUTURE BUSINESS AND MARKET OPPORTUNITIES. WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENT, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE. WE WISH TO CAUTION AND ADVISE READERS THAT THESE STATEMENTS INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE EXPECTATIONS AND BELIEFS CONTAINED HEREIN. FOR A SUMMARY OF CERTAIN RISKS RELATED TO OUR BUSINESS, SEE "ITEM 1A – RISK FACTORS" BEGINNING ON PAGE 22.

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

PART I

ITEM 1. BUSINESS

Overview

Nu Skin Enterprises is a leading, global direct selling company with operations in 45 countries throughout Asia, the Americas and Europe. We develop and distribute premium quality, innovative personal care products and nutritional supplements sold worldwide under the Nu Skin and Pharmanex brands. We also market technology-related products and services under the Big Planet brand. We operate using a direct selling model in all of our markets with the exception of Mainland China (hereinafter "China"). In China, we implemented a retail business model with employed sales representatives because of regulatory restrictions on direct selling. However, we are in the process of integrating direct selling into our business model in this market pursuant to recently enacted direct selling regulations.

We are a leading direct selling company posting 2006 revenue of $1.12 billion. As of December 31, 2006, we had a global network of approximately 761,000 active independent distributors, sales representatives, and preferred customers, approximately 30,000 of whom were executive level distributors or full-time sales representatives. Our executive level distributors and full-time sales representatives play an important leadership role in our distribution network and are critical to the growth and profitability of our business.

We recognized approximately 87% of our revenue in markets outside the United States in 2006. Our Japanese operations accounted for approximately 43% of our 2006 total revenue. This market's contribution to our overall revenue, as a percentage of revenue, is lower when compared to prior years because of growth in other markets and general business softness in Japan the past few years. Due to the size of our foreign operations, our results can be, and often are, impacted positively or negatively by foreign currency fluctuations, particularly in Japan and other Asian markets, as well as economic, political and business conditions around the world.

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

Our business is subject to various laws and regulations throughout the world, in particular with respect to network marketing activities and nutritional supplements. This creates certain risks for our business, including regulation regarding improper activities by our distributors or any inability to obtain necessary product registrations.

Key to our future success is revenue growth within our markets, particularly those that are new and developing. During the past year, we expanded operations into three new markets including Russia, Romania and Costa Rica. To achieve our desired growth in both new and mature markets, we are focusing on three key strategies, which include:

- introduction of unique tools and initiatives to motivate distributors;
- development of compelling and innovative products; and
- recruitment and retention of distributor leaders.

We remain committed to providing our distributors with unique tools and initiatives that motivate distributors and aid in their recruitment efforts. These tools reflect our focus on delivering a product offering with a "Measurable Difference." During 2006, we continued to expand the use of the Pharmanex® BioPhotonic Scanner (the "Scanner") on a global basis. The Scanner is based on patented technologies that allow distributors to non-invasively measure the impact of our nutritional products. Additionally, we recently launched the first generation Nu Skin® ProDerm™ Skin Analyzer (the "ProDerm Skin Analyzer"), a handheld skin imaging and analysis tool that enables distributors to demonstrate the efficacy of our skin care products by providing a visual assessment of important skin characteristics.

Compelling and innovative products and initiatives are vital to our company's success as they are used as motivation for our distributors and help make them more effective in building successful sales organizations. Our product philosophy is largely based on combating anti-aging and we believe we have a competitive advantage in this area. Products that we have launched or reformulated during the last few years which had a significant impact on 2006 revenue include:

- *LifePak*, a family of anti-aging nutritional supplement products aimed at providing optimal levels of antioxidants, phytonutrients, vitamins, minerals and other vital nutrients that help promote general wellness;
- *g3*, a nutrient-rich juice blend containing a highly concentrated mix of carotenoid antioxidants and micronutrients with a natural delivery system called Lipocarotenes®;

- *Nu Skin 180°* Anti-aging Skin Therapy System, designed to combat the signs of aging, specifically targeting facial lines and wrinkles; and
- *Tru Face Essence*, an anti-aging product featuring the ingredient Ethocyn which helps to minimize the loss of skin elastin.

In addition, we have continued to expand and promote product subscription and loyalty programs in many of our markets that provide incentives for customers to commit to purchase a set amount of products on a monthly basis. We believe that these programs, along with a concerted focus on global compensation plan alignment and an increased level of distributor recognition, goal setting and accountability have helped improve customer retention in many of our markets.

Our Product Categories

We have three product categories, each operating under its own brand. We market our premium-quality personal care products under the Nu Skin brand, science-based nutritional supplements under the Pharmanex brand and technology-based products and services under the Big Planet and Photomax brands.

Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of Nu Skin, Pharmanex and Big Planet products and services for the years ended December 31, 2004, 2005 and 2006. This table should be read in conjunction with the information presented in "Management's Discussion and Analysis of Financial Condition and Results of Operation," which discusses the costs associated with generating the aggregate revenue presented.

Revenue by Product Category
(U.S. dollars in millions)[(1)]

Product Category	Year Ended December 31, 2004		2005		2006	
Nu Skin	$ 548.1	48.2%	$ 484.3	41.0%	$ 454.5	40.8%
Pharmanex	567.2	49.8	667.6	56.5	632.7	56.7
Big Planet	22.6	2.0	29.0	2.5	28.2	2.5
	$ 1,137.9	100.0%	$ 1,180.9	100.0%	$ 1,115.4	100.0%

(1) In 2006, 87% of our sales were transacted in foreign currencies that were converted to U.S. dollars for financial reporting purposes at weighted-average exchange rates. Foreign currency fluctuations negatively impacted reported revenue by approximately 1% in 2006 compared to 2005, and positively impacted reported revenue by approximately 1% in 2005 compared to 2004.

***Nu Skin*.** Nu Skin is our original product line and offers premium-quality personal care products in the areas of core daily systems, customized solutions, total care, Epoch and skin complements. Our strategy is to leverage our network marketing distribution model to establish Nu Skin as an innovative leader in the personal care market. We are committed to continuously improving and evolving our product formulations to incorporate innovative and proven ingredients.

In addition to marketing premium-quality personal care products, we are committed to developing tools to help distributors market our products more effectively. In the second quarter of 2006, we introduced the ProDerm Skin Analyzer, a portable proprietary skin analysis tool that allows users to receive a personalized analysis on four different skin attributes, including wrinkles, pore size, skin texture and discoloration. This tool enables distributors to demonstrate the effectiveness of our skin care products by providing close up skin images. We have launched this tool in the United States and Europe only. An enhanced second-generation model is planned to be introduced at our upcoming September 2007 global distributor convention and is currently being evaluated for launch in our global markets. The new version will have improved optics, a larger image area, sharper focus and improved electronics.

Our leading product categories in the Nu Skin division are core daily systems, customized solutions and total care. The following table summarizes most products included in the current Nu Skin product line by category:

Category	Description	Selected Products
Core Daily Systems	Regardless of skin type, our core daily systems provide a solid foundation for your skin's individual needs. Our systems are developed to target specific skin concerns and are made from ingredients scientifically proven to provide visible results for concerns ranging from aging to acne.	*Nu Skin 180° Anti-Aging Skin Therapy System* *Nu Skin Tri-Phasic White* *Nutricentials* *Nu Skin Clear Action Acne Medication System*
Customized Solutions	Our customized skin care line focus allows a customer to tailor product regimens that help deliver younger looking skin at any age. The products are developed using cutting-edge ingredient technologies that target specific skin care needs.	*Tru Face Line Corrector* *Tru Face Revealing Gel* *Tru Face Essence* *Nu Skin Galvanic Spa System II* *Enhancer* *Celltrex Ultra Recovery Fluid* *Celltrex CoQ10 Complete* *Perennial Intense Body Moisturizer*
Total Care	Our total care line addresses balance. The total care line can be used by families and the products are designed to deliver superior benefits from head to toe for the ultimate sense of total body wellness.	*Body Bar* *Liquid Body Lufra* *Dividends Men's Line* *AP-24 Dental Care* *DailyKind Mild Shampoo*
EPOCH	Our Epoch line is distinguished by utilizing the traditional knowledge of indigenous cultures for skin care. Each Epoch product is formulated with botanical ingredients derived from renewable resources found in nature. In addition, we contribute a percentage of our proceeds from Epoch sales to charitable causes.	*Sole Solution Foot Treatment* *Calming Touch Soothing Skin Cream* *Firewalker Relaxing Foot Cream* *Glacial Marine Mud* *IceDancer Invigorating Leg Gel* *Everglide Foaming Shave Gel* *Ava puhi moni Shampoo* *Epoch Baby*

Category	Description	Selected Products
Scion	Available in certain markets, *Scion* is a line of personal care products that provides value-oriented solutions to meet basic grooming needs with quality ingredients.	*Scion Toothpaste* *Scion Two-In-One Shampoo* *Scion Hand and Body Wash* *Scion Moisturizing Body Lotion*
Skin Complements	Our skin complement line includes products that support our skin care offerings through a variety of premium-quality cosmetics.	*Nu Colour Cosmetics* *Concealer* *Bronzing Pearls* *Replenishing Lipstick* *Eye Makeup Remover*

***Pharmanex*.** We market a variety of nutritional products comprised of comprehensive micronutrient supplements, targeted nutritional supplements, weight management supplements and certain specialty products under the Pharmanex brand. *LifePak*, our flagship line of micronutrient and phytonutrient supplements, accounted for 25% of our total revenue and 40% of Pharmanex revenue in 2006.

Direct selling has proven to be an extremely effective method of marketing our high-quality nutritional supplements because our distributors can personally educate consumers on the quality and benefits of our products, differentiating them from competitors' offerings. Our strategy for expanding the nutritional supplement business is to introduce innovative, substantiated products based on extensive research and development and quality manufacturing. Our product development efforts focus in the areas of anti-aging, weight management and general nutrition.

In line with our commitment to provide distributors with tools that will help them market our products more effectively, we introduced the BioPhotonic Scanner in 2003 and have since introduced it to nearly all of our global markets. At our global convention held in the United States in October 2005, we unveiled the second-generation model of the Scanner (the "S2 Scanner"), which is smaller, more portable and faster than its predecessor in terms of both scan and calibration time. We have now launched the S2 throughout the world and this tool has become a powerful tool in the hands of our distributors. In 2006 we acquired the exclusive rights to use the Scanner technology in medical settings, and as a result, we own the rights to use the Scanner within all environments worldwide where allowed by legal and regulatory requirements.

The following table summarizes the current Pharmanex product lines by category:

Category	Description	Selected Products
LifePak* and *g3	Our LifePak family of products along with our *g3* superfruit juice drink are the basis for general health and wellness. These products supply a complete balance of nutrients that our bodies need to meet the demands of everyday living.	*LifePak* Family of Products *g3* juice
Solutions	Our self-care dietary supplements contain standardized levels of botanical and other active ingredients that are designed to provide consumers with targeted wellness benefits.	*Tegreen 97* *ReishiMax GLp* *MarineOmega* *Cholestin* *CordyMax Cs-4* *Cortitrol* *BioGingko 27/7*

		IgG Boost *Estera Women*
Weight Management	Our *TRA* ephedra-free line of weight management products was created to capitalize on the growing weight management category. *TRA* supplements complement any diet program including many that are currently on the market.	*OverDrive* *FibreNet* *TRA*

Big Planet and Photomax. We offer high-technology products and services centered around two product categories under the Big Planet and Photomax brands: digital imaging and business tools. Our strategy is to provide innovative products designed specifically for a non-technical audience.

Our current development focus centers around the digital photography market. In 2005, we introduced a Web-based digital photo service called Photomax, available on the web at *Photomax.com*, which makes it easy for consumers to view, organize and share digital pictures online. We also offer *Photo Saver CD, Movie Magic DVD, and Picture Show DVD*, which are digital imaging services in which we convert traditional photographs and slides into digital format, and store them on a CD and transform digital photos into personalized movies or slide shows. In 2006 we introduced *Maxcast*, an online tool whereby users can preserve, enjoy and more importantly share personal videos. Using the Maxcast software, users can upload videos to the internet, modify, edit and share them with family, friends or business associates. Maxcast is operational in select markets including the United States, Europe and parts of South East Asia/Pacific.

Our Big Planet business tools, products and services are designed to help distributors increase their productivity by leveraging technology in the management of their direct selling activities. By providing an assortment of business tools, distributors can better manage and communicate with their sales force and potential customers.

The following table summarizes the current Big Planet product lines by category:

Category	Description	Selected Products
Digital Imaging	A line of online digital photography and video services designed for non-technical consumers.	*Picture Show DVD* *Movie Magic DVD* *Photo Saver CD* *Photomax Web Site*- online photo storage *Maxcast*
Business Tools	Advanced tools and services that help distributors and consumers establish an online presence and manage their businesses.	*Global Web Page* *BP Mall* *ISP for U.S. - by Qwest* *ISP for Japan - by Nifty* *BP Internet Security*

We also market a small line of home care products under the Ecosphere brand, designed to clean and protect the home environment which include a *Water Purifier*, *Filtering Showerhead* and *Surface Wipes*. These products are found primarily in our Asian markets.

Sourcing and Production

Nu Skin. In order to maintain high product quality, we acquire our ingredients and contract production of our proprietary products from suppliers and manufacturers that we believe are reliable, reputable and deliver to us high quality materials and service. We acquire ingredients and products from one primary supplier that currently manufactures approximately 25% of our Nu Skin personal care products. We maintain a good relationship with our supplier and do not anticipate that either party will terminate the relationship in the near term. We also have ongoing relationships with secondary and tertiary suppliers who supply almost all of our remaining products and ingredients. In the event we become unable to source any products or ingredients from our major supplier, we believe that we would be able to produce or replace those products or substitute ingredients from our secondary and tertiary suppliers without great difficulty or significant increases to our cost of goods sold. *Please refer to "Item 1A. Risk Factors" for a discussion of risks and uncertainties associated with our supplier relationships and with the sourcing of raw materials and ingredients.*

In 2001, we established our own production facility in Shanghai, where we currently manufacture the personal care products sold through our retail stores in China, as well as a small portion of product exported to select other markets. If the need arose, this plant could be expanded—or other facilities could be built in China—to produce larger amounts of inventory for export as a back-up to our usual supply chain.

Pharmanex. Substantially all of our Pharmanex nutritional supplements and ingredients, including *LifePak*, are produced or provided by industry-leading third-party suppliers and manufacturers. We rely on two partners for the majority of our Pharmanex products, one of which supplies approximately 35% and the other of which supplies approximately 22% of our nutritional supplements. In the event we become unable to source any products or ingredients from these suppliers or from other current vendors, we believe that we would be able to produce or replace those products or substitute ingredients without great difficulty or significant increases to our cost of goods sold. *Please refer to Item 1A. — "Risk Factors" for a discussion of certain risks and uncertainties associated with our supplier relationships, as well as with the sourcing of raw materials and ingredients.*

We also maintain a facility located in Zhejiang Province, China, where we produce herbal extracts for *Tegreen 97*, *ReishiMax GLp* and other products sold globally. In 2005, we completed the build-out of a new manufacturing facility in Zhejiang Province where we produce some of our Pharmanex nutritional supplements for sale through our retail stores in China as well as a small portion of product exported to other markets. We are also considering the potential expansion of our manufacturing and export capabilities in Shanghai to the extent we conclude it necessary to supplement the output of our existing facility. In addition, we operate a plant in Shanghai where we manufacture our Scanners. This facility supports all of our current and anticipated future market demands.

Big Planet. The majority of our Big Planet and Photomax products and services are provided by third parties, pursuant to contractual arrangements. By acting as a private-labeled agent for other vendors, we are able to avoid the large capital investment that would be required to build the infrastructure necessary to fulfill Big Planet's product offerings. However, our profit margins and our ability to deliver quality services at competitive prices depend upon our ability to negotiate and maintain favorable terms with third-party providers. In connection with our Big Planet digital photography services, we are developing our own internal infrastructure for some of these offerings.

Research and Development

We continually invest in our research and development capabilities. Our research and development expenditures were approximately $8 million in 2004, $8 million in 2005 and $9 million in 2006. Because of our commitment to product innovation, we will continue to commit resources to research and development in the future.

Our primary research laboratory, adjacent to our office complex in Provo, Utah, houses both Pharmanex and Nu Skin research facilities and professional and technical personnel. We also maintain research facilities in China. Much of our Pharmanex research to date has been conducted in China, where we benefit from a well-educated, low-cost scientific labor pool that enables us to conduct research and clinical trials at a much lower cost than would be possible in the United States.

We also have collaborative relationships with numerous independent scientists, including scientific advisory boards comprised of recognized authorities in various related disciplines for each of our nutritional and personal care product categories. We maintain collaborative arrangements with prominent universities and research institutions in the United States, Europe and Asia, whose staffs include scientists with expertise in natural product chemistry, biochemistry, dermatology, pharmacology and clinical studies. Some of the university research centers with which we have collaborated include UC Davis, UCLA, Stanford University, Vanderbilt University, Tufts University, Columbia University, the University of Kansas, the University of Hong Kong School of Medicine and Taiwan Academia Sinica.

In addition, we evaluate a significant number of product ideas for our Nu Skin and Pharmanex categories presented by outside sources. We utilize strategic licensing and other relationships with vendors for access to directed research and development work for innovative offerings.

In order to provide high-quality nutritional supplements, Pharmanex utilizes a unique 6S Quality Process® in our development and sourcing activities. The 6S Quality Process enhances our ability to provide consumers with safe, effective and consistent products and involves the following steps:

- *Selection.* Conducting a scientific review of research and databases in connection with the selection of potential products and ingredients and determining the authenticity, usefulness and safety standards for potential products and ingredients.
- *Sourcing.* Investigating potential sources, evaluating the quality of sources and performing botanical and chemical evaluations where appropriate.
- *Structure.* Determining the structural profile of natural compounds and active ingredients.
- *Standardization.* Standardizing the product's dosage of biologically relevant active ingredients.
- *Safety.* Assessing safety from available research and, where necessary, performing additional tests—such as microbial tests and chemical analyses—for toxins and heavy metals.
- *Substantiation.* Reviewing documented pre-clinical and clinical trials and, where necessary and appropriate, initiating studies and clinical trials sponsored by Pharmanex.

Geographic Sales Regions

We currently sell and distribute our products in 45 markets, employing a direct selling model in each of our markets except China. We have modified our geographic regions to report Europe as a separate region as it has grown and increased its significance to our business. Our operations are now divided into the following five geographic regions: North Asia, Greater China, Americas, South Asia/Pacific and Europe. The following table sets forth the revenue for each of the geographic regions for the years ended December 31, 2004, 2005 and 2006:

Revenue by Region

	Year Ended December 31,					
(U.S. dollars in millions)	**2004**		**2005**		**2006**	
North Asia	$ 640.1	56%	$ 649.4	55%	$ 593.8	53%
Greater China	229.8	20	236.7	20	208.2	19
Americas	149.6	13	162.1	14	165.9	15
South Asia/Pacific	81.8	7	86.7	7	88.0	8
Europe	36.6	4	46.0	4	59.5	5
	$ 1,137.9	100%	$ 1,180.9	100%	$ 1,115.4	100%

Additional comparative revenue and related financial information is presented in the tables captioned “Segment Information” in Note 17 to our Consolidated Financial Statements. The information from these tables is incorporated by reference in this Report.

North Asia. The following table provides information on each of the markets in the North Asia region, including the year it was opened, 2006 revenue and the percentage of our total 2006 revenue for each market:

(U.S. dollars in millions)	**Year Opened**	**2006 Revenue**	**Percentage of 2006 Revenue**
Japan	1993	$ 476.5	43%
South Korea	1996	$ 117.3	11%

Japan is our largest market and accounted for approximately 43% of total revenue in 2006. We market most of our Nu Skin and Pharmanex products in Japan, along with a limited number of Big Planet offerings. In addition, all three product categories offer a limited number of locally developed products sold exclusively in our Japanese market. In 2006 we launched the S2 Scanner and *g3* nutritional juice in Japan, with first quarter 2007 plans to introduce a new anti-aging skin care product developed specifically for Japan.

In South Korea, we offer most of our Nu Skin and Pharmanex products, along with a limited number of Big Planet services. In 2006 we launched our *g3* nutritional juice and the latest version of our *Nu Skin 180°* skin treatment line, and we plan to launch the *S2* the first part of 2007.

Greater China. The following table provides information on each of the markets in the Greater China region, including the year it was opened, 2006 revenue and the percentage of our total 2006 revenue for each market:

(U.S. dollars in millions)	**Year Opened**	**2006 Revenue**	**Percentage of 2006 Revenue**
China	2003	$ 70.5	6%
Taiwan	1992	$ 93.1	8%
Hong Kong	1991	$ 44.6	4%

Our Hong Kong and Taiwan operations are aligned with our global direct selling business model and our global compensation plan. We offer a robust product offering of the majority of our Nu Skin and Pharmanex products in Hong Kong and Taiwan, and only limited Big Planet products and services. The majority of our revenue in these markets comes from orders through our monthly product subscription program, which has led to improved retention of customers and distributors and has streamlined the ordering process.

In China, we sell many of our Nu Skin products and a locally produced value line of personal care products under the *Scion* brand name. We also sell a select number of Pharmanex products, including *LifePak*, and we have Scanners in each of our approximately 150 retail stores. In 2006 we launched the S2 Scanner, and our *g3* nutritional juice.

We currently do not operate under our global direct selling business model in China as a result of regulatory restrictions on direct selling activities in this market. Consequently, we have developed a retail sales model that utilizes an employed sales force to sell products through fixed locations. We rely on the employed sales force to market and sell products at the various retail locations supported by only minimal advertising and traditional promotional efforts. Our retail model in China is largely based upon our ability to attract customers to our retail stores through our employed sales force, to educate them about our products through frequent training meetings, and to obtain repeat purchases from the sales employees and their customers. Our retail model only allows for product sales to be transacted within our retail stores. We currently have approximately 150 retail locations in operation. The compensation and salary of an employed sales representative is determined based on a variety of factors including the sales productivity of the sales representative and the other representatives he trains and supervises. While our distributor leaders from other markets are able to introduce customers and sales people to our stores, their promotional efforts are limited due to the restrictions on direct selling in this market.

We employed approximately 6,400 sales representatives in China as of December 31, 2006. Although we enter into labor contracts with all potential new sales representatives, only a small percentage complete the qualification process, become full-time sales representatives and continue as such for an extended period of time. We provide these potential new sales representatives with a minimum base pay and other labor benefits.

In September of 2005, the Chinese government announced the adoption of new direct selling regulations that allow sales away from a fixed location through independent contractors, subject to various requirements and restrictions, including restrictions on the ability to pay multi-level compensation. In July of 2006, we received approval from the Chinese national government to conduct direct selling in Shanghai. We subsequently obtained the necessary local approvals and commenced direct selling activities in Shanghai in January 2007. We are now allowed to conduct larger training and promotional meetings in Shanghai and to engage an entry-level, non-employee sales force that can sell products away from fixed retail locations. Since the direct selling regulations prohibit the use of multi-level compensation plans, we compensate these independent contractors based on their personal selling efforts only. Our direct sales model is structured in a manner that we believe is complementary to our existing retail sales/employee sales representative model. Our independent direct sellers, for example, will have the opportunity to become employed sales representatives upon developing sales skills and a good customer base.

We are currently in the process of seeking necessary approvals to expand our direct selling model into additional provinces throughout China. The licensing process includes a requirement that we establish “service centers” that will primarily be used to provide a product return location. We expect that our retail stores and offices will qualify as service centers, but we plan to add small service centers as necessary as the process unfolds. *For a more detailed discussion regarding the direct selling approval process, please refer to the section below entitled, “Government Regulation – Direct Selling Activities”. For more information concerning the regulatory risks associated with our operations in China. Please refer to Item 1A. "Risk Factors."*

Americas. The following table provides information on each of the markets in the North America region, including the year it was opened, 2006 revenue and the percentage of our total 2006 revenue for each market:

(U.S. dollars in millions)	**Year Opened**	**2006 Revenue**	**Percentage of 2006 Revenue**
United States	1984	$ 147.1	13%
Canada	1990	$ 10.0	1%
Latin America[(1)]	1990	$ 8.8	1%

(1) Latin America includes Brazil, Costa Rica, El Salvador, Guatemala, Honduras and Mexico.

Substantially all of our Nu Skin and Pharmanex products, as well as our Big Planet products and services, are available for sale in the United States. In 2006 we introduced the S2 Scanner and the ProDerm Skin Analyzer in the United States. During 2006, we continued to invest in our Latin America business, opening Costa Rica early in the year.

South Asia/Pacific. The following table provides information on each of the markets in the South Asia/Pacific region, including the year it was opened, 2006 revenue and the percentage of our total 2006 revenue for each market:

(U.S. dollars in millions)	**Year Opened**	**2006 Revenue**	**Percentage of 2006 Revenue**
Singapore/Malaysia/Brunei	2000/2001/2004	$ 33.2	3%
Thailand	1997	$ 26.5	2%
Australia/New Zealand	1993	$ 14.2	1%
Indonesia	2005	$ 10.3	1%
Philippines	1998	$ 3.8	—*

* Less than 0.5%

We offer a majority of our Pharmanex and Nu Skin products in South Asia/Pacific. Marketing initiatives in South Asia/Pacific have centered on monthly product subscription orders, the Scanner and our *g3* nutritional drink.

Europe. The following table provides information on our Europe region, including the year it was opened, revenue for 2006 and the percentage of our total 2006 revenue for the region:

(U.S. dollars in millions)	Year Opened	2006 Revenue	Percentage of 2006 Revenue
Europe[1]	1995	$ 59.5	5%

(1) Europe includes Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Ireland, Iceland, Israel, Italy, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden and the United Kingdom.

We currently operate in 19 countries throughout Northern, Eastern and Central Europe and offer a full range of Nu Skin, Pharmanex and Big Planet products. Various products and distributor tools have contributed to Europe's recent success, including the Scanner, *g3*, and the Nu Skin® Galvanic Spa System II™. We have been experiencing strong growth in central European markets, and have benefited from recently opened markets in Russia, Israel, and Eastern Europe. In early 2007, we also opened operations in Switzerland with plans to continue investment in growth initiatives throughout Europe.

Distribution

Overview. The foundation of our sales philosophy and distribution system is network marketing. We sell our products through independent distributors who are not employees, except in China where we sell our products through employed retail sales representatives. Our distributors generally purchase products from us for resale to consumers and for personal consumption.

Network marketing is an effective vehicle to distribute our products because:

- distributors can educate consumers about our products in person, which we believe is more effective for premium-quality, differentiated products than using television and print advertisements;
- direct sales allow for actual product testing by potential customers;
- there is greater opportunity for distributor and customer testimonials; and
- as compared to other distribution methods, our distributors can provide customers higher levels of service and encourage repeat purchases.

"Active distributors" under our global compensation plan are those distributors who have purchased products for resale or personal consumption during the previous three months. In addition, we have implemented "preferred customer" programs in many of our markets, which allow customers to purchase products—generally on a monthly product subscription basis—directly from us. We include preferred customers who have purchased products during the previous three months in our "active distributor" numbers. While preferred customers are legally very different from distributors, both are considered customers of our products.

"Executive-level distributors" under our global compensation plan are those distributors who are most seriously pursuing the direct selling opportunity and must achieve and maintain specified personal and group sales volumes each month. Once an individual becomes an executive-level distributor, he or she can begin to take full advantage of the benefits of commission payments on personal and group sales volume. As a result of direct selling restrictions in China, we have implemented a modified business model utilizing retail stores and an employed sales force. (See the discussion on China in "Geographic Sales Regions.") Employed full-time sales representatives are those sales representatives that have completed a qualification process. These sales representatives have a monthly volume commitment that is about 50% of the dollar amount of an executive-level distributor's monthly volume commitment under our global compensation plan. Throughout this annual report, we include employed, full-time sales representatives in China in our "executive-level distributor" numbers in order to provide some level of comparison between our China model and our global direct selling model.

Our revenue is highly dependent upon the number and productivity of our distributors. Growth in sales volume requires an increase in the productivity and/or growth in the total number of distributors. As of December 31, 2006, we had approximately 761,000 active distributors of our products and services. Approximately 30,000 of these distributors were executive-level distributors. As of each of the dates indicated below, we had the following number of executive distributors in the referenced regions:

Total Number of Executive Distributors by Region

Region	2004	2005	2006
North Asia	16,637	16,129	15,354
Greater China	8,827	7,134	6,492
Americas	3,473	3,893	4,141
South Asia/Pacific	2,076	2,043	2,169
Europe	1,003	1,272	1,600
Total	32,016	30,471	29,756

Sponsoring. We rely on our distributors to recruit and sponsor new distributors of our products. While we provide Internet support, product samples, brochures, magazines and other sales materials at cost, distributors are primarily responsible for recruiting and educating new distributors with respect to products, our global compensation plan and how to build a successful distributorship.

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

Sponsoring activities are not required of distributors and we do not pay any commissions for sponsoring new distributors. However, because of the financial incentives provided to those who succeed in building and mentoring a distributor network that resells and consumes products, many of our distributors attempt, with varying degrees of effort and success, to sponsor additional distributors. People often become distributors after using our products as regular customers. Once a person becomes a distributor, he or she is able to purchase products directly from us at wholesale prices. The distributor is also entitled to sponsor other distributors in order to build a network of distributors and product users. A potential distributor must enter into a standard distributor agreement, which obligates the distributor to abide by our policies and procedures.

Global Compensation Plan. One of our competitive advantages is our global sales compensation plan. Under our global compensation plan, a distributor is paid consolidated monthly commissions in the distributor's home country, in local currency, for the distributor's own product sales and for product sales in that distributor's downline distributor network across all geographic markets. Because of restrictions on direct selling in China, our full-time employed sales representatives there do not participate in the global compensation plan, but are instead compensated according to a retail sales model established for that market. Additionally, while global distributor leaders are compensated based on sales activity of preferred customers and sales employees in China, sales in China do not accrue to satisfy applicable sales volume requirements within the global compensation plan.

Commissions on the sale of an individual Nu Skin or Pharmanex product can exceed 50% of the wholesale price. The actual payout percentage, however, varies depending on a distributor's level within the global compensation plan. On a global basis, the overall payout on these products has typically averaged approximately 41% to 43%. We believe that our commission payout as a percentage of total sales is among the most generous paid by major direct selling companies.

From time to time, we make modifications and enhancements to our global compensation plan to help motivate distributors. In addition, we evaluate a limited number of distributor requests on a monthly basis for exceptions to the terms and conditions of the global compensation plan, including volume requirements. While our general policy is to discourage exceptions, we believe that the flexibility to grant exceptions is critical in retaining distributor loyalty and dedication.

High Level of Distributor Incentives. Based upon management's knowledge of our competitors' distributor compensation plans, we believe our global compensation plan is among the most financially rewarding plans offered by leading direct selling companies. There are two fundamental ways in which our distributors can earn money:

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

Each of our products carries a specified number of sales volume points. Commissions are based on total personal and group sales volume points per month. Sales volume points are generally based upon a product's wholesale cost, net of any point-of-sale taxes. As a distributor's business expands to successfully sponsoring other distributors into the business—who in turn expand their own businesses—a distributor receives a higher percentage of

commissions. An executive's commissions can increase substantially as multiple downline distributors achieve executive status. In determining commissions, the number of levels of downline distributors included in an executive's commissionable group increases as the number of executive distributorships directly below the executive increases.

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

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

Rules Affecting Distributors. We closely monitor regulations and distributor activity in each market to ensure our distributors comply with local laws. Our published distributor policies and procedures establish the rules that distributors must follow in each market. We also monitor distributor activity to maintain a level playing field for our distributors, ensuring that some are not disadvantaged by the activities of others. We require our distributors to present products and business opportunities ethically and professionally. Distributors further agree that their presentations to customers must be consistent with, and limited to, the product claims and representations made in our literature.

Distributors must represent to us that their receipt of commissions is based on retail sales and substantial personal sales efforts. We must produce or pre-approve all sales aids used by distributors such as videotapes, audiotapes, brochures and promotional clothing. Distributors may not use any form of media advertising to promote products. Products may be promoted only by personal contact or by literature produced or approved by us. Distributors may not use our trademarks or other intellectual property without our consent.

Except in China, products generally may not be sold, and our business opportunities may not be promoted, in traditional retail environments. We have made an exception to this rule by allowing some of our Pharmanex products to be sold in independently owned pharmacies and drug stores meeting specified requirements. Distributors who own or are employed by a service-related business—such as a doctor's office, hair salon or health club—may make products available to regular customers as long as products are not displayed visibly to the general public in a manner to attract the general public into the establishment to purchase products.

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

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

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

Product Returns. We believe we are among the most consumer-protective companies in the direct selling industry. While the regulations and our operations vary somewhat from country to country, we generally follow a similar procedure for product returns. For 30 days from the date of purchase, our product return policy generally allows a retail customer to return any Nu Skin or Pharmanex product to us directly or to the distributor through whom the product was purchased for a full refund. After 30 days from the date of purchase, the end user's return privilege is at the discretion of the distributor. Our distributors can generally return unused products directly to us for a 90% refund for one year. Through 2006, our experience with actual product returns averaged less than 5% of annual revenue.

Payment. Distributors generally pay for products prior to shipment. Accordingly, we carry minimal accounts receivable. Distributors typically pay for products in cash, by wire transfer or by credit card. Cash, which represents a significant portion of all payments, is received by order takers in the distribution centers or retail stores in China when orders are placed.

Competition

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

Nu Skin and Pharmanex Products. The markets for our Nu Skin and Pharmanex products are highly competitive. Our competitors include manufacturers and marketers of personal care and nutritional products, pharmaceutical companies and other direct selling organizations, many of which have longer operating histories and greater name recognition and financial resources than we do. We compete in these markets by emphasizing the innovation, value and premium quality of our products and the convenience of our distribution system. We focus on delivering a product offering with a "Measurable Difference" and provide our distributors with powerful tools that allow them to demonstrate the effectiveness of our nutritional and personal care products.

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

Intellectual Property

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

Government Regulation

Direct Selling Activities. Direct selling activities are regulated by various federal, state and local governmental agencies in the United States and foreign countries. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" schemes, that compensate participants for recruiting additional participants irrespective of product sales, use high-pressure recruiting methods and/or do not involve legitimate products. The laws and regulations in our current markets often:

- impose cancellation/product return, inventory buy-backs and cooling-off rights for consumers and distributors;
- require us or our distributors to register with governmental agencies;
- impose reporting requirements; and
- impose upon us requirements, such as requiring distributors to maintain levels of retail sales to qualify to receive commissions, to ensure that distributors are being compensated for sales of products and not for recruiting new distributors.

The laws and regulations governing direct selling are modified from time to time, and, like other direct selling companies, we are subject from time to time to government investigations in our various markets related to our direct selling activities. This can require us to make changes to our business model and aspects of our global compensation plan in the markets impacted by such changes and investigations. Based on research conducted in existing markets, the nature and scope of inquiries from government regulatory authorities and our history of operations in those markets to date, we believe our method of distribution complies in all material respects with the laws and regulations related to direct selling of the countries in which we currently operate.

The Federal Trade Commission in the United States has recently proposed new regulations which would impose additional disclosure requirements and waiting periods before a person could sign up to become a distributor. The direct selling industry association has filed comments objecting to many of the restrictive and burdensome requirements in these proposed regulations and is working to get the FTC to change its proposal.

As a result of restrictions in China on direct selling activities, we have implemented a retail store model utilizing an employed sales force. The regulatory environment in China is complex. Because we operate a direct selling model outside of China, our operations in China have attracted significant regulatory and media scrutiny since we expanded our operations there in January 2003. Regulations are subject to discretionary interpretation by municipal and provincial level regulators. Interpretations of what constitutes permissible activities by regulators can vary from province to province and can change from time to time because of the lack of clarity in the rules regarding direct selling activities. China recently adopted new direct selling and anti-pyramiding regulations that are restrictive and contain various limitations, including a restriction on the ability to pay multi-level compensation to independent distributors.

Because of the Chinese government's significant concerns about direct selling activities, it scrutinizes very closely activities of direct selling companies. The scrutiny has increased following adoption of the new direct selling and anti-pyramiding regulations and our business continues to be subject to reviews and investigations by municipal and provincial level regulators. At times, investigations and related actions by government regulators have impeded our ability to conduct business in certain locations, and have resulted in a few cases in fines being paid by our company. In each of these cases, we have been allowed to recommence operations after the government's

investigation, and no material changes to our business model were required in connection with these fines and impediments. We also expect to receive continued guidance and direction from regulators to address necessary to comply with the new direct selling regulations. *Please refer to Item 1A. "Risk Factors" for more information on the regulatory risks associated with our business in China.*

In July of 2006, we received national governmental approval to conduct direct selling in Shanghai. In January of 2007, we obtained necessary local approvals and commenced direct selling in eight districts within Shanghai. During the next few quarters we will be focusing our efforts on expanding our direct selling model into other provinces throughout China. Because direct selling was only recently authorized in Mainland China, the regulatory environment with respect to direct selling in this market remains fluid and the process for obtaining the necessary governmental approvals to conduct direct selling continues to evolve. The regulations and processes in some circumstances have been interpreted differently by different governmental authorities. In order to expand our direct selling model into additional provinces we currently must obtain a series of approvals from the Departments of Commerce in such provinces, the Shanghai Department of Commerce (Nu Skin China's supervisory authority), as well as the Departments of Commerce in each city and district in which we plan to operate. We also are required to obtain the approval of the State Ministry of Commerce, which is the national governmental authority overseeing direct selling. *Please refer to Item 1A. "Risk Factors" for more information on the risks associated with our planned expansion of direct selling in China;*

As we are being required to work with such a large number of provincial, city, district and national governmental authorities, we have found that it is taking more time than anticipated to work through the approval process with these authorities. These authorities have broad discretion in interpreting the regulations and granting necessary approvals. A delay in obtaining approvals at one level can delay our ability to obtain approvals at the next level. In addition, we have received some indications from the national government authorities that they intend to review and monitor the operations of an approved direct selling company during an evaluation period before granting approvals to such company to expand into additional provinces as regulators continue to closely monitor the development of direct selling in China. The complexity of the approval process as well as the government's continued cautious approach as direct selling develops in China makes it difficult to predict the timeline for obtaining these approvals. *Please refer to Item 1A. "Risk Factors" for more information on the risks that these regulations could have on our business.*

Regulation of Our Products. Our Nu Skin and Pharmanex products and related promotional and marketing activities are subject to extensive governmental regulation by numerous domestic and foreign governmental agencies and authorities, including the FDA, the FTC, the Consumer Product Safety Commission, the United States Department of Agriculture, State Attorneys General and other state regulatory agencies in the United States, and the Ministry of Health, Labor and Welfare in Japan and similar government agencies in each market in which we operate. For example, in Japan, the Ministry of Health, Labor and Welfare requires us to have an import business license and to register each personal care product imported into Japan. In Taiwan, all "medicated" cosmetic and pharmaceutical products require registration. In China, personal care products are placed into one of two categories, "general" and "drug." Products in both categories require submission of formulas and other information with the health authorities, and drug products require human clinical studies. The product registration process in China for these products can take from nine to more than 18 months. Such regulations in any given market can limit our ability to import products and can delay product launches as we go through the registration and approval process for those products. The sale of cosmetic products is regulated in the European Union under the European Union Cosmetics Directive, which requires a uniform application for foreign companies making personal care product sales.

Our Pharmanex products are subject to various regulations promulgated by government agencies in the markets in which we operate. In the United States, laboratory analysis by governmental authorities, and the product registration process for these products are regulated by the Food and Drug Administration. Since these products are regulated as "foods" under the Dietary Supplement and Health Education Act, we are generally not required to obtain regulatory approval prior to introducing a product into the United States market. None of this infringes, however, upon the FDA's power to remove an unsafe substance from the market. In our foreign markets, the products are generally regulated by similar government agencies, such as the Ministry of Health and Welfare in Japan and the Department of Health in Taiwan. We typically market our Pharmanex products in international markets as foods or health foods under applicable regulatory regimes. In the event a product, or an ingredient in a product, is classified as a drug or pharmaceutical product in any market, we will generally not be able to distribute that product in that market through our distribution channel because of strict restrictions applicable to drug and pharmaceutical products. China has some of the most restrictive nutritional supplement product regulations. Products marketed as "health foods" are subject to extensive laboratory analysis by governmental authorities, and the product registration process for these products takes approximately two years. We market both "health foods" and "general foods" in China. Our flagship product, *LifePak*, is currently marketed as a general food with only one of the three main capsules having received "health food" classification. Currently, "general foods" is not an approved category for direct selling; therefore, we will only market LifePak through our retail stores until final "health food" classification for *LifePak* is obtained for the two other capsules. Additionally, there is some risk associated with the common practice in China of marketing a product as a "general food" while seeking "health food" classification. If government officials feel our categorization of our products is inconsistent with product claims, ingredients or function, this could limit our ability to market such products in China in their current form.

The markets in which we operate all have varied regulations that distinguish foods and nutritional health supplements from "drugs" or "pharmaceutical products." Because of the varied regulations, some products or ingredients that are considered a "food" in certain markets may be treated as a "pharmaceutical" in other markets. In Japan, for example, if a specified ingredient is not listed as a "food" by the Ministry of Health and Welfare, we must either modify the product to eliminate or substitute that ingredient, or petition the government to treat such ingredient as a food. We experience similar issues in our other markets. As a result, we must often modify the ingredients and/or the levels of ingredients in our products for certain markets. In some circumstances, the regulations in foreign markets may require us to obtain regulatory approval prior to introduction of a new product. Because of negative publicity associated with some supplements, such as "ephedra" (which we have never marketed) and other potentially harmful ingredients, there has been an increased movement in the United States and other markets to expand the regulation of dietary supplements, which could impose additional restrictions or requirements in the future.

Most of our major markets also regulate advertising and product claims regarding the efficacy of products. This is particularly true with respect to our dietary supplements because we typically market them as foods or health foods. Accordingly, these regulations can limit our ability to inform consumers of the full benefits of our products. For example, in the United States, we are unable to claim that any of our nutritional supplements will diagnose, cure, mitigate, treat or prevent disease. In most of our foreign markets we are not able to make any "medicinal" claims with respect to our Pharmanex products. In the United States, the Dietary Supplement Health and Education Act, however, permits substantiated, truthful and non-misleading statements of nutritional support to be made in labeling, such as statements describing general well-being resulting from consumption of a dietary ingredient or the role of a nutrient or dietary ingredient in affecting or maintaining a structure or a function of the body. Most of the other markets in which we operate have not adopted similar legislation and we may be subject to more restrictive limitations on the claims we can make about our products in these markets. For example, in Japan, our nutritional supplements are marketed as food products, which significantly limits our ability to make any claims regarding these products. In addition, all product claims must be substantiated.

To date, we have not experienced any difficulty maintaining our import licenses. However, due to the varied regulations governing the manufacture and sale of nutritional products in the various markets, we have found it necessary to reformulate many of our products or develop new products in order to comply with such local requirements. In the United States, we are also subject to a consent decree with the FTC and various state regulatory agencies arising out of investigations that occurred in the early 1990s of certain alleged unsubstantiated product and earnings claims made by our distributors. The consent decree requires us to, among other things, supplement our procedures to enforce our policies, not allow our distributors to make earnings representations without making certain average earnings disclosures, and not allow our distributors to make unsubstantiated product claims.

Regulation of Our Business Tools. One of our strategies is to develop technologically-advanced business tools designed to help our distributors effectively market our Nu Skin and Pharmanex products. For example, during the last several years we have introduced the Scanner in many of our markets around the world. We have also launched an initial version of the ProDerm Skin Analyzer in the United States and Europe in 2006, and we are planning a global launch of an enhanced version of this tool starting in late 2007. These tools are subject to the regulations of various health, consumer protection and other governmental authorities around the world. These regulations vary from market to market and affect whether our business tools are required to be registered as medical devices, the claims that can be made with respect to these tools, who can use them and where they can be used. We have been subject to regulatory inquiries in the United States, Japan and other countries with respect to the status of the Scanner as a non-medical device. Any determination that medical device clearance is required could require us to expend significant time and resources in order to meet the stringent standards imposed on medical device companies. We are also subject to regulatory constraints on the claims that can be made with respect to the use of our business tools. In Japan, for example, we are limited in our ability to tie the Scanner measurement directly to the consumption of our nutrition products. We expect to face similar regulatory issues in Japan and other markets with respect to the ProDerm Skin Analyzer in the event we decide to launch this tool in these markets.

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

As is the case with most companies that operate in our product categories, we receive from time to time inquiries from government regulatory authorities regarding the nature of our business and other issues, such as compliance with local direct selling, transfer pricing, customs, taxation, foreign exchange control, securities and other laws. Negative publicity resulting from inquiries into our operations by United States and state government agencies in the early 1990s, stemming in part from alleged inappropriate product and earnings claims by distributors, and in the late 1990s resulting from adverse media attention in South Korea, harmed our business.

Employees

As of December 31, 2006, we had approximately 11,360 full- and part-time employees worldwide, approximately 6,400 of whom are employed as sales representatives in our China operations. We also had labor contracts with approximately 3,400 potential new sales representatives in China, only a small percentage of whom are expected to complete the qualification process and become full-time sales representatives. None of our employees are represented by a union or other collective bargaining group, with the exception of the limited number of employees involved in our operations in Brazil. We believe that our relationship with our employees is good, and we do not foresee a shortage in qualified personnel necessary to operate our business.

Available Information

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

Note Regarding Forward-Looking Statements. Certain statements made in this filing under the caption "Item 1- Business" are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, when used in this Report the words or phrases "will likely result," "expect," "intend," "will continue," "anticipate," "estimate," "project," "believe" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Exchange Act.

Forward-looking statements include plans and objectives of management for future operations, including plans and objectives relating to our products and future economic performance in countries where we operate. These forward-looking statements involve risks and uncertainties and are based on certain assumptions that may not be realized. Actual results and outcomes may differ materially from those discussed or anticipated. We assume no responsibility or obligation to update these statements to reflect any changes. The forward-looking statements and associated risks set forth herein relate to, among other things:

- our plans to launch or continue to roll out or promote various products, tools, and initiatives, including the S2 Scanner and the ProDerm Skin Analyzer ;
- the expectation that our relationship with our current primary suppliers will not end in the near term, and the belief that we could produce or source our personal care products from other suppliers and expand manufacturing capabilities in China, and replace our primary suppliers of Pharmanex products without great difficulty or increased cost;

- our belief that we can produce sufficient Scanners in our manufacturing facility in China to support current and anticipated future market demands;
- our plans to continue to develop and introduce new, innovative products and to improve and evolve our existing product formulations;
- our plans to commit resources to research and development in the future;
- our belief that providing effective distributor support will be important to our success;
- our plans to further expand our direct selling model throughout China, including our expectation that our retail stores will qualify as "service" centers and our plans to add service centers throughout China as necessary; and
- our belief that we do not currently foresee a shortage in qualified personnel necessary to operate our business.

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

ITEM 1A. RISK FACTORS

We face a number of substantial risks. Our business, financial condition or results of operations could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and they should be considered in connection with the other information contained in this Annual Report on Form 10-K. These risk factors should be read together with the other items in this Annual Report on Form 10-K, including "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation."

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

In 2006 we recognized approximately 87% of our revenue in markets outside of the United States in each market's respective local currency. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenue and expenses in foreign countries from their local currencies into U.S. dollars using weighted-average exchange rates. If the U.S. dollar strengthens relative to local currencies, particularly the Japanese yen inasmuch as we generated approximately 43% of our 2006 revenue in Japan, our reported revenue, gross profit and net income will likely be reduced. During the last couple of years we have experienced an overall weakening of the Japanese yen, which has harmed our results. Given the global, complex political and economic dynamics that affect exchange rate fluctuations, we cannot estimate future fluctuations and the effect these fluctuations may have upon future reported results or our overall financial condition. In the event the Japanese yen or other foreign currencies weaken further, our results in 2007 would be negatively impacted. Although we attempt to reduce our exposure to short-term exchange rate fluctuations by using foreign currency exchange rate contracts for the Japanese yen, we cannot be certain these contracts or any other hedging activity will effectively reduce exchange rate exposure.

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

Approximately 43% of our 2006 revenue was generated in Japan. We have experienced declines in our business in this market during the past 18 months, and many of our competitors have seen their businesses in this market contract in the last few years. We believe our operating results have been negatively impacted by a variety of factors, including the unanticipated impact of compensation plan changes, regulatory issues, and production difficulties. Our financial results would be harmed and our business could continue to decline if our products, business opportunity or planned growth initiatives do not retain and generate continued interest and enthusiasm among our distributors and consumers in this market. We have implemented several initiatives, including the launch of the second generation BioPhotonic Scanner and compensation plan changes, and have other initiatives planned to help renew growth in this market. If these and other planned initiatives are delayed, are impacted by regulatory constraints or do not generate distributor excitement or attract new distributors or customers in Japan, it may limit our prospects for renewed growth in that market and harm our financial results. For example, we have elected to wait until we have completed an enhanced version of the Nu Skin® ProDerm™ Skin Analyzer before implementing this initiative in Japan, which likely will not occur until at least the latter part of 2007. While we believe that we will be able to use the ProDerm Skin Analyzer in Japan to provide before and after pictures for consumers to demonstrate the effectiveness of our products, the manner in which the ProDerm may be used will be subject to significant restrictions in this market. There is also a risk that regulators could prohibit our use of the ProDerm in this market if they believe our distributors are or will use it to conduct skin analysis of their customers, or make medical claims or product recommendations based on the use of the ProDerm.

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

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

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

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

- any adverse publicity regarding us, our products, our distribution channel or our competitors;
- a lack of interest in, or the technical failure of, existing or new products;
- lack of a sponsoring story that effectively draws new people into the business;
- the public's perception of our products and their ingredients;
- the public's perception of our distributors and direct selling businesses in general;
- our actions to enforce our policies and procedures;
- general economic and business conditions; and
- potential saturation or maturity levels in a given country or market which could negatively impact our ability to attract and retain distributors in such market.

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 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 developing new distributor leaders. There can be no assurance that our initiatives such as the Scanner and others will 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. In addition, some initiatives may have unanticipated negative impacts on our markets. For example, during the past couple of years certain modifications we made to compensation incentives in China, Japan and certain Southeast Asia markets were not received or understood well by some distributors, resulting in unanticipated negative impacts on distributor numbers and revenue in these markets. The introduction of a new product or key initiative such as the Scanner and *g3* can also negatively impact other product lines to the extent our distributor leaders focus their efforts on the new product or initiative.

Our operations in China are subject to significant governmental scrutiny and may be harmed by the results of such scrutiny.

Because of the government's significant concerns about direct selling activities, government regulators in China scrutinize very closely activities of direct selling companies or activities that resemble direct selling. This scrutiny has increased following adoption of the new direct selling and anti-pyramiding regulations. The regulatory environment in China with regards to direct selling is evolving, and officials in multiple national and local levels in the Chinese government often exercise significant discretion in deciding how to interpret and apply applicable regulations. In the past, the government has taken significant actions against companies that the government found were engaging in direct selling activities in violation of applicable law, including shutting down their businesses and imposing substantial fines.

Our business in China has been subject to significant governmental scrutiny over the last few years, and reviews and investigations by government regulators have at times impeded our ability to conduct business and have resulted in several cases in fines being paid by us, which in the aggregate have been less than 1% of our revenue in China. We continue to be subject to current governmental reviews and investigations, and we may incur similar or more severe sanctions in the future. Occasionally, we have also been asked to cease sales activity in some stores while the regulators review our operations. While, in each of these cases, we have been allowed to recommence operations after the government's review without material changes to our operations, there is no assurance that this will always be the case. Even though we have now obtained approval to conduct direct selling in Shanghai, 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 implement direct selling into our business model. At times, complaints made by our sales representatives to the government have resulted in increased scrutiny by the government. 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 approvals, or restrictions on our ability to open new stores or obtain approvals for service centers or expand into new locations, or other actions, all of which would harm our business.

If recently adopted direct selling regulations in China are interpreted or enforced by governmental authorities in a manner that negatively impacts our retail business model or our dual business model there, our business in China could be harmed.

Towards the end of 2005, Chinese regulators adopted anti-pyramiding and new direct selling regulations. These regulations contain significant restrictions and limitations, including a restriction on multi-level compensation for independent distributors selling away from a fixed location. The regulations also impose various requirements on individuals before they can become direct sellers, including the passage of an examination, which are more burdensome than in our other markets and which could negatively impact the willingness of some people to sign up to become direct sellers. These new regulations are not yet well understood, and there continues to be some confusion and uncertainty as to the meaning of the new regulations and their scope, and the specific types of restrictions and requirements imposed under them. It is 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 would be harmed if Chinese regulators interpret the anti-pyramiding regulations or direct selling regulations as applying to our retail store/employed sales representative business model, or if regulations are interpreted in such a manner that our current method of conducting business through the use of employed sales representatives or our implementation of direct selling that is currently underway is found to violate applicable 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 in the new regulations. 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.

Although we have obtained approval to conduct direct selling in China, our current governmental approval only allows us to conduct direct selling in eight districts within Shanghai. If we are unable to obtain additional necessary national and local governmental approvals as quickly as we would like, our ability to expand our direct selling business and grow our business there could be negatively impacted.

In January 2007, we completed the required national and local licensing process and commenced direct selling activities in eight districts in Shanghai. In order to expand our direct selling model into additional provinces, we currently must obtain a series of approvals from district, city, provincial and national governmental agencies with respect to each province in which we wish to expand. The approval process includes a requirement that we establish "service centers" that serve primarily as product return locations. If regulators fail to permit us to build service centers at a rate that meets our growth demands, this could limit our ability to obtain direct selling approvals in accordance with anticipated timelines. Because direct selling was only recently authorized in China, the process for obtaining the necessary governmental approvals to conduct direct selling continues to evolve. As we are being required to work with such a large number of provincial, city, district and national governmental authorities, we have found that it is taking more time than anticipated to work through the approval process with these authorities. These authorities have broad discretion in interpreting the regulations and granting necessary approvals. The regulations and processes in some circumstances have been interpreted differently by different governmental authorities. A delay in obtaining approvals at one level can delay our ability to obtain approvals at the next level. In addition, we have received some indications from the national government authorities that they intend to review and monitor the operations of an approved direct selling company during an evaluation period before granting approvals to such company to expand into additional provinces as regulators continue to closely monitor the development of direct selling in China. The complexity of the approval process as well as the government's continued cautious approach as direct selling develops in China makes it difficult to predict the timeline for obtaining these approvals. If the results of the government's evaluation of our direct selling activities in Shanghai results in further delays in obtaining licenses elsewhere, or if the current processes for obtaining approvals are delayed further for any reason or are changed or are interpreted differently than currently understood, our ability to expand direct selling in China and our growth prospects in this market could be negatively impacted as a result.

Because we will be implementing a compensation plan and business model for our independent distributors in China that is different from other markets due to regulatory restrictions, this could harm our ability to grow our business in China.

The direct selling regulations impose various limitations and requirements, including a prohibition on multi-level compensation and a requirement that all distributors pass a required examination before becoming a distributor. The regulations also impose other restrictions on direct selling activities that differ from the regulations in our other markets. As a result, we are implementing a direct selling compensation plan and business model for the direct sales component of our business that differs from the model we use in other markets. There can be no assurance that these restrictions will not negatively impact our ability to provide an attractive business opportunity to distributors in this market and limit our ability to grow our business in this market. In addition, the regulations do not allow the sale of general foods through a direct selling business model. Because some of our supplements, including *LifePak*, are being marketed as general foods until we obtain health food status for these products, we will only be able to sell these products at our stores and not away from the stores until they receive health food status, which could have a negative impact on our direct selling business.

Intellectual property rights are difficult to enforce in China.

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

If the BioPhotonic Scanner is determined to be a medical device in a particular geographic market or if our distributors use it for medical diagnostic purposes, this could harm our ability to utilize it.

In March 2003, the FDA questioned the status of the BioPhotonic Scanner as a non-medical device. We subsequently filed an application with the FDA to have it classified as a non-medical device. The FDA has not yet acted on our application. There are various factors that could determine whether the BioPhotonic Scanner is a medical device including the claims that we or our distributors make about it. We have faced similar uncertainties and regulatory issues in other markets with respect to the status of the BioPhotonic Scanner as a non-medical device and the claims that can be made in using it. For example, during the past couple of years we have faced regulatory inquiries in Japan, Korea, Singapore and Thailand regarding distributor claims with respect to the Scanner. There have also been recent legislative proposals in Singapore and Malaysia relating to the regulation of medical devices which could have an impact on the Scanner. We recently had two Scanners detained by the FDA office in Cincinnati that were being shippped back from Israel, and the office has asked us for documentation regarding its status as a non-medical device. A determination in any of these markets that the Scanner is a medical device or that distributors are using it to make medical claims or perform medical diagnoses could negatively impact our plans for or use of the BioPhotonic Scanner in such market. In 2006 we obtained additional contract rights to utilize the Scanner in all locations, including health care and medical facilities. Some of our distributors are now promoting the use of Scanners by medical professionals as a non-medical device in conjunction with wellness programs. This promotion could result in enhanced FDA scrutiny and increase the risk that the BioPhotonic Scanner be treated as a medical device requiring medical device clearance. Regulatory scrutiny of the Scanner may also dampen distributor enthusiasm and hinder the ability of distributors to effectively utilize the Scanner. In the event medical device clearance is required in any market, obtaining clearance could require us to provide documentation concerning its clinical utility and to make some modifications to its design, specifications and manufacturing process in order to meet stringent standards imposed on medical device companies. There can be no assurance we would be able to provide such documentation and make such changes promptly or in a manner that is satisfactory to regulatory authorities.

Technical and regulatory issues associated with the second generation BioPhotonic Scanner and the Nu Skin® ProDerm™ Skin Analyzer could negatively impact the success of these programs, which could harm our business.

Our current and planned initiatives surrounding the continued rollout and promotion of the S2 Scanner and the introduction of Nu Skin® ProDerm™ Skin Analyzer in our various markets are subject to technical and regulatory risks and uncertainties. The S2 was just introduced this past year, and we cannot be certain that over the long term the units will consistently perform according to expectations or that we will not experience technical problems. We have experienced challenges in our development of the ProDerm™ tool, including some software glitches in beta units that were tested in some Asia markets. As we continue to work through these technical issues, we elected to introduce an initial version that has fewer features than we initially anticipated. The initial version of this tool that we launched in the United States and Europe provides close-up skin images that enables distributors to demonstrate the effectiveness of our skin care products. We are currently working on the development of an enhanced version that will have improved functionality. There can be no assurance, however, that we will be able to successfully develop an enhanced version of this tool in accordance with our expectations. In addition, we are subject to regulatory risks with respect to the introduction of this tool, particularly in Japan, where it appears that regulatory restrictions in Japan may impose limitations on the use of this tool and on claims that may be made in connection with its use. Such limitations in Japan or any other markets could weaken the ability of our distributors to utilize this tool in building their businesses, and could dampen distributor enthusiasm surrounding it.

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

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

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

- reformulate products for a specific market to meet the specific product formulation laws of that country;
- conform product labeling to the regulations in each country; and
- register or qualify products with the applicable governmental authority or obtain necessary approvals or file necessary notifications for the marketing of our products.

Restrictions on our ability to introduce products, or delays in introducing products, could reduce revenue and decrease profitability. Regulators also may prohibit us from making therapeutic claims about products, regardless of the existence of research and independent studies that may support such claims. These product claim restrictions could prevent us from realizing the potential revenue from some of our products.

Changes to our compensation arrangements with our distributors could be viewed negatively by some distributors and could harm our operating results if such changes impact distributor productivity.

We have implemented a global compensation plan that has some components that differ from market to market. We modify components of our compensation plan from time to time in an attempt to keep our compensation plan competitive and attractive to existing and potential distributors, to address changing market dynamics, to provide incentives to distributors that we believe will help grow our business, and to address other business needs. Because of the size of our distributor force and the complexity of our compensation plans, it is difficult to predict whether such changes will achieve their desired results. For example, in 2005, we made changes to our compensation plan in Japan that had been successful in other markets, but did not have the impact in Japan that we anticipated and negatively impacted our business. China and certain markets in Southeast Asia similarly were negatively impacted by compensation plan changes in 2005. We are currently implementing a new compensation plan for China for our independent distributors as we implement a direct selling model. We are also making some modifications to our employed sales representative compensation model to simplify it and to make it complementary to the compensation model we are implementing for the independent distributor sales force. In addition, because of the size and complexity of our sales force and compensation plan, growth in certain markets and changes to our plans have caused compensation rates in these markets to rise higher than historical levels, which could reduce our operating income. Although management's objective is to maximize the benefit of compensation plan expenses, compensation plan changes may be made in the future in these markets with higher compensation rates in order to maintain overall payout as close to historical levels as possible. We cannot be certain that the modifications we are making in China or any other modifications we make to our compensation plans in our other markets will be well received or achieve their desired results. If our distributors fail to adapt to these changes or find them unattractive, our business could be harmed.

Negative publicity concerning supplements with certain controversial ingredients has spurred efforts to change existing laws and regulations with respect to nutritional supplements that, if successful, could result in more restrictive and burdensome regulations.

There has been an increasing movement in the United States and other markets to increase the regulation of dietary supplements which could impose additional restrictions or requirements in the future. This movement has been generated, in part, by negative publicity arising from injuries and deaths alleged to be caused by nutritional supplements containing ephedra (which we have never sold) and other controversial ingredients. We are committed to not market nutritional supplements that contain any substances such as ephedra that are controversial and that could pose health risks. However, our operations could be harmed if governmental laws or regulations are enacted that restrict the ability of companies to market or distribute nutritional supplements or impose additional burdens or requirements on nutritional supplement companies.

If we are unable to successfully expand and grow operations within our recently opened and developing markets, we may have difficulty achieving our long-term objectives.

A significant percentage of our revenue growth over the past decade has been attributable to our expansion into new markets. For example, the revenue growth we experienced in 2003 and 2004 was due in part to our successful expansion of operations into China. Our growth over the next several years depends in part on our ability to successfully introduce products and tools, and to successfully implement initiatives in our new and developing markets, including China, Russia, Latin America and Eastern Europe that will help generate growth. In addition to the regulatory difficulties we may face in introducing our products, tools, and initiatives in these markets, we could face difficulties in achieving acceptance of our premium-priced products in developing markets. In the past, we have struggled to operate successfully in developing country markets, such as Latin America. This may also be the case in Eastern Europe and the other new markets into which we have recently expanded. If we are unable to successfully expand our operations within these new markets, our opportunities to grow our business may be limited, and, as a result, we may not be able to achieve our long-term objectives.

Global political issues and conflicts could harm our business.

Because a substantial portion of our business is conducted outside of the United States, our business is subject to global political issues and conflicts, including terrorism threats, tensions related to North Korea, political tensions between the People's Republic of China and Taiwan, and other issues. If these conflicts or issues escalate, or if there is increased anti-American sentiment, this could harm our foreign operations. In addition, changes and actions by governments in foreign markets, in particular those markets such as China where capitalism and free market trading is still evolving, could harm our business.

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

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

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

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

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

Distributor activities in our existing markets that violate governmental laws or regulations could result in governmental actions against us in markets where we operate. Except in China, our distributors are not employees and act independently of us. We implement strict policies and procedures to ensure our distributors will comply with legal requirements. However, given the size of our distributor force, we experience problems with distributors from time to time. For example, product claims made by some of our distributors in 1990 and 1991 led to an investigation by the FTC in the United States, which resulted in our entering into a consent decree with the FTC as described below. In addition, recent rulings by the Korean FTC and by judicial authorities against us and other companies in Korea indicate that vicarious liability may be imposed on us for the criminal activity of our independent distributors.

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

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

Government inquiries, investigations, and actions could harm our business.

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

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

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

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

As of December 31, 2006, we had approximately 761,000 active independent distributors, sales representatives and preferred customers, including approximately 30,000 executive level distributors or full-time sales representatives. Approximately 453 distributors occupied the highest distributor level under our global compensation plan as of that date. These distributors, together with their extensive networks of downline distributors, account for substantially all of our revenue. As a result, the loss of a high-level distributor or a group of leading distributors in the distributor's network of downline distributors, whether by their own choice or through disciplinary actions by us for violations of our policies and procedures, could negatively impact our distributor growth and our revenue.

Laws and regulations may prohibit or severely restrict our direct sales efforts and cause our revenue and profitability to decline, and regulators could adopt new regulations that harm our business.

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

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

Complying with these widely varying and sometimes inconsistent rules and regulations can be difficult and require the devotion of significant resources on our part. If we are unable to continue business in existing markets or commence operations in new markets because of these laws, our revenue and profitability will decline. Countries where we currently do business could change their laws or regulations to negatively affect or completely prohibit direct sales efforts.

In addition, government agencies and courts in the countries where we operate may use their powers and discretion in interpreting and applying laws in a manner that limits our ability to operate or otherwise harms our business or adopt new laws or regulations that could impose additional restrictions. For example, the FTC in the United States has recently proposed new regulations which would impose additional disclosure requirements and waiting periods before a person could sign up to become a distributor that are restrictive and burdensome. The direct selling industry association has filed comments objecting to many of these requirements and is working to get the FTC to change its proposal for new regulations. If these regulations were adopted in their current form, it could have a negative impact on direct selling businesses in the United States including our business. If any governmental authority were to bring a regulatory enforcement action against us that interrupts our business, revenue and earnings would likely suffer.

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

We may be subject to challenges by private parties, including our distributors, to the form of our network marketing system or elements of our business. In the United States, the network marketing industry and regulatory authorities have generally relied on the implementation of distributor rules and policies designed to promote retail sales to protect consumers and to prevent inappropriate activities and to distinguish between legitimate network marketing distribution plans and unlawful pyramid schemes. We have adopted rules and policies based on case law, rulings of the FTC, discussions with regulatory authorities in several states and domestic and global industry standards. Legal and regulatory requirements concerning network marketing systems, however, involve a high level of subjectivity, are inherently fact-based and are subject to judicial interpretation. Because of the foregoing, we can provide no assurance that we would not be harmed by the application or interpretation of statutes or regulations governing network marketing, particularly in any civil challenge by a current or former distributor.

Increases in duties on our imported products in our markets outside of the United States or adverse results of tax audits in our various markets could reduce our revenue, negatively impact our operating results and harm our competitive position.

Historically, we have imported most of our products into the countries in which they are ultimately sold. These countries impose various legal restrictions on imports and typically impose duties on our products. 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. These audits sometimes result in challenges by such taxing authorities as to our methodologies used in determining our income tax, duties, customs, and other amounts owed in connection with the importation and distribution of our products. Currently, customs audits are underway in a number of our markets. We have been assessed by the Japan customs authorities approximately $25 million for additional duties on products imported into Japan, and we are currently contesting this assessment. Effective July 1, 2005, the Company is operating under a new structure in Japan and we are in the process of negotiating a new advanced pricing agreement with the income tax authorities in Japan related to our transfer pricing for products being imported into Japan. In connection with these negotiations, they have requested that we explain our position in the custom's appeal and apparent difference in our treatment of the transaction for customs purposes compared to our income tax treatment under the prior structure. In the event the income tax authorities disagree with our position or explanation, there is a risk that they could attempt to challenge our income tax position, which could negatively impact our ability to successfully prosecute our custom's appeal or result in additional income tax assessments. Audits are also often focused on whether or not certain expenses are deductible for tax purposes in a given country. In Taiwan, we are currently subject to an audit by tax authorities with respect to the deductibility of distributor commission expenses in that market. In order to avoid the running of the statute of limitations with respect to the 1999 and 2000 tax years, the Taiwan tax authorities have disallowed our commission expense deductions for those years and assessed us a total of approximately $18.7 million. We are contesting this assessment and are in discussions with the tax authorities in an effort to resolve this matter. To the extent we are unable to successfully defend ourselves against such audits and reviews, we may be required to pay assessments and penalties and increased duties, which may, individually or in the aggregate, negatively impact our gross margins and operating results.

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

As a U.S. company doing business in international markets through subsidiaries, we are subject to foreign tax and intercompany pricing laws, including those relating to the flow of funds between our company and our subsidiaries. Regulators in the United States and in foreign markets closely monitor our corporate structure and how we effect intercompany fund transfers. If regulators challenge our corporate structure, transfer pricing mechanisms or intercompany transfers, our operations may be harmed, and our effective tax rate may increase. Tax rates vary from country to country, and, if regulators determine that our profits in one jurisdiction may need to be increased, we may not be able to fully utilize all foreign tax credits that are generated, which will increase our effective tax rate. For example, our corporate income tax rate in the United States is 35%. If our profitability in a higher tax jurisdiction, such as Japan where the corporate tax rate is currently set at 46%, increases disproportionately to the rest of our business, our effective tax rate may increase. The various customs, exchange control and transfer pricing laws are continually changing and are subject to the interpretation of governmental agencies. Despite our efforts to be aware of and comply with such laws and changes to and interpretations thereof, there is a risk that we may not continue to operate in compliance with such laws. We may need to adjust our operating procedures in response to such changes, and as a result our business may suffer.

The loss of suppliers or shortages in ingredients could harm our business.

For approximately ten years, we have acquired ingredients and products from a supplier that currently manufactures approximately 25% of our Nu Skin personal care products. In addition, we currently rely on two suppliers for a majority of Pharmanex nutritional supplement products, one of which supplies approximately 35% and the other of which supplies approximately 22%. In the event we were to lose any of these suppliers and experience any difficulties in finding or transitioning to alternative suppliers, this could harm our business. In addition, we obtain some of our products from sole suppliers that own or control the product formulations or ingredients. We also license the right to distribute some of our products from third parties. Although none of these products individually represents a substantial portion of our revenue, in the event we are unable to renew these contracts, we may need to discontinue some products or develop substitute products, which could harm our revenue. In addition, if we experience supply shortages or regulatory impediments with respect to the raw materials and ingredients we use in our products, we may need to seek alternative supplies or suppliers. Some of our nutritional products, including our recently introduced *g3* juice, incorporate natural products that are only harvested once a year and may have limited supplies. If demand exceeds forecasts, we may have difficulties in obtaining additional supplies to meet the excess demand until the next growing season. If we are unable to successfully respond to such issues our business could be harmed.

Production difficulties and quality control problems could harm our business.

Occasionally, we, or our suppliers 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 products, harming our sales and creating inventory write-offs for unusable product. In addition, these issues can negatively impact distributor confidence as well as potentially invite additional governmental scrutiny in our various markets.

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

Our success depends to a significant degree upon the continued contributions of our senior management, many of whom would be difficult to replace. These employees may voluntarily terminate their employment with us at any time. We may not be able to successfully retain existing personnel or identify, hire and integrate new personnel. We do not carry key person insurance for any of our personnel. Although we have signed offer letters or written agreements summarizing the compensation terms for some of our senior executives, we have generally not entered into formal employment agreements with our executive officers. If we lose the services of our executive officers or key employees for any reason, our business, financial condition and results of operations could be harmed.

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

The markets for our products are intensely competitive. Our results of operations may be harmed by market conditions and competition in the future. Many competitors have much greater name recognition and financial resources than we have, which may give them a competitive advantage. For example, our Nu Skin products compete directly with branded, premium retail products. We also compete with other direct selling organizations. The leading direct selling companies in our existing markets are Avon and Alticor (Amway). We currently do not have significant patent or other proprietary protection, and our competitors may introduce products with the same ingredients that we use in our products. Because of regulatory restrictions concerning claims about the efficacy of dietary supplements, we may have difficulty differentiating our products from our competitors' products, and competing products entering the nutritional market could harm our nutritional supplement revenue.

We also compete with other network marketing companies for distributors. Some of these competitors have a longer operating history and greater visibility, name recognition and financial resources than we do. Some of our competitors have also adopted and could continue to adopt some of our successful business strategies, including our global compensation plan for distributors. Consequently, to successfully compete in this market and attract and retain distributors, we must ensure that our business opportunities and compensation plans are financially rewarding. We have over 20 years of experience in this market and believe we have significant competitive advantages, but we cannot assure you that we will be able to successfully compete in every endeavor in this market.

Product liability claims could harm our business.

We may be required to pay for losses or injuries purportedly caused by our products. Although we have had a very limited number and relatively low financial exposure from product claims to date, we have experienced difficulty in finding insurers that are willing to provide product liability coverage at reasonable rates due to insurance industry trends and the rising cost of insurance generally. As a result, we have elected to self-insure our product liability risks for our core product lines. Until we elect and are able to obtain product liability insurance, if any of our products are found to cause any injury or damage, we will be subject to the full amount of liability associated with any injuries or damages. This liability could be substantial. We cannot predict if and when product liability insurance will be available to us on reasonable terms.

System failures could harm our business.

Because of our diverse geographic operations and our complex distributor compensation plan, our business is highly dependent on efficiently functioning information technology systems. These systems and operations are vulnerable to damage or interruption from fires, earthquakes, telecommunications failures and other events. They are also subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. We have adopted and implemented a Business Continuity/Disaster Recovery Plan. Our primary data sets are archived and stored at third-party secure sites, but we have not contracted for a third-party recovery site. Despite any precautions, the occurrence of a natural disaster or other unanticipated problems could result in interruptions in services and reduce our revenue and profits.

There is a risk that the Avian Flu or other such epidemics could negatively impact our business, particularly in those Asian markets most affected by such epidemics in recent years.

Our revenue was negatively impacted in 2003 by the SARS epidemic that hit Asia during that year. Currently, the Avian Flu is a concern in some Asian markets. It is difficult to predict the impact on our business, if any, of a recurrence of SARS or other epidemic, of the Avian Flu, or the emergence of new epidemics. Although such events could generate increased sales of health/immune supplements and certain personal care products, our direct selling and retail activities and results of operations could be harmed if the fear of the Avian Flu, SARS or other communicable diseases that spread rapidly in densely populated areas causes people to avoid public places and interaction with one another.

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

Our common stock closed at $22.51 per share on March 31, 2005 and closed at $17.56 per share on February 15, 2007. During this two-year period, our common stock traded as low as $13.40 per share and as high as $25.86 per share. Many factors could cause the market price of our common stock to fall. Some of these factors include:

- fluctuations in our quarterly operating results;
- the sale of shares of common stock by our original or significant stockholders;
- general trends in the market for our products;
- acquisitions by us or our competitors;

- economic and/or currency exchange issues in those foreign countries in which we operate;
- changes in estimates of our operating performance or changes in recommendations by securities analysts; and
- general business and political conditions.

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

As of February 15, 2007, our original stockholders, together with their family members, estate planning entities and affiliates, controlled approximately 29% of the combined stockholder voting power, and their interests may be different from yours.

The original stockholders of our company, together with their family members and affiliates, have the ability to influence the election and removal of the board of directors and, as a result, future direction and operations of our company. As of February 15, 2007, these stockholders owned approximately 29% of the voting power of the outstanding shares of common stock. Accordingly, they may influence decisions concerning business opportunities, declaring dividends, issuing additional shares of common stock or other securities and the approval of any merger, consolidation or sale of all or substantially all of our assets. They may make decisions that are adverse to your interests.

If our stockholders sell a substantial number of shares of our common stock in the public market, the market price of our common stock could fall.

Several of our principal stockholders hold a large number of shares of the outstanding common stock. Any decision by any of our principal stockholders to aggressively sell their shares could depress the market price of our common stock. As of February 15, 2007, we had approximately 65.9 million shares of common stock outstanding. All of these shares are freely tradable, except for approximately 19 million shares held by certain stockholders who participated in our October 2003 recapitalization transaction wherein we repurchased approximately 10.8 million of our shares from our original stockholders and their affiliates and facilitated the resale of approximately 6.2 million additional shares to a group of private equity investors. Under the terms of our repurchase, our original stockholders agreed to a two-year lock-up that expired on October 22, 2005. These stockholders also agreed that, after the expiration of the two-year lock-up agreement in October 2005, they will be subject to certain volume limitations with respect to open market transactions. In the event these lock-up restrictions were removed, the resulting sales could cause the price of our common stock to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal properties consist of the following:

Operational Facilities. These facilities include administrative offices, walk-in centers, and warehouse/distribution centers. Our operational facilities measuring 50,000 square feet or more include the following:

- our worldwide headquarters in Provo, Utah;
- our worldwide distribution center/warehouse in Provo, Utah; and
- our distribution center in Tokyo, Japan.

Manufacturing Facilities. Each of our manufacturing facilities measure 50,000 square feet or more, and include the following:

- our nutritional supplement manufacturing facility in Zhejiang Province, China;
- our personal care manufacturing facility in Shanghai, China; and
- our Scanner manufacturing facility in Shanghai, China.

Retail Stores. We currently operate approximately 150 stores in 30 provinces throughout China, measuring a total of approximately 296,010 square feet.

Research and Development Centers. We operate three research and development centers, one in Provo, Utah, one in Shanghai, China, and one in Beijing, China.

With the exception of our research and development center in Utah, our nutritional supplement plant in China, and a few other minor facilities, which we own, we lease the properties described above. Our headquarters and distribution center in Utah are leased from related parties. We believe that our existing and planned facilities are adequate for our current operations in each of our existing markets.

ITEM 3. LEGAL PROCEEDINGS

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 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 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 to follow proper administrative procedures we filed appeals with the Japan Ministry of Finance. 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. We decided to appeal this issue through the judicial court system in Japan, and on December 22, 2006 we filed a complaint with the Tokyo District Court Civil Action Section with respect to this period. In January 2007, we were advised that the Ministry of Finance also rejected our appeal with them for the imports from November 2004 to June 2005. We currently plan to appeal this decision with the court system in Japan as well. 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. We have paid the $25.0 million in customs duties and assessments, the amount of which we recorded in "Other Assets" in our Consolidated Balance Sheet. 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.

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

There were no matters submitted to a vote of the security holders during the fourth quarter of the fiscal year ended December 31, 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "NUS." The following table is based upon the information available to us and sets forth the range of the high and low sales prices for our Class A common stock for the quarterly periods during 2005 and 2006 based upon quotations on the NYSE.

Quarter Ended	High	Low
March 31, 2005	$ 25.55	$ 20.07
June 30, 2005	24.62	20.57
September 30, 2005	25.86	18.95
December 31, 2005	19.29	15.35

Quarter Ended	High	Low
March 31, 2006	$ 19.71	$ 17.12
June 30, 2006	18.40	14.38
September 30, 2006	18.50	13.40
December 31, 2006	19.42	17.23

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

The closing price of our Class A common stock on February 15, 2007, was $17.56. The approximate number of holders of record of our Class A common stock as of February 15, 2007 was 579. This number of holders of record does not represent the actual number of beneficial owners of shares of our Class A common stock because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

Dividends

We declared and paid a $0.09 per share dividend for Class A common stock in March, June, September and December of 2005, and a $0.10 per share quarterly dividend for Class A common stock in March, June, September and December of 2006. The board of directors declared a quarterly cash dividend of $0.105 per share of Class A common stock on February 5, 2007. This quarterly cash dividend will be paid on March 21, 2007, to stockholders of record on March 2, 2007. Management believes that cash flows from operations will be sufficient to fund this and future dividend payments, if any.

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

Purchases of Equity Securities by the Issuer

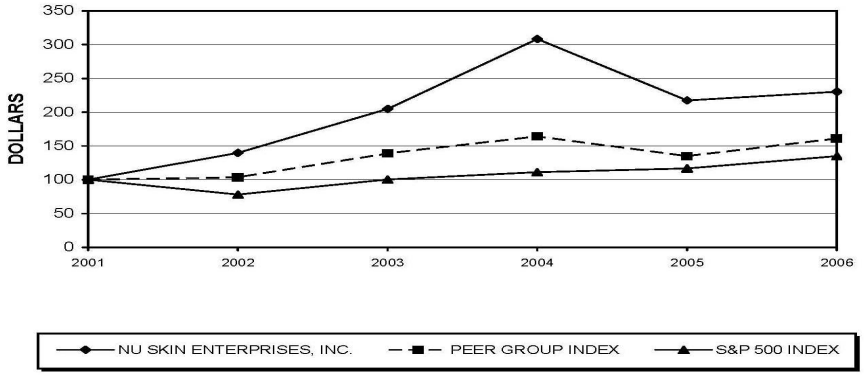
Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (in millions)[1]
October 1 - 31, 2006	781,828	$ 18.35	781,400	$ 84.1
November 1 - 30, 2006	594,000	$ 18.86	594,000	$ 72.9
December 1 - 31, 2006	679,000	$ 18.17	679,000	$ 60.6
Total	2,054,828[2]	$ 18.44	2,054,400	

(1) 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 approximately $235.0 million is currently authorized. As of December 31, 2006, we had repurchased approximately $175.0 million of shares under the plan. There has been no termination or expiration of the plan since the initial date of approval.

(2) We have authorized the repurchase of shares acquired by our employees and distributors in certain foreign markets because of regulatory and other issues that make it difficult and costly for these persons to sell such shares in the open market. These shares were awarded or acquired in connection with our initial public offering in 1996. Of the shares listed in this column, 428 shares for October relate to repurchases from such employees at an average per share purchase price of $17.12.

Stock Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return (stock price appreciation plus dividends) on the Class A Common Stock with the cumulative total return of the S&P 500 Index and a market-weighted index of publicly traded peers for the period from December 31, 2001 through December 31, 2006. The graph assumes that $100 is invested in each of the Class A Common Stock, the S&P 500 Index, and each of the indexes of publicly traded peers on December 31, 2001 and that all dividends were reinvested. The peer group consists of all of the following companies that compete in our industry and product categories: Avon Products, Inc., Estee Lauder, Nature's Sunshine Products, Inc., Tupperware Corporation, Herbalife LTD., USANA Health Sciences, Inc. and Alberto Culver Co.



ASSUMES $100 INVESTED ON DECEMBER 31, 2001
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DECEMBER 31, 2006

Measured Period	Company	S&P 500 Index	Peer Group Index
December 31, 2001	$ 100.00	100.00	100.00
December 31, 2002	139.83	103.46	77.90
December 31, 2003	204.68	139.05	100.25
December 31, 2004	308.19	164.15	111.15
December 31, 2005	217.21	134.87	116.61
December 31, 2006	230.33	161.14	135.03

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 have been derived from the audited consolidated financial statements.

	Year Ended December 31,				
	2002	2003	2004	2005	2006
	(U.S. dollars in thousands, except per share data and cash dividends)				
Income Statement Data:					
Revenue	$ 964,067	$ 986,457	$ 1,137,864	$ 1,180,930	$ 1,115,409
Cost of sales	190,868	176,545	191,211	206,163	195,203
Gross profit	773,199	809,912	946,653	974,767	920,206
Operating expenses:					
Selling expenses	382,159	407,088	487,631	497,421	480,136
General and administrative expenses[1]	285,229	289,925	333,263	354,223	353,412
Impairment of assets and other	—	—	—	—	20,840
Restructuring and other charges	—	5,592	—	—	11,115
Total operating expenses	667,388	702,605	820,894	851,644	865,503
Operating income	105,811	107,307	125,759	123,123	54,703
Other income (expense), net	(2,886)	432	(3,618)	(4,172)	(2,027)
Income before provision for income taxes	102,925	107,739	122,141	118,951	52,676
Provision for income taxes	38,082	39,863	44,467	44,918	19,859
Net income	$ 64,843	$ 67,876	$ 77,674	$ 74,033	$ 32,817
Net income per share:					
Basic	$ 0.79	$ 0.86	$ 1.10	$ 1.06	$ 0.47
Diluted	$ 0.78	$ 0.85	$ 1.07	$ 1.04	$ 0.47
Weighted-average common shares outstanding (000s):					
Basic	81,731	78,637	70,734	70,047	69,418
Diluted	83,128	79,541	72,627	71,356	70,506
Balance Sheet Data (at end of period):					
Cash and cash equivalents and current investments	$ 120,341	$ 122,568	$ 120,095	$ 155,409	$ 121,353
Working capital	181,942	149,324	117,401	149,098	109,418
Total assets	577,794	591,059	609,737	678,866	664,849
Current portion of long-term debt	—	17,915	18,540	26,757	26,652
Long-term debt	81,732	147,488	132,701	123,483	136,173
Stockholders' equity	386,486	290,248	296,233	354,628	318,980
Cash dividends declared	0.24	0.28	0.32	0.36	0.40
Supplemental Operating Data (at end of period):					
Approximate number of active distributors[2]	566,000	725,000	820,000	803,000	761,000
Number of executive distributors[2]	27,915	29,131	32,016	30,471	29,756

(1) Beginning in 2006 the Company adopted FAS 123R which resulted in stock-based compensation expense of $9.3 million.

(2) Active distributors include preferred customers and distributors purchasing products directly from us during the three months ended as of the date indicated. An executive distributor is an active distributor who has achieved required personal and group sales volumes. Following the opening of our retail business in China during 2003, active distributors includes 117,000, 147,000, 116,000 and 79,000 preferred customers in China and executive distributors includes 3,100, 5,437, 3,787 and 2,936 employed, full-time sales representatives for the years ended December 31, 2003, 2004, 2005 and 2006, respectively.

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

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

Overview

We are a leading, global direct selling company with 2006 revenue of $1.12 billion and a global network of over 761,000 active independent product distributors and preferred customers who purchase our products for resale and for personal use. Approximately 30,000 of these distributors are executive level distributors, who play an important leadership role in our distribution network and are critical to the growth of our business. We develop and market premium-quality personal care products under the Nu Skin brand, science-based nutritional supplements under the Pharmanex brand, and technology-related products and services under the Big Planet brand. We currently operate in 45 markets throughout Asia, the Americas and Europe.

Our revenue depends on the number and productivity of our active independent distributors and executive distributor leaders. We have been successful in attracting and motivating distributors by:

- developing and marketing innovative, technologically advanced products;
- providing compelling initiatives, advanced technological tools and strong distributor support; and
- offering attractive incentives that motivate distributors to build sales organizations.

Our distributors market and sell our products based on the distinguishing benefits and innovative characteristics of our products. As a result, it is vital to our business that we continuously leverage our research and development resources to develop and introduce innovative products and provide our distributors with an attractive portfolio of products. We also offer unique initiatives and business tools, such as our technologically-advanced Pharmanex® BioPhotonic Scanner (the "Scanner"), to help distributors effectively differentiate our earnings opportunity and product offering. If we experience delays or difficulties in introducing compelling products or attractive initiatives or tools into a market, this can have a negative impact on revenue. In addition, as a result of the global nature of our distributor incentives, the introduction of a new product or key initiative such as the Scanner can negatively impact other markets or product lines to the extent our distributor leaders focus their efforts on the new product or initiative.

We have developed a global distributor compensation plan and other incentives designed to motivate our distributors to market and sell our products and to build sales organizations around the world and across product lines. Our extensive global distributor network helps us to rapidly introduce products and penetrate our markets with little up-front promotional expense. One of the key distributor incentives that we have developed and continue to promote in many of our markets is our product subscription and loyalty program that provides incentives for customers to commit to purchase a specific amount of products on a monthly basis. We believe these subscription programs have improved customer retention, have had a stabilizing impact on revenue and have helped generate recurring sales for our distributors. Subscription orders represented 48% of our revenue in 2006.

In 2006 we generated approximately 80% of our revenue from our Asian markets, with sales in Japan representing approximately 43% of revenue. Because of the size of our foreign operations, operating results can be impacted negatively or positively by factors such as foreign currency fluctuations, in particular fluctuations between the Japanese yen and the U.S. dollar, and economic, political and business conditions around the world. In addition, our business is subject to various laws and regulations, in particular, regulations related to network marketing activities and nutritional supplements that create certain risks for our business, including improper claims or activities by our distributors and the potential inability to obtain necessary product registrations. For more information about these risks and challenges we face, please refer to "Note Regarding Forward-Looking Statements."

Income Statement Presentation

We recognize revenue in five geographic regions and we translate revenue from each market's local currency into U.S. dollars using quarterly weighted-average exchange rates. The following table sets forth revenue information by region for the periods indicated. This table should be reviewed in connection with the tables presented under "Results of Operations," which disclose selling expenses and other costs associated with generating the aggregate revenue presented.

	Year Ended December 31,

Revenue by Region	2004		2005		2006	
			(U.S. dollars in millions)			
North Asia	$ 640.1	56%	$ 649.4	55%	$ 593.8	53%
Greater China	229.8	20	236.7	20	208.2	19
Americas	149.6	13	162.1	14	165.9	15
South Asia/Pacific	81.8	7	86.7	7	88.0	8
Europe	36.6	4	46.0	4	59.5	5
	$ 1,137.9	100%	$ 1,180.9	100%	$ 1,115.4	100%

Cost of sales primarily consists of:

- cost of products purchased from third-party vendors, generally in U.S. dollars;
- costs of self-manufactured products;
- cost of sales materials which we sell to distributors at or near cost;
- amortization expenses associated with certain products and services such as the Scanners that are leased to distributors;
- freight cost of shipping products to distributors and import duties for the products; and
- royalties and related expenses for licensed technologies.

We source the majority of our products from third-party manufacturers located in the United States. Due to Chinese government restrictions on the importation of finished goods applicable to the current scope of our business in China, we are required to manufacture the bulk of our own products for distribution in China. Cost of sales and gross profit may fluctuate as a result of changes in the ratio between self-manufactured products and products sourced from third-party suppliers. In addition, because we purchase a significant majority of our goods in U.S. dollars and recognize revenue in local currencies, we are subject to exchange rate risks in our gross margins.

Selling expenses are our most significant expense and are classified as operating expenses. Selling expenses include distributor commissions as well as wages, benefits, bonuses and other labor and unemployment expenses we pay to former employed sales representatives in China. Our global compensation plan, which we employ in all of our markets except China, is an important factor in our ability to attract and retain distributors. We pay monthly commissions to several levels of distributors on each product sale based upon a distributor's personal and group product volumes, as well as the group product volumes of up to six levels of executive distributors in such distributor's downline sales organization. We do not pay commissions on sales materials, which are sold to distributors at or near cost. Small fluctuations occur in the amount of commissions paid as the network of distributors actively purchasing products changes from month to month. However, due to the size of our distributor force of over 761,000 active distributors, the fluctuation in the overall payout is relatively small. The overall payout has typically averaged from 41% to 43% of global product sales. From time to time, we make modifications and enhancements to our global compensation plan in an effort o help motivate distributors and develop leadership characteristics, which can have an impact on selling expenses.

Distributors also have the opportunity to make retail profits by purchasing products from us at wholesale and selling them to customers with a retail mark-up. We do not account for nor pay additional commissions on these retail mark-ups received by distributors. In many markets, we also allow individuals who are not distributors, whom we refer to as "preferred customers", to buy products directly from us at wholesale prices. We pay commissions on preferred customer purchases to the referring distributors.

General and administrative expenses include:

- wages and benefits;
- rents and utilities;
- depreciation and amortization;
- promotion and advertising;
- professional fees;
- travel;
- research and development; and
- other operating expenses.

Labor expenses are the most significant portion of our general and administrative expenses. Promotion and advertising expenses include costs of distributor conventions held in various markets worldwide, which we expense in the period in which they are incurred. Because our various distributor conventions are not always held during each fiscal year, their impact on our general and administrative expenses may vary from year to year. For example, we have typically held our global distributor convention and our Japan distributor convention, our two most expensive conventions, every 18 months. Therefore, we have not incurred expenses for these conventions during every fiscal year or in comparable interim periods and year-over-year comparisons have been impacted accordingly. We held a global distributor convention in October 2005 but did not hold one in 2006. We held Japan distributor conventions in November 2004 and March of 2006. In the future, we plan to begin holding global conventions every 24 months instead of every 18 months.

Provision for income taxes depends on the statutory tax rates in each of the jurisdictions in which we operate. For example, statutory tax rates in 2006 were approximately 17.5% in Hong Kong, 25% in Taiwan, 27.5% in South Korea, 46% in Japan and 30% in China. For the years 2006 through 2008 we are subject to a reduced tax rate of 50% of the statutory rate in China, after which time we will be subject to the full statutory rate. We are subject to taxation in the United States at the statutory corporate federal tax rate of 35% and we pay taxes in multiple states within the United States at various tax rates. Our overall effective tax rate was 37.7% for the year ended December 31, 2006.

Critical Accounting Policies

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

Revenue. We recognize revenue when products are shipped, which is when title 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 and rebates, if any, as a reduction of revenue. Our global compensation plan for our distributors is focused on remunerating distributors based upon the selling efforts of the distributors and their downlines, and not their personal purchases.

Income Taxes. We account for income taxes in accordance with Statements of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. We pay income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions among our affiliates around the world. Deferred tax assets and liabilities are created in this process. As of December 31, 2006, we had net deferred tax assets of $51.6 million. These net deferred tax assets assume sufficient future earnings will exist for their realization, as well as the continued application of current tax rates. We have considered projected future taxable income and ongoing tax planning strategies in determining the extent of valuation allowances required. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination was made.

Our foreign taxes paid are high relative to foreign operating income and our U.S. taxes paid are low relative to U.S. operating income due largely to the flow of funds among our subsidiaries around the world. As payments for services, management fees, license arrangements and royalties are made from our foreign affiliates to our U.S. corporate headquarters, these payments often incur withholding and other forms of tax that are generally creditable for U.S. tax purposes. Therefore, these payments lead to increased foreign effective tax rates and lower U.S. effective tax rates. Variations (or shifts) occur in our foreign and U.S. effective tax rates from year to year depending on several factors, including the impact of global transfer prices and the timing and level of remittances from foreign affiliates.

We are subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. We account for such contingent liabilities in accordance with SFAS No. 5, "Accounting for Contingencies" and believe 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.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation Number 48 "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("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 of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are 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. The Company is currently evaluating the impact of FIN 48 on its consolidated financial statements, but is not yet in a position to make this determination.

Stock-Based Compensation Expense. Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") using the modified prospective transition method and therefore have not restated results for prior periods. Our results of operations during 2006 were impacted by the recognition of non-cash expense related to the fair value of our stock-based compensation awards. During the year ended December 31, 2006, we recorded $9.3 million in pre-tax stock-based compensation expense. Total stock-based compensation expense, net of tax, for the year ended December 31, 2006 was $5.8 million.

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 life 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 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.

Results of Operation

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

	Year Ended December 31,		
	2004	2005	2006
Revenue	100.0%	100.0%	100.0%
Cost of sales	16.8	17.5	17.5
Gross profit	83.2	82.5	82.5
Operating expenses:			
Selling expenses	42.9	42.1	43.1
General and administrative expenses	29.3	30.0	31.7
Impairment of assets and other	—	—	0.9
Restructuring and other charges	—	—	1.9
Total operating expenses	72.2	72.1	77.6
Operating income	11.0	10.4	4.9
Other income (expense), net	(.3)	(.3)	(.2)
Income before provision for income taxes	10.7	10.1	4.7
Provision for income taxes	3.9	3.8	1.8
Net income	6.8%	6.3%	2.9%

2006 Compared to 2005

Overview

Revenue in 2006 decreased 5% to $1.12 billion from $1.18 billion in 2005. The revenue decrease was primarily attributable to local currency declines in Japan and China. In addition, foreign currency exchange fluctuations negatively impacted reported revenue by 1% in 2006 compared to 2005, particularly as a result of a weakening of the Japanese yen. Revenue in 2006 was positively impacted by growth in South Korea, Europe, the United States, Indonesia, and a number of our other markets around the world. Various global initiatives we implemented during the past year contributed to the growth in these markets and have also had a positive impact on Japan and China. In 2006 we launched several products and tools that have been particularly successful, including our second-generation Pharmanex® BioPhotonic Scanner (the "S2 Scanner"), our *g3* nutrition drink, and our Nu Skin® ProDerm™ Skin Analyzer (the "ProDerm Skin Analyzer"). *g3* is now one of our top selling products globally, generating more than $60.0 million in revenue in 2006.

Earnings per share in 2006 were $0.47 compared to $1.04 in 2005 on a diluted basis. In addition to the factors described above, the decrease was impacted by several factors, including:

- restructuring and impairment charges in the first quarter of 2006 totaling $20.0 million (net of taxes of $12.0 million), or $0.28 per share, relating to a business transformation initiative that we implemented during the first quarter;

- $5.8 million (net of taxes of $3.5 million) in stock-based compensation expense as a result of the implementation of a new accounting standard requiring the expensing of stock-based compensation beginning in the first quarter of 2006;
- our relatively high fixed costs in China combined with revenue declines in that market, as well as costs associated with the opening of Russia; and
- increased distributor commission rates in Japan, as more fully described in the section below entitled, "Selling Expenses."

Revenue

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

	2005	2006	Change
Japan	$ 562.0	$ 476.5	(15%)
South Korea	87.4	117.3	34%
North Asia total	$ 649.4	$ 593.8	(9%)

Foreign currency fluctuations, particularly a weakening of the Japanese yen throughout the year, negatively impacted North Asia region revenue by 5% in 2006 compared to 2005. Revenue in this region was also negatively impacted by an 11% local currency decline in Japan in 2006 compared to 2005. Our active and executive distributor counts decreased 6% and 10%, respectively, in Japan in 2006 compared to 2005. Our Japan revenue in 2006 was negatively impacted by a slowdown in our business that started in the latter part of 2005, resulting from several factors that impacted our sponsoring story for new distributors, including:

- modifications we made to our compensation plan in 2005 that we believe negatively impacted revenue and distributor counts;
- a scale-back of the roll-out of our first-generation BioPhotonic Scanner during the latter part of 2005 in advance of the April 2006 launch of the S2 Scanner;
- regulatory challenges related to our nutritional supplements and the Scanner which impact the way in which we can market certain products; and
- declines in our personal care revenue as a result of increased attention to our nutritional business and the Scanner.

During 2006, we have taken several steps to address these issues. Effective April 1, 2006, we implemented some enhancements to distributor incentives in Japan in order to address the negative impacts resulting from the 2005 modifications. Since April of 2006 we have been rolling out the S2 Scanner in Japan, and we now have approximately 1,500 units in the field. In June of 2006 we launched our *g3* nutrition drink in Japan, and it is now our second best-selling product there. In connection with these initiatives, we implemented a corporate image and brand building campaign that includes facility upgrades and media campaigns. We believe that these initiatives are beginning to have a positive impact on our business in Japan, and as a result, we began to see improvements in our year-over-year revenue comparisons in the third and fourth quarters of 2006.

While we have successfully dealt with regulatory restrictions in the past with respect to our nutritional sales in Japan, the regulatory environment appears to have resulted in a slower than expected response to our Scanner roll-out in Japan that began in 2005. Our nutritional supplements are sold as foods in Japan, which limits the claims we can make with respect to such products, including an inability to claim that our products increase antioxidant levels. In addition, although we are able to link the Scanner measurement to a more general nutritional assessment (which we are not able to do in most of our other markets), we are not able to link it to a specific measure of carotenoid antioxidant levels. We are also limited in our ability to tie the Scanner measurement directly to the consumption of our nutrition products.

Our personal care business has slowed in Japan over the last couple of years as much of the attention in this market has focused on our nutritional business. As a result, we are focusing more resources on product development in personal care in order to revitalize this part of our business there. As part of this effort, during the first part of 2007 we plan to launch a new, advanced anti-aging skin care product called *Beauty Essence Duo* that we believe will help promote our personal care business.

South Korea has generated significant growth over the past three years in both our personal care and nutrition businesses, and is now our third largest market. Local currency revenue in South Korea grew 25% in 2006 compared to 2005, and active and executive distributor counts grew significantly as well. We believe that these results were due to strong product and other initiatives, alignment of our distributor leaders behind these initiatives, and a strong sponsoring environment. Successful launches in 2006 include *g3*, a reformulated *Nu Skin 180° Anti-Aging Skin Therapy* system, and *Galvanic Spa II*.

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

	2005	2006	Change
China	$ 102.2	$ 70.5	(31%)
Taiwan	92.4	93.1	1%
Hong Kong	42.1	44.6	6%
Greater China total	$ 236.7	$ 208.2	(9%)

Foreign currency exchange rate fluctuations did not significantly impact revenue in the Greater China region in 2006. China revenue decreased by 31% in 2006 compared to 2005, and our executive and active distributor counts decreased 23% and 31%, respectively. Beginning in the latter part of 2005, we have experienced a slowdown in our business and a weakened sponsoring environment in China. We believe this to be a result of several factors, including delays in the direct selling licensing process following the enactment of new direct selling regulations, related consumer uncertainty and government and media scrutiny of the direct selling industry, which caused us to take a very conservative business approach as we worked towards obtaining a direct selling license. These factors, as well as changes to our compensation plan late in 2005, contributed to the slowdown and to a loss of some high level sales representatives this past year.

In July of 2006, we received national governmental approval to commence direct selling activities in eight districts within Shanghai. We then obtained necessary local approvals and commenced direct selling activities in Shanghai in January 2007. Although we are in the very early stages of implementing direct selling in China, we are encouraged by sequential month-over-month growth that we have experienced in China since our receipt of our initial approval last July. Our direct selling license in Shanghai allows us to engage an entry-level, non-employee sales force that can sell products away from fixed retail locations. We are also able to hold larger training meetings than were previously allowed, which we believe is helpful in sponsoring and business building. The new direct selling regulations prohibit the use of multi-level compensation plans for direct selling, so we compensate these independent contractors based on their personal selling efforts only. We are structuring our direct sales model in a manner that we believe is complementary to our existing retail store/sales representative model, and will benefit our overall business in China. Our independent direct sellers, for example, will have the opportunity to become employed sales representatives upon developing sales skills and a good customer base, and be compensated for personal sales productivity as well as the productivity of the other representatives that they train and supervise.

During the next few quarters we will be focusing our efforts on expanding our direct selling model into other provinces and municipalities throughout China. Because direct selling was only recently authorized in China, the regulatory environment with respect to direct selling in this market remains fluid and the process for obtaining the necessary governmental approvals to conduct direct selling continues to evolve. The regulations and processes in some circumstances have been interpreted differently by different governmental authorities. In order to expand our direct selling model into additional provinces, we currently must obtain a series of approvals from district, city, provincial and national government agencies for each province. The licensing process includes a requirement that we establish “service centers” that will primarily be used to provide a product return location and will not require a large capital investment. We expect that our retail stores and offices will qualify as service centers, but we plan to add additional small service centers as necessary as we expand. In addition, products we market with a “general food” classification, including our *LifePak* supplements and certain other Pharmanex products, are not approved for direct selling, and will therefore continue to be sold only through our retail store channel until such time as we obtain a “health food” classification for these products.

As we are being required to work with such a large number of provincial, city, district and national governmental authorities, we have found that it is taking more time than anticipated to work through the direct selling approval process with these authorities. These authorities have broad discretion in interpreting the regulations and granting necessary approvals. A delay in obtaining approvals at one level can delay our ability to obtain approvals at the next level. In addition, we have received some indications from the national government authorities that they intend to review and monitor the operations of an approved direct selling company during an evaluation period before granting approvals to such company to expand into additional provinces as regulators continue to closely monitor the development of direct selling in China. The complexity of the approval process as well as the government’s continued cautious approach as direct selling develops in China makes it difficult to predict the timeline for obtaining these approvals.

Although it will likely take some time to integrate direct selling into our business model, expand throughout the country, and train our sales force to work successfully within the new direct selling guidelines, we believe that this will continue to positively impact our business in China as this process unfolds. For further discussion of the risks to our business and uncertainties associated with the implementation of direct selling in China, please refer to the section below entitled, “Note Regarding Forward-Looking Statements.”

Local currency revenue for 2006 in Taiwan was up 4% and Hong Kong local currency revenue was up 3% when compared with 2005. During 2006 these markets benefited from the S2 Scanner initiative, the launch of *g3*, and distributor excitement surrounding business opportunities in China as we work towards rolling out direct selling there. In June of 2006 we completed the build-out of a “gym spa” in Taiwan consisting of a product showcase combined with a fitness center and spa. This facility is generating additional brand awareness in this market.

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

	2005	2006	Change
United States	$ 144.5	$ 147.1	2%
Canada	9.6	10.0	(4%)
Latin America	8.0	8.8	9%
Americas total	$ 162.1	$ 165.9	2%

We believe that growth in the United States was a result of several key initiatives implemented during 2006. Since the second quarter of 2006 we have been rolling out S2 Scanners and ProDerm Skin Analyzer units into the market. We also continued to benefit from the 2005 launch of *Photomax*, our digital imaging service. Each of these initiatives are proving to be successful sponsoring and sales tools, and growing revenue in each of our product categories. The ProDerm Skin Analyzer, for example, has quickly become a powerful tool for our distributors, contributing to a 28% year-over-year growth in sales in our personal care product category in the fourth quarter of 2006. This tool enables distributors to demonstrate the effectiveness of our skin care products by providing close up skin images. We launched the initial version of this tool only in the United States and Europe. As we continue to evaluate the success of this tool in these markets, we are formulating plans to launch an enhanced version globally. Currently, we plan to introduce an improved second-generation model at our upcoming September 2007 global distributor convention. This new version will have improved optics, a larger camera area, sharper focus and improved hardware. In addition, we are in the process of developing a new weight management system that we currently plan to introduce into the U.S. market later this year, with a global roll out beginning in 2008.

In October of 2006, we held a North American distributor convention in Salt Lake City attended by over 3,500 distributors and guests. Our distributor force is enthusiastic about our current and planned initiatives in this region, as demonstrated by growth in active and executive distributor counts of 2% and 9%, respectively, in 2006 compared to 2005.

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

	2005	2006	Change
Singapore/Malaysia/Brunei	$ 41.4	$ 33.2	(20%)
Thailand	23.7	26.5	12%
Australia/New Zealand	13.3	14.2	7%
Indonesia	4.2	10.3	145%
Philippines	4.1	3.8	(7%)
South Asia/Pacific total	$ 86.7	$ 88.0	2%

Foreign currency exchange rate fluctuations positively impacted revenue in South Asia/Pacific by 4% in 2006 compared to 2005. Revenue growth in this region was attributed to incremental revenue from our Indonesia market that was opened in August of 2005, and from strong growth in Thailand and Australia/New Zealand. During the first part of 2006, our Singapore/Malaysia/Brunei markets suffered declines as our distributor force adjusted to compensation plan modifications implemented in latter 2005. However, as a result of our 2006 initiatives, particularly the third quarter launch of *g3*, these markets have begun to experience improving year-over-year revenue trends during the last few quarters. Active distributor counts decreased in the South Asia/Pacific region by 10%, while executive counts increased 6% in 2006 compared to 2005.

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

	2005	2006	Change
Europe	$ 46.0	$ 59.5	29%

Revenue growth in Europe was primarily a result of growth in Germany and France and the expansion into Israel and Russia. As a result of steady growth in Europe over the past three years, this region is becoming a significant market for our business. We believe that our success in Europe is attributable to strong alignment of distributor leaders behind certain initiatives, including the S2 Scanner and the Galvanic Spa II. During 2006 we also introduced a limited number of ProDerm Skin Analyzer units into the region, and this tool has been received with a positive response by our European distributors. Our active and executive distributor counts increased by 26% and 17%, respectively, in 2006 compared to 2005.

Gross profit

Gross profit as a percentage of revenue in 2006 remained level with 2005 at 82.5%. The negative impact from a strengthening of the U.S. dollar against the Japanese yen during 2006 was offset by a positive impact from a decrease in Scanner amortization following our transition to less expensive S2 Scanners and the write-down of first generation Scanner units in the first quarter of 2006. Going forward, we anticipate that gross margins may decrease slightly as a result of a continued weakening of the Japanese yen as well as increased air freight costs and *g3* supply costs.

Selling expenses

Selling expenses decreased to $480.1 million in 2006 from $497.4 million in 2005, but increased as a percentage of revenue to 43.1% in 2006 from 42.1% in 2005. The increase as a percentage of revenue was due primarily to an increase in the average commission rate in Japan in 2006, resulting from enhancements to our compensation plan which took effect April 1, 2006 and were designed to bring the average commission rate in that market back to its previous levels before the implementation of a change in 2005.

General and administrative expenses

General and administrative expenses decreased to $353.4 million in 2006 from $354.2 million in 2005, but increased as a percentage of revenue to 31.7% in 2006 from 30.0% in 2005. The overall decline in general and administrative expenses in 2006 was a result of our transformation initiative implemented this past year aimed at streamlining our business reducing overhead. These savings were offset by other increased costs, including $9.3 million of stock-based compensation expenses as a result of the adoption of SFAS 123R in 2006, and expenses associated with the commencement and expansion of operations in new markets, including Russia and Indonesia. These factors, together with higher fixed expenses in China related to our retail operations, coupled with lower revenue in China, resulted in the increase in general and administrative expenses as a percentage of revenue in 2006 compared to 2005.

In connection with our adoption of SFAS 123R in 2006, we began granting fewer incentive stock option awards and began granting more restricted stock unit awards. The use of restricted stock unit awards will result in lower dilution and lower expense than would be the case if we continued to grant only stock options in accordance with historical practice.

Impairment of assets and other

During the first quarter of 2006, we recorded impairment charges of $20.8 million, primarily relating to our first generation Scanners. In February 2006, as a result of our launch of and transition to the S2 Scanner, we determined it was necessary to write down the book value of the existing inventory of the prior model of the Scanner. The impairment charges relating to the Scanner recorded during the first quarter of 2006 totaled $19.0 million.

In addition, during the first quarter of 2006 we completed a settlement agreement with a Big Planet vendor to terminate our purchase commitments for video technology for approximately $1.8 million as we moved away from this technology in our Big Planet business.

Restructuring and other charges

During the first quarter of 2006, we recorded restructuring and other charges of $11.1 million, primarily relating to our business transformation initiative designed to (i) eliminate organizational redundancies, (ii) revamp administrative support functions, (iii) prioritize investments to favor profitable initiatives and markets, and (iv) increase efficiencies in the supply chain process. As a result, our overall headcount was reduced by approximately 225 employees, the majority of which related to the elimination of positions at our U.S. headquarters. These expenses consisted primarily of severance and other compensation charges.

Although our business transformation initiative will be an ongoing process, nearly all of the restructuring expenses related to the transformation were incurred during the first quarter of 2006. These initiatives generated savings of approximately $15 million in 2006 and we anticipate continued savings going forward. We are investing a portion of these savings towards various growth initiatives, particularly in Japan.

Other income (expense), net

Other income (expense), net was $2.0 million of expense in 2006 compared to $4.2 million of expense in 2005. Fluctuations in other income (expense), net are impacted by interest income and expense and foreign exchange fluctuations to the U.S. dollar on the translation of yen-based bank debt and other foreign denominated intercompany balances into U.S. dollars for financial reporting purposes.

Provision for income taxes

Provision for income taxes decreased to $19.9 million in 2006 from $44.9 million in 2005. The effective tax rate decreased slightly to 37.7% from 37.8% of pre-tax income in 2006 and 2005, respectively.

Net income

As a result of the foregoing factors, net income decreased to $32.8 million in 2006 from $74.0 million in 2005.

2005 Compared to 2004

Overview

Revenue in 2005 increased 4% to $1.18 billion from $1.14 billion in 2004. The revenue increase in 2005 was a result of year-over-year growth in Korea, Taiwan, Europe and the United States, and expansion into Indonesia. The revenue increase is also attributable in part to a 1% positive impact of changes in foreign currency exchange rates. During 2005, we continued to see the positive impact of our Scanner and monthly product subscription programs. Subscription orders represented 42% of our revenue in 2005, compared to 29% in the prior year. Reported revenue in 2005 was negatively impacted by a weakening of the Japanese yen during the second half of the year which declined from 111.62 yen to the U.S. dollar on July 1, 2005 to 117.94 yen to the U.S. dollar on December 31, 2005. Revenue growth in 2005 was also negatively impacted by declines in local currency revenue in China and Japan in the second half of the year. Our active and executive distributor counts were down 2% and 5% in 2005 compared to 2004, respectively, primarily due to declines in China and Japan as discussed below.

Earnings per share in 2005 decreased by 3%, or $0.03 per share, compared to 2004, primarily as a result of a lower gross margin, higher general and administrative expenses and a higher effective tax rate.

Revenue

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

	2004	2005	Change
Japan	$ 574.4	$ 562.0	(2%)
South Korea	65.7	87.4	33%
North Asia total	$ 640.1	$ 649.4	1%

Revenue in Japan decreased 2% in 2005 compared to 2004 and was negatively impacted 1% by changes in foreign currency exchange rates following a significant weakening of the Japanese yen during the second half of the year. In local currency, revenue in Japan decreased 1% as a result of a local currency decline in the second half of the year. This decline was a result of the following:

- modifications to distributor incentives that appear to have negatively impacted revenue later in the second half of the year and resulted in declines in executive distributors;
- a slower than expected market response to our roll-out of the Scanner program during 2005 due to regulatory constraints; and
- our scale-back of the Scanner roll-out and related promotional campaigns during the latter part of 2005 in anticipation of the 2006 launch of the S2 Scanner.

In 2005 we made some modifications to our compensation plan in Japan similar to changes that had been successfully implemented previously in other markets, including the United States. Upon review of our second-half results in Japan, it appears that the changes in incentives did not have the same positive impact as they did in other markets and contributed to the decline in revenue. Effective April 1, 2006, we implemented some enhancements to distributor incentives in Japan in order to address the negative impacts resulting from previous modifications.

While we have successfully dealt with regulatory restrictions in the past with respect to our nutritional sales in Japan, the regulatory environment appears to have resulted in a slower than expected response to our 2005 Scanner roll-out in Japan. Our nutritional supplements are sold as foods in Japan, which limits the claims we can make with respect to such products, including an inability to claim that our products increase antioxidant levels. In addition, although we are able to link the Scanner measurement to a more general nutritional assessment (which we are not able to do in most of our other markets), we are not able to link it to a specific measure of carotenoid antioxidant levels. We are also limited in our ability to tie the Scanner measurement directly to the consumption of our nutrition products.

South Korea generated its eighth consecutive quarter of year-over-year growth in the fourth quarter of 2005, with local currency revenue growth of 19% in 2005 compared to 2004 as well as significant growth in our active and executive distributor counts. We believe that these results were due to strong product and other initiatives and alignment of our distributor leaders behind these initiatives.

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

	2004	2005	Change
China	$ 105.6	$ 102.2	(3%)
Taiwan	82.8	92.4	12%

Hong Kong	41.4	42.1	2%
Greater China total	$ 229.8	$ 236.7	3%

Revenue growth in Greater China was primarily a result of year-over-year growth in Taiwan. The region also benefited from a 2% positive impact of changes in foreign currency exchange rates.

China revenue decreased by 3% in 2005 compared to 2004. We experienced sequential growth in our business in China during the first half of the year following the introduction of Pharmanex products and the Scanner. Our business declined, however, during the second half of the year as a result of changes we made to our compensation plan in China in July of 2005 in order to prepare for anticipated direct selling regulations in that market. These changes negatively impacted our revenue during the second half of the year as our sales representatives adapted to them. In addition, in September of 2005, the Chinese government announced the adoption of the new direct selling regulations. Consumer uncertainty regarding the impact of the new regulations increased following publication of the new regulations, also negatively impacting our sales during the second half of the year. These issues contributed to a 30% decline in our sales representative count in 2005 compared to 2004.

Taiwan and Hong Kong each generated revenue growth in 2005 compared to the prior year. In local currency, Taiwan grew 8% in 2005 compared to 2004, driven by success with the Scanner program. We saw a leveling of business in Taiwan during the second half of the year, with revenue down in the fourth quarter on a year-over-year basis. Fourth quarter revenue in Hong Kong was also down year-over-year in the fourth quarter, due to Pharmanex sales to China sales representatives shifting to China with the 2005 launch of Pharmanex products in that market.

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

	2004	2005	Change
United States	$ 135.7	$ 144.5	6%
Canada	10.0	9.6	(4%)
Latin America	3.9	8.0	105%
North America total	$ 149.6	$ 162.1	8%

Revenue in the United States grew 6% in 2005 compared to 2004 and was positively impacted by:

- the Scanner program;
- our monthly product subscription program; and
- the launch of a number of new, innovative Pharmanex, Nu Skin and Big Planet products.

In early 2005 we launched *Photomax*, a Big Planet digital imaging service, and during the fourth quarter of 2005 we launched a newly reformulated *LifePak* product.

Following modifications to our business model in Latin America a couple of years ago, we began to experience rapid growth in that region through 2005 in terms of revenue and distributor numbers, particularly in Mexico. Towards the end of 2005, we began to experience a slowing of growth rates in Latin America.

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

	2004	2005	Change
Singapore/Malaysia/Brunei	$ 40.0	$ 41.4	3%
Thailand	25.6	23.7	(7%)
Australia/New Zealand	13.1	13.3	2%
Indonesia	—	4.2	—
Philippines	3.1	4.1	32%
South Asia/Pacific total	$ 81.8	$ 86.7	6%

Revenue in South Asia/Pacific increased 6% in 2005 compared to 2004, and was positively impacted 1% by changes in foreign currency exchange rates. The increase in local currency revenue in this region was due primarily to revenue generated in Indonesia following its August 2005 opening. Revenue growth in Singapore/Malaysia/Brunei was somewhat offset by declines in the second half of the year as some of our distributor leaders in these markets focused their attention on business opportunities in Indonesia and away from their home markets, as well as negative impacts from modifications to distributor incentives implemented in September of 2005. Following four years of solid growth in Thailand, our business softened in 2005.

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

	2004	2005	Change
Europe	$ 36.6	$ 46.0	26%

Revenue growth in Europe was a result of success with the Scanner, our product subscription program, and expansion into Eastern Europe. These initiatives positively impacted distributor leadership, resulting in a 27% growth in our executive distributor count.

Gross profit

Gross profit as a percentage of revenue decreased to 82.5% in 2005, compared to 83.2% in 2004, as a result of increased amortization costs associated with the continued global expansion of the Scanner, and the strengthening of the U.S. dollar, particularly against the Japanese yen, during the second half of the year.

Selling expenses

Selling expenses as a percentage of revenue decreased to 42.1% in 2005 from 42.9% in 2004. Selling expenses increased to $497.4 million from $487.6 million in 2004. The decrease in selling expenses as a percentage of revenue is due primarily to the following:

- short-term sales incentives paid in Japan in 2004 that were not paid in 2005;
- the continued global expansion of the Scanner program, as no commissions are paid on lease revenue; and
- slightly lower incentive expenses in China.

General and administrative expenses

General and administrative expenses as a percentage of revenue increased to 30.0% in 2005 from 29.3% in 2004. General and administrative expenses increased to $354.2 million in 2005 from $333.3 million in 2004. General and administrative expenses in 2005 were impacted by the incremental costs associated with our investment in various growth initiatives, including further development of China, Latin America and Europe, new market openings, and the global expansion of the Scanner program.

Other income (expense), net

Other income (expense), net was $4.2 million of expense in 2005 compared to $3.6 million of expense in 2004. Fluctuations in other income (expense), net are impacted by interest expense and foreign exchange fluctuations to the U.S. dollar on the translation of yen-based bank debt and other foreign denominated intercompany balances into U.S. dollars for financial reporting purposes. The increase in other expense in 2005 was primarily a result of foreign exchange fluctuations.

Provision for income taxes

Provision for income taxes increased to $44.9 million in 2005 from $44.5 million in 2004. The effective tax rate increased to 37.8% from 36.4% of pre-tax income in 2005 and 2004, respectively. This increase in the effective tax rate was due to an increase in the amount of nondeductible executive compensation, reconciliation of U.S. and foreign income tax payable amounts and other nondeductible expenses related to equity compensation.

Net income

As a result of the foregoing factors, net income decreased to $74.0 million in 2005 from $77.7 million in 2004.

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 $75.8 million in cash from operations in 2006, compared to $114.1 million in 2005. This decrease in cash generated from operations is due to lower revenue and profitability in 2006, resulting in part from approximately $11 million in severance payments and other restructuring charges.

As of December 31, 2006, working capital was $109.4 million compared to $149.1 million as of December 31, 2005. Our working capital decreased primarily due to a decrease in cash and cash equivalents. Cash and cash equivalents at December 31, 2006 were $121.4 million compared to $155.4 million at December 31, 2005. The decrease in cash was primarily the result of an increase in payment of debt and repurchases of stock in 2006 compared to 2005.

Capital expenditures in 2006 totaled $35.7 million, and we anticipate capital expenditures of approximately $30 million to $35 million for 2007. These capital expenditures are primarily related to:

- purchases of Scanners;
- purchases of computer systems and software, including equipment and development costs for Photomax; and
- the build-out of manufacturing and additional retail stores in China, as well as other leasehold improvements in our various markets.

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 December 31, 2006:

Facility or Arrangement[1]	Original Principal Amount	Balance as of December 31, 2006[2]	Interest Rate	Repayment terms
2000 Japanese yen denominated notes	9.7 billion yen	5.5 billion yen ($46.6 million as of December 31, 2006)	3.0%	Notes due October 2010, with annual principal payments that began in October 2004.
2003 $205.0 million multi-currency uncommitted shelf facility:[3]				
U.S. dollar denominated:	$50.0 million	$40.0 million	4.5%	Notes due April 2010 with annual principal payments beginning April 2006.

Facility or Arrangement[1]	Original Principal Amount	Balance as of December 31, 2006[2]	Interest Rate	Repayment terms
	$25.0 million	$10.0 million	4.0%	Notes due April 2008 with annual principal payments that began in October 2004.
	$40.0 million	$40.0 million	6.2%	Notes due July 2016, with annual principal payments beginning July 2010.
Japanese yen denominated:	3.1 billion yen	3.1 billion yen ($26.2 million as of December 31, 2006)	1.7%	Notes due April 2014, with annual principal payments beginning April 2008.
2004 $25.0 million revolving credit facility	N/A	$0	N/A	Credit facility expires May 2007

(1) Each of the credit facilities and arrangements listed in the table are secured by guarantees issued by our material domestic subsidiaries and by pledges of 65% to 100% of the outstanding stock of our material foreign subsidiaries.

(2) The current portion of our long-term debt (i.e. becoming due in the next 12 months) includes $11.7 million of the balance on our 2000 Japanese yen denominated notes and $15.0 million of the balance on our U.S. dollar denominated debt under the 2003 multi-currency uncommitted shelf facility.

(3) On January 19, 2007, the Company borrowed an additional $40 million under this facility and issued a series of U.S. dollar denominated senior promissory notes bearing a 6.14% interest rate per annum, with interest payable semi-annually beginning on July 20, 2007. The final maturity date of the Notes is January 20, 2017 and principal prepayments are required annually beginning on January 20, 2011 in equal installments of approximately $5.7 million.

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 for our equity incentive plans and strategic initiatives. During the year ended December 31, 2006, we repurchased approximately 3.8 million shares of Class A common stock under this program for an aggregate amount of approximately $67.5 million. At December 31, 2006, approximately $60.6 million was available under the stock repurchase program for repurchases. We have continued to repurchase stock in 2007, and as of February 15, 2007, approximately $43.4 million was available under the stock repurchase program for repurchases.

During each quarter of 2006, our board of directors declared cash dividends of $0.10 per share on our Class A common stock. These quarterly cash dividends totaled approximately $27.8 million and were paid during 2006 to stockholders of record in 2006. In February 2007, the board of directors declared a dividend to be paid in March 2007 of $0.105 per share for Class A common stock. 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 declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors.

We believe we have sufficient liquidity to be able to meet our obligations on both a short-term and long-term basis. We currently believe that existing cash balances together with future cash flows from operations and existing lines of credit will be adequate to fund our cash needs. The majority of our historical expenses have been variable in nature and, as such, a potential reduction in the level of revenue would reduce our cash flow needs. 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 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 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 to follow proper administrative procedures we filed appeals with the Japan Ministry of Finance. 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. We decided to appeal this issue through the judicial court system in Japan, and on December 22, 2006 we filed a complaint with the Tokyo District Court Civil Action Section with respect to this period. In January 2007, we were advised that the Ministry of Finance also rejected our appeal with them for the imports from November 2004 to June 2005. We currently plan to appeal this decision with the court system in Japan as well. 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. We have paid the $25.0 million in customs duties and assessments, the amount of which we recorded in "Other Assets" in our Consolidated Balance Sheet. 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.

In Taiwan, we are currently subject to an audit by tax authorities with respect to the deductibility of distributor commission expenses in that market. In order to avoid the running of the statute of limitations with respect to the 1999 and 2000 tax years, the Taiwan tax authorities have disallowed our commission expense deductions for those years and assessed us a total of approximately $18.7 million. At this stage of the discussions, we are not required to pay the amount of tax under dispute. We are contesting this assessment and are in discussions with the tax authorities in an effort to resolve this matter. Based on our understanding of this matter, we do not believe that it is probable that we will incur a loss relating to this matter and accordingly have not provided any related reserves.

Contractual Obligations and Contingencies

The following table sets forth payments due by period for fixed contractual obligations as of December 31, 2006 (U.S. dollars in thousands):

	Total	2007	2008-2009	2010-2011	Thereafter
Long-term debt obligations[1]	$ 186,676	$ 32,387	$ 64,411	$ 45,506	$ 44,372
Capital lease obligations	—	—	—	—	—
Operating lease obligations[2]	39,309	12,829	17,488	8,992	—
Purchase obligations	87,522	49,931	29,388	4,836	3,367
Other long-term liabilities reflected on the balance sheet[3]	—	—	—	—	—
Total	$ 313,507	$ 95,147	$ 111,287	$ 59,334	$ 47,739

(1) In October 2006, we made a borrowing under our 2003 multi currency uncommitted shelf facility ("shelf facility") in the amount of $40.0 million. The facility was also increased from $125 million to $205 million at that time (see Note 8 to the Consolidated Financial Statements). In January 2007, we made an additional $40.0 million borrowing under our shelf facility.

(2) Operating leases include corporate office and warehouse space with two entities that are owned by certain officers and directors of our company who are also founding shareholders. Total payments under these leases were $3.7 million for the year ended December 31, 2006 with remaining long-term obligations under these leases of $17.1 million.

(3) Other long-term liabilities reflected on the balance sheet of $42.2 million primarily consisting of long-term tax related balances, in which the timing of the commitments is uncertain.

Seasonality and Cyclicality

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 short 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. Active distributors are those distributors and preferred customers who were resident in the countries in which we operated and purchased products for resale or personal consumption 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 full-time sales representatives in China who have completed a qualification process and receive a salary, labor benefits and bonuses based on their personal sales efforts.

	As of December 31, 2004		As of December 31, 2005		As of December 31, 2006	
	Active	Executive	Active	Executive	Active	Executive
North Asia	337,000	16,637	340,000	16,129	333,000	15,354
Greater China	229,000	8,827	191,000	7,134	155,000	6,492
Americas	145,000	3,473	147,000	3,893	150,000	4,141
South Asia/Pacific	74,000	2,076	81,000	2,043	73,000	2,169
Europe	35,000	1,003	44,000	1,272	50,000	1,600
Total	820,000	32,016	803,000	30,471	761,000	29,756

Quarterly Results

The following table sets forth selected unaudited quarterly data for the periods shown (U.S. dollars in millions, except per share amounts):

	2006				2005			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	$ 289.3	$ 310.1	$ 290.8	$ 290.7	$ 265.8	$ 284.1	$ 276.3	$ 289.2
Gross profit	239.7	256.1	239.3	239.7	218.8	235.7	228.0	237.8
Operating income	28.8	37.0	30.0	27.3	(15.5)	23.9	21.0	25.3
Net income	17.7	22.8	17.7	15.8	(10.3)	14.1	13.2	15.9
Net income per share:								
Basic	0.25	0.33	0.25	0.22	(0.15)	0.20	0.19	0.23
Diluted	0.25	0.32	0.25	0.22	(0.15)	0.20	0.19	0.23

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*, which requires the expensing of stock-based compensation beginning the first fiscal year that begins after June 15, 2005. Consequently, we began expensing stock-based compensation during the first quarter of 2006 and recorded stock-based compensation expense of approximately $9.3 million in 2006. Through 2005, we accounted for stock-based compensation granted to employees according to the provisions of APB Opinion No. 25.

In June 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize the impact of a tax position in our financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of our 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of FIN 48 on our consolidated financial statements, but are not yet in a position to make this determination.

Currency Risk and Exchange Rate Information

A majority of our revenue and many of our expenses are recognized primarily outside of the United States, except for inventory purchases, which are primarily transacted in U.S. dollars from vendors in the United States. The local currency of each of our 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. Over the past year or so we have seen an overall weakening of the Japanese yen against the U.S. dollar. Any further weakening of the yen would negatively impact reported revenue and profits. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing and results of operations or financial condition.

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

Our foreign currency derivatives are comprised of over-the-counter forward contracts with major international financial institutions. As of December 31, 2006, we had contracts with notional amounts totaling $10.1 million with expiration dates through December 2007. All of these contracts were denominated in Japanese yen. For the year ended December 31, 2006, we recorded gains of $1.9 million in operating income, and gains of $0.2 million, net of tax, in other comprehensive income related to the fair market valuation of our outstanding forward contracts. Because of our foreign exchange contracts at December 31, 2006, the impact of a 10% appreciation or 10% depreciation of the U.S. dollar against the Japanese yen would not represent a material potential loss in fair value, earnings or cash flows against these contracts. This potential loss does not consider the underlying foreign currency transaction or translation exposures to which we are subject.

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

	2005				2006			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter

Japan[1]	104.5	107.5	111.3	117.3	116.9	114.3	116.3	117.7
Taiwan	31.5	31.4	32.3	33.4	32.3	32.2	32.8	32.8
Hong Kong	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
South Korea	1,022.4	1,008.4	1,029.4	1,036.0	975.7	949.3	954.8	937.0
Malaysia	3.8	3.8	3.8	3.8	3.7	3.6	3.7	3.6
Thailand	38.6	40.1	41.3	41.0	39.3	38.1	37.7	36.5
China	8.3	8.3	8.1	8.1	8.1	8.0	8.0	7.9

(1) As of February 15, 2007, the exchange rate of U.S. $1 into the Japanese yen was approximately 119.2.

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 which reflect our current expectations and beliefs regarding our future results of operations, performance and achievements.

These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may not materialize. These forward-looking statements include, but are not limited to, statements concerning:

- our 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 plans regarding the expansion of direct selling in China, and our belief that this will positively impact our business there;
- our expectation that our retail stores will qualify as "service" centers and our plans to add service centers throughout China as necessary;
- our anticipation that gross margins may decrease slightly going forward;
- our expectation that we will spend approximately $30 million to $35 million for capital expenditures during 2007;
- our belief that our recent business transformation initiative will provide continued savings gong forward, and our plans to invest some of these savings into various growth initiatives;
- 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 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 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; and
- our belief that it is not probable that we will incur a loss relating to the Taiwan audit.

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

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

(a) Because a substantial majority of our sales are generated in Asia, particularly Japan, significant variations in operating results including revenue, gross margin and earnings from those expected could be caused by:

- further weakening of the Japanese yen;
- regulatory constraints with respect to the claims we can make regarding the efficacy of our products and tools;
- increasing competitive pressures;
- renewed or sustained weakness of Asian economies or consumer confidence;
- political unrest or uncertainty; or
- natural disasters or epidemics.

(b) 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 minor fines being paid in some cases. Because of the government's significant concerns about direct selling activities, government regulators in China scrutinize very closely activities of direct selling companies or activities that resemble direct selling. Even though we have now obtained approval to conduct direct selling in China, 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. We continue to be subject to current governmental reviews and investigations. 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 approvals, 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.

(c) Towards the end of 2005, Chinese regulators adopted anti-pyramiding and new direct selling regulations that allow direct selling but contain significant restrictions and limitations, including a restriction on multi-level compensation. These new regulations are not yet well understood, 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. Although we have obtained approval to conduct direct selling in China, our current license only allows us to conduct direct selling in eight districts within Shanghai. If we are unable to establish required service centers or obtain additional necessary national and local approvals as quickly as we would like, or if we are not able to offer a direct selling opportunity that is attractive to distributors as a result of the limitations under the direct selling regulations, our ability to grow our business there could be negatively impacted.

(d) 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 such as the Scanner and others 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. In addition, some initiatives may have unanticipated negative impacts on our markets. For example, during the past couple of years certain modifications were made to compensation incentives in China, Japan, and certain Southeast Asia markets that appear not to have been as well received by some distributors as expected, contributing to declines in distributor numbers and revenue results. We have recently implemented compensation plan enhancements in Japan designed to address the negative impacts of previous changes. In China, we are making some additional modifications to our employed sales representative compensation model to simplify it and to make it complementary to the compensation model we are implementing for the independent distributor sales force. There can be no assurance, however, that these measures will be successful in generating distributor excitement in these markets.

(e) Our use of the Scanner is subject to regulatory risks and uncertainties in our various markets. For example, in March 2003 the United States Food and Drug Administration (the "FDA") questioned its status as a non-medical device and we subsequently filed an application with the FDA to have the Scanner classified as a non-medical device. The FDA has not yet acted on our application. There are various factors that could determine whether the Scanner is a medical device, including the claims that we or our distributors make about it. We face similar regulatory issues in other markets with respect to the status of the Scanner as a non-medical device and the claims that can be made in using it. For example, during the past year we faced regulatory inquiries in Singapore, Korea, Japan and Thailand regarding distributor claims with respect to the Scanner. Although

these matters have not resulted in any adverse action against us, our revenue in any market going forward could be negatively impacted if we face similar issues in the future or if such inquiries weaken distributor enthusiasm surrounding the Scanner. A determination in any market that the Scanner is a medical device or that distributors are using it to make medical claims could negatively impact our ability to use the Scanner in such market. In addition, if distributors make claims regarding the Scanner outside of claims approved by us, or use it in a manner not authorized by us, this could result in regulatory actions against our business.

(f) Our current and planned initiatives surrounding the S2 Scanner and the Nu Skin® ProDerm™ skin analysis tool in our various markets are subject to technical and regulatory risks and uncertainties. The S2 Scanner is a newly developed tool and we cannot be certain that it will consistently meet performance expectations. In addition, we have experienced delays and challenges in completion of a ProDerm unit that meets our specifications and objectives. We have introduced an initial version in the United States that has fewer features while we continue to develop an enhanced version. If we continue to experience difficulties or delays in completing this process that prevent us from meeting our launch schedules or developing a tool that performs the desired functions, our business may be harmed. Our plans are also subject to regulatory risks, particularly in Japan, where there is a risk that regulatory authorities in Japan may impose limitations on the use of this tool and on claims that may be made in connection with its use. Such limitations in Japan or any other markets could weaken the ability of our distributors to utilize this tool in building their businesses, and could dampen distributor enthusiasm surrounding it.

(g) As we work to grow operations in Russia and other developing markets, work through the approval processes for expansion of direct selling in China and look to develop other new markets, we anticipate that some distributor leaders in other markets will shift their focus away from their home markets and towards business prospects in these markets. This shift of focus of distributor leaders can negatively impact distributor leadership and growth in these other markets and consequently negatively impact revenue. In addition, if Russia and China are not as successful as the distributor leaders from these other markets anticipate, this can also dampen distributor enthusiasm.

(h) 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 as 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.

(i) 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. The FTC in the United States is also proposing new regulations that would impose new requirements that could be burdensome. 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.

(j) 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. These audits sometimes result in challenges by such taxing authorities as to our methodologies used in determining our income tax, duties, customs, and other amounts owed in connection with the importation and distribution of our products. For example, we were assessed by the Japan customs authorities for additional duties on products imported into Japan, and we are currently contesting this assessment. Audits are also often focused on whether or not certain expenses are deductible for tax purposes in a given country. Currently, audits are underway with respect to this issue in a number of our markets, including Taiwan. To the extent we are unable to successfully defend ourselves against such audits and reviews, we may be required to pay assessments and penalties and increased duties, which may, individually or in the aggregate, negatively impact our gross margins and operating results.

(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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 7A of Form 10-K is incorporated herein by reference from the information contained in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Currency Risk and Exchange Rate Information” and Note 15 to the Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

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

	December 31, 2005	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 155,409	$ 121,353
Current investments	—	—
Accounts receivable	16,683	19,421
Inventories, net	99,399	92,092
Prepaid expenses and other	36,663	44,093
	308,154	276,959
Property and equipment, net	84,053	85,883
Goodwill	112,446	112,446
Other intangible assets, net	91,137	91,349
Other assts	83,076	98,212
Total assets	$ 678,866	$ 664,849
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 20,276	$ 20,815
Accrued expenses	112,023	120,074
Current portion of long-term debt	26,757	26,652
	159,056	167,541
Long-term debt	123,483	136,173
Other liabilities	41,699	42,155

Total liabilities	324,238	345,869
Commitments and contingencies (Notes 9 and 20)		
Stockholders' equity		
Class A common stock - 500 million shares authorized, $.001 par value, 90.6 million shares issued;	91	91
Additional paid-in capital	179,335	199,322
Treasury stock, at cost - 20.9 million and 20.5 million shares	(284,138)	(346,889)
Accumulated other comprehensive loss	(67,197)	(65,107)
Retained earnings	526,537	531,563
	354,628	318,980
Total liabilities and stockholders' equity	$ 678,866	$ 664,849

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

Nu Skin Enterprises, Inc.

Consolidated Statements of Income

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

	Year Ended December 31,		
	2004	2005	2006
Revenue	$ 1,137,864	$ 1,180,930	$ 1,115,409
Cost of sales	191,211	206,163	195,203
Gross profit	946,653	974,767	920,206
Operating expenses:			
Selling expenses	487,631	497,421	480,136
General and administrative expenses	333,263	354,223	353,412
Impairment of assets and other	—	—	20,840
Restructuring and other charges	—	—	11,115
Total operating expenses	820,894	851,644	865,503
Operating income	125,759	123,123	54,703
Other income (expense), net	(3,618)	(4,172)	(2,027)
Income before provision for income taxes	122,141	118,951	52,676
Provision for income taxes	44,467	44,918	19,859
Net income	$ 77,674	$ 74,033	$ 32,817
Net income per share:			
Basic	$ 1.10	$ 1.06	$ 0.47
Diluted	$ 1.07	$ 1.04	$ 0.47
Weighted-average common shares outstanding (000s):			
Basic	70,734	70,047	69,418
Diluted	72,627	71,356	70,506

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

Nu Skin Enterprises, Inc.

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(U.S. dollars in thousands)

	Class A Common Stock	Additional Paid in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at January 1, 2004	$ 91	$ 146,238	$ (216,847)	$ (70,849)	$ 431,615	$ 290,248
Comprehensive income:						
Net income	—	—	—	—	77,674	77,674
Foreign currency translation adjustment	—	—	—	(1,402)	—	(1,402)
Net unrealized losses on foreign currency cash flow hedges	—	—	—	(2,590)	—	(2,590)
Less: Reclassification adjustment for realized losses in current earnings	—	—	—	3,235	—	3,235
Total comprehensive income						76,917
Repurchase of Class A common stock (Note 10)	—	—	(72,311)	—	—	(72,311)
Stock-based compensation	—	778	—	—	—	778
Purchase of long-term assets (Note 21)	—	4,279	2,624	—	—	6,903
Reduction in carrying value of intangible asset	—	—	—	—	(8,750)	(8,750)
Exercise of employee stock options (1,834,000 shares)	—	3,814	12,813	—	—	16,627
Tax benefit of options exercised	—	8,448	—	—	—	8,448
Cash dividends	—	—	—	—	(22,627)	(22,627)
Balance at December 31, 2004	91	163,557	(273,721)	(71,606)	477,912	296,233
Comprehensive income:						
Net income	—	—	—	—	74,033	74,033
Foreign currency translation adjustment	—	—	—	(597)	—	(597)
Net unrealized gains on foreign currency cash flow hedges	—	—	—	5,278	—	5,278
Less: Reclassification adjustment for realized gains in current earnings	—	—	—	(272)	—	(272)
Total comprehensive income						78,442
Repurchase of Class A common stock (Note 10)	—	—	(24,638)	—	—	(24,638)
Stock-based compensation	—	907	—	—	—	907
Purchase of long-term assets (Note 21)	—	13,512	7,695	—	—	21,207
Exercise of employee stock options (666,000 shares)	—	(349)	6,526	—	—	6,177
Tax benefit of options exercised	—	1,708	—	—	—	1,708
Cash dividends	—	—	—	—	(25,408)	(25,408)
Balance at December 31, 2005	91	179,335	(284,138)	(67,197)	526,537	354,628

Comprehensive income:						
Net income	—	—	—	—	32,817	32,817
Foreign currency translation adjustment	—	—	—	3,736	—	3,736
Net unrealized gains on foreign currency cash flow hedges	—	—	—	218	—	218
Less: Reclassification adjustment for realized gains in current earnings	—	—	—	(1,864)	—	(1,864)
Total comprehensive income						34,907
Repurchase of Class A common stock (Note 10)	—	—	(67,452)	—	—	(67,452)
Adjustment related to prior common control merger	—	8,151	—	—	—	8,151
Exercise of employee stock options (519,000 shares)	—	870	4,530	—	—	5,400
Tax benefit of options exercised/restricted shares vested	—	1,836	—	—	—	1,836
Stock-based compensation	—	9,130	171	—	—	9,301
Cash dividends	—	—	—	—	(27,791)	(27,791)
Balance at December 31, 2006	$ 91	$ 199,322	$ (346,889)	$ (65,107)	$ 531,563	$ 318,980

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

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

	Year Ended December 31,		
	2004	2005	2006
Cash flows from operating activities:			
Net income	$ 77,674	$ 74,033	$ 32,817
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,883	30,459	29,132
Stock-based compensation	778	907	9,301
Impairment of Scanner asset	—	—	18,984
Changes in operating assets and liabilities:			
Accounts receivable	(1003)	(626)	(2,786)
Inventories, net	(4,136)	(11,925)	163
Prepaid expenses and other	21,869	15,991	(8,289)
Other assets	(10,372)	(5,048)	(9,382)
Accounts payable	6,366	(4,906)	118
Accrued expenses	10,910	22,185	6,234
Other liabilities	381	(6,970)	(497)
Net cash provided by operating activities	130,350	114,100	75,795
Cash flows from investing activities:			
Purchase of property and equipment	(34,996)	(30,884)	(35,680)
Proceeds on investment sales	185,015	170,610	173,925
Purchases of investments	(195,245)	(160,380)	(173,925)
Purchase of long-term assets	(2,953)	(5,548)	(1,981)
Net cash used in investing activities	(48,179)	(26,202)	(37,661)
Cash flows from financing activities:			
Payment of cash dividends	(22,627)	(25,408)	(27,791)
Repurchase of shares of common stock	(72,311)	(24,638)	(67,452)
Exercise of distributor and employee stock options	16,627	6,177	5,400
Income tax benefit of options exercised	—	—	1,836
Payments on long-term debt	(16,241)	(17,074)	(31,611)
Proceeds from long-term debt	—	30,000	45,000
Net cash used in financing activities	(94,552)	(30,943)	(74,618)
Effect of exchange rate changes on cash	(322)	(11,411)	2,428
Net increase (decrease) in cash and cash equivalents	(12,703)	45,544	(34,056)
Cash and cash equivalents, beginning of period	122,568	109,865	155,409
Cash and cash equivalents, end of period	$ 109,865	$ 155,409	$ 121,353

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

Nu Skin Enterprises, Inc.
Notes to Consolidated Financial Statements

1. The Company

Nu Skin Enterprises, Inc. (the "Company") is a leading, global direct selling company that develops and distributes premium-quality, innovative personal care 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; Greater China, which consists of Mainland China, Hong Kong, Macau and Taiwan; Americas, which consists of the United States, Canada and Latin America; South Asia/Pacific, which consists of Australia, Brunei, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand; and Europe, which includes several markets in Europe as well as Israel and Russia (the Company's subsidiaries operating in these countries are collectively referred to as the "Subsidiaries").

2. Summary of Significant Accounting Policies

Consolidation

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

Use of estimates

The preparation of these financial statements, in conformity with accounting principles generally accepted in the United States, required management to make estimates and assumptions that affected the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Cash and cash equivalents

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

Current investments

Current investments consist entirely of auction rate municipal bonds classified as available-for-sale securities. The Company, through its dealers, purchases and sells these securities at par value and records them at cost, which approximates fair market value due to their variable interest rates, which typically reset every 7 to 35 days and despite the long-term nature of their stated contractual maturities, along with the Company's investment policy and practice to only invest in high investment grade securities, the Company has the ability to quickly liquidate these securities. As a result, the Company has no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from its current investments. Interest income generated from these current investments is recorded in other income. There were no current investments as of December 31, 2005 and 2006.

Inventories

Inventories consist primarily of merchandise purchased for resale and are stated at the lower of cost or market, using the first-in, first-out method. The Company had reserves for obsolete inventory totaling $5.8 million and $5.9 million as of December 31, 2005 and 2006, respectively.

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

	December 31,	
	2005	2006
Raw materials	$ 20,941	$ 24,550
Finished goods	78,458	67,542
	$ 99,399	$ 92,092

Property and equipment

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

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

Expenditures for maintenance and repairs are charged to expense as incurred. When an asset is sold or otherwise disposed of, the cost and associated accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in the statement of income. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value.

Goodwill and other intangible assets

Under the provisions of Statements of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), the Company's goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. The Company's intangible assets with finite lives are recorded at cost and are amortized over their respective estimated useful lives using the straight-line method to their estimated residual values and are reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*. In addition, the Company is required to make judgments regarding and periodically assesses the useful life of its intangible assets.

Revenue recognition

Revenue is recognized when products are shipped, which is when title and risk of loss pass to independent distributors and preferred customers who are the Company's customers. A reserve for product returns is accrued based on historical experience totaling $2.1 million and $2.3 million as of December 31, 2005 and 2006, respectively. The Company generally requires cash or credit card payment at the point of sale. The Company has determined that no allowance for doubtful accounts is necessary. Amounts received prior to shipment and title passage to distributors are recorded as deferred revenue. The global compensation plan for the Company's distributors generally does not provide rebates or selling discounts to distributors who purchase its products and services. The Company classifies selling discounts and rebates, if any, as a reduction of revenue.

Advertising expense

Advertising costs are expensed as incurred. Advertising expense incurred for the years ended December 31, 2004, 2005 and 2006 totaled approximately $1.3 million, $2.4 million and $3.9 million, respectively.

Research and development

The Company's research and development activities are conducted primarily through its Pharmanex division. Research and development costs are included in general and administrative expenses in the accompanying consolidated statements of income and are expensed as incurred and totaled $7.7 million, $7.5 million and $8.7 million in 2004, 2005 and 2006, respectively.

Income taxes

The Company follows the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company nets deferred tax assets and deferred tax liabilities by jurisdiction. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized. The Company accounts for any income tax contingencies in accordance with SFAS No. 5, *Accounting for Contingencies*.

Net income per share

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented (Note 10).

Foreign currency translation

Most of the Company's business operations occur outside the United States. The local currency of each of the Company's subsidiaries is considered its functional currency. All assets and liabilities are translated into U.S. dollars at exchange rates existing at the balance sheet dates, revenue and expenses are translated at weighted-average exchange rates and stockholders' equity is recorded at historical exchange rates. The resulting foreign currency translation adjustments are recorded as a separate component of stockholders' equity in the consolidated balance sheets and transaction gains and losses are included in other income and expense in the consolidated financial statements.

Fair value of financial instruments

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

Stock-based compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense includes all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant-dated fair value estimated in accordance with the provisions of SFAS 123R. The Company recognizes these compensation costs, net of an estimated forfeiture rate, on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years. The Company estimated the forfeiture rate based on its historical experience.

In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company applied the provisions of SAB 107 in its adoption of SFAS 123R.

Prior to the adoption of SFAS 123R the Company recognized stock based compensation expense in accordance with Accounting Principles Board Opinion No. 25. *Accounting for Stock Issued to Employees* ("APB 25"). Accordingly, the Company generally recognized compensation expense only when it granted options with an exercise price less than the market value of the underlying shares. Any resulting compensation expense was recognized ratably over the associated service period, which was generally the option vesting term.

The Company has elected to follow the transition guidance indicated in Paragraph 81 of FASB Statement No. 123 (revised 2004) for purposes of calculating the pool of excess tax benefits available to absorb possible future tax deficiencies. As such, the Company has calculated its historical "APIC pool" of windfall tax benefits using the long-form method. Furthermore, the Company has elected to use a two-pool approach (segregating employee and nonemployee awards into two separate pools) when accounting for the pool of windfall tax benefits.

Reporting comprehensive income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, and it includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Accounting for derivative instruments and hedging activities

The Company recognizes all derivatives as either assets or liabilities, with the instruments measured at fair value as required by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133").

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

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

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

3. Related Party Transactions

The Company leases corporate office and warehouse space from two entities that are owned by certain officers and directors of the Company. Total lease payments to these two affiliated entities were $3.7 million for each of the years ended December 31, 2004, 2005 and 2006 with remaining long-term minimum lease payment obligations under these operating leases of $19.8 million and $17.2 million at December 31, 2005 and 2006, respectively.

4. Property and Equipment

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

	December 31,	
	2005	2006
Furniture and fixtures	$ 44,769	$ 49,499
Computers and equipment	88,619	90,108
Leasehold improvements	45,663	53,677
Scanners	37,363	30,291
Vehicles	3,140	3,255
	219,554	226,830
Less: accumulated depreciation	(135,501)	(140,947)
	$ 84,053	$ 85,883

Depreciation of property and equipment totaled $22.5 million, $24.7 million and $23.7 million for the years ended December 31, 2004, 2005 and 2006, respectively, which includes amortization expense relating to the Scanners of approximately $4.9 million, $7.9 million and $7.3 million for the years ended December 31, 2004, 2005 and 2006, respectively.

5. Goodwill and Other Intangible Assets

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

	Carrying Amount at December 31,	
Goodwill and indefinite life intangible assets:	2005	2006
Goodwill	$ 112,446	$ 112,446
Trademarks and trade names	24,599	24,599
	$ 137,045	$ 137,045

December 31, 2005	December 31, 2006

Finite life intangible assets:	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Weighted-average Amortization Period
Scanner technology	$ 42,435	$ 3,304	$ 46,482	$ 6,290	18 years
Developed technology	22,500	9,314	22,500	10,139	20 years
Distributor network	11,598	6,078	11,598	6,580	15 years
Trademarks	12,345	6,255	12,452	6,879	15 years
Other	19,873	17,262	21,349	17,743	5 years
	$ 108,751	$ 42,213	$ 114,381	$ 47,631	15 years

Amortization of finite-life intangible assets totaled $5.4 million, $5.7 million and $5.4 million for the years ended December 31, 2004, 2005 and 2006, respectively. Annual estimated amortization expense is expected to approximate $6.0 million for each of the five succeeding fiscal years.

Goodwill and indefinite life intangible assets are not amortized, rather they are subject to annual impairment tests. Annual impairment tests were completed resulting in no impairment charges for any of the periods shown. Finite life intangibles are amortized over their useful lives unless circumstances occur that cause the Company to revise such lives or review such assets for impairment.

6. Other Assets

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

	December 31, 2005	December 31, 2006
Deferred taxes	$ 31,804	$ 42,836
Deposits for noncancelable operating leases	13,397	14,476
Deposit for customs assessment (Note 20)	22,853	22,648
Other	15,022	18,252
	$ 83,076	$ 98,212

7. Accrued Expenses

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

	December 31, 2005	December 31, 2006
Accrued commission payments to distributors	$ 41,820	$ 39,142
Income taxes payable	8,880	9,773
Other taxes payable	15,649	16,471
Accrued payroll and payroll taxes	11,405	10,485
Other accruals	34,269	44,203
	$ 112,023	$ 120,074

8. Long-Term Debt

The Company maintains a $25.0 million revolving credit facility that expires in May 2007. 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 December 31, 2006, there were no outstanding balances under this revolving credit facility.

The Company also has a multi-currency private uncommitted shelf facility with Prudential Investment Management, Inc. which was increased to $205.0 million during 2006. As of December 31, 2006, the Company had $116.2 million outstanding under its shelf facility, $15.0 million of which is included in the current portion of long-term debt. $90.0 million of this long-term debt is U.S. dollar denominated, bears interest of approximately 5.2% per annum and is amortized in three tranches between five and ten years. The remaining $26.2 million as of December 31, 2006, is Japanese yen-denominated senior promissory notes in the aggregate principal amount of 3.1 billion Japanese yen, which were issued on February 7, 2005. The notes bear interest of 1.7% per annum, with interest payable semi-annually. The interest payments on the notes began April 30, 2005. The final maturity date of the notes is April 20, 2014 and principal payments are required annually beginning on April 30, 2008 in equal installments of 445.7 million Japanese yen.

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 December 31, 2006, the outstanding balance on the notes was 5.5 billion Japanese yen, or $46.6 million, $11.7 million of which is included in the current portion of long-term debt. The Japanese notes and the revolving and shelf credit facilities are secured by guarantees issued by our material subsidiaries or by pledges of 65% to 100% of the outstanding stock of our material subsidiaries.

On October 5, 2006, the Company executed amendments to the following loan and credit agreements: (i) Note Purchase Agreement dated October 12, 2000 between the Company and The Prudential Insurance Company of America, as amended; (ii) Credit Agreement dated May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A., as Administrative Agent, as amended; and (iii) Private Shelf Agreement dated as of August 26, 2003 between the Company and Prudential Investment Management, Inc., as amended (the "Private Shelf Agreement"). The Private Shelf Agreement was amended to raise the credit facility amount from $125 million to $205 million, and the borrowing period for this facility was extended for an additional three years from the date of the amendment. On October 5, 2006, the Company issued a series of U.S. Dollar denominated senior promissory notes (the "Notes") to affiliates of Prudential Investment Management, Inc. ("Prudential"). The Notes were issued pursuant to the $205 million Private Shelf Agreement. The aggregate principal amount of the Notes is $40 million, bearing a 6.19% interest rate per annum, with interest payable semi-annually beginning on January 5, 2007. The final maturity date of the Notes is July 5, 2016 and principal payments are required annually beginning on July 5, 2010 in equal installments of approximately $5.7 million.

The following tables summaries the Company's long-term debt arrangements as of December 31, 2006:

Facility or Arrangement	Original Principal Amount	Balance as of December 31, 2006	Interest Rate	Repayment terms
2000 Japanese yen denominated notes	9.7 billion yen	5.5 billion yen ($46.6 million as of December 31, 2006)	3.0%	Notes due October 2010, with annual principal payments that began in October 2004.
2003 $205.0 million multi-currency uncommitted shelf facility:				
U.S. dollar denominated:	$50.0 million	$40.0 million	4.5%	Notes due April 2010 with annual principal payments beginning April 2006.
	$25.0 million	$10.0 million	4.0%	Notes due April 2008 with annual principal payments that began in October 2004.

Facility or Arrangement	Original Principal Amount	Balance as of December 31, 2006	Interest Rate	Repayment terms
	$40.0 million	$40.0 million	6.2%	Notes due July 2016, with annual principal payments beginning July 2010.
Japanese yen denominated:	3.1 billion yen	3.1 billion yen ($26.2 million as of December 31, 2006)	1.7%	Notes due April 2014, with annual principal payments beginning April 2008.
2004 $25.0 million revolving credit facility	N/A	$0	N/A	Credit facility expires May 2007

Interest expense relating to the long-term debt totaled $5.9 million, $5.5 million and $5.1 million for the years ended December 31, 2004, 2005 and 2006, respectively.

The notes and shelf facility contain other terms and conditions and affirmative and negative financial covenants customary for credit facilities of this type, including a requirement to maintain a minimum cash balance of $75.0 million. As of December 31, 2006, the Company is in compliance with all financial covenants under the notes and shelf facility.

Maturities of all long-term debt at December 31, 2006, based on the year-end exchange rate, are as follows (U.S. dollars in thousands):

Year Ending December 31,		
2007	$	26,652
2008		30,397
2009		25,397
2010		31,112
2011		9,463
Thereafter		39,804
Total	$	162,825

9. Lease Obligations

The Company leases office space and computer hardware under noncancelable long-term operating leases including related party leases (see Note 3). Most leases include renewal options of at least three years. Minimum future operating lease obligations at December 31, 2006 are as follows (U.S. dollars in thousands):

Year Ending December 31,		
2007	$	12,829
2008		10,312
2009		7,176
2010		5,732
2011		3,260
Thereafter		—
Total	$	39,309

Rental expense for operating leases totaled $25.9 million, $30.5 million and $31.4 million for the years ended December 31, 2004, 2005 and 2006, respectively.

10. Capital Stock

The Company's authorized capital stock consists of 25 million shares of preferred stock, par value $.001 per share, 500 million shares of Class A common stock, par value $.001 per share and 100 million shares of Class B common stock, par value $.001 per share. The shares of Class A common stock and Class B common stock are identical in all respects, except for voting rights and certain conversion rights and transfer restrictions, as follows: (1) each share of Class A common stock entitles the holder to one vote on matters submitted to a vote of the Company's stockholders and each share of Class B common stock entitles the holder to ten votes on each such matter; (2) stock dividends of Class A common stock may be paid only to holders of Class A common stock and stock dividends of Class B common stock may be paid only to holders of Class B common stock; (3) if a holder of Class B common stock transfers such shares to a person other than a permitted transferee, as defined in the Company's Certificate of Incorporation, such shares will be converted automatically into shares of Class A common stock; and (4) Class A common stock has no conversion rights; however, each share of Class B common stock is convertible into one share of Class A common stock, in whole or in part, at any time at the option of the holder. All outstanding Class B shares have been converted to Class A shares. As of December 31, 2006 and 2005, there were no Preferred or Class B common shares outstanding.

Weighted-average common shares outstanding

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

	Year Ended December 31,		
	2004	2005	2006
Basic weighted-average common shares outstanding	70,734	70,047	69,418
Effect of dilutive securities:			
Stock awards and options	1,893	1,309	1,088
Diluted weighted-average common shares outstanding	72,627	71,356	70,506

For the years ended December 31, 2004, 2005 and 2006, other stock options totaling 0.6 million, 2.1 million and 2.8 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

Repurchases of common stock

Since August 1998, the board of directors has authorized the Company to repurchase up to $235.0 million of the Company's outstanding shares of Class A common stock on the open market or in private transactions. The repurchases are used primarily for the Company's equity incentive plans and strategic initiatives. During the years ended December 31, 2004, 2005 and 2006, the Company repurchased approximately 0.1 million, 1.2 million and 3.8 million shares of Class A common stock for an aggregate price of approximately $1.3 million, $24.6 million and $67.5 million, respectively, under these repurchase programs. Between August 1998 and December 31, 2006, the Company repurchased a total of approximately 13.8 million shares of Class A common stock under this repurchase program for an aggregate price of approximately $175.0 million.

On July 30, 2004, the Company purchased approximately 3.1 million shares of common stock from members of its original stockholder group for an aggregate purchase price of $72.3 million, or $22.62 per share. These stockholders also sold 1.5 million shares to third-party investors.

11. Stock–Based Compensation

At December 31, 2006, the Company had the following stock-based employee compensation plans:

Equity Incentive Plans

During the year ended December 31, 1996, the Company's board of directors adopted the Nu Skin Enterprises, Inc., 1996 Stock Incentive Plan (the "1996 Stock Incentive Plan"). In April 2006, the Company's Board of Directors approved the Nu Skin Enterprises, Inc. 2006 Stock Incentive Plan (the "2006 Stock Incentive Plan"). This plan was approved by the Company's stockholders at the Company's 2006 Annual Meeting of Stockholders held in May of 2006. The 1996 Stock Incentive Plan and the 2006 Stock Incentive Plan provide for granting of stock awards and options to purchase common stock to executives, other employees, independent consultants and directors of the Company and its Subsidiaries. Options granted under the equity incentive plans are generally non-qualified stock options, but the plans permit some options granted to qualify as "incentive stock options" under the U.S. Internal Revenue Code. The exercise price of a stock option generally is equal to the fair market value of the Company's common stock on the option grant date. The contractual term of options granted since 1996 is generally ten years. However, for options granted beginning in the second quarter of 2006, the contractual term has been shortened to seven years. Currently, all shares issued upon the exercise of options are from the Company's treasury shares. With the adoption of the 2006 Stock Incentive Plan, no further grants will be made under the 1996 Stock Incentive Plan. Under the 2006 Stock Incentive Plan 6.0 million shares were authorized for issuance.

The total compensation expense related to these plans was approximately $9.3 million for the year ended December 31, 2006. As a result of adopting SFAS 123R, income before provision for income taxes and net income for the year ended December 31, 2006 was $7.7 million lower and $4.8 million lower, respectively, than if the Company had continued to account for stock-based compensation under APB 25. The impact on both basic and diluted earnings per share for the year ended December 31, 2006 was $0.07 per share. In addition, prior to the adoption of SFAS 123R, the Company presented the tax benefit of stock option exercises as a component of operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows. For the year ended December 31, 2006, all stock-based compensation expense was recorded within general and administrative expenses.

The pro forma table below reflects net income and basic and diluted net income per share for the years ended December 31, 2005 and 2004 had the Company applied the fair value recognition provisions of SFAS 123, as follows (in thousands, except per share amounts):

	December 31,	
	2004	**2005**
Net income, as reported	$ 77,674	$ 74,033
Less: Stock-based compensation expense determined under the fair-value-based method for all awards, net of related tax effects	(6,224)	(5,823)
Pro forma net income	$ 71,450	$ 68,210
Net income per share:		
Basic - as reported	$ 1.10	$ 1.06
Basic - pro forma	$ 1.01	$ 0.97
Diluted - as reported	$ 1.07	$ 1.04
Diluted - pro forma	$ 0.98	$ 0.96

The fair value of stock option awards was estimated using the Black-Scholes option-pricing model with the following assumptions and weighted-average fair values as follows:

Stock Options:[1]	**2004**	**2005**	**2006**
Weighted average grant date fair value of grants	$ 7.27	$ 10.43	$ 6.52
Risk-free interest rate	2.8%	3.9%	4.9%
Dividend yield	1.9%	1.6%	2.1%
Expected volatility	45.4%	52.6%	44.3%
Expected life in months	47 months	75 months	58 months

(1) The fair value calculation was based on stock options granted during the period. The risk free interest rate is based on the rates listed on the federal government website. The dividend yield is based on the rolling average of annual stock prices and the actual dividends paid in the corresponding 12 months. The expected volatility is based on historic stock prices going back the same number of months as the expected life and using 52 observations per year. The Company uses the short-cut method in determining the estimated life.

Options under the plans as of December 31, 2006 and changes during the year ended December 31, 2006 were as follows:

	Shares (in thousands)	**Weighted-Average Exercise Price**	**Weighted- Average Remaining Contractual Term** (in years)	**Aggregate Intrinsic Value** (in thousands)
Outstanding at December 31, 2003	6,941.9	$ 11.46		
Granted	1,355.2	22.15		
Exercised	(1,655.3)	9.97		
Forfeited/cancelled/expired	(48.7)	12.46		
Outstanding at December 31, 2004	6,593.1	14.03		
Vested and expected to vest at December 31, 2004	6,081.3	14.03		
Exercisable at December 31, 2004	3,374.0	11.89		
Outstanding at December 31, 2004	6,593.1	$ 14.03		
Granted	1,379.8	22.04		
Exercised	(666.4)	9.17		
Forfeited/cancelled/expired	(544.3)	18.87		
Outstanding at December 31, 2005	6,762.2	15.99		
Vested and expected to vest at December 31, 2005	6,237.2	15.99		
Exercisable at December 31, 2005	3,533.5	13.05		
Outstanding at December 31, 2005	6,762.2	$ 15.99		
Granted	600.5	17.40		
Exercised	(519.4)	9.74		
Forfeited/cancelled/expired	(979.9)	17.82		
Outstanding at December 31, 2006	5,863.4	16.38	6.34	20,447
Vested and expected to vest at December 31, 2006	5,408.2	16.38	6.34	18,860

Exercisable at December 31, 2006	3,639.9	14.48	5.68	17,986

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the respective years and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2006. This amount varies based on the fair market value of the Company's stock. The total intrinsic value of options exercised for the year ended December 31, 2006 was $3.7 million. The total fair value of options vested and expensed was $4.8 million, net of tax, for the year ended December 31, 2006.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2006:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares (in 000s)	Weighted-average Exercise Price	Weighted-average Years Remaining	Shares (in 000s)	Weighted-average Exercise Price
$0.92 to $5.75	12.7	$ 5.40	1.79	12.7	$ 5.40
$6.50 to $11.00	1,041.8	8.42	5.01	912.6	8.28
$11.37 to $16.00	1,588.6	12.37	5.50	1,466.2	12.40
$16.95 to $28.50	3,220.3	20.97	7.20	1,248.4	21.53
	5,863.4	16.38	6.34	3,639.9	14.48

Nonvested restricted stock awards as of December 31, 2006 and changes during the year ended December 31, 2006 were as follows:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2003	250.0	$ 12.30
Granted	—	—
Vested	(62.5)	12.30
Forfeited	—	—
Nonvested at December 31, 2004	187.5	$ 12.30
Granted	47.5	25.00
Vested	(62.5)	12.30
Forfeited	—	—
Nonvested at December 31, 2005	172.5	$ 15.30
Granted	235.3	17.30
Vested	(79.7)	13.52
Forfeited	(3.3)	17.48
Nonvested at December 31, 2006	324.8	17.42

As of December 31, 2006, there was $4.2 million of unrecognized stock-based compensation expense related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted-average period of 2.7 years. As of December 31, 2006, there was $13.4 million of unrecognized stock-based compensation expense related to nonvested stock option awards. That cost is expected to be recognized over a weighted-average period of 2.4 years.

Employee Stock Purchase Plan

Effective August 1, 2006, the Company terminated its Employee Stock Purchase Plan. Prior to terminating the Plan the Company recognized approximately $150,000 in compensation expense for this plan for the year ended December 31, 2006.

12. Income Taxes

Consolidated income before provision for income taxes consists of the following for the years ended December 31, 2004, 2005 and 2006 (U.S. dollars in thousands):

	2004	2005	2006
U.S.	$ 85,013	$ 70,344	$ 32,907
Foreign	37,128	48,607	19,769
Total	$ 122,141	$ 118,951	$ 52,676

The provision for current and deferred taxes for the years ended December 31, 2004, 2005 and 2006 consists of the following (U.S. dollars in thousands):

	2004	2005	2006
Current			
Federal	$ (10,702)	$ 1,572	$ —
State	553	1,880	2,121
Foreign	21,742	21,495	24,407
	11,593	24,947	26,328
Deferred			
Federal	16,805	14,821	4,115
State	1,256	(278)	(1,767)
Foreign	14,813	5,428	(8,817)
	32,874	19,971	(6,469)
Provision for income taxes	$ 44,467	$ 44,918	$ 19,859

The Company's foreign taxes paid are high relative to foreign operating income and the Company's U.S. taxes paid are low relative to U.S. operating income due largely to the flow of funds among the Company's Subsidiaries around the world. As payments for services, management fees, license arrangements and royalties are made from the Company's foreign affiliates to its U.S. corporate headquarters, these payments often incur withholding and other forms of tax that are generally creditable for U.S. tax purposes. Therefore, these payments lead to increased foreign effective tax rates and lower U.S. effective tax rates. Variations (or shifts) occur in the Company's foreign and U.S. effective tax rates from year to year depending on several factors including the impact of global transfer prices and the timing and level of remittances from foreign affiliates.

The principal components of deferred taxes are as follows (U.S. dollars in thousands):

	Year Ended December 31,	
	2005	2006
Deferred tax assets:		
Inventory differences	$ 3,303	$ 4,583
Stock-based compensation	—	3,079
Accrued expenses not deductible until paid	17,020	18,723
Withholding tax	1,428	931
Minimum tax credit	16,428	3,985
Net operating losses	6,767	11,368
Foreign outside basis in controlled foreign corporation	14,651	23,396
Capitalized research and development	15,087	17,609
Other	3,964	12,476
Gross deferred tax assets	78,648	96,150
Deferred tax liabilities:		
Exchange gains and losses	9,164	9,639
Pharmanex intangibles step-up	15,009	14,480
Amortization of intangibles	3,325	4,066
Prepaid expenses	11,665	12,137
Other	6,003	2,692
Gross deferred tax liabilities	45,166	43,014
Valuation allowance	(2,214)	(1,481)
Deferred taxes, net	$ 31,268	$ 51,655

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

	Year Ended December 31,	
	2005	2006
Net current deferred tax assets	$ 13,987	$ 21,294
Net noncurrent deferred tax assets	31,804	42,836
Total net deferred tax assets	45,791	64,130
Net current deferred tax liabilities	—	4
Net noncurrent deferred tax liabilities	14,523	12,471
Total net deferred tax liabilities	14,523	12,475
Deferred taxes, net	$ 31,268	$ 51,655

The Company's deferred tax assets as of December 31, 2006 and 2005 were reduced by a valuation allowance relating to tax benefits of certain foreign subsidiaries with operating losses where it is more likely than not, that the deferred tax assets will not be realized. The Company has available foreign net operating losses that began expiring at the end of 2006. During 2006, the Company recorded an adjustment to deferred taxes and additional paid in capital totaling $8.2 million related to the prior merger of companies under common control. The reclassification had no impact on the Company's statements of income or cash flows.

The Company is subject to regular audits by federal, state and foreign tax authorities. These audits may result in proposed assessments that may result in additional tax liabilities.

The actual tax rate for the years ended December 31, 2004, 2005 and 2006 compared to the statutory U.S. Federal tax rate is as follows:

	Year Ended December 31,		
	2004	2005	2006
Income taxes at statutory rate	35.00%	35.00%	35.00%
Foreign tax differential	3.11	—	—
Non-deductible expenses	.21	.55	.86
Branch remittance gains and losses	(.32)	.23	—
Permanently reinvested controlled foreign corporation income	(2.89)	—	—
Other	1.30	1.98	1.84
	36.41%	37.76%	37.70%

The effective tax rate remained nearly constant between 2006 and 2005. The increase in the effective tax rate in 2005 compared to 2004 was due to an increase in the amount of nondeductible executive compensation, reconciliation of U.S. and foreign income tax payable amounts and other nondeductible expenses related to equity compensation.

In June 2006, the FASB issued FASB Interpretation Number 48 "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The provisions are effective for the Company beginning in the first quarter of 2007. The Company is currently evaluating the impact of FIN 48 on its consolidated financial statements, but is not yet in a position to make this determination.

13. Employee Benefit Plan

The Company has a 401(k) defined contribution plan which permits participating employees to defer up to a maximum of 15% of their compensation, subject to limitations established by the Internal Revenue Code. Employees who work a minimum of 1,000 hours per year, who have completed at least one year of service and who are 21 years of age or older are qualified to participate in the plan. The Company matches 100% of the first 2% and 50% of the next 2% of each participant's contributions to the plan. Participant contributions are immediately vested. Company contributions vest based on the participant's years of service at 25% per year over four years. The Company recorded compensation expense of $1.3 million, $1.4 million and $1.4 million for the years ended December 31, 2004, 2005 and 2006, respectively, related to its contributions to the plan.

The Company has a defined benefit pension plan for its employees in Japan. All employees of Nu Skin Japan, after certain years of service, are entitled to pension plan benefits when they terminate employment with Nu Skin Japan. The accrued pension liability was $4.4 million, $4.5 million and $5.0 million as of December 31, 2004, 2005 and 2006, respectively. Although Nu Skin Japan has not specifically funded this obligation, Nu Skin Japan believes it maintains adequate cash balances for this defined benefit pension plan. The Company recorded pension expense of $0.8 million, $0.8 million and $1.0 million for the years ended December 31, 2004, 2005 and 2006, respectively. Beginning in 2006, this plan is accounted for in accordance with Financial Accounting Standards Board ("FASB") Statement No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). The adoption of SFAS 158 did not have a material impact on the Company's consolidated financial statements.

14. Executive Deferred Compensation Plan

The Company has an executive deferred compensation plan for select management personnel. Under this plan, the Company currently makes a contribution of up to 10% of each participant's salary. In addition, each participant has the option to defer a portion of their compensation up to a maximum of 100% of their compensation. Participant contributions are immediately vested. Company contributions vest based on the earlier of: (a) attaining 60 years of age; (b) continuous employment of 20 years; or (c) death or disability. The Company recorded compensation expense of $0.7 million for the years ended December 31, 2004, 2005 and 2006, respectively, related to its contributions to the plan. The Company had accrued $5.5 million and $6.3 million as of December 31, 2005 and 2006, respectively, related to the Executive Deferred Compensation Plan.

15. Derivative Financial Instruments

At December 31, 2005 and 2006, the Company held forward contracts designated as foreign currency cash flow hedges with notional amounts totaling approximately $23.7 million and $10.1 million, respectively, to hedge forecasted foreign-currency-denominated intercompany transactions. All such contracts were denominated in Japanese yen. As of December 31, 2005 and 2006, $5.3 million of net unrealized gain and $0.2 million of net unrealized gain, net of related taxes, respectively, were recorded in accumulated other comprehensive loss. The contracts held at December 31, 2006, have maturities through December 2007, and accordingly, all unrealized gains and losses on foreign currency cash flow hedges included in accumulated other comprehensive loss will be recognized in current earnings over the next 12 months. The pre-tax net (losses)/gains on foreign currency cash flow hedges recorded in current earnings were ($5.0 million), ($0.3 million) and $3.3 million for the years ended December 31, 2004, 2005 and 2006, respectively.

During 2004, 2005 and 2006, the Company did not have any gains or losses related to hedging ineffectiveness. Additionally, no component of gains and losses was excluded from the assessment of hedging effectiveness. During 2004, 2005 and 2006, the Company did not have any gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges.

16. Supplemental Cash Flow Information

Cash paid for interest totaled $4.6 million, $5.6 million and $5.6 million for the years ended December 31, 2004, 2005 and 2006, respectively. Cash paid for income taxes totaled $7.3 million, $15.9 million and $19.4 million for the years ended December 31, 2004, 2005 and 2006, respectively. The increase in cash paid for income taxes in 2005, compared to prior years, was due primarily to the timing of tax payments in foreign jurisdictions.

17. 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 to sell its products through fixed retail locations. Selling expenses are the Company's largest expense comprised of the commissions 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, Greater China, Americas, South Asia/Pacific and Europe.

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

	Year Ended December 31,		
Revenue:	**2004**	**2005**	**2006**
North Asia	$ 640,110	$ 649,377	$ 593,789
Greater China	229,802	236,681	208,226
Americas	147,568	162,174	165,908
South Asia/Pacific	81,742	86,673	88,017
Europe	36,642	46,025	59,469
Total	$ 1,137,864	$ 1,180,930	$ 1,115,409

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

	Year Ended December 31,		
Revenue:	**2004**	**2005**	**2006**
Pharmanex	$ 567,190	$ 667,671	$ 632,705
Nu Skin	548,052	484,281	454,480
Big Planet	22,622	28,978	28,224
Total	$ 1,137,864	$ 1,180,930	$ 1,115,409

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

	Year Ended December 31,		
Revenue:	**2004**	**2005**	**2006**
Japan	$ 579,504	$ 562,031	$ 476,466
United States	135,710	144,555	147,090
Korea	65,741	87,346	117,323
Taiwan	82,773	92,412	93,159
Mainland China	105,576	102,214	70,492

	December 31,	
Long-lived assets:	**2005**	**2006**
Japan	$ 14,234	$ 11,902
United States	37,235	43,520
Korea	1,879	1,274
Taiwan	1,562	2,686
Mainland China	15,104	13,724

18. Impairment of assets and other

During the first half of 2006, the Company recorded impairment and other charges of $20.8 million, primarily relating to its first generation BioPhotonic Scanners. In February 2006, as a result of the Company's launch of and transition to its second generation BioPhotonic Scanner, the Company determined it was necessary to write down the book value of the existing inventory of the prior model of the Scanner. The impairment charges relating to the Scanner recorded during the quarter ended March 31, 2006 totaled $19.0 million.

In addition, during the quarter ended March 31, 2006, the Company completed a settlement agreement with Razorstream, a service provider of video content for our digital product category, to terminate its purchase commitments for video technology for approximately $1.8 million.

19. Restructuring and other charges

During the first half of 2006, the Company recorded restructuring and other charges of $11.1 million, primarily relating to its restructuring initiative designed to (i) eliminate organizational redundancies, (ii) revamp administrative support functions, (iii) prioritize investments to favor profitable initiatives and markets, and (iv) increase efficiencies in the supply chain process. As a result, the Company's overall headcount was reduced by approximately 225 employees, the majority of which related to the elimination of positions at the Company's U.S. headquarters. These expenses consisted primarily of severance and other charges and had all been paid as of December 31, 2006.

20. 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 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.

The Company is subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. The Company accounts for such contingent liabilities in accordance with SFAS No. 5, "Accounting for Contingencies" and believes it has 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 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 of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are 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. The Company is currently evaluating the impact of FIN 48 on its consolidated financial statements, but is not yet in a position to make this determination.

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 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 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 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, 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. 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 currently plans to appeal this decision with the court system in Japan as well. 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. The Company has paid the $25.0 million in customs duties and assessments, the amount of which it recorded in "Other Assets" in its Consolidated Balance Sheet. 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.

In Taiwan, the Company is currently subject to an audit by tax authorities with respect to the deductibility of distributor commission expenses in that market. In order to avoid the running of the statute of limitations with respect to the 1999 and 2000 tax years, the Taiwan tax authorities have disallowed the Company's commission expense deductions for those years and assessed the Company a total of approximately $18.7 million. At this stage of the discussions, the Company is not required to pay the amount of tax under dispute. The Company is contesting this assessment and is in discussions with the tax authorities in an effort to resolve this matter. Based on its understanding of this matter, management does not believe that it is probable that the Company will incur a loss relating to this matter and accordingly has not provided any related reserves.

21. Purchase of Long–Term Assets

In March 2002, the Company acquired the exclusive rights to a new light-source technology related to measuring the level of certain antioxidants. The acquisition included contingent payments of up to $8.5 million of cash and up to 1.2 million shares of the Company's Class A common stock if certain development and revenue targets were met. In 2004, some of these specific development and revenue targets were met resulting in contingent payments owed of approximately $5.1 million of cash (of which $1.8 million was paid during the first quarter of 2005) and 525,000 shares (of which 262,500 shares were issued in 2005) of the Company's Class A common stock. In 2005, all remaining targets were met and the total payments of $8.5 million of cash and the value of the 1.2 million shares of stock have been added to the carrying value of other finite-lived intangible assets.

On March 7, 2006, the Company acquired Caroderm, Inc. for $4.0 million. As a result of the acquisition, the Company acquired Caroderm's license to use the Scanner technology within the professional medical community. As the sole asset of Caroderm was its license and field of use rights with respect to the Scanner technology, all the consideration paid was allocated to that asset and is being amortized over the period of the remaining license agreements related to the Scanner technology. As of December 31, 2006, the Company had paid approximately $2.0 million of the purchase price and anticipates paying the remaining balance within the next year.

22. Dividends per Share

Quarterly cash dividends for the years ended December 31, 2005 and 2006 totaled $25.4 million and $27.8 million, respectively. In February 2006, the board of directors declared a quarterly cash dividend of $0.105 per share for all classes of common stock to be paid on March 21, 2007 to stockholders of record on March 2, 2007.

23. Quarterly Results

The following table sets forth selected unaudited quarterly data for the periods shown (U.S. dollars in millions, except per share amounts):

	2006				2005			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	$ 289.3	$ 310.1	$ 290.8	$ 290.7	$ 265.8	$ 284.1	$ 276.3	$ 289.2
Gross profit	239.7	256.1	239.3	239.7	218.8	235.7	228.0	237.8
Operating income	28.8	37.0	30.0	27.3	(15.5)	23.9	21.0	25.3
Net income	17.7	22.8	17.7	15.8	(10.3)	14.1	13.2	15.9
Net income per share:								
Basic	0.25	0.33	0.25	0.22	(0.15)	0.20	0.19	0.23
Diluted	0.25	0.32	0.25	0.22	(0.15)	0.20	0.19	0.23

24. Subsequent Event

On January 19, 2007, the Company issued a series of U.S. Dollar denominated senior promissory notes (the "Notes") to affiliates of Prudential Investment Management, Inc. ("Prudential"). The Notes were issued pursuant to the $205 million Private Shelf Agreement entered into between the Company and Prudential on August 26, 2003, as amended from time to time. The aggregate principal amount of the Notes is $40.0 million, bearing a 6.14% interest rate per annum, with interest payable semi-annually beginning on July 20, 2007. The final maturity date of the Notes is January 20, 2017 and principal payments are required annually beginning on January 20, 2011 in equal installments of approximately $5.7 million.

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Nu Skin Enterprises, Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Nu Skin Enterprises, Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for stock-based compensation in 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting appearing in Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Salt Lake City, Utah

March 1, 2007

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

***Changes in Internal Control over Financial Reporting*.** During the fourth quarter of 2006, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management Report On Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in this United States of America and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorization of management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we assessed, as of December 31, 2006, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

The information required by Items 10, 11, 12, 13 and 14 of Part III is hereby incorporated by reference to our Definitive Proxy Statement filed or to be filed with the Securities and Exchange Commission for our 2007 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Form 10-K:

1. Financial Statements. See Index to Consolidated Financial Statements under Item 8 of Part II.
2. Financial Statement Schedules. See Index to Consolidated Financial Statements under Item 8 of Part II.
3. Exhibits. References to the "Company" shall mean Nu Skin Enterprises, Inc. Exhibits preceded by an astrick (*) are management contracts or compensatory plans or arrangements.

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-12073) (the "Form S-1")).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
3.3	Certificate of Designation, Preferences and Relative Participating, Optional and Other Special Rights of Preferred Stock and Qualification, Limitations and Restrictions Thereof (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
3.4	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Form S-1).
4.1	Specimen Form of Stock Certificate for Class A Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (File No. 333-90716)).
4.2	Specimen Form of Stock Certificate for Class B Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Form S-1).
10.1	Note Purchase Agreement dated October 12, 2000, by and between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
10.2	First Amendment to Note Purchase Agreement between the Company and The Prudential Insurance Company of America dated May 1, 2002 (incorporated by reference to Exhibit No. 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.3	Second Amendment to Note Purchase Agreement, dated as of October 31, 2003 between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.4	Third Amendment to Note Purchase Agreement, dated as of May 18, 2004, between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).

Exhibit Number	Exhibit Description
10.5	Fourth Amendment to Note Purchase Agreement, dated as of July 28, 2006, between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on August 23, 2006).
10.6	Fifth Amendment to Note Purchase Agreement, dated as of October 5, 2006, between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on October 10, 2006).
10.7	Credit Agreement dated as of May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A., as Administrative Agent.
10.8	First Amendment to the Credit Agreement dated December 14, 2001 dated May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent.
10.9	Second Amendment to Credit Agreement, dated as of October 22, 2003 between the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.10	Third Amendment to the Credit Agreement, dated as of May 10, 2004, among the Company, various financial institutions, and Bank One, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.11	Fourth Amendment to the Credit Agreement, dated as of July 28, 2006, among the Company, various financial institutions, and JP Morgan Chase Bank, N.A. (as successor to Bank One, N.A. (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on August 23, 2006).
10.12	Fifth Amendment to the Credit Agreement, dated as of October 5, 2006, among the Company, various financial institutions, and JP Morgan Chase Bank, N.A. (as successor to Bank One, N.A.) (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on October 10, 2006).
10.13	Private Shelf Agreement, dated as of August 26, 2003, between the Company and Prudential Investment Management, Inc. (the "Private Shelf Agreement") (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.14	First Amendment to Private Shelf Agreement, dated as of October 31, 2003 between the Company and Prudential Investment Management, Inc. (incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

Exhibit Number	Exhibit Description
10.15	Second Amendment to Private Shelf Agreement, dated as of May 18, 2004, between the Company, Prudential Investment Management, Inc., and the holders of the Series A Senior Notes and Series B Senior Notes issued under the Private Shelf Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.16	Third Amendment to Private Shelf Agreement dated June 13, 2005 between the Company, Prudential Investment Management, Inc. and certain other lenders (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.17	Fourth Amendment to Private Shelf Agreement dated July 28, 2006 between the Company, Prudential Investment Management, Inc. and certain other lenders (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on August 23, 2006).
10.18	Fifth Amendment to Private Shelf Agreement dated October 5, 2006 between the Company, Prudential Investment Management, Inc. and certain other lenders (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed on October 10, 2006).
10.19	Series A Senior Notes Nos. A-1 to A-5 and Series B Senior Notes B-1 to B-5 issued October 31, 2003 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.20	Series C Senior Notes Nos. C-1 and C-2 issued February 7, 2005 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed February 8, 2005).
10.21	Series D Senior Notes Nos. D-1, D-2, D-3 and D-4 issued October 5, 2006 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K filed October 10, 2006).
10.22	Series E Senior Notes Nos. E-1, E-2, E-3, E-4 and E-5 issued January 19, 2007 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed January 25, 2007).
10.23	Pledge Agreement dated October 12, 2000, by and between the Company and State Street Bank and Trust Company of California, N.A., acting in its capacity as collateral agent (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).

Exhibit Number	Exhibit Description
10.24	Pledge Amendments executed by the Company dated December 31, 2003 (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.25	Pledge Agreement dated as of January 31, 2005 by and among Nu Skin Asia Investment, Inc., a wholly-owned subsidiary of the Company, and U.S. Bank National Association, as agent for and on behalf of the Benefited Parties under the Amended and Restated Collateral Agency and Intercreditor Agreement (referred to below) (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K/A filed on March 10, 2005).
10.26	Collateral Agency Agreement dated October 12, 2000, by and between the Company, State Street Bank and Trust Company of California, N.A., as Collateral Agent, and the lenders and noteholders party thereto (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
10.27	Amendment to Collateral Agency and Intercreditor Agreement dated May 10, 2000, among State Street Bank and Trust Company of California, N.A., as Collateral Agent, The Prudential Insurance Company of America, as Senior Noteholder and ABN AMRO Bank N.V., as Senior Lender.
10.28	Amended and Restated Collateral Agency and Intercreditor Agreement, dated as of August 26, 2003, by and among Nu Skin Enterprises, Inc. and various of its subsidiaries, U.S. Bank National Association, as Collateral Agent, and various lending institutions (incorporated by reference to Exhibit No. 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.29	Master Lease Agreement dated January 16th 2003 by and between the Company and Scrub Oak, LLC (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year

ended December 31, 2002).

10.30	Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Scrub Oak, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.31	Master Lease Agreement dated January 16, 2003 by and between the Company and Aspen Country, LLC (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.32	Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Aspen Country, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).

Exhibit Number	Exhibit Description
10.33	Univerisity of Utah Research Foundation and Nu Skin International, Inc. Amended and Restated Patent License Agreement (Exclusive) Dietary Supplement Preventative Healthcare License dated July 1, 2006.
10.34	Agreement and Plan of Merger among Nu Skin International, Inc., Pharmanex License Acquisition Corporation, Caroderm, Inc. and certain shareholders of Caroderm, Inc. dated as of March 7, 2006 (incorporated by reference to Exhibit 10.58 to the Company's Annual Report on Form 10-K/A filed March 17, 2006).
10.35	Letter of Agreement dated September 5, 2006 between Orrin T. Colby, III, Cygnus Resources, Inc. and Nu Skin Enterprises, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 7, 2006).
10.36	Form of Lock-up Agreement executed by certain of the Company's shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
*10.37	Form of Indemnification Agreement to be entered into between the Company and certain of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
*10.38	Amendment in Total and Complete Restatement of Deferred Compensation Plan. (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.39	Nu Skin Enterprises, Inc. Deferred Compensation Plan dated December 12, 2005 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.40	Nu Skin Enterprises, Inc. Nonqualified Deferred Compensation Trust dated December 12, 2005 (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.41	Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005). . *10.42 Amendment No. 1 to the Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
*10.42	Form of Master Stock Option Agreement (1996 Plan) (incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
*10.43	Form of Stock Option Agreement for Directors (1996 Plan).

Exhibit Number	Exhibit Description
*10.44	Form of Contingent Stock Award Agreement for Directors (1996 Plan) (incorporated by reference to Exhibit 10.55 to the Company's Annual Report on Form 10-K/A filed for the year ended December 31, 2005).
*10.45	Nu Skin Enterprises, Inc. 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 1, 2006).
*10.46	Form of Master Stock Option Agreement (2006 Plan) (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006).
*10.47	Form of Master Stock Option Agreement for Directors (2006 Plan).
*10.48	Form of Master Restricted Stock Unit Agreement (2006 Plan) (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006).
*10.49	Nu Skin Enterprises, Inc. 2005 Executive Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed February 9, 2005).
*10.50	Nu Skin Enterprises, Inc. 2006 Senior Executive Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 1, 2006).
*10.51	Performance Targets and Formulas (approved under the 2006 Senior Executive Incentive Plan).
*10.52	Nu Skin Enterprises, Inc. Senior Executive Benefits Policy (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
*10.53	Summary Description of Nu Skin Japan Director Retirement Allowance Plan.
*10.54	Nu Skin International, Inc. 1997 Key Employee Death Benefit Plan (incorporated by reference to Exhibit 10.59 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.55	Summary of Team Elite Travel Policy (incorporated by reference to Exhibit 10.61 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005).
*10.56	Employment Letter with Truman Hunt (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

Exhibit Number	Exhibit Description
*10.57	Amendment to Employment Letter with M. Truman Hunt dated September 22, 2005 and Amendment to provisions of the Company's Executive Incentive Plan with respect to Mr. Hunt (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
*10.58	CEO compensation changes (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
*10.59	Restricted Stock Purchase Agreement, dated as of January 17, 2003, between the Company and Truman Hunt (incorporated by reference to Exhibit 10.61 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.60	Employment Letter with Robert Conlee effective November 26, 2003 (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.61	Joseph Y. Chang Employment Agreement dated April 17, 2006 between Mr. Chang and the Company (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on April 18, 2006).
*10.62	Daniel Chard Employment Agreement effective February 13, 2006 between Mr. Chard and the Company.
*10.63	Summary of Non-management Director compensation (incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005).
*10.64	Summary of Non-management Director compensation (revised effective year 2007).
*10.65	Severance letter with Richard King dated March 2, 2006 (incorporated by reference to Exhibit 10.59 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005).
*10.66	Severance letter with Lori Bush dated March 10, 2006 (incorporated by reference to Exhibit 10.60 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005).
*10.67	Settlement and Release Agreement with Lori Bush dated April 20, 2006 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
*10.68	Event Appearance Bonus Guidelines (Approved for Sandra Tillotson in October 2006)
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP
31.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit Number	Exhibit Description
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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 31, 2007.

NU SKIN ENTERPRISES, INC.

By: /s/ M. Truman Hunt
M. Truman Hunt, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 1, 2007.

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

D. Allen Andersen	Director
/s/ Patricia Negrón Patricia Negrón	Director

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-12073) (the "Form S-1")).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
3.3	Certificate of Designation, Preferences and Relative Participating, Optional and Other Special Rights of Preferred Stock and Qualification, Limitations and Restrictions Thereof (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
3.4	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Form S-1).
4.1	Specimen Form of Stock Certificate for Class A Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (File No. 333-90716)).
4.2	Specimen Form of Stock Certificate for Class B Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Form S-1).
10.1	Note Purchase Agreement dated October 12, 2000, by and between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
10.2	First Amendment to Note Purchase Agreement between the Company and The Prudential Insurance Company of America dated May 1, 2002 (incorporated by reference to Exhibit No. 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.3	Second Amendment to Note Purchase Agreement, dated as of October 31, 2003 between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.4	Third Amendment to Note Purchase Agreement, dated as of May 18, 2004, between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).

Exhibit Number	Exhibit Description
10.5	Fourth Amendment to Note Purchase Agreement, dated as of July 28, 2006, between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on August 23, 2006).
10.6	Fifth Amendment to Note Purchase Agreement, dated as of October 5, 2006, between the Company and The Prudential Insurance Company of America (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on October 10, 2006).
10.7	Credit Agreement dated as of May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A., as Administrative Agent.
10.8	First Amendment to the Credit Agreement dated December 14, 2001 dated May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent.
10.9	Second Amendment to Credit Agreement, dated as of October 22, 2003 between the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.10	Third Amendment to the Credit Agreement, dated as of May 10, 2004, among the Company, various financial institutions, and Bank One, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.11	Fourth Amendment to the Credit Agreement, dated as of July 28, 2006, among the Company, various financial institutions, and JP Morgan Chase Bank, N.A. (as successor to Bank One, N.A. (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on August 23, 2006).
10.12	Fifth Amendment to the Credit Agreement, dated as of October 5, 2006, among the Company, various financial institutions, and JP Morgan Chase Bank, N.A. (as successor to Bank One, N.A.) (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on October 10, 2006).
10.13	Private Shelf Agreement, dated as of August 26, 2003, between the Company and Prudential Investment Management, Inc. (the "Private Shelf Agreement") (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.14	First Amendment to Private Shelf Agreement, dated as of October 31, 2003 between the Company and Prudential Investment Management, Inc. (incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

Exhibit Number	Exhibit Description
10.15	Second Amendment to Private Shelf Agreement, dated as of May 18, 2004, between the Company, Prudential Investment Management, Inc., and the holders of the Series A Senior Notes and Series B Senior Notes issued under the Private Shelf Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.16	Third Amendment to Private Shelf Agreement dated June 13, 2005 between the Company, Prudential Investment Management, Inc. and certain other lenders (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.17	Fourth Amendment to Private Shelf Agreement dated July 28, 2006 between the Company, Prudential Investment Management, Inc. and certain other lenders (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on August 23, 2006).

10.18	Fifth Amendment to Private Shelf Agreement dated October 5, 2006 between the Company, Prudential Investment Management, Inc. and certain other lenders (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed on October 10, 2006).
10.19	Series A Senior Notes Nos. A-1 to A-5 and Series B Senior Notes B-1 to B-5 issued October 31, 2003 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.20	Series C Senior Notes Nos. C-1 and C-2 issued February 7, 2005 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed February 8, 2005).
10.21	Series D Senior Notes Nos. D-1, D-2, D-3 and D-4 issued October 5, 2006 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K filed October 10, 2006).
10.22	Series E Senior Notes Nos. E-1, E-2, E-3, E-4 and E-5 issued January 19, 2007 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed January 25, 2007).
10.23	Pledge Agreement dated October 12, 2000, by and between the Company and State Street Bank and Trust Company of California, N.A., acting in its capacity as collateral agent (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).

Exhibit Number	Exhibit Description
10.24	Pledge Amendments executed by the Company dated December 31, 2003 (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.25	Pledge Agreement dated as of January 31, 2005 by and among Nu Skin Asia Investment, Inc., a wholly-owned subsidiary of the Company, and U.S. Bank National Association, as agent for and on behalf of the Benefited Parties under the Amended and Restated Collateral Agency and Intercreditor Agreement (referred to below) (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K/A filed on March 10, 2005).
10.26	Collateral Agency Agreement dated October 12, 2000, by and between the Company, State Street Bank and Trust Company of California, N.A., as Collateral Agent, and the lenders and noteholders party thereto (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
10.27	Amendment to Collateral Agency and Intercreditor Agreement dated May 10, 2000, among State Street Bank and Trust Company of California, N.A., as Collateral Agent, The Prudential Insurance Company of America, as Senior Noteholder and ABN AMRO Bank N.V., as Senior Lender.
10.28	Amended and Restated Collateral Agency and Intercreditor Agreement, dated as of August 26, 2003, by and among Nu Skin Enterprises, Inc. and various of its subsidiaries, U.S. Bank National Association, as Collateral Agent, and various lending institutions (incorporated by reference to Exhibit No. 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.29	Master Lease Agreement dated January 16th 2003 by and between the Company and Scrub Oak, LLC (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.30	Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Scrub Oak, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.31	Master Lease Agreement dated January 16, 2003 by and between the Company and Aspen Country, LLC (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.32	Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Aspen Country, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).

Exhibit Number	Exhibit Description
10.33	Univerisity of Utah Research Foundation and Nu Skin International, Inc. Amended and Restated Patent License Agreement (Exclusive) dated July 1, 2006.
10.34	Agreement and Plan of Merger among Nu Skin International, Inc., Pharmanex License Acquisition Corporation, Caroderm, Inc. and certain shareholders of Caroderm, Inc. dated as of March 7, 2006 (incorporated by reference to Exhibit 10.58 to the Company's Annual Report on Form 10-K/A filed March 17, 2006).
10.35	Letter of Agreement dated September 5, 2006 between Orrin T. Colby, III, Cygnus Resources, Inc. and Nu Skin Enterprises, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 7, 2006).
10.36	Form of Lock-up Agreement executed by certain of the Company's shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
*10.37	Form of Indemnification Agreement to be entered into between the Company and certain of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
*10.38	Amendment in Total and Complete Restatement of Deferred Compensation Plan. (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.39	Nu Skin Enterprises, Inc. Deferred Compensation Plan dated December 12, 2005 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.40	Nu Skin Enterprises, Inc. Nonqualified Deferred Compensation Trust dated December 12, 2005 (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.41	Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005). . *10.42 Amendment No. 1 to the Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
*10.42	Form of Master Stock Option Agreement (1996 Plan) (incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
*10.43	Form of Stock Option Agreement for Directors (1996 Plan).

Exhibit Number	Exhibit Description
*10.44	Form of Contingent Stock Award Agreement for Directors (1996 Plan) (incorporated by reference to Exhibit 10.55 to the Company's Annual Report on Form 10-K/A filed for the year ended December 31, 2005).
*10.45	Nu Skin Enterprises, Inc. 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 1, 2006).
*10.46	Form of Master Stock Option Agreement (2006 Plan) (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006).
*10.47	Form of Master Stock Option Agreement for Directors (2006 Plan).
*10.48	Form of Master Restricted Stock Unit Agreement (2006 Plan) (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006).
*10.49	Nu Skin Enterprises, Inc. 2005 Executive Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed February 9, 2005).
*10.50	Nu Skin Enterprises, Inc. 2006 Senior Executive Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 1, 2006).
*10.51	Performance Targets and Formulas (approved under the 2006 Senior Executive Incentive Plan).
*10.52	Nu Skin Enterprises, Inc. Senior Executive Benefits Policy (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
*10.53	Summary Description of Nu Skin Japan Director Retirement Allowance Plan.
*10.54	Nu Skin International, Inc. 1997 Key Employee Death Benefit Plan (incorporated by reference to Exhibit 10.59 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.55	Summary of Team Elite Travel Policy (incorporated by reference to Exhibit 10.61 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005).
*10.56	Employment Letter with Truman Hunt (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

Nu Skin Enterprises, Inc.
Notes to Consolidated Financial Statements

Exhibit Number	Exhibit Description
*10.57	Amendment to Employment Letter with M. Truman Hunt dated September 22, 2005 and Amendment to provisions of the Company's Executive Incentive Plan with respect to Mr. Hunt (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
*10.58	CEO compensation changes (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
*10.59	Restricted Stock Purchase Agreement, dated as of January 17, 2003, between the Company and Truman Hunt (incorporated by reference to Exhibit 10.61 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.60	Employment Letter with Robert Conlee effective November 26, 2003 (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.61	Joseph Y. Chang Employment Agreement dated April 17, 2006 between Mr. Chang and the Company (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on April 18, 2006).
*10.62	Daniel Chard Employment Agreement effective February 13, 2006 between Mr. Chard and the Company.
*10.63	Summary of Non-management Director compensation (incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005).
*10.64	Summary of Non-management Director compensation (revised effective year 2007).
*10.65	Severance letter with Richard King dated March 2, 2006 (incorporated by reference to Exhibit 10.59 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005).
*10.66	Severance letter with Lori Bush dated March 10, 2006 (incorporated by reference to Exhibit 10.60 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005).
*10.67	Settlement and Release Agreement with Lori Bush dated April 20, 2006 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
*10.68	Event Appearance Bonus Guidelines (Approved for Sandra Tillotson in October 2006)
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP
31.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Nu Skin Enterprises, Inc.
Notes to Consolidated Financial Statements

Exhibit Number	Exhibit Description
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.

CREDIT AGREEMENT

dated as of May 10, 2001

among

NU SKIN ENTERPRISES, INC.,

VARIOUS FINANCIAL INSTITUTIONS,

and

BANK OF AMERICA, N.A.,

as Administrative Agent

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CREDIT AGREEMENT

This CREDIT AGREEMENT dated as of May 10, 2001 (this "Agreement") is among NU SKIN ENTERPRISES, INC., a Delaware corporation (the "Company"), the various financial institutions that are or may from time to time become parties hereto (together with their respective successors and assigns, the "Lenders"), and BANK OF AMERICA, N.A. (in its individual capacity, "Bank of America"), as administrative agent for the Lenders.

WHEREAS, the Company has requested that the Lenders provide a revolving credit facility to the Company; and

WHEREAS, the Lenders are willing to extend commitments to make Loans to the Company hereunder for the purposes provided herein and on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties hereto agree as follows:

SECTION 1 DEFINITIONS.

1.1 Definitions. When used herein the following terms shall have the following meanings:

ABN Amro Facility means the $10,000,000 credit facility evidenced by that certain Grid Note dated as of May 24, 2000 executed by the Company in favor of ABN Amro Bank N.V., as amended, supplemented or modified prior to the date hereof.

Administrative Agent means Bank of America in its capacity as administrative agent for the Lenders hereunder and any successor thereto in such capacity.

Affected Lender means any Lender that has given notice to the Company (which has not been rescinded) of (a) any obligation by the Company to pay any amount pursuant to Section 7.6 or 8.1 or (b) the occurrence of any circumstance of the nature described in Section 8.2 or 8.3.

Affiliate means, at any time, (a) with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) with respect to the Company and its Subsidiaries, any Person beneficially owning or holding, directly or indirectly, 5% or more of any class of voting or equity interests of the Company or any of its Subsidiaries or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 5% or more of any class of voting or equity interests. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the

direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

Agent-Related Persons means the Administrative Agent and any successor administrative agent arising under Section 13.9, together with their respective Affiliates, and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

Agreement - see the Preamble.

Assignee - see Section 14.9.1.

Assignment Agreement - see Section 14.9.1.

Base Rate means at any time the greater of (a) the Federal Funds Rate plus 0.5% and (b) the Prime Rate.

Bank of America - see the Preamble.

Business Day means any day other than a Saturday, a Sunday or a day on which commercial banks in Charlotte, North Carolina and New York, New York are required or authorized to be closed and (a) with respect to any borrowing, payment or rate determination of Yen LIBOR Loans, any day other than a Saturday, a Sunday or a day on which commercial banks in Tokyo, Japan and London, England are required or authorized to be closed and (b) with respect to any borrowing, payment or rate determination of Eurodollar Loans, any day other than a Saturday, a Sunday or day on which commercial banks in London, England are required or authorized to be closed.

Capital Lease means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

Change of Control means an event or series of events by which:

(a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any (i) Specified Person and (ii) employee benefit plan of such Person or its subsidiaries, or any Person acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of (x) 25% or more of the equity interests of the Company and (y) more

voting equity interests of the Company than the aggregate amount of such voting equity interests beneficially owned by the Specified Persons; or

(b) during any period of 12 consecutive months, a majority of the members of the Board of Directors or other equivalent governing body of the Company cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body.

Closing Date means the date of the making of the initial Loans, or the issuance of the initial Letter of Credit, hereunder (whichever occurs first).

Codemeans the Internal Revenue Code of 1986.

Collateral Agency and Intercreditor Agreement means the Collateral Agency and Intercreditor Agreement, a copy of which is attached as Exhibit E-1, by and among the Company, the Collateral Agent, the Administrative Agent and each of the other Senior Secured Creditors, and acknowledged by the Company and the Subsidiary Guarantors.

Collateral Agent means State Street Bank and Trust Company of California, N.A., acting in its capacity as collateral agent under the Collateral Agency and Intercreditor Agreement, together with its successors and assigns.

Collateral Documents means the Pledge Agreement, the Subsidiary Guaranty, the Collateral Agency and Intercreditor Agreement and all other documents evidencing, securing or relating to the Loans, the payment of the indebtedness evidenced by the Notes and all other amounts due from the Company or any other Restricted Subsidiary evidenced or secured by this Agreement, the Notes or the Collateral Documents.

Commitment means, as to any Lender, such Lender's commitment to make Loans, and to issue or participate in Letters of Credit, under this Agreement.

Commitment Amount means $60,000,000, as reduced from time to time pursuant to Section 6.1.

Commitment Fee Rate - see Schedule 1.1.

Company - see the Preamble.

Computation Period means each period of four consecutive quarterly fiscal periods ending on the last day of a quarterly fiscal period.

Consolidated Income Available for Fixed Charges means, with respect to any period, Consolidated Net Income for such period plus all amounts deducted in the computation thereof on account of (a) Fixed Charges, and (b) taxes imposed on or measured by income or excess profits of the Company and the Restricted Subsidiaries.

Consolidated Net Income means, with respect to any period, the net income (or loss) of the Company and the Restricted Subsidiaries for such period (taken as a cumulative whole), as determined in accordance with GAAP, after eliminating all offsetting debits and credits between the Company and the Restricted Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and the Restricted Subsidiaries in accordance with GAAP.

Consolidated Net Worth means, at any time, (a) the consolidated stockholders' equity of the Company and the Restricted Subsidiaries, as defined according to GAAP, less (b) the sum of (i) to the extent included in clause (a), all amounts attributable to minority interests, if any, in the securities of Restricted Subsidiaries, and (ii) the amount by which Restricted Investments exceed 20% of the amount determined in clause (a).

Consolidated Total Assets means, at any date of determination, on a consolidated basis for the Company and the Restricted Subsidiaries, total assets, determined in accordance with GAAP.

Credit Facility means any credit facility providing for the borrowing of money or the issuance of letters of credit (a) for the Company or (b) for any Restricted Subsidiary, if its obligations under such Credit Facility are guaranteed by the Company.

Dollar and the sign "$" mean the lawful money of the United States of America.

Dollar Equivalent means, with respect to a specified amount of any currency, the amount of Dollars into which such amount of such currency would be converted, based on the applicable Spot Rate of Exchange.

Domestic Subsidiary means, at any time, each Subsidiary of the Company (a) which is created, organized or domesticated in the United States or under the laws of the United States or any state or territory thereof, (b) which was included as a member of the Company's affiliated group in the Company's most recent consolidated United States federal income tax return, or (c) the earnings of which were includable in the taxable income of the Company or any other Domestic Subsidiary (to the extent of the Company's and/or such other Domestic Subsidiary's ownership interest of such Subsidiary) in the Company's most recent consolidated United States federal income tax return.

EBITDA means, with respect to any period, the sum of (i) Consolidated Net Income for such period without giving effect to extraordinary gains and losses, gains and losses resulting from changes in GAAP and one time non-recurring income and expenses resulting from acquisitions and similar events, plus (ii) to the extent deducted in the calculation of Consolidated Net Income, the amount of all interest expense, depreciation expense, amortization expense, and income tax expense; provided that EBITDA will include or exclude, as applicable, acquisitions and divestitures of Restricted Subsidiaries or other business units on a pro forma basis as if such acquisitions or divestitures occurred on the first day of the applicable period.

Effective Date - see Section 11.1.

Environmental Laws means any and all federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

ERISA means the Employee Retirement Income Security Act of 1974, and the rules and regulations promulgated thereunder from time to time in effect.

ERISA Affiliate means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under Section 414 of the Code.

Eurocurrency Reserve Percentage means, with respect to any Eurodollar Loan for any Interest Period, a percentage (expressed as a decimal) equal to the daily average during such Interest Period of the percentage in effect on each day of such Interest Period, as prescribed by the FRB (or any successor), for determining the aggregate maximum reserve requirements applicable to "Eurocurrency Liabilities" pursuant to Regulation D or any other then applicable regulation of the FRB which prescribes reserve requirements applicable to "Eurocurrency Liabilities" as presently defined in Regulation D.

Eurodollar Loan means any Loan which bears interest at a rate determined by reference to the Eurodollar Rate (Reserve Adjusted).

Eurodollar/Yen LIBOR Margin - see Schedule 1.1.

Eurodollar Office means with respect to any Lender the office or offices of such Lender which shall be making or maintaining the Eurodollar Loans of such Lender hereunder or, if applicable, such other office or offices through which such Lender determines the Eurodollar Rate. A Eurodollar Office of any Lender may be, at the option of such Lender, either a domestic or foreign office.

Eurodollar Rate means, with respect to any Eurodollar Loan for any Interest Period, (i) the rate per annum (rounded upward, if necessary, to the nearest 1/100 of 1%) equal to the rate determined by the Administrative Agent to be the offered rate which appears on the page of the Telerate Screen which displays an average British Bankers Association Interest Settlement Rate (such page currently being page number 3750) for deposits (for delivery two Business Days prior to the beginning of such Interest Period) with a term equivalent to the applicable Interest Period, determined as of approximately 11:00 A.M. (London, England time) on such date of determination, or (ii) if the rate referenced in the preceding clause (i) does not appear on such page or service or if such page or service shall cease to be available, the rate per annum (rounded upward, if necessary, to the nearest five decimal places) equal to the rate determined by the Administrative Agent to be the offered rate on such other page or other service which displays an average British Bankers Association Interest Settlement Rate for deposits (for delivery two Business Days

prior to the beginning of such Interest Period) with a term equivalent to such Interest Period determined as of approximately 11:00 A.M. (London, England time) on such date of determination, or (iii) if the rates referenced in the preceding clauses (i) and (ii) are not available, the rate per annum equal to the offered quotation rate (rounded upward, if necessary, to the nearest five decimal places) to first class banks in the London interbank market by the Administrative Agent for deposits (for delivery two Business Days prior to the beginning of such Interest Period) of amounts in same day funds comparable to the principal amount of the Eurodollar Loan of Bank of America included in the Eurodollar borrowing for which the Eurodollar Rate is then being determined with a maturity comparable to such Interest Period as of approximately 11:00 A.M. (London, England time) on such date of determination.

Eurodollar Rate (Reserve Adjusted) means, with respect to any Eurodollar Loan for any Interest Period, a rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined pursuant to the following formula:

$$\text{Eurodollar Rate (Reserve Adjusted)} = \frac{\text{Eurodollar Rate}}{1 - \text{Eurocurrency Reserve Percentage}}$$

Event of Default means any of the events described in Section 12.1.

Exchange Act means the Securities Exchange Act of 1934.

Existing Letters of Credit means the letters of credit described by date of issuance, letter of credit number, undrawn amount, name of beneficiary and the date of expiry on Schedule 1 hereto.

Exemption Representation - see Section 7.6 ..

Federal Funds Rate means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Bank of

New York (including any such successor publication, "H.15(519)") on the preceding Business Day opposite the caption "Federal Funds (Effective)"; or, if for any relevant day such rate is not so published on any such preceding Business Day, the rate for such day will be the arithmetic mean as determined by the Administrative Agent of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that day by each of three leading brokers of Federal funds transactions in New York City selected by the Administrative Agent.

Fixed Charges means, with respect to any period, the sum of (i) Interest Expense for such period, and (ii) Lease Rentals for such period.

Floating Rate Loan means any Loan which bears interest at or by reference to the Base Rate.

Floating Rate Margin - see Schedule 1.1.

Foreign Subsidiary means, at any time, each Subsidiary of the Company that is not a Domestic Subsidiary.

FRB means the Board of Governors of the Federal Reserve System.

GAAP means generally accepted accounting principles as in effect from time to time in the United States of America.

Group - see Section 2.2.1.

Governmental Authority means (a) the government of (i) the United States of America or any state or other political subdivision thereof, or (ii) Japan or any political subdivision thereof, or (iii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or (b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

Guaranty means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person (a) to purchase such indebtedness or obligation or any property constituting security therefor, (b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation, (c) to lease properties or to purchase properties or

services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation, or (d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof. In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

Hazardous Material means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

Indebtedness with respect to any Person means, at any time, without duplication, (a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock, (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property), (c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases, (d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities), (e) Securitization Debt and (f) any Guaranty (other than the Subsidiary Guaranty) of such Person with respect to liabilities of a type described in any of clauses (a) through (e) hereof. Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (f) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

Interest Expense means, with respect to the Company and the Restricted Subsidiaries for any period, the sum, determined on a consolidated basis in accordance with GAAP, of (a) all interest paid, accrued or scheduled for payment on the Indebtedness of the Company and the Restricted Subsidiaries during such period (including interest attributable to Capital Leases), plus (b) all fees in respect of outstanding letters of credit paid, accrued or scheduled for payment by the Company and the Restricted Subsidiaries during such period.

Interest Period means, as to any Yen LIBOR Loan or Eurodollar Loan, the period commencing on the date such Loan is borrowed or continued as a Yen LIBOR Loan or Eurodollar Loan or converted into a Eurodollar Loan and ending on the date one, two, three or six months thereafter, as selected by the Company pursuant to Section 2.2.3; provided that:

(a) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the following Business Day unless the

result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

(b) any Interest Period for a Yen LIBOR Loan or Eurodollar Loan that begins on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) the Company may not select any Interest Period for any Loan which would extend beyond the scheduled Termination Date or which would cause the aggregate principal amount of all Yen LIBOR Loans and Eurodollar Loans having Interest Periods ending after the date on which the Commitment Amount is scheduled to be reduced pursuant to Section 6.1(d), plus the Stated Amount of all Letters of Credit scheduled to be outstanding after such date, to exceed the Commitment Amount scheduled to be in effect at the close of business on such date.

Investment means any investment, made in cash or by delivery of property, by the Company or any Restricted Subsidiary (a) in any Person, whether by acquisition of stock, Indebtedness or other obligation or Security, or by loan, Guaranty, advance, capital contribution or otherwise; or (b) in any property.

Issuing Lender means Bank of America in its capacity as an issuer of Letters of Credit hereunder and any other Lender which, with the written consent of the Company and the Administrative Agent, is the issuer of one or more Letters of Credit hereunder.

L/C Application means, with respect to any request for the issuance of a Letter of Credit, a letter of credit application in the form being used by the applicable Issuing Lender at the time of such request for the type of letter of credit requested.

Lease Rentals means, with respect to any period, the sum of the rental and other obligations required to be paid during such period by the Company or any Restricted Subsidiary as lessee under all leases of real or personal property (other than Capital Leases) as determined on a consolidated basis for the Company and the Restricted Subsidiaries in accordance with GAAP.

Lender - see the Preamble. References to the "Lenders" shall include the Issuing Lender; for purposes of clarification only, to the extent that Bank of America (or any successor Issuing Lender) may have any rights or obligations in addition to those of the other Lenders due to its status as Issuing Lender, its status as such will be specifically referenced.

Letter of Credit - see Section 2.1.2.

Leverage Ratio means, as of any date, the ratio of Total Indebtedness as of such date to EBITDA for the most recently ended period of four consecutive fiscal quarters.

Lien means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

Loan Documents means this Agreement, the Notes, the Guaranties, the L/C Applications and the Collateral Documents.

Loans - see Section 2.1.1.

Material or Materially means material or materially, as the case may be, in relation to the business, operations, affairs, financial condition, assets, properties or prospects of the Company and the Restricted Subsidiaries taken as a whole.

Material Adverse Effect means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and the Restricted Subsidiaries taken as a whole, or (b) the ability of the Company and the Restricted Subsidiaries, taken as a whole, to perform their obligations under this Agreement, the Collateral Documents or any other Loan Document, or (c) the validity or enforceability of this Agreement, the Collateral Documents or any other Loan Document.

Material Domestic Subsidiary means each Domestic Subsidiary of the Company that also is a Material Subsidiary.

Material Foreign Subsidiary means each Foreign Subsidiary of the Company that also is a Material Subsidiary.

Material Subsidiaries means, at any time, (a) Nu Skin Japan Co., Ltd., a Japanese corporation, Nu Skin International, Inc., a Utah corporation, NSE Hong Kong, Inc., a Utah corporation, Nu Skin Taiwan, Inc., a Utah corporation, and Nu Skin United States, Inc., a Delaware corporation, and (b) each other Subsidiary of the Company which (i) had revenues during the four most recently ended fiscal quarters equal to or greater than 5.0% of the consolidated total revenues of the Company and its Subsidiaries during such period or (ii) is an obligor under any Guaranty with respect to the Indebtedness of the Company under any Significant Credit Facility; provided that no Subsidiary shall be a "Material Subsidiary" unless at least a majority of the voting securities of such Subsidiary are owned by the Company and/or one or more Wholly-Owned Restricted Subsidiaries.

Multiemployer Plan means any Plan that is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

Note - see Section 3.1.

Officer's Certificate means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

PBGC means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

Percentage means, with respect to any Lender, the percentage specified opposite such Lender's name on Schedule 2.1, as adjusted by any assignment pursuant to Section 14.9.1.

Permitted Liens - see Section 10.12.

Permitted Securitization Program means any transaction or series of transactions that may be entered into by the Company or any Restricted Subsidiary pursuant to which the Company or any Restricted Subsidiary may sell, convey or otherwise transfer to (a) a Securitization Entity (in the case of a transfer by the Company or any Restricted Subsidiary) and (b) any other Person (in the case of a transfer by a Securitization Entity), or may grant a security interest in, any receivables (whether now existing or arising or acquired in the future) of the Company or any Restricted Subsidiary, and any assets related thereto including (i) all collateral securing such receivables, (ii) all contracts and contract rights and all guarantees or other obligations in respect of such receivables, (iii) proceeds of such receivables, and (iv) other assets (including contract rights) that are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving receivables; provided that the resultant Securitization Debt, together with all other Priority Indebtedness then outstanding, shall not exceed the amount of Priority Indebtedness permitted by Section 10.11(a)(ii).

Person means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization or government (or an agency or political subdivision thereof).

Plan means an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

Pledge Agreement means the Pledge Agreement executed by the Company in favor of State Street Bank and Trust Company of California, N.A., as collateral agent, a copy of which is attached as Exhibit C.

Pledged Securities means, in respect of each Pledgor, (a) the Equity Securities owned by such Pledgor described in Schedule I attached to, or otherwise pledged pursuant to, the Pledge Agreement and the Equity Securities owned by such Pledgor of each Person that becomes a Material Foreign Subsidiary, including all securities convertible into, and rights, warrants, options and other rights to purchase or otherwise acquire, any of the foregoing now or hereafter owned by such Pledgor, and the certificates or other instruments representing any of the foregoing and any interest of such Pledgor in the entries on the books of any securities intermediary pertaining thereto (the "Pledged Shares"), and all dividends, distributions, returns of capital, cash, warrants, option, rights, instruments, right to vote or manage the business of the respective issuer pursuant to organizational documents governing the rights and obligations of the stockholders, and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Pledged Shares; provided that the Pledged Shares shall not include any Equity Securities of such issuer in excess of the number of shares or other equity interests of such issuer possessing up to but not exceeding 65% of the voting power of all classes of Equity Securities entitled to vote of such issuer, and all dividends, cash, warrants, rights, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Equity Securities, and (b) to the extent not covered by clause (a) above, all proceeds of any or all of the foregoing.

Pledgor means each Person who pledges Pledged Securities under the Pledge Agreement.

Preferred Stock means any class of capital stock of a corporation that is preferred over any other class of capital stock of such corporation as to the payment of dividends or the payment of any amount upon liquidation or dissolution of such corporation.

Prime Rate means, for any day, the rate of interest in effect for such day as publicly announced from time to time by Bank of America in Charlotte as its "prime rate." (The "prime rate" is a rate set by Bank of America based upon various factors, including Bank of America's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above or below such announced rate.) Any change in the prime rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

Priority Indebtedness means (without duplication) the sum of (a) any unsecured Indebtedness of the Restricted Subsidiaries other than (i) guarantees under the Subsidiary Guaranty, (ii) Indebtedness of a Restricted Subsidiary if (x) the Company has guaranteed such Indebtedness or is a primary obligor of such Indebtedness, and (y) the holder of such Indebtedness becomes a party to the Collateral Agency and Intercreditor Agreement (provided that until the holder of such Indebtedness becomes a party to the Collateral Agency and Intercreditor Agreement, such Indebtedness will be considered Priority Indebtedness), and (iii) Indebtedness owed to the Company or any other Restricted Subsidiary, and (b) Indebtedness of

the Company and its Restricted Subsidiaries secured by a Lien not permitted by clauses (a) through (m) of Section 10.12, and (c) Securitization Debt.

Property or properties means and includes each and every interest in any property or asset, whether tangible or intangible and whether real, personal or mixed.

QPAM Exemption means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

Required Lenders means Lenders having Percentages aggregating 51% or more.

Responsible Officer means any Senior Financial Officer and any other officer of the Company or its Subsidiaries with responsibility for the administration of the relevant portion of this Agreement or any Loan Document.

Restricted Investments means all Investments except any of the following: (a) property to be used in the ordinary course of business; (b) assets arising from the sale of goods and services in the ordinary course of business; (c) Investments in one or more Restricted Subsidiaries or any Person that immediately becomes a Restricted Subsidiary; (d) Investments existing on the Signing Date; (e) Investments in obligations, maturing within one year, issued by

or guaranteed by the United States of America, or an agency thereof, or Canada, or any province thereof; (f) Investments in tax-exempt obligations, maturing within one year, which are rated in one of the top two rating classifications by at least one national rating agency; (g) Investments in certificates of deposit or banker's acceptances maturing within one year issued by Bank of America or other commercial banks which are rated in one of the top two rating classifications by at least one national rating agency; (h) Investments in commercial paper, maturing within 270 days, rated in one of the top two rating classifications by at least one national rating agency; (i) Investments in repurchase agreements; (j) treasury stock; (k) Investments in money market instrument programs which are classified as current assets in accordance with GAAP; (l) Investments in foreign currency risk hedging contracts used in the ordinary course of business; and (m) Investments in Securitization Entities.

Restricted Subsidiary means any Subsidiary (a) at least a majority of the voting securities of which are owned by the Company and/or one or more Wholly-Owned Restricted Subsidiaries, and (b) which the Company has not designated as an Unrestricted Subsidiary in accordance with Section 10.18; provided that upon any Unrestricted Subsidiary becoming a Material Subsidiary, it shall immediately be deemed to be a Restricted Subsidiary.

Securities Act means the Securities Act of 1933.

Security has the meaning set forth in Section 2(l) of the Securities Act.

Securitization Debt for the Company and the Restricted Subsidiaries shall mean, in

connection with any Permitted Securitization Program, (a) any amount as to which any Securitization Entity or other Person has recourse to the Company or any Restricted Subsidiary with respect to such Permitted Securitization Program by way of a Guaranty and (b) the amount of any reserve account or similar account or asset shown as an asset of the Company or a Restricted Subsidiary under GAAP that has been pledged to any Securitization Entity or any other Person in connection with such Permitted Securitization Program.

Securitization Entity means a wholly-owned Subsidiary (other than a Restricted Subsidiary) of the Company (or another Person in which the Company or any of its Subsidiaries makes an investment and to which the Company or any of its Subsidiaries transfers receivables and related assets) that engages in no activities other than in connection with the financing of receivables and that is designated by the Board of Directors of the Company (as provided below) as a Securitization Entity (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Company or any of its Subsidiaries (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (ii) is recourse to or obligates the Company or any of its Subsidiaries in any way other than pursuant to Standard Securitization Undertakings, or (iii) subjects any property or asset of the Company or any other Subsidiary of the Company, directly or indirectly, continently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings, (b) with which neither the Company nor any of its Subsidiaries has any material contract, agreement, arrangement or understanding other than on terms no less favorable to the Company or such Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Company, other than fees payable in the ordinary course of business in connection with servicing receivables of such entity, and (c) to which neither the Company nor any of its Subsidiaries has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Senior Financial Officer means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

Senior Notes means the 3.03% Senior Notes due October 12, 2010 issued by the Company.

Senior Note Purchase Agreement means the Note Purchase Agreement dated October 12, 2000 between the Company and The Prudential Insurance Company of America.

Senior Secured Creditor means (a) each Lender, (b) each holder of a Senior Note, and (c) each lender under a Significant Credit Facility.

Significant Credit Facility means (a) any Credit Facility that has at least $7,500,000 available to be borrowed and/or outstanding at any time, and (b) any Credit Facility if the aggregate amount available to be borrowed and/or outstanding under all of the Credit Facilities exceeds $25,000,000 at any time; provided that the term "Significant Credit Facility" shall not

include any Priority Indebtedness to the extent that such Priority Indebtedness is permitted by Section 10.11(a)(ii), any Indebtedness secured by a Lien permitted by Section 10.12(h), or any Indebtedness secured by a Lien renewing, extending or replacing Liens as described in Section 10.12(m).

Signing Date means the date on which the Agreement has been executed and delivered by all of the parties hereto.

Specified Person means each of (a) Blake M. Roney, Steven J. Lund, Sandra N. Tillotson, Brooke B. Roney, Nedra Roney, Craig Bryson or Craig Tillotson and (b) the immediate family members and trusts established for the immediate family members of, and other entities 67% or more of the equity interests of which are owned by, any of the foregoing individuals.

Spot Rate of Exchange means, as of any date for any amount denominated in any currency other than Dollars, the applicable quoted spot rate as reported on the appropriate page of the Reuters Screen at 11:00 A.M. (London, England time) two Business Days preceding the day such determination is requested to be made.

Standard Securitization Undertakings means representations, warranties, covenants and indemnities entered into by the Company or any of its Subsidiaries that are reasonably customary in a receivables securitization transaction.

Stated Amount means, with respect to any Letter of Credit at any date of determination, the maximum aggregate amount available for drawing thereunder at any time during the then ensuing term of such Letter of Credit under any and all circumstances, plus the aggregate amount of all unreimbursed payments and disbursements under such Letter of Credit.

Subsidiary means, as to any Person, (a) any corporation of which more than 50% of the issued and outstanding Equity Securities having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its Subsidiaries or by one or more of such Person's other Subsidiaries, (b) any partnership, joint venture, limited liability company or other association of which more than 50% of the equity interest having the power to vote, direct or control the management of such partnership, joint venture, limited liability company or other association is at the time owned and controlled by such Person, by such Person and one or more of its Subsidiaries or by one or more of such Person's other Subsidiaries, or (c) any other Person included in the financial statements of such Person on a consolidated basis. Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

Subsidiary Guarantors means all current and future Material Domestic Subsidiaries of the

Company.

Subsidiary Guaranty means the Subsidiary Guaranty, substantially in the form of Exhibit B.

Swap Agreement means (a) any and all rate swap transactions, basis swaps, forward rate transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing); provided that any such transaction is governed by or subject to a Master Agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., or any other master agreement published by any successor organization thereto (any such master agreement, together with any related schedules, as amended, restated, extended, supplemented or otherwise modified in writing from time to time, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement.

Taxes - see Section 7.6.

Term Debt means any Indebtedness of the Company or any Restricted Subsidiary other than (a) Credit Facilities providing for the borrowing of money or the issuance of letters of credit on a revolving basis or for working capital, (b) Priority Indebtedness, and (c) Indebtedness secured by Liens permitted by clauses (a) through (m) of Section 10.12.

Termination Date means the earlier to occur of (a) May 10, 2004 or (b) such other date on which the Commitments shall terminate pursuant to Section 6 or 12.

Total Indebtedness means, at any date of determination, the sum of (i) the total of all Indebtedness of the Company and the Restricted Subsidiaries outstanding on such date, after eliminating all offsetting debits and credits between the Company and the Restricted Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and the Restricted Subsidiaries in accordance with GAAP, plus (ii) the aggregate amount of Indebtedness of the Company to any of its Restricted Subsidiaries that is not subordinated to the Indebtedness hereunder pursuant to a subordination agreement substantially in the form of Exhibit F.

Total Outstandings means at any time the sum of (a) the aggregate Dollar Equivalent principal amount of all outstanding Loans plus (b) the Stated Amount of all Letters of Credit.

Type of Loan or Borrowing - see Section 2.2.1. The types of Loans or borrowings under this Agreement are as follows: Floating Rate Loans or borrowings, Yen LIBOR Loans or borrowings, and Eurodollar Loans or borrowings.

Unmatured Event of Default means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

Unrestricted Subsidiary means any Subsidiary which is designated as an Unrestricted Subsidiary on Schedule 9.8 or is designated as such in writing by the Company to each Lender pursuant to Section 10.18; provided that no Material Subsidiary shall be an Unrestricted Subsidiary.

Wholly-Owned Restricted Subsidiary means, at any time, (a) with respect to Domestic Subsidiaries, any Restricted Subsidiary one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other wholly-owned Restricted Subsidiaries at such time, and (b) with respect to Foreign Subsidiaries, any Restricted Subsidiary ninety-five percent (95%) or more of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly-Owned Restricted Subsidiaries at such time.

Yen and ¥ mean the lawful currency of Japan.

Yen LIBOR means, for any Yen LIBOR Loan for any Interest Period, the per annum rate (reserve adjusted as provided below) of interest, rounded upwards, if necessary, to the nearest one-sixteenth of one percent (0.0625%), at which Japanese Yen deposits in immediately available funds are offered in the interbank eurodollar market as presented on Telerate Page 3750 as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period, for delivery on the first day of such Interest Period for a period approximately equal to such Interest Period and in an amount equal or comparable to the Yen LIBOR Loan of Bank of America to which such Interest Period relates. The foregoing rate of interest shall be reserve adjusted by dividing Yen LIBOR by one minus the Yen LIBOR Reserve Percentage, with such quotient to be rounded upward to the nearest whole multiple of one-hundredth of one percent (0.01%). All references in this Agreement or other Loan Documents to Yen LIBOR shall mean and include the aforesaid reserve adjustment. "Telerate Page 3750" means the display designated as "Page 3750" (or such other page as may replace Page 3750) on the Associated Press-Dow Jones Telerate Service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying British Bankers' Association interest settlement rates for Japanese Yen deposits or, in the absence of such availability, by reference to the average (rounded upwards, if necessary, to the nearest one-sixteenth of one percent (0.0625%)) of the rates at which three major banks designated by the Administrative Agent are offered Japanese Yen deposits at or about 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market.

Yen LIBOR Loan means a Loan bearing interest, at all times during an Interest Period applicable to such Loan, at a fixed rate of interest determined by reference to Yen LIBOR.

Yen LIBOR Office means, with respect to any Lender, the office or offices of such Lender which shall be making or maintaining the Yen LIBOR Loans of such Lender hereunder. A Yen LIBOR Office of any Lender may be, at the option of such Lender, either a domestic or foreign office.

Yen LIBOR Reserve Percentage means, relative to any Yen LIBOR Loan for any Interest Period, the maximum reserve percentage (expressed as a decimal, rounded upward to the nearest 1/100th of 1%) in effect on the date Yen LIBOR for such Interest Period is determined under regulations issued from time to time by the FRB, the Japanese Ministry of Finance or the Bank of Japan (or any successor regulatory body) for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities") having a term comparable to such Interest Period.

(a) Other Interpretive Provisions . The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) Section, clause, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) (i) The term "including" is not limiting and means "including without limitation."

(ii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(d) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such statute or regulation.

(e) This Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.

(f) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Administrative Agent, the Company, the Lenders and the other parties thereto and are the products of all parties. Accordingly, they shall not be construed against the Administrative Agent or the Lenders merely because of the Administrative Agent's or Lenders' involvement in their preparation.

SECTION 2 COMMITMENTS OF THE BANKS; BORROWING, CONVERSION AND LETTER OF CREDIT PROCEDURES.

2.1 Commitments. On and subject to the terms and conditions of this Agreement, each of the Lenders, severally and for itself alone, agrees to make loans to, and to issue or participate in the issuance of letters of credit for the account of, the Company as follows:

2.1.1 Loans. Each Lender will make loans on a revolving basis ("Loans") from time to time before the Termination Date in such Lender's Percentage of such aggregate amounts as the Company may from time to time request from all Lenders; provided that the Total Outstandings will not at any time exceed the Commitment Amount.

2.1.2 L/C Commitment. (a) The Issuing Lenders will issue letters of credit, in each case containing such terms and conditions as are permitted by this Agreement and are reasonably satisfactory to the applicable Issuing Lender and the Company (each a "Letter of Credit"), at the request of and for the account of the Company or any Subsidiary from time to time before the Termination Date and (b) as more fully set forth in Section 2.3.5, each Lender agrees to purchase a participation in each such Letter of Credit; provided that the aggregate Stated Amount of all Letters of Credit shall not at any time exceed the lesser of (i) $5,000,000 and (ii) the excess, if any, of the Commitment Amount over the aggregate principal amount of all outstanding Loans.

2.2 Loan Procedures.

2.2.1 Various Types of Loans . Each Loan shall be either a Floating Rate Loan, a Yen LIBOR Loan or a Eurodollar Loan (each a "type" of Loan), as the Company shall specify in the related notice of borrowing or conversion pursuant to Section 2.2.2 or 2.2.3. Yen LIBOR Loans or Eurodollar Loans having the same Interest Period are sometimes called a "Group" or collectively "Groups". Floating Rate Loans, Yen LIBOR Loans and Eurodollar Loans may be outstanding at the same time; provided that (i) not more than five different Groups of Yen LIBOR Loans shall be outstanding at any one time, (ii) the aggregate principal amount of each Group of Yen LIBOR Loans shall at all times be at least ¥600,000,000 and an integral multiple of ¥100,000,000, (iii) not more than five different Groups of Eurodollar Loans shall be outstanding at any one time and (iv) the aggregate principal amount of each Group of Eurodollar Loans shall at all times be at least $5,000,000 and an integral multiple of $1,000,000. All borrowings, conversions and repayments of Loans shall be effected so that each Lender will have a pro rata share (according to its Percentage) of all types and Groups of Loans.

2.2.2 Borrowing Procedures. The Company shall give written or telephonic (followed promptly by written confirmation thereof) notice to the Administrative Agent of each proposed borrowing not later than (a) in the case of a Floating Rate borrowing, noon, New York time, on the proposed date of such borrowing, (b) in the case of a Yen LIBOR borrowing, 10:00 A.M., New York time, at least five Business Days prior to the proposed date of such borrowing, and (c) in the case of a Eurodollar borrowing, 10:00 A.M., New York time, at least three Business Days

prior to the proposed date of such borrowing. Each such notice shall be effective upon receipt by the Administrative Agent, shall be irrevocable, and shall specify the date, amount and type of borrowing and, in the case of a Yen LIBOR or Eurodollar borrowing, the initial Interest Period therefor. Promptly upon receipt of such notice, the Administrative Agent shall advise each Lender thereof. Not later than 2:00 p.m., New York time, on the date of a proposed borrowing, each Lender shall provide the Administrative Agent at the office specified by the Administrative Agent with (a) in the case of a Yen LIBOR borrowing, Yen in immediately available funds, or (b) in the case of a Floating Rate borrowing or a Eurodollar borrowing, Dollars in immediately available funds, in each case covering such Lender's Percentage of such borrowing and, so long as the Administrative Agent has not received written notice that the conditions precedent set forth in Section 11 with respect to such borrowing have not been satisfied, the Administrative Agent shall pay over the requested amount to the Company on the requested borrowing date. Each borrowing shall be on a Business Day. Each Floating Rate borrowing shall be in an aggregate amount of $1,000,000 or an integral multiple thereof. Each other borrowing shall be in the applicable amount required for a Group pursuant to Section 2.2.1.

2.2.3 Conversion and Continuation Procedures. (a) Subject to the provisions of Section 2.2.1 , the Company may, upon irrevocable written notice to the Administrative Agent in accordance with clause (b) below:

(i) elect, as of any Business Day, to convert any outstanding Floating Rate Loan into a Eurodollar Loan or any outstanding Eurodollar Loan to a Floating Rate Loan; or

(ii) elect, as of the last day of the applicable Interest Period, to continue any Group of Yen LIBOR Loans or Eurodollar Loans having an Interest Period expiring on such day (or any part thereof in the applicable amount required for a Group pursuant to Section 2.2.1) for a new Interest Period.

(b) The Company shall give written or telephonic (followed promptly by written confirmation thereof) notice to the Administrative Agent of each proposed conversion or continuation not later than (i) in the case of conversion of Eurodollar Loans into Floating Rate Loans, 11:00 a.m., New York time, on the proposed date of such conversion, (ii) in the case of continuation of Yen LIBOR Loans, 11:00 a.m., New York time, at least five Business Days prior to the proposed date of such continuation, and (iii) in the case of a conversion of Floating Rate Loans into or continuation of Eurodollar Loans, 11:00 a.m., New York time, at least three Business Days prior to the proposed date of such conversion or continuation, specifying in each case:

(1) the proposed date of conversion or continuation;

(2) the aggregate amount and currency of the Loans to be converted or continued;

(3) the type of Loans resulting from the proposed conversion or continuation; and

(4) in the case of continuation of Yen LIBOR Loans or conversion into, or continuation of, Eurodollar Loans, the duration of the requested Interest Period therefor.

(c) If upon expiration of any Interest Period applicable to Yen LIBOR Loans, the Company has failed to select timely a new Interest Period to be applicable to such Yen LIBOR Loans, the Company shall be deemed to have elected to continue such Yen LIBOR Loans for a one-month Interest Period.

(d) If upon expiration of any Interest Period applicable to Eurodollar Loans, the Company has failed to select timely a new Interest Period to be applicable to such Eurodollar Loans, the Company shall be deemed to have elected to convert such Eurodollar Loans into Floating Rate Loans effective on the last day of such Interest Period.

(e) The Administrative Agent will promptly notify each Lender of its receipt of a notice of conversion or continuation pursuant to this Section 2.2.3 or, if no timely notice is provided by the Company, of the details of any automatic continuation or conversion.

(f) Unless the Required Lenders otherwise consent, during the existence of any Event of Default or Unmatured Event of Default, the Company may not elect to have a Floating Rate Loan converted into or continued as a Eurodollar Loan.

2.3 Letter of Credit Procedures.

2.3.1 L/C Applications. The Company shall give notice to the Administrative Agent and the applicable Issuing Lender of the proposed issuance of each Letter of Credit on a Business Day which is at least three Business Days (or such lesser number of days as the Administrative Agent and such Issuing Lender shall agree in any particular instance) prior to the proposed date of issuance of such Letter of Credit. Each such notice shall be accompanied by an L/C Application, duly executed by the Company (together with any Subsidiary for the account of which the related Letter of Credit is to be issued) and in all respects satisfactory to the Administrative Agent and the applicable Issuing Lender, together with such other documentation as the Administrative Agent or such Issuing Lender may reasonably request in support thereof, it being understood that each L/C Application shall specify, among other things, the date on which the proposed Letter of Credit is to be issued, whether such Letter of Credit is to be transferable in whole or in part and the expiration date of such Letter of Credit (which shall not be later than the Termination Date and shall not result in the aggregate Stated Amount of all Letters of Credit scheduled to be outstanding after any date on which the Commitment Amount is scheduled to be reduced pursuant to Section 6.1(d), plus the aggregate principal amount of all Yen LIBOR Loans and Eurodollar Loans having Interest Periods ending after such date, to exceed the Commitment Amount scheduled to be in effect at the close of business on such date). So long as the applicable Issuing Lender has not received written notice that the conditions precedent set forth

in Section 11 with respect to the issuance of such Letter of Credit have not been satisfied, such Issuing Lender shall issue such Letter of Credit on the requested issuance date. Each Issuing Lender shall promptly advise the Administrative Agent of the issuance of each Letter of Credit by such Issuing Lender and of any amendment thereto, extension thereof or event or circumstance changing the amount available for drawing thereunder.

2.3.2 Participations in Letters of Credit. Concurrently with the issuance of each Letter of Credit, the applicable Issuing Lender shall be deemed to have sold and transferred to each other Lender, and each other Lender shall be deemed irrevocably and unconditionally to have purchased and received from such Issuing Lender, without recourse or warranty, an undivided interest and participation, to the extent of such other Lender's Percentage, in such Letter of Credit and the Company's reimbursement obligations with respect thereto. For the purposes of this Agreement, the unparticipated portion of each Letter of Credit shall be deemed to be the applicable Issuing Lender's "participation" therein. Each Issuing Lender hereby agrees, upon request of the Administrative Agent or any Lender, to deliver to such Lender a list of all outstanding Letters of Credit issued by such Issuing Lender, together with such information related thereto as such Lender may reasonably request.

2.3.3 Reimbursement Obligations. The Company hereby unconditionally and irrevocably agrees to reimburse the applicable Issuing Lender for each payment or disbursement made by such Issuing Lender under any Letter of Credit honoring any demand for payment made by the beneficiary thereunder, in each case on the date that such payment or disbursement is made. Any amount not reimbursed on the date of such payment or disbursement shall bear interest from the date of such payment or disbursement to the date that such Issuing Lender is reimbursed by the Company therefor, payable on demand, at a rate per annum equal to the Base Rate from time to time in effect plus the Floating Rate Margin from time to time in effect plus, beginning on the third Business Day after receipt of notice from the Issuing Lender of such payment or disbursement, 2%. The applicable Issuing Lender shall notify the Company and the Administrative Agent whenever any demand for payment is made under any Letter of Credit by the beneficiary thereunder; provided, that the failure of such Issuing Lender to so notify the Company shall not affect the rights of such Issuing Lender or the Lenders in any manner whatsoever.

2.3.4 Limitation on Obligations of Issuing Lenders. In determining whether to pay under any Letter of Credit, no Issuing Lender shall have any obligation to the Company or any Lender other than to confirm that any documents required to be delivered under such Letter of Credit appear to have been delivered and appear to comply on their face with the requirements of such Letter of Credit. Any action taken or omitted by an Issuing Lender under or in connection with any Letter of Credit, if taken or omitted in the absence of gross negligence and willful misconduct, shall not impose upon such Issuing Lender any liability to the Company or any Lender and shall not reduce or impair the Company's reimbursement obligations set forth in Section 2.3.3 or the obligations of the Lenders pursuant to Section 2.3.5.

2.3.5 Funding by Lenders to Issuing Lenders. If an Issuing Lender makes any payment or disbursement under any Letter of Credit and the Company has not reimbursed such Issuing Lender in full for such payment or disbursement by noon, New York time, on the date of such payment or disbursement, or if any reimbursement received by such Issuing Lender from the Company is or must be returned or rescinded upon or during any bankruptcy or reorganization of the Company or otherwise, each other Lender shall be obligated to pay to the Administrative Agent for the account of such Issuing Lender, in full or partial payment of the purchase price of its participation in such Letter of Credit, its pro rata share (according to its Percentage) of such payment or disbursement (but no such payment shall diminish the obligations of the Company under Section 2.3.3), and upon notice from the applicable Issuing Lender, the Administrative Agent shall promptly notify each other Lender thereof. Each other Lender irrevocably and unconditionally agrees to so pay to the Administrative Agent in immediately available funds for the applicable Issuing Lender's account the amount of such other Lender's Percentage of such payment or disbursement. If and to the extent any Lender shall not have made such amount available to the Administrative Agent by 2:00 P.M., New York time, on the Business Day on which such Lender receives notice from the Administrative Agent of such payment or disbursement (it being understood that any such notice received after 1:00 P.M., New York time, on any Business Day shall be deemed to have been received on the next following Business Day), such Lender agrees to pay interest on such amount to the Administrative Agent for the applicable Issuing Lender's account forthwith on demand for each day from the date such amount was to have been delivered to the Administrative Agent to the date such amount is paid, at a rate per annum equal to (a) for the first three days after demand, the Federal Funds Rate from time to time in effect and (b) thereafter, the Base Rate from time to time in effect. Any Lender's failure to make available to the Administrative Agent its Percentage of any such payment or disbursement shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent such other Lender's Percentage of such payment, but no Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent such other Lender's Percentage of any such payment or disbursement.

2.4 Commitments Several. The failure of any Lender to make a requested Loan on any date shall not relieve any other Lender of its obligation (if any) to make a Loan on such date, but no Lender shall be responsible for the failure of any other Lender to make any Loan to be made by such other Lender.

2.5 Certain Conditions. Notwithstanding any other provision of this Agreement, no Lender shall have an obligation to make any Loan, to permit the continuation of any Yen LIBOR Loan or to permit the continuation of or any conversion into any Eurodollar Loan, and no Issuing Lender shall have any obligation to issue any Letter of Credit, if an Event of Default or Unmatured Event of Default exists.

SECTION 3 NOTES EVIDENCING LOANS.

3.1 Notes. The Loans of each Lender shall be evidenced by a promissory note (each a "Note") payable to the order of such Lender substantially in the form set forth in Exhibit A.

3.2 Recordkeeping. Each Lender shall record in its records, or at its option on the schedule attached to its Note, the date and amount of each Loan made by such Lender, each repayment or conversion thereof and, in the case of each Yen LIBOR Loan or Eurodollar Loan, the dates on which each Interest Period for such Loan shall begin and end. The aggregate unpaid principal amount so recorded shall be rebuttable presumptive evidence of the principal amount owing and unpaid on such Note. The failure to so record any such amount or any error in so recording any such amount shall not, however, limit or otherwise affect the obligations of the Company hereunder or under any Note to repay the principal amount of the Loans evidenced by such Note together with all interest accruing thereon.

SECTION 4 INTEREST.

4.1 Interest Rates. The Company promises to pay interest on the unpaid principal amount of each Loan for the period commencing on the date of such Loan until such Loan is paid in full as follows:

(a) in the case of a Loan in Dollars, (i) at all times while such Loan is a Floating Rate Loan, at a rate per annum equal to the sum of the Base Rate from time to time in effect plus the Floating Rate Margin from time to time in effect; and (ii) at all times while such Loan is a Eurodollar Loan, at a rate per annum equal to the sum of the Eurodollar Rate (Reserve Adjusted) applicable to each Interest Period for such Loan plus the Eurodollar/Yen LIBOR Margin from time to time in effect; and

(b) in the case of a Yen LIBOR Loan, at a rate per annum equal to the sum of the Yen LIBOR applicable to each Interest Period for such Loan plus the Eurodollar/Yen LIBOR Margin in effect;

provided that upon request of the Required Lenders at any time an Event of Default exists, the interest rate applicable to each Loan shall be increased by 2%.

4.2 Interest Payment Dates. Accrued interest on each Floating Rate Loan shall be payable in arrears on the last Business Day of each calendar quarter and at maturity. Accrued interest on each Yen LIBOR Loan and Eurodollar Loan shall be payable on the last day of each Interest Period relating to such Loan (and, in the case of a Yen LIBOR Loan or Eurodollar Loan with a six-month Interest Period, on the three-month anniversary of the first day of such Interest Period) and at maturity. After maturity, accrued interest on all Loans shall be payable on demand.

4.3 Setting and Notice of Rates. (a) The applicable Yen LIBOR for each Interest Period shall be determined by the Administrative Agent, and notice thereof shall be given by the Administrative Agent promptly to the Company and each Lender.

(b) The applicable Eurodollar Rate for each Interest Period shall be determined by the Administrative Agent, and notice thereof shall be given by the Administrative Agent promptly to the Company and each Lender.

(c) Each determination of the applicable Yen LIBOR or Eurodollar Rate by the Administrative Agent shall be conclusive and binding upon the parties hereto, in the absence of demonstrable error. The Administrative Agent shall, upon written request of the Company or any Lender, deliver to the Company or such Lender a statement showing the computations used by the Administrative Agent in determining any applicable Yen LIBOR or Eurodollar Rate hereunder.

4.4 Computation of Interest. All computations of interest for Floating Rate Loans when the Base Rate is determined by the Prime Rate shall be made on the basis of a year of 365 or 366 days, as the case may be, and for the actual number of days elapsed. All other computations of interest shall be made on the basis of a year of 360 days and for the actual number of days elapsed. The applicable interest rate for each Floating Rate Loan shall change simultaneously with each change in the Base Rate.

4.4 SECTION 5 FEES.

5.1 Commitment Fee. The Company agrees to pay to the Administrative Agent for the account of each Lender a commitment fee, for the period from the Signing Date to the Termination Date, at a rate per annum equal to the Commitment Fee Rate in effect from time to time of the actual amount of the unused Dollar Equivalent amount of such Lender's Percentage of the Commitment Amount as of the end of each day in such period. For purposes of calculating usage under this Section, the Commitment Amount shall be deemed used to the extent of the aggregate principal amount of all outstanding Loans plus the Stated Amount of all Letters of Credit. Such commitment fee shall be payable in arrears on the last Business Day of each calendar quarter and on the Termination Date for any period then ending for which such commitment fee shall not have theretofore been paid. The commitment fee shall be computed for the actual number of days elapsed on the basis of a year of 360 days.

5.2 Closing Fee. The Company agrees to pay to the Administrative Agent for the account of the Lenders pro rata according to their respective Percentages on the Closing Date a closing fee equal to $480,000 (less any portion of such fee previously paid to the Lenders by the Company).

5.3 Letter of Credit Fees. The Company agrees to pay to the Administrative Agent for the account of the Lenders pro rata according to their respective Percentages a letter of

credit fee for each standby Letter of Credit in an amount equal to the rate per annum in effect from time to time pursuant to Schedule 1.1 of the undrawn amount of such standby Letter of Credit (computed for the actual number of days elapsed on the basis of a year of 360 days); provided that upon request of the Required Lenders at any time an Event of Default exists, the rate applicable to each standby Letter of Credit shall be increased by 2%. Such letter of credit fee shall be payable in arrears on the last Business Day of each calendar quarter and on the Termination Date for the period from the date of the issuance of each standby Letter of Credit to the date such payment is due or, if earlier, the date on which such standby Letter of Credit expired or was terminated. After the Termination Date, such letter of credit fee shall be payable on demand.

(b) The Company agrees to pay to the Administrative Agent for the account of the Lenders pro rata according to their respective Percentages a letter of credit fee for each commercial Letter of Credit in an amount equal to the greater of 0.125% of the face amount of such Letter of Credit and $100. Such letter of credit fee shall be payable for each commercial Letter of Credit on the earlier of the last Business Day of the calendar quarter in which such Letter of Credit is issued and the Termination Date.

(c) The Company agrees to pay each Issuing Lender a fronting fee for each Letter of Credit issued by such Issuing Lender in an amount separately agreed to between the Company and such Issuing Lender.

(d) In addition, with respect to each Letter of Credit, the Company agrees to pay to the applicable Issuing Lender, for its own account, such fees and expenses as such Issuing Lender customarily requires in connection with the issuance, negotiation, processing and/or administration of letters of credit in similar situations.

5.4 Administrative Agents Fees. The Company agrees to pay to the Administrative Agent such administrative agent's fees as are mutually agreed to from time to time by the Company and the Administrative Agent.

SECTION 6 REDUCTION IN THE COMMITMENT AMOUNT; PREPAYMENTS.

6.1 Reductions in the Commitment Amount.

6.1.1 Voluntary Reductions of the Commitment Amount. The Company may from time to time on at least five Business Days' prior written notice received by the Administrative Agent (which shall promptly advise each Lender thereof) permanently reduce the Commitment Amount to an amount not less than the Total Outstandings. Any such reduction shall be in an amount not less than $5,000,000 or a higher integral multiple of $1,000,000. The Company may at any time on like notice terminate the Commitments upon payment in full of all Loans and all other obligations of the Company hereunder and cash collateralization in full, pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent, of all

obligations arising with respect to Letters of Credit. All reductions of the Commitment Amount shall reduce the amounts of the Commitments of the Lenders pro rata according to their respective Percentages.

6.1.2 Mandatory Reductions in the Commitment Amount. The Commitment Amount shall be reduced by $15,000,000 on each anniversary of the Signing Date.

6.2 Prepayments.

(a) Voluntary Prepayments. The Company may from time to time prepay the Loans in whole or in part; provided that the Company shall give the Administrative Agent (which shall promptly advise each Lender) notice thereof not later than 11:00 A.M., New York time, on the day of such prepayment (which shall be a Business Day), specifying the Loans to be prepaid and the date and amount of prepayment. Each partial prepayment of Floating Rate Loans and Eurodollar Loans shall be in an aggregate principal amount of $1,000,000 or an integral multiple thereof and each partial prepayment of Yen LIBOR Loans shall be in an aggregate principal amount of ¥100,000,000 or an integral multiple thereof. After giving effect to any partial prepayment, each borrowing of Yen LIBOR Loans and Eurodollar Loans shall be in the applicable amount required for a Group pursuant to Section 2.2.1.

(b) Mandatory Prepayments. On each date on which the Commitment Amount is reduced pursuant to Section 6.1.2, the Company shall prepay Loans in the amount, if any, by which the Total Outstandings exceed the Commitments after giving effect to such reduction.

(c) All Prepayments. All prepayments shall be applied to prepay the Loans of the Banks pro rata according to their respective Percentages. Any prepayment of a Yen LIBOR Loan or Eurodollar Loan on a day other than the last day of an Interest Period therefor shall include interest on the principal amount being repaid and shall be subject to Section 8.4

SECTION 7 MAKING AND PRORATION OF PAYMENTS; SETOFF; TAXES.

7.1 Making of Payments. All payments of principal of or interest on the Notes, and of all fees, shall be made by the Company to the Administrative Agent in immediately available funds at the office specified by the Administrative Agent not later than 1:00 P.M., New York time, on the date due; and funds received after that hour shall be deemed to have been received by the Administrative Agent on the next following Business Day. The Administrative Agent shall promptly remit to each Lender its share of all such payments received in collected funds by the Administrative Agent for the account of such Lender.

All payments under Section 8.1 shall be made by the Company directly to the Lender entitled thereto.

7.2 Application of Certain Payments. Each payment of principal shall be applied to such Loans as the Company shall direct by notice to be received by the Administrative Agent on or before the date of such payment or, in the absence of such notice, as the Administrative Agent shall determine in its discretion. Concurrently with each remittance to any Lender of its share of any such payment, the Administrative Agent shall advise such Lender as to the application of such payment.

7.3 Due Date Extension. If any payment of principal or interest with respect to any of the Loans, or of any fees, falls due on a day which is not a Business Day, then such due date shall be extended to the immediately following Business Day (unless, in the case of a Yen LIBOR Loan or Eurodollar Loan, such immediately following Business Day is the first Business Day of a calendar month, in which case such date shall be the immediately preceding Business Day) and, in the case of principal, additional interest shall accrue and be payable for the period of any such extension.

7.4 Setoff. The Company agrees that the Administrative Agent and each Lender have all rights of set-off and bankers' lien provided by applicable law, and in addition thereto, the Company agrees that at any time any Event of Default exists, the Administrative Agent and each Lender may apply to the payment of any obligations of the Company hereunder, whether or not then due, any and all balances, credits, deposits, accounts or moneys of the Company then or thereafter with the Administrative Agent or such Lender.

7.5 Proration of Payments. If any Lender shall obtain any payment or other recovery (whether voluntary, involuntary, by application of offset or otherwise, but excluding any payment pursuant to Section 8.7 or 14.9) on account of principal of or interest on any Loan (or on account of its participation in any Letter of Credit) in excess of its pro rata share of payments and other recoveries obtained by all Lenders on account of principal of and interest on Loans (or such participation) then held by them, such Lender shall purchase from the other Lenders such participation in the Loans (or sub-participation in Letters of Credit) held by them as shall be necessary to cause such purchasing Lender to share the excess payment or other recovery ratably with each of them; provided that if all or any portion of the excess payment or other recovery is thereafter recovered from such purchasing Lender, the purchase shall be rescinded and the purchase price restored to the extent of such recovery.

7.6 Taxes. (a) All payments of principal of, and interest on, the Loans and all other amounts payable hereunder shall be made free and clear of and without deduction for any present or future income, excise, stamp or franchise taxes and other taxes, fees, duties, withholdings or other charges of any nature whatsoever imposed by any taxing authority, but excluding franchise taxes and taxes imposed on or measured by any Lender's net income or receipts (all non-excluded items being called "Taxes"). If any withholding or deduction from any payment to be made by the Company hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then the Company will:

(i) pay directly to the relevant authority the full amount required to be so withheld or deducted;

(ii) promptly forward to the Administrative Agent an official receipt or other documentation satisfactory to the Administrative Agent evidencing such payment to such authority; and

(iii) (except to the extent such withholding or deduction would not be required if such Lender's Exemption Representation were true) pay to the Administrative Agent for the account of the Lenders such additional amount or amounts as is necessary to ensure that the net amount actually received by each Lender will equal the full amount such Lender would have received had no such withholding or deduction been required.

Moreover, if any Taxes are directly asserted against the Administrative Agent or any Lender with respect to any payment received by the Administrative Agent or such Lender hereunder, the Administrative Agent or such Lender may pay such Taxes and the Company will (except to the extent such Taxes are payable by a Lender and would not have been payable if such Lender's Exemption Representation were true) promptly pay such additional amounts (including any penalty, interest and expense) as is necessary in order that the net amount received by such Person after the payment of such Taxes (including any Taxes on such additional amount) shall equal the amount such Person would have received had such Taxes not been asserted.

(b) If the Company fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Administrative Agent, for the account of the respective Lenders, the required receipts or other required documentary evidence, the Company shall indemnify the Lenders for any incremental Taxes, interest or penalties that may become payable by any Lender as a result of any such failure. For purposes of this Section 7.6, a distribution hereunder by the Administrative Agent or any Lender to or for the account of any Lender shall be deemed a payment by the Company.

(c) Each Lender represents and warrants (such Lender's "Exemption Representation") to the Company and the Administrative Agent that, as of the date of this Agreement (or, in the case of an Assignee, the date it becomes a party hereto), it is entitled to receive payments hereunder without any deduction or withholding for or on account of any Taxes imposed by the United States of America or any political subdivision or taxing authority thereof.

(d) Upon the request from time to time of the Company or the Administrative Agent, each Lender that is organized under the laws of a jurisdiction other than the United States of America shall execute and deliver to the Company and the Administrative Agent one or more (as the Company or the Administrative Agent may reasonably request) United States Internal Revenue Service Forms W-8ECI or W-8BEN or such other forms or documents, appropriately completed, as may be applicable to establish the extent, if any, to which a payment to such Lender is exempt from withholding or deduction of Taxes.

(e) If, and to the extent that, any Lender shall obtain a credit, relief or remission for, or repayment of, any Taxes indemnified or paid by the Company pursuant to this Section 7.6, such Lender agrees to promptly notify the Company thereof and thereupon enter into negotiations in good faith with the Company to determine the basis on which an equitable reimbursement of such Taxes can be made to the Company.

(f) All obligations of the Company and the Lenders under this Section 7.6 shall survive repayment of the Loans, cancellation of the Notes, cancellation or expiration of the Letters of Credit and any termination of this Agreement.

(g) Notwithstanding the foregoing provisions of this Section 7.6 if any Lender fails to notify the Company of any event or circumstance which will entitle such Lender to compensation pursuant to this Section 7.6 within 180 days after such Lender obtains knowledge of such event or circumstance, then such Lender shall not be entitled to compensation from the Company for any amount arising prior to the date which is 180 days before the date on which such Lender notifies the Company of such event or circumstance.

SECTION 8 INCREASED COSTS; SPECIAL PROVISIONS FOR YEN LIBOR LOANS AND EURODOLLAR LOANS.

8.1 Increased Costs .. (a) If, after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or any Yen LIBOR Office or Eurodollar Office of such Lender) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency

(i) shall subject any Lender (or any Yen LIBOR Office or Eurodollar Office of such Lender) to any tax, duty or other charge with respect to its Yen LIBOR Loans or Eurodollar Loans, its Note or its obligation to make Yen LIBOR Loans or Eurodollar Loans, or shall change the basis of taxation of payments to any Lender of the principal of or interest on its Yen LIBOR Loans or Eurodollar Loans or any other amounts due under this Agreement in respect of its Yen LIBOR Loans or Eurodollar Loans or its obligation to make Yen LIBOR Loans or Eurodollar Loans (except for changes in the rate of tax on the overall net income of such Lender or its Yen LIBOR Office or Eurodollar Office imposed by the jurisdiction in which such Lender's principal executive office, Yen LIBOR Office or Eurodollar Office is located); or

(ii) shall impose, modify or deem applicable any reserve (including any reserve imposed by the FRB, but excluding any reserve included in the determination of interest rates pursuant to Section 4), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by any Lender (or any Yen LIBOR Office or Eurodollar Office of such Lender); or

(iii) shall impose on any Lender (or its Yen LIBOR Office or Eurodollar Office) any other condition affecting its Yen LIBOR Loans or Eurodollar Loans, its Note or its obligation to make Yen LIBOR Loans or Eurodollar Loans;

and the result of any of the foregoing is to increase the cost to (or in the case of Regulation D of the FRB, to impose a cost on) such Lender (or any Yen LIBOR Office or Eurodollar Office of such Lender) of making or maintaining any Yen LIBOR Loan or Eurodollar Loan, or to reduce the amount of any sum received or receivable by such Lender (or its Yen LIBOR Office or Eurodollar Office) under this Agreement or under its Note with respect thereto, then within 10 days after demand by such Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable detail, a copy of which shall be furnished to the Administrative Agent), the Company shall pay directly to such Lender such additional amount as will compensate such Lender for such increased cost or such reduction.

(b) If any Lender shall reasonably determine that the adoption or phase-in of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender or any Person controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's or such controlling Person's capital as a consequence of such Lender's obligations hereunder or under any Letter of Credit to a level below that which such Lender or such controlling Person could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such controlling Person's policies with respect to capital adequacy) by an amount deemed by such Lender or such controlling Person to be material, then from time to time, within 10 days after demand by such Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable detail, a copy of which shall be furnished to the Administrative Agent), the Company shall pay to such Lender such additional amount or amounts as will compensate such Lender or such controlling Person for such reduction.

(c) Notwithstanding the foregoing provisions of this Section 8.1, if any Lender fails to notify the Company of any event or circumstance which will entitle such Lender to compensation pursuant to this Section 8.1 within 180 days after such Lender obtains knowledge of such event or circumstance, then such Lender shall not be entitled to compensation from the Company for any amount arising prior to the date which is 180 days before the date on which such Lender notifies the Company of such event or circumstance.

8.2 Basis for Determining Interest Rate Inadequate or Unfair. If with respect to the relevant Loan for any Interest Period:

(a) deposits in Yen or Dollars, as applicable, in the relevant amounts are not being offered to the Administrative Agent in the interbank eurodollar market for such Interest Period, or the Administrative Agent otherwise reasonably determines (which determination shall be binding and conclusive on the Company) that by reason of circumstances affecting the interbank eurodollar market adequate and reasonable means do not exist for ascertaining the applicable Yen LIBOR or Eurodollar Rate; or

(b) Lenders having an aggregate Percentage of 40% or more advise the Administrative Agent that Yen LIBOR or the Eurodollar Rate (Reserve Adjusted) as determined by the Administrative Agent will not adequately and fairly reflect the cost to such Lenders of maintaining or funding Yen LIBOR Loans or Eurodollar Loans, as the case may be, for such Interest Period (taking into account any amount to which such Lenders may be entitled under Section 8.1) or that the making or funding of Yen LIBOR Loans or Eurodollar Loans has become impracticable as a result of an event occurring after the date of this Agreement which in the opinion of such Lenders materially affects such Loans;

then the Administrative Agent shall promptly notify the other parties thereof and, so long as such circumstances shall continue, (x) no Lender shall be under any obligation to make or convert into Eurodollar Loans or Yen LIBOR Loans, as applicable, (y) on the last day of the current Interest Period for each Yen LIBOR Loan, such Loan shall be repaid in full, and (z) on the last day of the current Interest Period for each Eurodollar Loan, such Loan shall (unless then repaid) automatically convert to a Floating Rate Loan.

8.3 Changes in Law Rendering Loans Unlawful. If any change in (including the adoption of any new) applicable laws or regulations, or any change in the interpretation of applicable laws or regulations by any governmental or other regulatory body charged with the administration thereof, should make it (or in the good faith judgment of any Lender cause a substantial question as to whether it is) unlawful for any Lender to make, maintain or fund Eurodollar Loans or Yen LIBOR Loans, then such Lender shall promptly notify the Company and the Administrative Agent and, so long as such circumstances shall continue:

(a) In the case of Eurodollar Loans, (i) such Lender shall have no obligation to make or convert into Eurodollar Loans (but shall make Floating Rate Loans concurrently with the making of or conversion into Eurodollar Loans by the Lenders which are not so affected, in each case in an amount equal to such Lender's pro rata share of all Eurodollar Loans which would be made or converted into at such time in the absence of such circumstances) and (ii) on the last day of the current Interest Period for each Eurodollar Loan of such Lender (or, in any event, on such earlier date as may be required by the relevant law, regulation or interpretation), such Eurodollar Loan shall, unless then repaid in full, automatically convert to a Floating Rate Loan. Each Floating Rate Loan made by a Lender which, but for the circumstances described in the foregoing sentence, would be a Eurodollar Loan (an "Affected Loan") shall remain outstanding for the

same period as the Group of Eurodollar Loans of which such Affected Loan would be a part absent such circumstances.

(b) In the case of Yen LIBOR Loans, (i) no Lender shall have any obligation to make or continue any Yen LIBOR Loans and (ii) on the last day of the current Interest Period for each borrowing of Yen LIBOR Loans, such Yen LIBOR Loans shall be paid in full.

8.4 Funding Losses. The Company hereby agrees that upon demand by any Lender (which demand shall be accompanied by a statement setting forth the basis for the amount being claimed, a copy of which shall be furnished to the Administrative Agent), the Company will indemnify such Lender against any net loss or expense which such Lender may sustain or incur (including any net loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund or maintain any Yen LIBOR Loan or Eurodollar Loan), as reasonably determined by such Lender, as a result of (a) any payment, prepayment or conversion of any Yen LIBOR Loan or Eurodollar Loan of such Lender on a date other than the last day of an Interest Period for such Loan (including any prepayment or conversion pursuant to Section 8.3) or (b) any failure of the Company to borrow, continue or convert any Loan on a date specified therefor in a notice of borrowing or conversion pursuant to this Agreement. For this purpose, all notices to the Administrative Agent pursuant to this Agreement shall be deemed to be irrevocable.

8.5 Right of Lenders to Fund through Other Offices. Each Lender may, if it so elects, fulfill its commitment as to any Yen LIBOR Loan or Eurodollar Loan by causing a foreign branch or affiliate of such Lender to make such Loan; provided that in such event for the purposes of this Agreement such Loan shall be deemed to have been made by such Lender and the obligation of the Company to repay such Loan shall nevertheless be to such Lender and shall be deemed held by it, to the extent of such Loan, for the account of such branch or affiliate.

8.6 Discretion of Lenders as to Manner of Funding. Notwithstanding any provision of this Agreement to the contrary, each Lender shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder shall be made as if such Lender had actually funded and maintained each Yen LIBOR Loan and Eurodollar Loan during each Interest Period for such Loan through the purchase of deposits having a maturity corresponding to such Interest Period and bearing an interest rate equal to the Yen LIBOR (prior to adjustment for reserves) or the Eurodollar Rate for such Interest Period, as the case may be.

8.7 Mitigation of Circumstances; Replacement of Affected Lender. (a) Each Lender shall promptly notify the Company and the Administrative Agent of any event of which it has knowledge which will result in, and will use reasonable commercial efforts available to it (and not, in such Lender's good faith judgment, otherwise disadvantageous to such Lender) to mitigate or avoid, (i) any obligation by the Company to pay any amount pursuant to Section 7.6 or 8.1 or (ii) the occurrence of any circumstance of the nature described in Section 8.2 or 8.3

(and, if any Lender has given notice of any such event described in clause (i) or (ii) above and thereafter such event ceases to exist, such Lender shall promptly so notify the Company and the Administrative Agent). Without limiting the foregoing, each Lender will designate a different funding office if such designation will avoid (or reduce the cost to the Company of) any event described in clause (i) or (ii) of the preceding sentence and such designation will not, in such Lender's sole good faith judgment, be otherwise disadvantageous to such Lender.

(b) At any time any Lender is an Affected Lender, the Company may replace such Affected Lender as a party to this Agreement with one or more other banks or financial institutions reasonably satisfactory to the Administrative Agent (and upon notice from the Company such Affected Lender shall assign pursuant to an Assignment Agreement, and without recourse or warranty, its Commitment, its Loans, its Note, its participation in Letters of Credit, and all of its other rights and obligations hereunder to such replacement bank(s) or other financial institution(s) for a purchase price equal to the sum of the principal amount of the Loans so assigned, all accrued and unpaid interest thereon, its ratable share of all accrued and unpaid fees, any amounts payable under Section 8.4 as a result of such Lender receiving payment of any Yen LIBOR Loan or Eurodollar Loan prior to the end of an Interest Period therefor and all other obligations owed to such Affected Lender hereunder).

8.8 Conclusiveness of Statements; Survival of Provisions. Determinations and statements of any Lender pursuant to Section 8.1, 8.2, 8.3 or 8.4 shall be conclusive absent demonstrable error. Lenders may use reasonable averaging and attribution methods in determining compensation under Sections 8.1 and 8.4, and the provisions of such Sections shall survive repayment of the Loans, cancellation of the Notes, cancellation or expiration of the Letters of Credit and any termination of this Agreement.

SECTION 9 WARRANTIES.

To induce the Administrative Agent and the Lenders to enter into this Agreement and to induce the Lenders to make Loans and issue or purchase participations in Letters of Credit hereunder, the Company warrants to the Administrative Agent and the Lenders that:

9.1 Organization, etc. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement, the Collateral Documents to which it is a party and the Notes, and to perform the provisions hereof and thereof.

9.2 Authorization; No Conflict. This Agreement, the Notes and the Collateral Documents to which the Company is a party have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement and each of the Collateral Documents to which it is a party constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally, and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). The execution, delivery and performance by the Company of this Agreement, the Notes and each other Loan Document to which it is a party will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, note purchase or credit agreement, corporate charter or bylaws, or any other Material agreement, lease or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary, or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

9.3 Financial Condition. The audited consolidated financial statements of the Company and its Restricted Subsidiaries for the fiscal years ending December 31, 1998 and December 31, 1999 and the audited consolidated and consolidating financial statements of the Company and its Subsidiaries for the fiscal year ending December 31, 2000, copies of which in each case have been furnished prior to the Signing Date to each Lender which is a party hereto on the Signing Date (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and the Restricted Subsidiaries as of the respective dates specified in such Schedule and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments).

9.4 No Material Adverse Change. Since December 31, 2000, except as disclosed in Schedule 9.4 and in publicly available SEC filings prior to the date hereof, there has been no Material adverse change in the financial condition, operations, assets, business, properties or prospects of the Company and its Subsidiaries taken as a whole.

9.5 Governmental Authorizations; etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company or any of its Restricted Subsidiaries of this Agreement or the other Loan Documents.

9.6 Title to Property; Leases. The Company and the Restricted Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in Section 9.4 or purported to have been acquired by the Company or any Restricted Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement or the Collateral Documents. All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects.

9.7 Subsidiaries .. (a) Schedule 9.7 contains (except as noted therein) complete and correct lists (i) of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary and whether such Subsidiary is a Restricted Subsidiary or an Unrestricted Subsidiary, and whether such Subsidiary is a Material Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and senior officers.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 9.7 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except for Permitted Liens, directors' qualifying shares, shares required to be owned by Persons pursuant to applicable foreign laws regarding foreign ownership, or as otherwise disclosed in Schedule 9.7).

(c) Each Subsidiary identified in Schedule 9.7 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Material Subsidiary, is a party to, or otherwise subject to any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 9.7 and customary limitations imposed by corporate law statutes) restricting the ability of such Material Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Material Subsidiary.

9.8 Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such

instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be, individually or in the aggregate, Material.

(b) Neither the Company nor any ERISA Affiliate maintains a "single employer plan" or a Multiemployer Plan that is subject to Title IV of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans other than such liabilities that individually or in the aggregate are not material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code) of the Company and its Subsidiaries is not Material or has otherwise been disclosed in the most recent consolidated financial statements of the Company and its Subsidiaries referenced in Section 9.4 of this Agreement.

(e) The execution and delivery of this Agreement and the other Loan Documents and the making of Loans and issuance of Letters of Credit hereunder will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code.

9.9 Litigation; Observance of Agreements, Statutes and Orders. (a) Except as disclosed in Schedule 9.9 , there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Restricted Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including Environmental Laws) of any

Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

9.10 Other Statutes. Neither the Company nor any Restricted Subsidiary is subject to regulation under the Investment Company Act of 1940, the Public Utility Holding Company Act of 1935, the Interstate Commerce Act, or the Federal Power Act.

9.11 Licenses, Permits, etc. Except as disclosed in Schedule 9.11, (a) the Company and the Restricted Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material, without any known Material conflict with the rights of others, (b) to the best knowledge of the Company, no product of the Company infringes in any Material respect any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name or other right owned by any other Person; and (c) to the best knowledge of the Company, there is no Material violation by any Person of any right of the Company or any Restricted Subsidiary with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by the Company or any Restricted Subsidiary.

9.12 Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the Loans for general corporate purposes (including repurchases of stock of the Company); provided that no part of the proceeds from the making of Loans or issuance of Letters of Credit hereunder will be used, directly or indirectly, so as to involve the Company or any Lender in a violation of Regulation U of the FRB (12 CFR 221) or Regulation X of the FRB (12 CFR 224), or to involve any broker or dealer in a violation of Regulation T of the FRB (12 CFR 220). Margin stock does not constitute more than 5% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 5% of the value of such assets. As used in this Section, the term "margin stock" shall have the meaning assigned to it in said Regulation U.

9.13 Taxes. The Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction (other than those tax returns which individually or collectively are not Material), and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material, or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of federal, state or other taxes for all fiscal periods are adequate in accordance with GAAP. The federal income tax liabilities of the Company and its Subsidiaries have been resolved with the Internal Revenue

Service and paid for all fiscal years up to and including the fiscal year ending on December 31, 1996.

9.14 Existing Indebtedness; Future Liens. (a) Except as described therein, Schedule 9.14 sets forth a complete and correct list of all outstanding Indebtedness, separately listed for each such item of Indebtedness of $2,000,000 or more, of the Company and the Restricted Subsidiaries as of the Signing Date.

(b) (i) Neither the Company nor any Restricted Subsidiary is in default in the payment of any principal or interest on any Indebtedness of the Company or such Restricted Subsidiary, and (ii) no event or condition exists with respect to any Indebtedness of the Company or any Restricted Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment, except for Indebtedness described in clauses (i) and (ii) which, in aggregate principal amount, does not exceed $5,000,000.

(c) Neither the Company nor any Restricted Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by ection 10.12.

9.15 Environmental Matters. Neither the Company nor any of its Subsidiaries has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to the Lenders in writing,

(a) neither the Company nor any of its Subsidiaries has knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by any of them or to other assets or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them in a manner contrary to any Environmental Laws and has not disposed of any Hazardous Materials in a manner contrary to any Environmental Laws, in each case in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with all applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

9.16 Information. As of the Signing Date, the Closing Date and each other date on which the representation and warranty in this Section 9.16 is made, all information previously or contemporaneously furnished in writing by the Company or any Subsidiary to any Lender for purposes of or in connection with this Agreement and the transactions contemplated hereby is, taken as a whole, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is incomplete by omitting to state any material fact necessary to make such information not misleading in light of the circumstances under which made (it being recognized by the Administrative Agent and the Lenders that (a) any projections and forecasts provided by the Company are based on good faith estimates and assumptions believed by the Company to be reasonable as of the date of the applicable projections or assumptions and that actual results during the period or periods covered by any such projections and forecasts will likely differ from projected or forecasted results and (b) any information provided by the Company or any Subsidiary with respect to any Person or assets acquired or to be acquired by the Company or any Subsidiary shall, for all periods prior to the date of such acquisition, be limited to the knowledge of the Company or the acquiring Subsidiary after reasonable inquiry).

SECTION 10 COVENANTS.

Until the expiration or termination of the Commitments and thereafter until all obligations of the Company hereunder and under the other Loan Documents are paid in full and all Letters of Credit have been terminated, the Company agrees that, unless at any time the Required Lenders shall otherwise expressly consent in writing, it will:

10.1 Reports, Certificates and Other Information. Furnish to the Administrative Agent (with sufficient copies to provide one to each Lender):

10.1.1 Audit Report. Promptly when available and in any event within 120 days (or if sooner, on the date consolidated statements are required to be delivered to any other creditor of the Company) after the end of each fiscal year of the Company, duplicate copies of, a consolidated and a consolidating balance sheet of the Company and its Subsidiaries, as at the end of such year, and consolidated and consolidating statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, which consolidated financial statements shall be accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such consolidated financial statements has

been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and which consolidating financial statements shall be certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments; provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 10.1.1 to provide consolidated financial statements so long as such Annual Report on Form 10-K includes the consolidated financial statements identified in clauses (i) and (ii) above; provided further that such consolidating financial statements shall show the elimination of all Unrestricted Subsidiaries and the resultant consolidated financial statements of the Company and its Restricted Subsidiaries.

10.1.2 Quarterly Reports. Promptly when available and in any event within 60 days (or if sooner, on the date consolidated statements are required to be delivered to any other creditor of the Company) after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of a consolidated and a consolidating balance sheet of the Company and its Subsidiaries as at the end of such quarter, and consolidated and consolidating statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter, setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments; provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 10.1.2 to provide consolidated financial statements so long as such Quarterly Report on Form 10-Q includes the consolidated financial statements identified in clauses (i) and (ii) above; provided further, that such consolidating financial statements shall show the elimination of all Unrestricted Subsidiaries and the resultant consolidated financial statements of the Company and its Restricted Subsidiaries;.

10.1.3 Compliance Certificates. Together with each set of financial statements delivered to a Lender pursuant to Sections 10.1.1 and 10.1.2, a certificate of a Senior Financial Officer setting forth (a) the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Sections 10.10 and 10.11 during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or

minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence) and (b) a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes an Event of Default or an Unmatured Event of Default or, if any such condition or event existed or exists (including any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

10.1.4 SEC and Other Reports. Promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such Lender), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and other statements made available generally by the Company or any Material Domestic Subsidiary to the public concerning developments that are Material.

10.1.5 Notice of Default. Promptly, and in any event within five days, after a Responsible Officer becoming aware of the existence of any Event of Default or Unmatured Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 12.1.5, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto.

10.1.6 Notice of ERISA Matters. Promptly, and in any event within fifteen days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto, with respect to any Plan, (i) any reportable event, as defined in Section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof, which could reasonably be expected to have a Material Adverse Effect, (ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan, which could reasonably be expected to have a Material Adverse Effect, or (iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I

or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect.

10.1.7 Notices from Governmental Authority. Promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect.

10.1.8 Management Reports. With reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the other Loan Documents as from time to time may be reasonably requested by any Lender.

10.2 Inspections. Permit the representatives of each Lender to (a) if no Event of Default or Unmatured Event of Default then exists, at the expense of such Lender and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Restricted Subsidiary, all at such reasonable times during business hours and as often as may be reasonably requested in writing and (b) if an Event of Default or Unmatured Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such reasonable times and as often as may be requested.

10.3 Insurance. Maintain, and will cause each of the Restricted Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

10.4 Compliance with Laws. Comply, and cause each of its Subsidiaries to comply with all laws, ordinances or governmental rules or regulations to which each of them is subject,

including Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

10.5 Maintenance of Existence, etc. Preserve and keep in full force and effect its corporate existence. Subject to Section 10.13, the Company will at all times preserve and keep in full force and effect the corporate existence of each Restricted Subsidiary (unless merged into the Company or a Restricted Subsidiary) and all rights and franchises of the Company and the Restricted Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

10.6 Maintenance of Properties. Maintain and keep, and cause each of the Restricted Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times; provided that this Section shall not prevent the Company or any Restricted Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

10.7 Payment of Taxes and Claims. File, and cause each of its Subsidiaries to file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary; provided that neither the Company nor any Subsidiary need pay any such tax or assessment or claims if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or such Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary, or (ii) the nonpayment of all such taxes and assessments and claims in the aggregate could not reasonably be expected to have a Material Adverse Effect.

10.8 Security; Execution of Pledge Agreement and Subsidiary Guaranty. (a) Within five days after the Company or any of its Restricted Subsidiaries acquires a Material Foreign Subsidiary or within five days after the Company delivers consolidating financial statements pursuant to Section 10.1 showing that any of Company's existing Subsidiaries has become a

Material Foreign Subsidiary, cause the Pledged Securities of such Material Foreign Subsidiary to be pledged pursuant to a supplement to the Pledge Agreement (unless a pledge of such Pledged Securities (x) is legally unobtainable or (y) the consent of a Governmental Authority is required in order to obtain such pledge and such consent has not been obtained after the Company's commercially reasonable efforts to obtain such consent, and Company delivers an opinion of outside counsel, in form and substance reasonably satisfactory to the Administrative Agent and its counsel, to the effect that such pledge was not legally obtainable or such consent was not obtained). The Company shall promptly take all actions as may be necessary or desirable to give to the Collateral Agent, for the ratable benefit of the Lenders and the other Senior Secured Creditors, a valid and perfected first priority Lien on and security interest in the Pledged Securities of such Material Foreign Subsidiary and shall promptly deliver to the Collateral Agent (i) a supplement to the Pledge Agreement executed by each Pledgor of the Pledged Securities of such Material Foreign Subsidiary, (ii) a certificate executed by the secretary or an assistant secretary of each Pledgor as to (a) the incumbency and signatures of the officers of such Pledgor executing the supplement to the Pledge Agreement, and (b) the fact that the attached resolutions of the Board of Directors of such Pledgor authorizing the execution, delivery and performance of the supplement to the Pledge Agreement are in full force and effect and have not been modified or rescinded, (iii) at the request of the Administrative Agent, a favorable opinion of counsel, in form and substance reasonably satisfactory to the Administrative Agent and its counsel, as to (a) the due organization and good standing of such Pledgor, (b) the due authorization, execution and delivery by such Pledgor of the supplement to the Pledge Agreement, (c) the enforceability of the supplement to the Pledge Agreement, and (d) such other matters as the Required Lenders may reasonably request, all of the foregoing to be satisfactory in form and substance to the Administrative Agent and its counsel; provided that the opinion described in this clause (iii) may be given by the Company's in-house counsel and may contain reasonable assumptions, if necessary, relating to the fact that such counsel may not be admitted to practice law in the applicable jurisdiction, and (iv) such other assurances, certificates, documents, consents or opinions as the Required Lenders reasonably may require.

(b) Within five days after the Company or any of its Restricted Subsidiaries acquires a Material Domestic Subsidiary or within five days after the Company delivers consolidating financial statements pursuant to Section 10.1 showing that any of Company's existing Subsidiaries has become a Material Domestic Subsidiary (but not later than the time when such Material Domestic Subsidiary provides a Guaranty or co-obligor agreement to the lenders party to any Significant Credit Facility) (x) cause such Material Domestic Subsidiary to execute and deliver to the Administrative Agent a counterpart of the Subsidiary Guaranty, and (y) if the lenders party to such Significant Credit Facility are not then party to the Collateral Agency and Intercreditor Agreement (either directly or through their agent) cause such lenders (either directly or through their agent) to become party to the Collateral Agency and Intercreditor Agreement. The Company shall promptly deliver to the Administrative Agent, together with such counterpart of the Subsidiary Guaranty (i) certified copies of such Material Domestic Subsidiary's Articles or Certificate of Incorporation, together with a good standing certificate from the Secretary of State of the jurisdiction of its incorporation, each to be dated a recent date prior to their delivery to the

Administrative Agent, (ii) a copy of such Material Domestic Subsidiary's Bylaws, certified by its corporate secretary or an assistant corporate secretary as of a recent date prior to their delivery to the Administrative Agent, (iii) a certificate executed by the secretary or an assistant secretary of such Material Domestic Subsidiary as to (a) the incumbency and signatures of the officers of such Material Domestic Subsidiary executing the counterpart of the Subsidiary Guaranty, and (b) the fact that the attached resolutions of the Board of Directors of such Material Domestic Subsidiary authorizing the execution, delivery and performance of the counterpart of the Subsidiary Guaranty are in full force and effect and have not been modified or rescinded, (iv) at the request of the Administrative Agent, a favorable opinion of counsel to the Company and such Material Domestic Subsidiary, in form and substance reasonably satisfactory to the Administrative Agent and its counsel, as to (a) the due organization and good standing of such Material Domestic Subsidiary, (b) the due authorization, execution and delivery by such Material Domestic Subsidiary of the counterpart of the Subsidiary Guaranty, (c) the enforceability of the counterpart of the Material Domestic Subsidiary, and (d) such other matters as the Required Lenders may reasonably request, all of the foregoing to be satisfactory in form and substance to the Administrative Agent and its counsel; provided, that the opinion described in clause (iv) above may be given by the Company's in-house counsel and may contain reasonable assumptions, if necessary, relating to the fact that counsel to the Company and such Material Domestic Subsidiary may not be admitted to practice law in the applicable jurisdiction, and (v) such other assurances, certificates, documents, consents or opinions as the Required Lenders reasonably may require.

10.9 Nature of the Business. Not, and not permit any Restricted Subsidiary, to engage in any business if, as a result, the general nature of the business of the Company and the Restricted Subsidiaries, taken as a whole, which would then be engaged in by the Company and the Restricted Subsidiaries would be substantially changed from the general nature of the business engaged in by the Company and the Restricted Subsidiaries, taken as a whole, on the Signing Date.

10.10 Financial Covenants.

10.10.1 Minimum Consolidated Net Worth. Not, at any time, permit Consolidated Net Worth to be less than the sum of (i) $271,935,200, (ii) an aggregate amount equal to 60% of Consolidated Net Income (but, in each case, only if a positive number) earned in (a) the six months ended December 31, 2000, and (b) each complete fiscal year thereafter, and (iii) 50% of the net proceeds realized by the Company and its Restricted Subsidiaries from the sale of Equity Securities subsequent to June 30, 2000, excluding issuances of Equity Securities upon exercise of employee stock options or rights under any employee benefit plans (excluding such exercise by any Person who owns greater than 5% of the Equity Securities of the Company), issuances of Equity Securities in connection with acquisitions by the Company and its Restricted Subsidiaries, and reissuances of up to $60,000,000 of treasury securities purchased by the Company after the Signing Date.

10.10.2 Minimum Fixed Charges Coverage. Not permit, as of the end of each fiscal quarter of the Company, the ratio of Consolidated Income Available for Fixed Charges to Fixed Charges, for the period consisting of such fiscal quarter and the preceding three fiscal quarters, to be less than 2.75 to 1.0.

10.11 Limitations on Indebtedness. (a) Not permit at any time (i) the Leverage Ratio to be greater than 1.85 to 1.0, or (ii) Priority Indebtedness to exceed 13% of Consolidated Net Worth.

(b) Not, and not permit any Restricted Subsidiary to, incur, assume or create any Indebtedness under any Significant Credit Facility unless each of the lenders under such Significant Credit Facility immediately becomes a party to the Collateral Agency and Intercreditor Agreement.

10.12 Liens. Not, and not permit any of the Restricted Subsidiaries to directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien on or with respect to any property or asset (including any document or instrument in respect of goods or accounts receivable) of the Company or any Restricted Subsidiary, whether now owned or hereafter acquired, or any income or profits therefrom (unless the Company makes, or causes to be made, effective provision whereby the Notes will be equally and ratably secured with any and all other obligations thereby secured, such security to be pursuant to an agreement reasonably satisfactory to the Required Lenders and, in any such case, the Notes shall have the benefit, to the fullest extent that, and with such priority as, the Administrative Agent and the Lenders may be entitled under applicable law, of any equitable Lien on such property), except for the following (which are collectively referred to as "Permitted Liens"):

(a) Liens for taxes, assessments or other governmental charges which are not yet delinquent or that are being contested in good faith;

(b) Liens incidental to the conduct of business or the ownership of properties and assets (including landlords', carriers', warehousemen's, mechanics' materialmen's, and other similar Liens) and Liens to secure the performance of bids, tenders, leases or trade contracts, or to secure statutory obligations (including obligations under workers compensation, unemployment insurance and other social security legislation), surety or appeal bonds or other Liens incurred in the ordinary course of business and not in connection with the borrowing of money;

(c) Liens resulting from judgments, unless such judgments are not, within 60 days, discharged or stayed pending appeal, or shall not have been discharged within 60 days after the expiration of any such stay;

(d) Liens securing Indebtedness of a Restricted Subsidiary owed to the Company or to a Wholly-Owned Restricted Subsidiary;

(e) Liens in existence on the Signing Date and reflected in Schedule 10.12;

(f) minor survey exceptions and the like which do not Materially detract from the value of such property;

(g) leases, subleases, easements, rights of way, restrictions and other similar charges or encumbrances incidental to the ownership of property or assets or the ordinary conduct of the Company's or any of the Restricted Subsidiaries' businesses; provided that the aggregate of such Liens do not Materially detract from the value of such property;

(h) Liens (i) existing on property at the time of its acquisition or construction by the Company or a Restricted Subsidiary and not created in contemplation thereof; (ii) on property created contemporaneously with its acquisition or within 180 days of the acquisition or completion of construction or improvement thereof to secure the purchase price or cost of construction or improvement thereof, including such Liens arising under Capital Leases; or (iii) existing on property of a Person at the time such Person is acquired by, consolidated with, or merged into the Company or a Restricted Subsidiary and not created in contemplation thereof; provided that such Liens shall attach solely to the property acquired or constructed and the principal amount of the Indebtedness secured by the Lien shall not exceed the principal amount of such Indebtedness just prior to the time such Person is consolidated with or merged into the Company or a Restricted Subsidiary;

(i) Liens on receivables of the Company or a Restricted Subsidiary and the related assets of the type specified in clauses (i) through (iv) in the definition of "Permitted Securitization Program" in connection with any Permitted Securitization Program;

(j) Liens in favor of the Lenders and the other Senior Secured Creditors party to the Collateral Agency and Intercreditor Agreement in connection with the pledge of the Pledged Securities of each Material Foreign Subsidiary;

(k) banker's Liens and similar Liens (including set-off rights) in respect of bank deposits; provided that any such Liens held by parties to the Collateral Agency and Intercreditor Agreement will be governed by and subject to the Collateral Agency and Intercreditor Agreement;

(l) Liens in favor of customs and revenue authorities as a matter of law to secure payment of custom duties and in connection with the importation of goods in the ordinary course of the Company's and its Subsidiaries' business;

(m) any Lien renewing, extending or replacing Liens permitted by clauses (e), (h), and

(i) of this Section 10.12; provided that (i) the principal amount of the Indebtedness secured is neither increased nor the maturity thereof changed to an earlier date, (ii) such Lien is not extended to any other property, and (iii) immediately after such extension, renewal or refunding, no Event of Default or Unmatured Event of Default would exist; and

(n) other Liens securing Indebtedness not otherwise permitted by clauses (a) through (m) of this Section 10.12; provided that Priority Indebtedness shall not, at any time, exceed an amount equal to 13% of Consolidated Net Worth.

Any Lien originally incurred in compliance with clause (n) of this Section 10.12 may be renewed, extended or replaced so long as the conditions set forth in clauses (i), (ii) and (iii) of clause (m) of this Section 10.12 are satisfied.

10.13 Mergers, Consolidations, Sales. (a) Not, and not permit any Restricted Subsidiary to consolidate with or merge with any other Person unless immediately after giving effect to any consolidation or merger no Event of Default or Ummatured Event of Default would exist and:

(i) in the case of a consolidation or merger of a Restricted Subsidiary, (x) the Company or another Restricted Subsidiary is the surviving or continuing corporation, (y) the surviving or continuing corporation is or immediately becomes a Restricted Subsidiary, or (z) such consolidation or merger, if considered as the sale of the assets of such Restricted Subsidiary to such other Person, would be permitted by Section 10.11(b); and

(ii) in the case of a consolidation or merger of the Company, the successor corporation or surviving corporation which results from such consolidation or merger (the “surviving corporation”), if not the Company, (A) is a solvent United States corporation, (B) executes and delivers to each Lender its assumption of (x) the due and punctual payment of the principal of and premium, if any, and interest on the Loans, and (y) the due and punctual performance and observation of all of the covenants in this Agreement, the Collateral Documents and each other Loan Document to be performed or observed by the Company, and (C) furnishes to each Lender an opinion of counsel, reasonably satisfactory to the Required Lenders, to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the surviving corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors’ rights generally and by general equitable principles.

(b) Not sell, lease (as lessor) or otherwise transfer all or substantially all of its assets in a single transaction or series of transactions to any Person unless immediately after giving effect thereto no Event of Default or Unmatured Event of Default would exist and:

(i) the successor corporation to which all or substantially all of the Company's assets have been sold, leased or transferred (the "successor corporation") is a solvent United States corporation, and

(ii) the successor corporation executes and delivers to each Lender its assumption of the due and punctual payment of the principal of and premium, if any, and interest on the Loans, and the due and punctual performance and observation of all of the covenants in this Agreement, the Collateral Documents and each other Loan Document to be performed or observed by the Company and shall furnish to the Administrative Agent an opinion of counsel, reasonably satisfactory to the Required Lenders, to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such successor corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors’ rights generally and by general equitable principles.

No such conveyance, transfer or lease of all or substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation that shall theretofore have become such in the manner prescribed in this Section 10.13 from its liability under this Agreement or the other Loan Documents.

(c) Not, and not permit any Restricted Subsidiary to, sell, lease (as lessor), transfer, abandon or otherwise dispose of assets to any Person; provided that the foregoing restrictions do not apply to:

(i) the sale, lease, transfer or other disposition of assets of the Company to a Restricted Subsidiary or of a Restricted Subsidiary to the Company or another Restricted Subsidiary;

(ii) the sale in the ordinary course of business of inventory held for sale, or equipment, fixtures, supplies or materials that are no longer required in the operation of the business of the Company or any Restricted Subsidiary or are obsolete;

(iii) the sale of property of the Company or any Restricted Subsidiary and the Company’s or any Restricted Subsidiary’s subsequent lease, as lessee, of the same property, within 270 days following the acquisition or construction of such property;

(iv) the sale of assets of the Company or any Restricted Subsidiary for cash or other property to a Person or Persons (other than an Affiliate) if (A) such assets (valued at net book value) do not constitute a “substantial part” of the assets of the Company and the Restricted Subsidiaries, (B) in the opinion of a Responsible Officer of the Company, the sale is for fair value and is in the best interests of the Company, and (C) immediately after giving effect to the transaction, no Event of Default or Unmatured Event of Default would exist; or

FIRST AMENDMENT

THIS FIRST AMENDMENT dated as of December 14, 2001 (this "Amendment") amends the Credit Agreement dated as of May 10, 2001 (the "Credit Agreement") among Nu Skin Enterprises, Inc. (the "Company"), various financial institutions (the "Lenders") and Bank of America, N.A., as administrative agent (in such capacity, the "Administrative Agent"). Terms defined in the Credit Agreement are, unless otherwise defined herein or the context otherwise requires, used herein as defined therein.

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

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

NOW, THEREFORE, the parties hereto agree as follows:

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

1.1 Amendment to Preamble. The second "WHEREAS" clause is restated in its entirety to read as follows:

WHEREAS, the Lenders are willing to extend commitments to make Loans to, and to issue or participate in letters of credit issued for the account of, the Company hereunder for the purposes provided herein and on the terms and subject to the conditions set forth herein.

1.2 Amendments to Definitions.

(a) The definition of "Eurodollar Loan" is amended in its entirety to read as follows:

Eurodollar Loan means any Loan denominated in US Dollars which bears interest at a rate determined by reference to the Eurodollar Rate (Reserve Adjusted).

(b) Clause (c) of the definition of "Interest Period" is amended by inserting the words "Dollar Equivalent" before the phrase "principal amount of all Yen LIBOR Loans and Eurodollar Loans" contained therein.

(c) The definition of "Stated Amount" is amended in its entirety to read as follows:

Stated Amount means, with respect to any Letter of Credit at any date of determination, the maximum aggregate Dollar Equivalent amount available for drawing thereunder at any time during the then ensuing term of such Letter of Credit under any and all circumstances, plus the aggregate Dollar Equivalent amount of all unreimbursed payments and disbursements under such Letter of Credit.

(d) Clause (b) of the definition of "Total Outstandings" is amended in its entirety to read as follows: "the aggregate Stated Amount of all Letters of Credit".

1.3 Addition of New Section 1.3. A new Section 1.3 is added to the Credit Agreement in appropriate numerical sequence to read as follows:

1.3 Currency Fluctuations. For purposes of calculating usage under Section 5 and the Total Outstandings as of any date (except as set forth in Sections 6.2(c) and 11.2.1(d)), (a) the Dollar Equivalent amount of each Yen LIBOR Loan shall be calculated (i) during the first year following the Signing Date, using the Spot Rate of Exchange as in effect on the Signing Date, and (ii) during each year thereafter, using the Spot Rate of Exchange as in effect on the most-recent annual anniversary of the Signing Date (or if such day is not a Business Day, on the next succeeding Business Day), and (b) the Stated Amount of each Letter of Credit denominated in a currency other than Dollars shall be calculated (i) on the date of the issuance thereof, (ii) on each date on which the Stated Amount of such Letter of Credit is changed, (iii) on each date on which the Commitment Amount is reduced pursuant to Section 6.1, or (iv) on any other date requested by the applicable Issuing Lender, in each case based upon the Spot Rate of Exchange for such date.

1.4 Amendment to Section 2.1.2. Clause (b)(ii) of Section 2.1.2 is amended by inserting the words "Dollar Equivalent" before the phrase "principal amount of all outstanding Loans" contained therein.

1.5 Amendment to Section 2.3.1. The second sentence of Section 2.3.1 is amended in its entirety to read as follows:

Each such notice shall be accompanied by an L/C Application, duly executed by the Company (together with any Subsidiary for the account of which the related Letter of Credit is to be issued) and in all respects satisfactory to the Administrative Agent and the applicable Issuing Lender, together with such other documentation as the Administrative Agent or such Issuing Lender may

reasonably request in support thereof, it being understood that each L/C Application shall specify, among other things, the date on which the proposed Letter of Credit is to be issued, the amount (which shall be denominated in Dollars or any other foreign currency (i) as to which a Dollar Equivalent may be readily calculated, (ii) which is readily available, freely transferable and convertible into Dollars and (iii) has been agreed to by the Issuing Lender), whether such Letter of Credit is to be transferable in whole or in part and the expiration date of such Letter of Credit (which shall not be later than the Termination Date and shall not result in the aggregate Stated Amount of all Letters of Credit scheduled to be outstanding after any date on which the Commitment Amount is scheduled to be reduced pursuant to Section 6.1(d), plus the aggregate Dollar Equivalent principal amount of all Yen LIBOR Loans and Eurodollar Loans having Interest Periods ending after such date, to exceed the Commitment Amount scheduled to be in effect at the close of business on such date).

1.6 Amendment to Section 5.1. The second sentence of Section 5.1 is amended by inserting the words "Dollar Equivalent" before the phrase "principal amount of all outstanding Loans" contained therein.

1.7 Amendments to Section 5.3. Section 5.3 is amended by (a) inserting the words "Dollar Equivalent" immediately before the phrase "undrawn amount of such standby Letter of Credit" contained in clause (a) of that section and (b) inserting the words "Dollar Equivalent" immediately after the phrase "the greater of 0.125% of the" contained in clause (b) of that section.

1.8 Amendments to Section 6.2. Section 6.2 is amended as follows:

(a) Clause (a) is restated in its entirety to read as follows:

(a) Voluntary Prepayments. The Company may from time to time prepay the Loans in whole or in part; provided that the Company shall give the Administrative Agent (which shall promptly advise each Lender) notice thereof not later than 11:00 A.M., New York time, (i) in the case of Floating Rate Loans, on the day of such prepayment, (ii) in the case of Yen LIBOR Loans, at least five Business Days prior to the date of such prepayment, and (iii) in the case of Eurodollar Loans, at least three Business Days prior to the date of such prepayment, in each case specifying the Loans to be prepaid and the date (which shall be a Business Day) and amount of prepayment. Each partial prepayment of Floating Rate Loans and Eurodollar Loans shall be in an aggregate principal amount of $1,000,000 or an integral multiple thereof and each partial prepayment of Yen LIBOR Loans shall be in an aggregate principal amount of ¥100,000,000 or an integral multiple thereof. After giving effect to any partial prepayment, each borrowing of Yen LIBOR Loans and Eurodollar Loans shall be in the applicable amount required for a Group pursuant to Section 2.2.1.

(b) The heading of clause (b) is restated in its entirety to read "Mandatory Prepayments Resulting from Commitment Reductions".

(c) Clause "(c)" is redesignated as clause "(d)".

(d) A new clause (c) is added to Section 6.2 to read as follows:

(c) Mandatory Prepayments Resulting from Currency Fluctuations. If, as of the last Business Day of any month, the Total Outstandings (calculated (i) with respect to Yen LIBOR Loans, using the Spot Rate of Exchange for such day and (ii) with respect to Letters of Credit, as provided in Section 1.3(b)) exceed 110‰ of the Commitment Amount, (x) the Administrative Agent shall promptly notify the Company and (y) the Company shall, within seven Business Days following the receipt of such notice, prepay Loans by the amount of such excess (rounded upward, if necessary, to an integral multiple of (A) in the case of Floating Rate Loans and Eurodollar Loans, $1,000,000 and (B) in the case of Yen LIBOR Loans, ¥100,000,000).

1.9 Addition of New Section 11.2.1(d). A new Section 11.2.1(d) is added to the Credit Agreement in appropriate sequence to read as follows:

(d) after giving effect to any borrowing made and any Letter of Credit issued during the period beginning on the date that a prepayment is required pursuant to Section 6.2(c) and ending on the immediately following May 10, the Total Outstandings (calculated (i) with respect to Yen LIBOR Loans, using the Spot Rate of Exchange for the date such prepayment was required and (ii) with respect to Letters of Credit, as provided in Section 1.3(b)) shall not exceed the Commitment Amount.

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

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

SECTION 4 Miscellaneous.

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

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

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

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

Delivered as of the day and year first above written.

NU SKIN ENTERPRISES, INC.

By /s/ Corey B. Lindley
Title CFO, Executive Vice President

BANK OF AMERICA, N.A., as Administrative
Agent and as a Lender

By /s/ Gretchen Spoo
Title Principal

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

By /s/ Mark F. Nelson
Title Vice President

Exhibit A

CONFIRMATION

Dated as of December 14, 2001

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

Please refer to (a) the Credit Agreement dated as of May 10, 2001 (the "Credit Agreement") among Nu Skin Enterprises, Inc., various financial institutions (the "Lenders") and Bank of America, N.A., as administrative agent (the "Administrative Agent"); (b) the other "Loan Documents" (as defined in the Credit Agreement), including the Guaranty and the Pledge Agreement; and (c) the First Amendment dated as of December 14, 2001 to the Credit Agreement (the "First Amendment").

Each of the undersigned hereby confirms to the Administrative Agent and the Lenders that, after giving effect to the First Amendment and the transactions contemplated thereby, each Loan Document to which such undersigned is a party continues in full force and effect and is the legal, valid and binding obligation of such undersigned, enforceable against such undersigned in accordance with its terms.

NU SKIN ENTERPRISES, INC.

By: /s/ Corey B. Lindley
Name: Corey B. Lindley
Title: CFO, Vice President

NU SKIN INTERNATIONAL, INC.
NU SKIN HONG KONG, INC.
NU SKIN TAIWAN, INC.
NU SKIN UNITED STATES, INC.

By: /s/ Corey B. Lindley
Name: Corey B. Lindley
Title: CFO, Vice President

FIRST AMENDMENT

THIS FIRST AMENDMENT dated as of May 10, 2001 (this "Amendment") amends the Collateral Agency and Intercreditor Agreement dated as of October 12, 2000 (the "Intercreditor Agreement") among STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A., as Collateral Agent, THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, as Senior Noteholder, and ABN AMRO BANK N.V., as Senior Lender. Unless otherwise defined herein, capitalized terms used herein have the respective meanings assigned to them in the Intercreditor Agreement.

WHEREAS, the parties hereto have entered into the Intercreditor Agreement with respect to certain obligations of Nu Skin Enterprises, Inc. and certain of its Subsidiaries; and

WHEREAS, in anticipation of Bank of America, N.A. and Bank One, NA becoming parties to the Intercreditor Agreement, the parties hereto desire to amend the Intercreditor Agreement as set forth below,

NOW, THEREFORE, for good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

SECTION 1 AMENDMENTS. The Intercreditor Agreement is amended as follows:

1.2 Recitals E and F are amended in their entirety to read as follows:

> "E. The Company may enter into additional note purchase agreements and/or credit agreements with investors and/or lenders which become parties to this Agreement, may enter into one or more interest rate swaps or collars, foreign currency exchange agreements, equity swap agreements, commodity price protection agreements or interest rate, currency exchange, equity price or commodity price hedging arrangements (any such agreement or arrangement, a "**Hedging Agreement**") with persons or entities which become parties to this Agreement and may incur obligations ("**Cash Management** Obligations") in respect of overdrafts or related liabilities or in connection with treasury, depositary or cash management services, including in connection with automated clearing house transfers of funds, to persons or entities which become parties to this Agreement (any such investor, lender or other party, together with the lenders and other parties referred to in the next sentence, the "**Additional** Creditors"; and the obligations of the Company under any such agreement or arrangement or in respect of any such overdrafts or related liabilities or any such services, the "**Additional Company Obligations**"), and such Additional Company Obligations may be guaranteed by one or more of the Subsidiary Guarantors pursuant to one or more guaranties (the "**Additional Subsidiary Guaranties**"). In addition, one or more Subsidiary Guarantors may become direct obligors (in respect of loans, reimbursement obligations relating to Letters of Credit, Hedging Agreements and/or Cash Management Obligations) to persons or entities which become parties to this Agreement and therefore are Additional Creditors, and the obligations of such Subsidiary Guarantors to such lenders or other parties (the "**Direct Subsidiary Obligations**" and, together with the Additional Company Obligations, the "**Additional Obligations**") may be guaranteed by the Company and the other Subsidiary Guarantors.
>
> F. The Bank Obligation Guaranty, the Note Obligation Guaranty, any Additional Subsidiary Guaranty and any Direct Subsidiary Obligation are hereinafter referred to as a "**Subsidiary Guaranty**." The Credit Documents, the Note Purchase Agreement and any additional credit agreement, note purchase agreement, Hedging Agreement or agreement relating to Cash Management Obligations entered into in favor of any Additional Creditor are hereinafter referred to, collectively, as the "**Senior Loan Documents**"."

1.3 Clause (b) of Section 1(a) is amended in its entirety to read as follows:

> "(b) the Collateral Agent's receipt of a written notice that the unpaid principal amount of any of the Obligations has not been paid at the stated maturity thereof or has been declared to be then due and payable by the holder or holders thereof prior to the due date as a result of an event of default".

1.4 The first sentence of Section 3(b) is amended by deleting the following words:

"computed on the amount to be returned from the date of the recovery".

1.5 The first parenthetical clause in the second sentence of Section 3(b) is amended by deleting the word "involuntary" therein and substituting the word "involuntarily" therefor.

1.6 The last portion of the last sentence of Section 4(e), beginning with the word "Contingent", is amended in its entirety to read as follows:

"Contingent L/C Obligations or interest on such Obligations) for purposes of calculating distributions pursuant to Section 2(c)."

1.7 The third sentence of Section 5(a) is amended in its entirety to read as follows:

> "For purposes of this Agreement, the term "**Required Creditors**" shall mean (a) the Required Lenders as defined in the Credit Agreement dated as of May 10, 2001 among the Company, various financial institutions and Bank of America, N.A., as Administrative Agent (as amended or otherwise modified from time to time, the "**Credit Agreement**"), and (b) Senior Noteholders holding a majority in principal amount of the Senior Noteholder Notes, each, in the case of both clause (a) and clause (b) above, voting as a class; provided that if at any time (i) the aggregate outstanding principal amount of Obligations (including the face amount of any undrawn Letters of Credit) owed to the Banks under and as defined in the Credit Agreement referred to in clause (a) above (the "**Banks**") or (ii) the aggregate outstanding principal amount of the Senior Notes represents, in either case, less than 10% of the sum of the aggregate amounts referred to in clauses (i) and (ii) above, then "**Required Creditors**" shall mean Benefitted Parties, considered as a single class, holding more than 50% of the sum of (A) the face amount of any undrawn Letters of Credit plus (B) the outstanding funded principal amount of the Obligations (it being understood that all amounts referred to in this sentence shall be determined by assuming that such amounts are denominated in U.S. Dollars based upon the Applicable Exchange Rate)."

SECTION 2 MISCELLANEOUS.

2.1 Continuing Effectiveness, etc. As herein amended, the Collateral Agency and Intercreditor Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects.

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

2.3 Governing Law. This Amendment shall be governed by and construed in accordance with the law of the State of New York applicable to contracts made and performed entirely within such state.

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first set forth above.

STATE STREET BANK AND TRUST
COMPANY OF CALIFORNIA, N.A., as
Collateral Agent

By: /s/Stephen Rivero
Name: Stephen Rivero
Title: Vice President

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA, as Senior Noteholder

By: /s/ Joseph Y. Alouf
Name: Joseph Y. Alouf
Title: Senior Vice President

ABN AMRO BANK N.V., as Senior Lender

By: /s/Clay Jackson
Name: Clay Jackson
Title: Senior Vice President

By: /s/Gina M. Brusatori
Name: Gina M. Brusatori
Title: Senior Vice President

Each of the undersigned hereby acknowledges and consents to the foregoing First Amendment to the Collateral Agency and Intercreditor Agreement:

NU SKIN ENTERPRISES, INC.

By: /s/Corey B. Lindley
Name: Corey B. Lindley
Title: Vice President

NU SKIN INTERNATIONAL, INC.
NSE HONG KONG, INC.
NU SKIN TAIWAN, INC.
NU SKIN UNITED STATES, INC.

By: /s/Corey B. Lindley
Name: Corey B. Lindley
Title: Executive Vice President and Chief Financial Officer

UNIVERSITY OF UTAH RESEARCH FOUNDATION

and

NU SKIN INTERNATIONAL, INC.

AMENDED AND RESTATED PATENT LICENSE AGREEMENT

(EXCLUSIVE)

DIETARY SUPPLEMENT PREVENTATIVE HEALTHCARE LICENSE

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UNIVERSITY OF UTAH RESEARCH FOUNDATION

and

NU SKIN INTERNATIONAL, INC.

AMENDED AND RESTATED PATENT LICENSE AGREEMENT

This Agreement is made and entered into this 1st day of July 2006, (the “EFFECTIVE DATE”) by and between the UNIVERSITY OF UTAH RESEARCH FOUNDATION, having its principal office at 615 Arapeen Dr., Suite 310, Salt Lake City, UT 84108 (hereinafter referred to as “LICENSOR”), and NU SKIN INTERNATIONAL, INC., a Utah corporation, having its principal office at 75 West Center, Provo, Utah, 84601 (hereinafter referred to as “LICENSEE”).

WITNESSETH

WHEREAS, LICENSOR is the owner of certain LICENSED TECHNOLOGY (as later defined herein) relating to University of Utah Case No. U-2612, entitled NONINVASIVE DETECTION AND MAPPING OF CHEMICAL SUBSTANCES IN THE SKIN AND SKIN-RELATED MALIGNANCIES by Werner Gellermann, Robert W. McClane , Nikita B. Katz and Paul S. Bernstein; and, University of Utah Case No. U-2970, entitled METHOD AND SYSTEM FOR RAMAN CHEMICAL IMAGING OF CAROTENOIDS AND RELATED COMPOUNDS IN LIVING HUMAN TISSUE by Werner Gellermann, Robert W. McClane, and Paul S. Bernstein; and, has the right to grant licenses under said LICENSED TECHNOLOGY;

WHEREAS, LICENSOR desires to have the LICENSED TECHNOLOGY developed and commercialized to benefit the public and is willing to grant a license thereunder;

WHEREAS, Nutriscan, Inc. and the UURF entered into a License Agreement, dated effective as of June 29, 2000, with respect to the Non-invasive Detection and Mapping of Chemical Substances in the Skin and Skin-Related Malignancies for use in the sale of dietary supplements (the “Dietary Supplement License”); and

WHEREAS, Spectrotek L.C. and the UURF entered into a License Agreement, dated effective as of June 29, 2000, with respect to the Non-invasive Detection and Mapping of Chemical Substances in the Skin and Skin-Related Malignancies for use in medical diagnostics (the “Medical Use License”); and

WHEREAS, Spectrotek L.C. and Caroderm, Inc. entered into an Assignment of License Agreement, dated November 11, 2001, wherein all rights, title and interest in the Agreement were assigned to Caroderm, Inc.; and

WHEREAS, the UURF, Caroderm, Inc., and Nutriscan, Inc. entered into a Letter of Understanding, dated effective as of December 14, 2001 (the “Letter of Understanding”) wherein the Parties and Nutriscan, Inc. agreed to further define the fields of use in the Agreement; and

WHEREAS, LICENSOR and the other original investors in Nutriscan, Inc. elected to sell all of their interest in Nutriscan, Inc. to Pharmanex/Nu Skin Enterprises, Inc. and entered into a Stock Purchase Agreement dated March 6, 2002; and

WHEREAS, Caroderm, Inc. has subsequently entered into an Agreement and Plan of Merger, effective as of March 3, 2006 wherein the Agreement along with all rights title and interest was assigned to Nu Skin or its AFFILIATE;

WHEREAS, in connection with such merger, LICENSEE and LICENSOR desire to amend and restate in its entirety the Dietary Supplement License.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto agree as follows:

ARTICLE 1 — DEFINITIONS

For the purposes of this Agreement, the following words and phrases shall have the following meanings:

1.1 “AFFILIATE” means any person or entity that controls, is controlled by, or is under common control with LICENSEE, directly or indirectly. For purposes of this definition, “control” and its various inflected forms means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person or entity, whether through ownership of voting securities, by contract or otherwise.

1.2 "PATENT RIGHTS" shall mean all of the following LICENSOR intellectual property: a. the United States patents listed in Appendix A; b. the United States patent applications listed in Appendix A, and divisionals, continuations and claims of continuation-in-part applications which shall be directed to subject matter specifically described in such patent applications, and the resulting patents;

c. any patents resulting from reissues or reexaminations of the United States patents described in a. and b. above;

d. the Foreign patents listed in Appendix A;

e. the Foreign patent applications listed in Appendix A, and divisionals, continuations and claims of continuation-in-part applications which shall be directed to subject matter specifically described in such Foreign patent applications, and the resulting patents;

f. Foreign patent applications filed after the EFFECTIVE DATE, including those applications filed in at least the countries listed in Appendix A and divisionals, continuations and claims of continuation-in-part applications which shall be directed to subject matter specifically described in such patent applications, and the resulting patents; and

g. any Foreign patents, resulting from equivalent Foreign procedures to United States reissues and reexaminations, of the Foreign patents described in d., e. and f. above.

1.3 “LICENSED TECHNOLOGY” means and includes the PATENT RIGHTS and other technology and intellectual property, including inventions, whether patentable or unpatentable, technical data, software, apparatus, know-how and trade secrets relating to University of Utah Case Numbers U-2612 and U-2970 owned and known by LICENSOR upon the EFFECTIVE DATE.

1.4 A “LICENSED PRODUCT” shall mean any product or part thereof which:

a. is covered in whole or in part by an issued, unexpired claim or a pending claim contained in the PATENT RIGHTS in the country in which any such product or part thereof is made, used or sold; or

b. is manufactured by using a process or is employed to practice a process which is covered in whole or in part by an issued, unexpired claim or a pending claim contained in the PATENT RIGHTS in the country in which any LICENSED PROCESS is used or in which such product or part thereof is used or sold; and

c. is covered by or incorporates any LICENSED TECHNOLOGY.

1.5 A “LICENSED PROCESS” shall mean any process which is covered in whole or in part by an issued, unexpired claim or a pending claim contained in the PATENT RIGHTS or is covered by or incorporates any LICENSED TECHNOLOGY.

1.6 “NET SALES” shall mean LICENSEE’S, its AFFILIATES’ (except as described below) and its SUBLICENSEES’ billings for LICENSED PRODUCTS and LICENSED PROCESSES less the sum of the following:

a. discounts allowed in amounts customary in the trade for quantity purchases, cash payments, prompt payments, wholesalers and distributors; b. sales, tariff duties and/or use taxes directly imposed and with reference to particular sales; c. outbound transportation prepaid or allowed; and d. amounts allowed or credited on returns. e. commissions paid to independent sales representatives or agencies.

No deductions shall be made for commissions paid to individuals regularly employed by LICENSEE, or for cost of collections. NET SALES shall occur:

(i) with respect to NET SALES of LICENSED PRODUCTS and LICENSED PROCESSES in the United States, when a LICENSED PRODUCT or LICENSED PROCESS shall be invoiced by LICENSEE, or an AFFILIATE of LICENSEE, or a SUBLICENSEE, to a third party that is not an AFFILIATE, or if not invoiced, when delivered to or performed for a third party that is not an AFFILIATE (and no royalty shall be payable on intercompany billings to AFFILIATES);

(ii) with respect to NET SALES of LICENSED PRODUCTS outside of the United States through AFFILIATES, the date that is six months following the receipt of the LICENSED PRODUCT by an AFFILIATE and the royalty on such NET SALES shall be based on the published U.S. retail price rather than the transfer price invoiced to such AFFILIATES (and no royalty shall be payable on billings by the AFFILIATE for the LICENSED PRODUCTS);

(iii) with respect to NET SALES of LICENSED PROCESSES outside of the United States, when such LICENSED PROCESS shall be invoiced by LICENSEE, a SUBLICENSEE, or an AFFILIATE of LICENSEE to a third party that is not an AFFILIATE;

(iv) with respect to NET SALES of LICENSED PRODUCTS by LICENSEE or SUBLICENSEE to persons or entities outside of the UNITED STATES that are not AFFILIATES, the date the LICENSED PRODUCT shall be invoiced by LICENSEE to such third party, or if not invoiced, when delivered to such third party.

In the event a LICENSED PRODUCT is rented, leased, licensed or sold on an installment basis, the royalties due hereunder shall be calculated and paid on the amount of each installment as it is invoiced and such transfer via rental agreement, lease, license, consignment or other similar method shall constitute a NET SALE hereunder and not as a “SUBLICENSE” as defined below.

1.7 “OTHER REVENUE” shall mean LICENSEE’S gross revenues from the sale of services (e.g. fees for consulting, research and development, and training) in connection with:

a. the sublicensing of the LICENSED TECHNOLOGY; and/or

b. the use or sale, lease or other transfer of LICENSED PRODUCTS or LICENSED PROCESSES. 1.8 “TERRITORY” shall mean worldwide. 1.9 “FIELD OF USE” shall mean the use of the LICENSED TECHNOLOGY for the non-invasive measurement of carotenoids and

similar or related compounds in human skin including related research; however, the above FIELD OF USE does not include the use of the technology for identifying, imaging, locating, and/or diagnosing skin lesions or skin malignancies in human patients. The above FIELD OF USE does not include veterinary applications; however, it is agreed that LICENSEE may use laboratory, *in vitro*, and *in vivo* animal model methods to research, develop and validate LICENSED PRODUCTS and LICENSED PROCESSES. For avoidance of doubt, human skin is defined as the continuous external membrane (integument) enveloping the body and consisting of the epidermis and dermis, hair, nails, sebaceous glands, sweat glands, and mammary glands; the skin does not include mucosal tissue such as the lining of the mouth.

ARTICLE 2 — GRANT

2.1 LICENSOR hereby grants to LICENSEE the right and license in the TERRITORY for the FIELD OF USE to practice under the LICENSED TECHNOLOGY and, to the extent not prohibited by other patents, to make, have made, use, lease, license, sell and export LICENSED PRODUCTS and to practice the LICENSED PROCESSES, until the expiration of the last to expire of any of LICENSOR’S rights in the LICENSED TECHNOLOGY, unless this Agreement shall be sooner terminated according to the terms hereof.

LICENSEE shall have the right to enter into sublicensing agreements for the rights, privileges and licenses granted hereunder only during the EXCLUSIVE PERIOD (defined below) of this Agreement. Upon any termination of this Agreement, SUBLICENSEES’ rights shall also terminate, subject to Section 14.6 hereof.

2.2 In order to establish a period of exclusivity for LICENSEE, LICENSOR hereby agrees that it shall not grant any other license to make, have made, use, lease, sell and import LICENSED PRODUCTS or to utilize LICENSED PROCESSES, in the TERRITORY for the FIELD OF USE or the promotion and sale of nutritional supplements during the period of time commencing with the EFFECTIVE DATE and terminating upon the last to expire of the PATENT RIGHTS (hereinafter the “EXCLUSIVE PERIOD”).

2.3 The University of Utah reserves the right to practice under the LICENSED TECHNOLOGY for noncommercial internal research purposes.

2.4 LICENSEE agrees to incorporate terms and conditions substantively similar to Articles 2, 5, 8.1-6, 9, 10, 11, 12, 13, and 16 of this Agreement into its sublicense agreements, so that these Articles shall be binding upon such SUBLICENSEES as if they were parties to this Agreement.

2.5 LICENSEE agrees to forward to LICENSOR a copy of any and all sublicense agreements promptly upon execution by the parties.

2.6 LICENSEE shall not receive from SUBLICENSEES anything of value in lieu of cash payments or publicly traded securities in consideration for any sublicense under this Agreement, without the express prior written permission of LICENSOR, which prior written permission shall not be unreasonably withheld.

2.7 Nothing in this Agreement shall be construed to confer any rights upon LICENSEE by implication, estoppel or otherwise as to any technology or patent rights of LICENSOR or any other entity other than the LICENSED TECHNOLOGY, regardless of whether such rights shall be dominant or subordinate to any LICENSED TECHNOLOGY.

ARTICLE 3 — DILIGENCE

3.1 LICENSEE shall use its commercially reasonable best efforts to bring one or more LICENSED PRODUCTS or LICENSED PROCESSES to market and to continue active, diligent marketing efforts for one or more LICENSED PRODUCTS or LICENSED PROCESSES throughout the life of this Agreement.

3.2 LICENSEE shall spend at least Five Hundred Thousand Dollars ($500,000 USD) by December 31, 2009 toward the research and development of LICENSED PRODUCTS and LICENSED PROCESSES in the FIELD OF USE.

3.2 LICENSEE’S failure to perform in accordance with either Paragraph 3.1 above shall be grounds for LICENSOR to terminate this Agreement pursuant to Paragraph 14.3 hereof. Notwithstanding the foregoing, if there is a major unanticipated research, development, marketing or regulatory problem, the parties will meet to renegotiate revised due diligence deadlines.

ARTICLE 4 — ROYALTIES

4.1 For the rights, privileges and license granted hereunder, LICENSEE shall pay royalties to LICENSOR in the manner hereinafter provided to the end of the term of the PATENT RIGHTS or until this Agreement shall be otherwise terminated, which ever first occurs:

a. License Issue Fee of Fifty Thousand Dollars ($50,000 USD) due and payable upon execution of this Agreement.

c. License Maintenance Fees of Fifty Thousand Dollars ($50,000 USD) per year; provided, however, License Maintenance Fees may be credited to Running Royalties subsequently due on NET SALES or OTHER REVENUE for each said year, if any. License Maintenance Fees paid in excess of Running Royalties shall not be creditable to Running Royalties for future years.

d. Running Royalties in an amount equal to Three and One Half Percent (3.5%) of NET SALES of the LICENSED PRODUCTS and LICENSED PROCESSES used, leased or sold by and/or for LICENSEE and/or its SUBLICENSEES. Should LICENSEE assign its right and obligations under this License Agreement to a party other than an AFFILIATE, the Running Royalty shall be Four and One Half Percent (4.5%) for NET SALES made by the Assignee and its SUBLICENSEES.

e. LICENSOR hereby grants to LICENSEE the right to enter into sublicensing agreements with third parties (hereinafter referred to as “SUBLICENSEES”) to the extent of LICENSEE’S rights under the grant provided in Section 2.1 and provided that LICENSEE has current exclusive rights thereto in the TERRITORY being sublicensed pursuant to Section 3.3. LICENSEE may only enter into sublicensing agreements during the EXCLUSIVE PERIOD of this AGREEMENT. Upon any termination of this AGREEMENT, SUBLICENSEES’ rights shall also terminate.

f. Any sublicense granted by LICENSEE to a SUBLICENSEE shall incorporate all of the terms and conditions of this AGREEMENT, which shall be binding upon each SUBLICENSEE as if such SUBLICENSEE were a party to this AGREEMENT.

g. LICENSEE shall pay to LICENSOR Thirty-five Percent (35%) of any lump-sum fee or advance payment received by LICENSEE from any SUBLICENSEE. However, that amount may be reduced by an amount equal to the portion of the lump-sum fee or advance payment re-invested by LICENSEE in further research and development of the LICENSED TECHNOLOGY, but in no event shall LICENSEE pay LICENSOR less than Fifteen Percent (15%) of any lump-sum fee or advance payment. LICENSEE shall not receive from SUBLICENSEES anything of value in lieu of cash payments in consideration for any sublicense under this AGREEMENT, without the express prior written permission of LICENSOR. In addition, LICENSEE shall pay to LICENSOR a royalty on NET SALES under any sublicense which royalty rate shall be the greater of: (a) Fifty Percent (50.0%) of the royalty rate charged by LICENSEE on NET SALES by such SUBLICENSEE, or; (b) the same rate that would be due to LICENSOR from NET SALES by LICENSEE.

h. LICENSEE shall promptly (a) provide LICENSOR with a copy of each sublicense granted by LICENSEE hereunder and any amendments thereto or terminations thereof; (b) collect and guarantee payment of all royalties due LICENSOR from SUBLICENSEES; and (c) summarize and deliver copies of all reports due to LICENSEE from SUBLICENSEES.

4.2 All payments due hereunder shall be paid in full, without deduction of taxes or other fees which may be imposed by any government, except as otherwise provided in Paragraph 1.6(b).

4.3 No multiple royalties shall be payable because any LICENSED PRODUCT, its manufacture, use, lease or sale are or shall be covered by more than one LICENSED TECHNOLOGY, PATENT RIGHTS patent application or PATENT RIGHTS patent licensed under this Agreement.

4.4 Royalty payments shall be paid in United States dollars in Salt Lake City, Utah, or at such other place as LICENSOR may reasonably designate consistent with the laws and regulations controlling in any foreign country. For converting any Net Sales made in a currency other than United States Dollars, the parties will use the conversion rate published in the *Wall Street Journal*/Telegraphic Transfer Selling conversion rate reported by the Sumitomo Bank, Tokyo, or other industry standard conversion rate approved in writing by Licensor for the last day of the Calendar Quarter for which such royalty payment is due or, if the last day is not a business day, the closest preceding business day.

ARTICLE 5 — REPORTS AND RECORDS

5.1 LICENSEE shall keep full, true and accurate books of account containing all particulars that may be necessary for the purpose of showing the amounts payable to LICENSOR hereunder. Said books of account shall be kept at LICENSEE'S principal place of business or the principal place of business of the appropriate division of LICENSEE to which this Agreement relates. Said books and the supporting data shall be open at all reasonable times for five (5) years following the end of the calendar year to which they pertain, to the inspection of LICENSOR or its agents for the purpose of verifying LICENSEE'S royalty statement or compliance in other respects with this Agreement. Should such inspection lead to the discovery of a greater than Five Percent (5%) discrepancy in reporting to LICENSOR'S detriment, LICENSEE agrees to pay the full cost of such inspection.

5.2 LICENSEE shall deliver to LICENSOR true and accurate reports, giving such particulars of the business conducted by LICENSEE and its SUBLICENSEES under this Agreement as shall be pertinent to diligence under Article 3 and royalty accounting hereunder:

a. before the first commercial sale of a LICENSED PRODUCT or LICENSED PROCESS, annually, on January 31 of each year; and

b. after the first commercial sale of a LICENSED PRODUCT or LICENSED PROCESS, quarterly, within sixty (60) days after March 31, June 30, September 30 and December 31, of each year.

5.3 These reports shall include at least the following: a. number of LICENSED PRODUCTS manufactured, leased and sold by and/or for LICENSEE and all SUBLICENSEES; b. accounting for all LICENSED PROCESSES used or sold by and/or for LICENSEE and all SUBLICENSEES; c. accounting for NET SALES, noting the deductions applicable as provided in Paragraph 1.6; d. Royalties due under Paragraph 4.1(c); e. Running Royalties due under Paragraph 4.1(d); f. royalties due on other payments from SUBLICENSEES and assignees under paragraph 4.1(e), and (f); g. total royalties due; h. names and addresses of all SUBLICENSEES of LICENSEE; i. Copies of all sublicenses executed; j. the amount spent on product development; and k.. the number of full time equivalent employees working on the LICENSED TECHNOLOGY.

5.4 Each report shall specify the University File number and/or the patent(s) or patent application(s) that apply to the LICENSED PRODUCTS and LICENSED PROCESSES being reported. Reports shall be signed by an officer of LICENSEE (or the officer's designee). With each such report submitted, LICENSEE shall pay to LICENSOR the royalties and fees due and payable under this Agreement. If no royalties shall be due, LICENSEE shall so report.

5.5 On or before the ninetieth (90th) day following the close of LICENSEE'S fiscal year, LICENSEE shall provide LICENSOR with LICENSEE'S consolidated financial statements for the preceding fiscal year including, at a minimum, a balance sheet and an income statement. Certified financial statements shall be provided after the company goes public.

5.6 The amounts due under Articles 4 and 6 shall, if overdue, bear interest until payment at a per annum rate Two Percent (2%) above the Federal Reserve Board prime rate in effect. The payment of such interest shall not foreclose LICENSOR from exercising any other rights it may have as a consequence of the lateness of any payment.

ARTICLE 6 — PATENT PROSECUTION

6.1 LICENSOR shall diligently prosecute and maintain PATENT RIGHTS with legal counsel of its choice, after consultation with LICENSEE. LICENSOR shall provide LICENSEE with copies of all relevant documentation and keep LICENSEE informed and apprized of the continuing prosecution. LICENSEE shall keep any such documentation and information confidential.

6.2 LICENSEE shall reimburse LICENSOR for all costs and legal fees incurred by LICENSOR in the preparation, prosecution and maintenance of PATENT RIGHTS, including without limitation, any taxes on such patent rights, however, LICENSEE shall have the right to:

a. to receive copies of all patent correspondence;

b. to solicit, review and approve estimates and final billings from said patent attorneys for the above listed services;

c. to review and provide comment on all correspondence from and all applications and draft responses to the patent office;

d. to select the foreign countries in which patent applications shall be filed, prosecuted, and maintained, provided, however, that LICENSOR, at its own cost and expense, shall have the right to file, prosecute, maintain, and license patent applications/patents in a foreign country or countries in which LICENSEE does not elect to file;

e. to elect whether and when to file divisionals, continuations, and continuations-in-part provided, however, that LICENSOR, at its own cost and expense, shall have the right to file, prosecute, maintain, and license said divisionals, continuations, and continuations-in-part if LICENSEE does not elect to file said divisionals, continuations, and/or continuations-in-part, in which case LICENSEE shall have no license rights or otherwise to those patents.

6.3 Except at otherwise provided herein, payment of all fees and costs relating to the filing, prosecution and maintenance of the PATENT RIGHTS shall be the responsibility of LICENSEE, whether such fees and costs were incurred before or after the EFFECTIVE DATE. LICENSEE shall pay such fees and costs to LICENSOR within thirty (30) days of invoicing; late payments shall accrue interest and shall be subject to Paragraph 5.6.

6.4 In the event the PATENT RIGHTS are licensed to an independent third party for a different field of use, LICENSEE'S will subsequently be responsible only for its pro-rata share of patent prosecution expenses as described in this Section 6. For example, if the total number of Licensees for PATENT RIGHTS is two, LICENSEE shall be obligated to pay 1/2 of all patent expenses.

ARTICLE 7 — CONFIDENTIALITY

7.1 LICENSEE and LICENSOR acknowledge that either party may provide certain information to the other about the LICENSED TECHNOLOGY that is considered to be confidential. LICENSEE and LICENSOR shall take reasonable precautions to protect such confidential information. Such precautions shall involve at least the same degree of care and precaution that LICENSEE customarily uses to protect its own confidential information.

7.2 LICENSEE acknowledges that LICENSOR is subject to the Utah Governmental Records Access and Management Act ("GRAMA"), Section 63-2-101 et seq., Utah Code Ann. (1953), as amended. Licensor shall keep confidential any information provided to Licensor by Licensee that Licensee considers confidential, to the extent allowable under GRAMA and as provided in Section 53B-16-301 et seq., Utah Code Ann. In order to be eligible for such protection under GRAMA, confidential information of Licensee disclosed to Licensor must be in written or other tangible form, marked as proprietary, and accompanied by a written claim by Licensee stating the reasons that such information must be kept confidential.

ARTICLE 8 — INFRINGEMENT

8.1 LICENSEE shall inform LICENSOR promptly in writing of any alleged infringement of the LICENSED TECHNOLOGY by a third party and of any available evidence thereof.

8.2 LICENSOR shall have the right, but shall not be obligated, to prosecute at its own expense all infringements of the LICENSED TECHNOLOGY and, in furtherance of such right, LICENSEE hereby agrees that LICENSOR may include LICENSEE as a party plaintiff in any such suit, without expense to LICENSEE. The total cost of any such infringement action commenced or defended solely by LICENSOR shall be borne by LICENSOR. Any recovery of damages by LICENSOR for such suit shall be applied first in satisfaction of any unreimbursed expenses and legal fees of LICENSOR relating to such suit, and next toward reimbursement of LICENSOR for any payments under Article 4 past due or withheld and applied pursuant to this Article 8. The balance remaining from any such recovery shall be divided with Seventy-Five Percent (75%) going to the LICENSOR and Twenty-Five Percent (25%) going to LICENSEE.

8.3 If within six (6) months after having been notified of an alleged infringement, LICENSOR shall have been unsuccessful in persuading the alleged infringer to desist and shall not have brought and shall not be diligently prosecuting an infringement action, or if LICENSOR shall notify LICENSEE at any time prior thereto of its intention not to bring suit against any alleged infringer in the TERRITORY for the FIELD OF USE, then, and in those

events only, LICENSEE shall have the right, but shall not be obligated, to prosecute at its own expense any infringement of the LICENSED TECHNOLOGY in the TERRITORY for the FIELD OF USE, and LICENSEE may, for such purposes, use the name of LICENSOR as party plaintiff; provided, however, that such right to bring such an infringement action shall remain in effect only during the EXCLUSIVE PERIOD. No settlement, consent judgment or other voluntary final disposition of the suit may be entered into without the consent of LICENSOR, which consent shall not unreasonably be withheld. LICENSEE shall indemnify LICENSOR against any order for costs that may be made against LICENSOR in such proceedings.

8.4 In the event that LICENSEE shall undertake litigation for the enforcement of the LICENSED TECHNOLOGY, or the defense of the LICENSED TECHNOLOGY under Paragraph 8.5, LICENSEE may withhold up to Fifty Percent (50%) of the Running Royalty payments otherwise thereafter due LICENSOR under Article 4 hereunder and apply the same toward reimbursement of up to half of LICENSEE'S expenses, including reasonable attorneys' fees, in connection therewith. Any recovery of damages by LICENSEE for each such suit shall be applied first in satisfaction of any unreimbursed expenses and legal fees of LICENSEE relating to such suit, and next toward reimbursement of LICENSOR for any payments under Article 4 past due or withheld and applied pursuant to this Article 8. The balance remaining from any such recovery shall be divided with Twenty-five percent (25%) going to LICENSOR and Seventy-five percent (75%) going to LICENSEE.

8.5 In the event that a declaratory judgment action alleging invalidity or noninfringement of any of the LICENSED TECHNOLOGY shall be brought against LICENSOR or LICENSEE, LICENSOR, at its option, shall have the right, within thirty (30) days after commencement of such action, to take over the sole defense of the action at its own expense. If LICENSOR shall not exercise this right, LICENSEE may take over the sole defense at LICENSEE'S sole expense, subject to Paragraph 8.4.

8.6 In any infringement suit as either party may institute to enforce the LICENSED TECHNOLOGY pursuant to this Agreement, the other party hereto shall, at the request and expense of the party initiating such suit, cooperate in all respects and, to the extent possible, have its employees testify when requested and make available relevant records, papers, information, samples, specimens, and the like.

8.7 LICENSEE, during the EXCLUSIVE PERIOD, shall have the sole right in accordance with the terms and conditions herein to sublicense any alleged infringer in the TERRITORY for the FIELD OF USE for future use of the LICENSED TECHNOLOGY. Any upfront fees as part of such a sublicense shall be shared equally between LICENSEE and LICENSOR; other revenues shall be treated per Article 4.

ARTICLE 9 — PRODUCT LIABILITY

9.1 LICENSEE shall at all times during the term of this Agreement and thereafter, indemnify, defend and hold LICENSOR, its trustees, directors, officers, employees and affiliates, harmless against all claims, proceedings, demands and liabilities of any kind whatsoever, including legal expenses and reasonable attorneys' fees, arising out of the death of or injury to any person or persons or out of any damage to property, resulting from the production, manufacture, sale, use, lease, consumption or advertisement of the LICENSED PRODUCT(s) and/or LICENSED PROCESS(es) or arising from any obligation of LICENSEE hereunder.

9.2 LICENSEE shall obtain and carry in full force and effect commercial, general liability insurance which shall protect LICENSEE and LICENSOR with respect to events covered by Paragraph 9.1 above. Such insurance shall be written by a reputable insurance company authorized to do business in the State of Utah, shall list LICENSOR as an additional named insured thereunder, shall be endorsed to include product liability coverage and shall require thirty (30) days written notice to be given to LICENSOR prior to any cancellation or material change thereof. The limits of such insurance shall not be less than Five Hundred Thousand ($500,000) per occurrence with an aggregate of One Million Dollars ($1,000,000) for personal injury including death; Five Hundred Thousand Dollars ($500,000) per occurrence with an aggregate of One Million Dollars ($1,000,000) for property damage; and Five Hundred Thousand Dollars ($500,000) per occurrence with an aggregate of One Million Dollars ($1,000,000) for errors and omissions. LICENSEE shall provide LICENSOR with Certificates of Insurance evidencing the same.

9.3 **EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT, THE PARTIES ACKNOWLEDGE AND AGREE THAT LICENSOR HAS MADE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT SHALL LICENSOR BE HELD RESPONSIBLE FOR ANY SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES ARISING OUT OF THE USE OF PATENT RIGHTS, EVEN IF LICENSOR IS ADVISED IN ADVANCE OF THE POSSIBILITY OF SUCH DAMAGES.**

ARTICLE 10 — EXPORT CONTROLS

10.1 When required by local/national law, Licensee shall register this Agreement, pay all costs and legal fees connected therewith, and otherwise insure that the local/national laws affecting this Agreement are fully satisfied.

10.2 Licensee shall comply with all applicable U.S. laws dealing with the export and/or management of technology or information. Licensee understands that the Arms Export Control Act (AECA), including its implementing International Traffic In Arms Regulations (ITAR,) and the Export Administration Act (EAA), including its Export Administration Regulations (EAR), are some (but not all) of the laws and regulations that comprise the U.S. export laws and regulations. Licensee further understands that the U.S. export laws and regulations include (but are not limited to): (1) ITAR and EAR product/service/data-specific requirements; (2) ITAR and EAR ultimate destination-specific requirements; (3) ITAR and EAR end user-specific requirements; (4) ITAR and EAR end use-specific requirements; (5) Foreign Corrupt Practices Act; and (6) anti-boycott laws and regulations. Licensee will comply with all then-current applicable export laws and regulations of the U.S. Government (and other applicable U.S. laws and regulations) pertaining to the Licensed Product(s) and/or Licensed Method(s) (including any associated products, items, articles, computer software, media, services, technical data, and other information). Licensee certifies that it will not, directly or indirectly, export (including any deemed export), nor re-export (including any deemed re-export) the Licensed Product(s) and/or Licensed Method(s) (including any associated products, items, articles, computer software, media, services, technical data, and other information) in violation of U.S. export laws and regulations or other applicable U.S. laws and regulations. Licensee will include an appropriate provision in its agreements with its authorized Sublicensees to assure that these parties comply with all then-current applicable U.S. export laws and regulations and other applicable U.S. laws and regulations

ARTICLE 11 — NON-USE OF NAMES

LICENSEE shall not use the names or trademarks of the University of Utah, LICENSOR, nor any adaptation thereof, nor the names of any of their employees, in any advertising, promotional or sales literature without prior written consent obtained from LICENSOR, or said employee, in each case, except to the extent permitted by University Policy and Procedures # 8-12.4(D)(3) or the University policy in effect at the time, and except that LICENSEE may state that it is licensed by LICENSOR under one or more of the patents and/or applications or rights comprising the LICENSED TECHNOLOGY.

ARTICLE 12 — ASSIGNMENT

This Agreement is not assignable or otherwise transferable (including by operation of law, merger, or other business combination) by Licensee without the prior written consent of LICENSOR, which consent shall not be unreasonably withheld, so long as the assignee shall agree in writing to be bound by the terms and conditions hereof prior to such assignment. The failure of LICENSEE to comply with the terms of this paragraph shall be grounds for termination of the Agreement by LICENSOR under Paragraph 14.3. In the event that written consent is provided by LICENSOR, LICENSEE will pay to LICENSOR a non-refundable fee of Fifty Thousand Dollars ($50,000 USD) if the total transaction value is less than Fifteen Million US Dollars ($15,000,000 USD), One Hundred Thousand Dollars ($100,000) if the total transaction value is between Fifteen Million Dollars ($15,000,000 USD) and Thirty Million Dollars ($30,000,000), and One Hundred Fifty Thousand Dollars ($150,000 USD) if the total transaction value exceeds Thirty Million Dollars ($30,000,000 USD) upon the consummation of the assignment or transfer.

ARTICLE 13 — DISPUTE RESOLUTION

13.1 Except for the right of either party to apply to a court of competent jurisdiction for a temporary restraining order, a preliminary injunction, or other equitable relief to preserve the status quo or prevent irreparable harm, any and all claims, disputes or controversies arising under, out of, or in connection with the Agreement, including any dispute relating to patent validity or infringement, which the parties shall be unable to resolve within sixty (60) days shall be mediated in good faith. The party raising such dispute shall promptly advise the other party of such claim, dispute or controversy in a writing which describes in reasonable detail the nature of such dispute. By not later than five (5) business days after the recipient has received such notice of dispute, each party shall have selected for itself a representative who shall have the authority to bind such party, and shall additionally have advised the other party in writing of the name and title of such representative. By not later than ten (10) business days after the date of such notice of dispute, the party against whom the dispute shall be raised shall select a mediator in the Salt Lake City area and such representatives shall schedule a date with such mediator for a mediation hearing. The parties shall enter into good faith mediation and shall share the costs equally. If the representatives of the parties have not been able to resolve the dispute within fifteen (15) business days after such mediation hearing, then any and all claims, disputes or controversies arising under, out of, or in connection with this Agreement, including any dispute relating to patent validity or infringement, shall be resolved by final and binding arbitration in Salt Lake City, Utah under the rules of the American Arbitration Association, or the Patent Arbitration Rules if applicable, then obtaining. The arbitrators shall have no power to add to, subtract from or modify any of the terms or conditions of this Agreement, nor to award punitive damages. Any award rendered in such arbitration may be enforced by either party in either the courts of Utah or in the United States District Court for the District of Utah, to whose jurisdiction for such purposes LICENSOR and LICENSEE each hereby irrevocably consents and submits. All costs and expenses, including reasonable attorneys' fees, of the prevailing party in connection with arbitration of such controversy or claim shall be borne by the other party.

13.2 Notwithstanding the foregoing, nothing in this Article shall be construed to waive any rights or timely performance of any obligations existing under this Agreement.

ARTICLE 14 — TERMINATION

14.1 If LICENSEE shall cease to carry on its business, this Agreement shall terminate upon notice by LICENSOR. 14.2 Should LICENSEE fail to make any payment whatsoever due and payable to LICENSOR hereunder, LICENSOR shall have the right

to terminate this Agreement effective on sixty (60) days' notice, unless LICENSEE shall make all such payments to LICENSOR within said sixty (60) day period. Upon the expiration of the sixty (60) day period, if LICENSEE shall not have made all such payments to LICENSOR, the rights, privileges and license granted hereunder shall automatically terminate.

14.3 Upon any breach or default of this Agreement by LICENSEE (including, but not limited to, breach or default under Paragraph 3.3), other than those occurrences set out in Paragraphs 14.1 and 14.2 hereinabove, which shall always take precedence in that order over any breach or default referred to in this Paragraph 14.3, LICENSOR shall have the right to terminate this Agreement and the rights, privileges and license granted hereunder effective on sixty (60) days' notice to LICENSEE. Such termination shall become automatically effective unless LICENSEE shall have cured any such material breach or default prior to the expiration of the sixty (60) day period.

14.4 LICENSEE shall have the right to terminate this Agreement at any time on six (6) months' notice to LICENSOR, and upon payment of all amounts due LICENSOR through the effective date of the termination.

14.5 Upon termination of this Agreement for any reason, nothing herein shall be construed to release either party from any obligation that matured prior to the effective date of such termination; and Articles 1, 2.1, 4.2, 4.4, 9, 10, 11, 13, 14.5, 14.6, 16 and 17 shall survive any such termination. LICENSEE and any SUBLICENSEE thereof may, however, after the effective date of such termination, sell all LICENSED PRODUCTS, and complete LICENSED PRODUCTS in the process of manufacture at the time of such termination and sell the same, provided that LICENSEE shall make the payments to LICENSOR as required by Article 4 of this Agreement and shall submit the reports required by Article 5 hereof.

14.6 Upon termination of this Agreement for any reason, any SUBLICENSEE not then in default shall have the right to seek a license from LICENSOR, LICENSOR agrees to negotiate such licenses in good faith under reasonable terms and conditions.

ARTICLE 15. INDEMNIFICATION BY LICENSEE

LICENSEE shall indemnify, hold harmless and defend LICENSOR, the University of Utah, and their respective officers, employees and agents, against any and all claims, suits, losses, damages, costs, liabilities, fees and expenses (including reasonable fees of attorneys) resulting from or arising out of exercise of: (a) any license granted under this Agreement; or (b) any act, error, or omission of LICENSEE, its agents, employees, Affiliates, or Sublicensees, except where such claims, suits, losses, damages, costs, fees, or expenses result solely from the negligent acts or omissions, or willful misconduct of the LICENSOR, Sublicensees, Affiliates, its officers, employees or agents. LICENSEE shall give LICENSOR timely notice of any claim or suit instituted of which LICENSEE has knowledge that in any way, directly or indirectly, affects or might affect LICENSOR, and LICENSOR shall have the right at its own expense to participate in the defense of the same.

ARTICLE 16 — PAYMENTS, NOTICES AND OTHER COMMUNICATIONS

Any payments, notice or other communication pursuant to this Agreement shall be sufficiently made or given on the date of mailing if sent to such party by certified first class mail, return receipt requested, postage prepaid, addressed to it at its address below or as it shall designate by written notice given to the other party: In the case of LICENSOR:

Director

Technology Commercialization OfficeUniversity of Utah615 Arapeen Dr., Suite 310Salt Lake City, UT 84108

With a copy to:

OFFICE OF GENERAL COUNSEL

University of Utah309 Park Building

Salt Lake City, Utah 84112

In the case of LICENSEE:

Nu Skin International, Inc.Attention: General Counsel75 West Center StreetProvo, Utah 84601

ARTICLE 17 — MISCELLANEOUS PROVISIONS

17.1 All disputes arising out of or related to this Agreement, or the performance, enforcement, breach or termination hereof, and any remedies relating thereto, shall be construed, governed, interpreted and applied in accordance with the laws of the State of Utah, U.S.A., except that questions affecting the construction and effect of any patent shall be determined by the law of the country in which the patent shall have been granted.

17.2 The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument signed by the parties.

17.3 The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or unenforceable under any controlling body of the law, such invalidity or unenforceability shall not in any way affect the validity or enforceability of the remaining provisions hereof.

17.4 LICENSEE agrees to mark the LICENSED PRODUCTS sold in the United States with all applicable United States patent numbers. All LICENSED PRODUCTS shipped to or sold in other countries shall be marked in such a manner as to conform with the patent laws and practice of the country of manufacture or sale.

17.5 The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party. Any waiver must be in writing acknowledged by both parties.

IN WITNESS WHEREOF, the parties have duly executed this Agreement the day and year set forth below.

"LICENSOR" "LICENSEE"

UNIVERSITY OF UTAH NU SKIN INTERNATIONAL, INC.RESEARCH FOUNDATION

Signature: Signature:

Raymond Gesteland, PhD M. Truman Hunt Name: Name:

Title: President Title: CEO and President

Date: Date:

APPENDIX A
PATENT RIGHTS on the EFFECTIVE DATE
UNITED STATES PATENT RIGHTS

University of Utah Case No. U-2612: NONINVASIVE DETECTION AND MAPPING OF CHEMICAL SUBSTANCES IN THE SKIN AND SKIN-RELATED MALIGNANCIES [Inventors: Nikita B. Katz, Paul S. Bernstein, Robert W. McClane and Werner Gellermann]

Country	Appl. No.	File Date	Patent No.	Issue Date	Status		
US	09/335,932	06/18/99	6,205,354	3/20/2001	Issued		
PCT	PCT/US00/07745	03/22/00				Pending	
JP	504,288/2001						Pending
JP	306,408/2005 (Divisional)					Pending	
EP	1196088					Pending	
CA	2,371,886	12/7/2001				Pending	
KR	10-2001-7016066	12/14/2001				Pending	

University of Utah Case No. U-2970: METHOD AND SYSTEM FOR RAMAN CHEMICAL IMAGING OF CAROTENOIDS AND RELATED COMPOUNDS IN LIVING HUMAN TISSUE

Country	Appl. No.	File Date	Patent No.	Issue Date	Status		
US	10/040,883	1/7/2002	7,039,452	5/2/2006	Issued		
PCT	PCT/US02/41753	12/30/2002				Pending	
JP	558,460/2003		7/6/2004				Pending
EP	2797534.1	12/30/2003				Pending	

NU SKIN ENTERPRISES, INC.
SECOND AMENDED AND RESTATED
1996 STOCK INCENTIVE PLAN
NONQUALIFIED STOCK OPTION AGREEMENT
(Director Option Agreement)

This Nonqualified Stock Option Agreement (the "Agreement") is made effective as of May 4, 1999 (the "Effective Date"), to _____ (the "Optionee") under the Nu Skin Enterprises, Inc. Second Amended and Restated 1996 Stock Incentive Plan (the "Plan") by Nu Skin Enterprises, Inc., a Delaware corporation (the "Company"). Capitalized terms used herein without definition and defined in the Plan have the same meanings as provided in the Plan.

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

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

3. **TERMS AND EXERCISE PERIOD.**

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

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

4. **VESTING**. All of the Options granted hereunder shall vest on May 4, 2000.

5. **TERMINATION OF SERVICE**.

(a) In the event the Optionee's service as a director is terminated for any reason, all Options that are not vested at the time of termination of service as a Director shall terminate and be forfeited immediately upon termination of service as a director.

(b) In the event the Optionee's service as a director is terminated for any reason, all Options granted hereunder that are vested but unexercised at the time of termination of service as director shall terminate upon the earliest to occur of the following: (i) the full exercise of the Options, (ii) the expiration of the Options by their terms, or (iii) one year following the date of termination of the Optionee's service as a director. Until such Options have been terminated pursuant to the preceding sentence, the vested Options at the time of termination of service shall be exercisable by the Optionee, the estate of the Optionee, or the person or persons to whom the Options may have been transferred by will or by the laws of descent and distribution for the period set forth in this Section 5(b), as the case may be.

(c) In the event that the Optionee (a) commits an act of fraud or intentional misrepresentation related to his or her services as a director, (b) discloses or uses confidential information in a manner detrimental to the Company, (c) competes with the Company, or (d) takes any other actions that are harmful to the interests of the Company, then the Committee shall have the right to terminate this Agreement at their discretion, in which case all Options granted hereunder shall terminate and be forfeited.

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

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

8. **EXERCISE OF OPTIONS.** Options shall become exercisable at such time, as may be provided herein and shall be exercisable by written notice of such exercise, in the form prescribed by the Committee, to the Secretary or President of the Company, at its principal office, or such other person as may be designated by the Committee. The notice shall specify the number of Options that are being exercised. The Option Price shall be payable on the exercise of the Options and shall be paid in cash, in shares of Class A Common Stock, including shares of Class A Common Stock acquired pursuant to the Plan, part in cash and part in shares, or such other manner as may be approved by the Committee consistent with the terms of the Plan as it may be amended from time to time. Shares of Class A Common Stock transferred in payment of the Option Price shall be valued as of the date of transfer based on the Fair Market Value of the Company's Class A Common Stock which for purposes hereof, shall be considered to be the average closing price of the Company's Class A Common Stock as reported on the New York Stock Exchange for the ten (10) trading days just prior to the date of exercise. Only shares of the Company's Class A Common Stock which have been held for at least six (6) months may be used to exercise the Option.

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

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

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

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

(c) Acknowledges and understands that the establishment of the Plan and the existence of this Agreement are not sufficient, in and of themselves, to exempt the Optionee from the

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

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

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

12. **OPTIONEE RIGHTS**. No provision of this Agreement or the Plan shall be deemed to give to Optionee any right to be retained in the service of the Company, or to interfere in any way with the right of the Company at any time to discontinue using the services of Optionee as an independent contractor or other capacity or to remove Optionee as a director.

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

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

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

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

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

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

NU SKIN ENTERPRISES, INC., a Delaware corporation

By: ______________________________
Its: Steven J. Lund, President and CEO

____
Optionee

____

____
Optionee's Address

The following summarizes the relevant incentive periods, performance targets, and formulas established by the Compensation Committee under the 2006 Senior Executive Plan.

(1) Semi-Annual Incentive Periods. There shall be two six-month incentive periods (the "Semi-Annual Incentive Periods") commencing on January 1st and July 1st, respectively. The bonus for each semi-annual period is based on 25% of the annual base salary as defined below.

(2) Quarterly Incentive Periods. In addition, there shall be four quarterly incentive periods (the "Quarterly Incentive Periods") commencing on the first day of each of the Company's fiscal quarters. The bonus for each quarterly period is based on 12.5% of the annual base salary as defined below.

(3) The Semi Annual Incentive Periods and the Quarterly Incentive Periods are collectively referred to as the "Incentive Periods," and individually as an "Incentive Period."

Incentive Targets

(1) Critical Success Factors. Operating profit and revenue shall be the performance targets used to determine whether an Incentive Award shall be paid for an Incentive Period and the amount of any such Incentive Awards to be paid to a Participant under the Plan.

(2) Establishment of Incentive Targets. The Compensation Committee shall approve minimum level, budget level and stretch level operating profit target (the "OP Targets") and a minimum level, budget level and stretch level revenue target (the "Rev Targets") for each Incentive Period for each Executive. The targets are referred to as the "Targets."

Incentive Award Thresholds

(1) Operating Profit Threshold. In the event that the Company's actual operating profit is less than the minimum OP Target for the applicable Incentive Period, no Incentive Award shall be paid to any Executive for such Incentive Period; provided, however, if an Executive has a country and/or a regional OP Target, the portion of the Incentive Award based on such Targets may still be paid to the Executive if actual operating profit for such country and/or region is equal to or greater than the minimum OP Target for such country and /or region.

(2) Other Thresholds. If actual performance is less than the minimum Target of another specified Target for an Executive in any given Incentive Period, the portion of the Incentive Award tied to such Target shall not be paid for such Incentive Period, but this shall not affect the payment of the portion of the Incentive Award tied to other Targets in which performance is equal to or greater than the minimum Target of the applicable Target except as provided in Paragraph (1) above; provided, however, that Executives who have regional OP Targets shall not be paid any portion of the Incentive Award based on regional Targets if the operating profit for the region is less than the minimum OP Target for the region.

(3) Performance Rating Threshold. An executive must also be performing at a "bonus eligible" performance level as determined in accordance with the Company's most recent performance evaluations.

Incentive Awards

(1) Incentive Awards. In the event the relevant operating profit threshold has been satisfied, the total Incentive Award for an Executive for any Incentive Period shall be determined by multiplying the applicable portion of Participant's base salary (as defined below) by the sum of all of the Adjusted Bonus Percentages applicable for such Incentive Period with respect to the Targets where the required performance thresholds have been met. Base salary shall be the base salary that is in effect on the date the final Incentive Award is calculated and shall include foreign service premiums, but shall not include cost of living allowances or any other premiums.

(2) Bonus Percentages. The Committee has established a target bonus percentage (the "Bonus Percentage") for each Participant representing a percentage of base salary. Seventy percent of such Bonus Percentage will be allocated to Rev Targets and 30% shall be allocated to OP Targets. For division heads and regional vice presidents, the revenue portion may be divided between overall Company revenue performance and region or division revenue performance as approved by the Compensation Committee. Assigned Bonus Percentages shall be adjusted (the "Adjusted Bonus Percentages") as set forth in Paragraphs (3)(a) and (3)(b) below for each Incentive Period based on actual performance in such Incentive Period.

(3) Adjusted Bonus Percentages. The formulas described in parts (a) and (b) below are used to adjust the Bonus Percentage for revenue and operating profit (30% of total bonus).

a. In the event that actual performance equals or exceeds the minimum level Target, but is less than the budget level Target, the Bonus Percentage for such Incentive Period and such Target shall be adjusted in accordance with the following formula:

Adjusted Bonus Percentage = Bonus Percentage * [.50+ (.50* ((Actual Performance - Minimum Level Target)/(Budget Level Target - Minimum Level Target))]

The formula results in a 50% negative adjustment to the applicable Bonus Percentage at the minimum level Target, with the adjusted bonus percentage increasing linearly to equal the applicable Bonus Percentage at the budget level Target.

b. In the event that actual performance equals or is greater than the budget level Target, the Bonus Percentage for such Incentive Period and such Target shall be adjusted in accordance with the following formula:

Adjusted Bonus Percentage = Bonus Percentage * [1+ ((Actual Performance - Budget Level Target)/(Stretch Level Target - Budget Level Target))]

The formula results in a linear adjustment to the applicable Bonus Percentage with the Adjusted Bonus Percentage being equal to 200% of the applicable Bonus Percentage at the stretch level Target.

c. In the event that actual performance exceeds the stretch level Target, the Bonus Percentage for such Incentive Period and such Target shall be adjusted in accordance with the following formula:

Adjusted Bonus Percentage = Bonus Percentage * [1+ ((Actual Performance)/(Stretch Level Target))]

(4) Incentive Awards will be capped according to the following schedule:

a. For markets which budget a loss and achieve a loss – 100%

b. For markets which budget a loss and achieve positive results – 150%

c. For markets which budget operating income less than 5% of revenue – 150%

d. There is no cap for markets which budget operating income exceeding 5% of total revenue.

Nu Skin Japan Director Retirement Allowance Plan

1. Background. Based on Japanese employment regulations and customary business practice, Nu Skin Japan (NSJ) has implemented a retirement plan for NSJ employees. Employees who also serve on the Board of Directors are not eligible for the general retirement plan available to NSJ employees. In order to reward NSJ's most senior managers for their leadership, commitment and overall contribution to NSJ, and in order to attract and retain the highest quality leaders available to NSJ, a Director Retirement Allowance Plan was adopted that is available to senior managers in Japan who are both officers of the Corporation as well as members of the Board.

2. Details. The plan provides additional compensation above regular salary and bonuses, at the date of retirement, to eligible members as provided in the following formula:

Monthly Salary at Retirement * Years of Service * Efficiency Rate

(The efficiency rate is an arbitrary multiplier based on position)

	Efficiency Rate
President and Board Member	2.0
Vice President and Board Member	1.9
Executive Director and Board Member	1.8

3. Additional Allowance. Under the plan the Board of Directors is authorized to approve at their sole discretion, an additional allowance at the date of retirement in an amount determined by the Board of Directors but not more than 25% of the amound determined in accordance with the formula set forth in paragraph 2 above.

May 26, 2006

Mr. Dan Chard

Re: Terms of Employment

Dear Dan:

This letter shall confirm our understanding with respect to your new position and terms of engagement.

Your base salary will be increased to $300,000. This increase will be made retroactive to February 13, 2006, the date you agreed to accept this new position. The base salary will be increased by $25,000 in February 2007 and by another $25,000 in February 2008.

You will participate in the executive incentive bonus at the same level as other executive vice president members of the executive committee. For 2006, your bonus will be equal to the greater of (a) the amount you would have earned if you had remained President, Nu Skin Europe under the terms of the bonus plan you were participating in at the time you accepted this position, and (b) the amount of the corporate bonus you would be entitled to under the executive bonus plan applicable to executive vice president members of the executive committee as described above. Upon execution of this letter, you will be paid the $60,000 European bonus payable to you per the foregoing terms of this letter.

Upon your execution of this letter, you will be granted a stock option for 100,000 shares at an exercise price equal to the closing price of our Class A Common Stock. The options shall vest as follows:

12,500	February 13, 2007
12,500	February 13, 2008
12,500	February 13, 2009
12,500	February 13, 2010
50,000	February 13, 2011

You will also receive annual equity incentives on the same terms as other executive vice president members of the executive committee (currently 35,000 options). The terms of the options will contain a change in control provision that would provide for acceleration of vesting in the event you are terminated following a change in control on the terms generally provided to other executive vice president members of the executive committee, or in the event the options are not assumed, or equivalent replacement options issued, by the successor corporation.

In the event your employment is terminated by the company other than for cause, the Company will make a severance payment to you in an amount equal to 1.5 times your then current base salary.

In addition, the Company will reimburse you for any taxes associate with moving your grand piano from Germany to Utah.

Notwithstanding anything herein to the contrary, (i) if at the time of your termination of employment with the Company your are a “specified employee” as defined in Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”) and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to you) until the date that is six months following your termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code) and (ii) if any other payments of money or other benefits due to you hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Board, that does not cause such an accelerated or additional tax.

Your employment shall be on an at-will basis and nothing in this shall letter confer any right to continue in the employment or service of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company, which rights are hereby expressly reserved, to terminate your employment or service at any time for any reason.

Sincerely yours,

Truman Hunt
Chief Executive Officer

Agreed to this 1st day of June 2006

/s/ Daniel Chard
Daniel Chard

Appearance Bonus Guidelines

In recognition of the great value founding executives provide through speaking at important company events, the company desires to provide a $10,000 bonus to certain founding executives for providing these important services.

Participation and speaking at the following events are included in the executive's base salary and no bonus will be paid with respect to these events:

- All corporate sponsored domestic events
- The Team Elite Trip
- The NSE Global Convention
- Independent distributor events.

A $10,000 bonus will be paid to the extent the founding executive participates and speaks at the following events:

- All corporate sponsored conventions held outside of the United States (other than the NSE Global Convention) to which the executive is invited to speak.
- All corporate sponsored event held outside of the United States other than (other than those events included as part of base salary as set forth above)

One bonus fee will be paid per international convention or event no matter how many different activities or functions are held at such location or how many different days the executive speaks or participates. For example, if an executive is asked to speak at multiple events at the same convention or at distributor events that are related or connected to the corporate sponsored international convention or event, these shall all be considered to be part of the same international event rather than separate events.

STANDARD FEES FOR NON-MANAGEMENT DIRECTORS

(Effective Year 2007)

Annual Retainer:		35,000
Additional Committee Chairperson Retainers		
	Audit Committee:	$15,000
	Compensation Committee:	$10,000
	Nominating/Corporate Governance:	$10,000
	Lead Independent Director:	$10,000
Meeting Fee**:		$1,500 ($2,500 for the Chairperson)
Restricted Stock Unit Award:		1,400 shares vesting on the date preceeding the next annual meeting of shareholders
Annual Stock Option Grant:		
	Number of Underlying Shares:	5,000 share
	Exercise Price:	FMV on Annual Meeting Date
	Term:	10 years
	Vesting:	Date preceding the next annual meeting of shareholders
	Termination:	Three years from termination of service as a director

** Applies to all Board meetings and all meetings of any committee established by the Board unless the Board authorizes a different fee structure for such committee.

EXHIBIT 21.1

SUBSIDIARIES OF REGISTRANT

Big Planet, Inc., a Delaware corporation

First Harvest International, LLC, a Utah limited liability company

Jixi Nu Skin Vitameal Co., Ltd., a Chinese corporation

Niksun Acquisition Corporation, a Delaware corporation

NSE Korea Ltd., a Delaware corporation

NSE Korea, Ltd., a Korean corporation

NSE Products, Inc., a Delaware corporation

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

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

Nu Skin Asia Investment, Inc., a Delaware corporation

Nu Skin Belgium, NV, a Belgium corporation

Nu Skin Brazil, Ltda., a Brazilian corporation

Nu Skin Canada, Inc., a Utah corporation

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

Nu Skin (China) Daily-Use and Health Products Co., Ltd., Chinese company

Nu Skin Enterprises Australia, Inc., a Utah corporation

Nu Skin Enterprises Hong Kong, Inc., a Delaware corporation

Nu Skin Enterprises Hungary Trading, KFT, a Hungarian corporation

Nu Skin Enterprises New Zealand, Inc., a Utah corporation

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

Nu Skin Enterprises RS, Ltd., a Russian limited liability company

Nu Skin Enterprises Singapore Pte. Ltd., a Singapore corporation

Nu Skin France, SARL, a French corporation

Nu Skin Germany, GmbH, a German corporation

Nu Skin Guatemala, S.A., a Guatemalan corporation

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

Nu Skin International, Inc., a Utah Corporation

Nu Skin Israel, Inc, a Delaware corporation

Nu Skin Italy, Srl, an Italian corporation

Nu Skin Japan Company Limited, a Japanese corporation

Nu Skin Japan, Ltd., a Japanese corporation

Nu Skin Malaysia Holdings Sdn. Bhd., a Malaysian corporation

Nu Skin (Malaysia) Sdn. Bhd., a Malaysian corporation

Nu Skin Mexico, S.A. de C.V., a Mexican corporation

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

Nu Skin New Caledonia EURL, a New Caledonian corporation

Nu Skin Norway AS, a Norwegian corporation

Nu Skin Enterprises (Thailand), Ltd., a Delaware corporation

Nu Skin Enterprises (Thailand), Ltd., a Thailand corporation

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

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

Nu Skin Scandinavia A.S., a Denmark corporation

Nu Skin (Shanghai) Management Co., Ltd., a Chinese corporation

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

Nu Skin Taiwan, Inc., a Utah corporation

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

Nu Skin Enterprises United States, Inc., a Delaware corporation

NuSkin Pharmanex (B) Sdn Bhd, a Brunei corporation

Nutriscan, Inc., a Utah corporation

Pharmanex Electronic-Optical Technology (Shanghai) Co., Ltd., a Chinese corporation

Pharmanex (Huzhou) Health Products Co., Ltd., a Chinese corporation

Pharmanex License Acquisition Corporation, a Utah Corporation

Pharmanex, LLC, a Delaware limited liability company

PT. Nu Skin Distribution Indonesia, an Indonesian corporation

PT. Nusa Selaras Indonesia, an Indonesian corporation

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-118495, and 333-123469) and in the Registration Statements on Form S-8 (Nos. 333-48611, 333-68407, 333-95033, 333-102327, 333-124764, 333-130304, and 333-136464) of Nu Skin Enterprises, Inc. of our report dated March 1, 2007 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Salt Lake City, UT
March 1, 2007

EXHIBIT 31.1
SECTION 302 – CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, M. Truman Hunt, certify that:

1. I have reviewed this annual report on Form 10-K of Nu Skin Enterprises, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

/s/ M. Truman Hunt
M. Truman Hunt
Chief Executive Officer

EXHIBIT 31.2
SECTION 302 – CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Ritch N. Wood, certify that:

1. I have reviewed this annual report on Form 10-K of Nu Skin Enterprises, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

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

EXHIBIT 32.1
SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TOSECTION
906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-K for the period ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Truman Hunt, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2007

/s/ M. Truman Hunt
M. Truman Hunt
Chief Executive Officer

EXHIBIT 32.2
SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TOSECTION
906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-K for the period ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ritch N. Wood, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2007

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