

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number 001-12421

Nu Skin Enterprises, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction  
of Incorporation or Organization)

87-0565309  
(I.R.S. Employer  
Identification No.)

75 West Center Street, Provo, Utah  
(Address of Principal Executive Offices)

84601  
(Zip Code)

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

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

As of May 3, 1999, 33,184,650 shares of the Company's Class A Common Stock, \$.001 par value per share, and 54,606,905 shares of the Company's Class B Common Stock, \$.001 par value per share, were outstanding.

NU SKIN ENTERPRISES, INC.

1999 FORM 10-Q QUARTERLY REPORT - FIRST QUARTER

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited) March 31, 1999	December 31, 1998
	-----	-----
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 160,016	\$ 188,827
Accounts receivable	14,913	13,777
Related parties receivable	23,070	22,255
Inventories, net	72,706	79,463
Prepaid expenses and other	51,227	50,475
	-----	-----
	321,932	354,797
Property and equipment, net	41,932	42,218
Other assets, net	211,886	209,418
	-----	-----
Total assets	\$ 575,750	\$ 606,433
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 16,275	\$ 17,903
Accrued expenses	108,094	132,723
Related parties payable	25,066	25,029
Current portion of long-term debt	52,323	14,545
	-----	-----
	201,758	190,200
Long-term debt, less current portion	83,714	138,734
Other liabilities	22,857	22,857
	-----	-----
Commitments and contingencies		
Stockholders' equity		
Preferred stock - 25,000,000 shares authorized, \$.001 par value, no shares issued and outstanding	--	--
Class A common stock - 500,000,000 shares authorized, \$.001 par value, 33,172,950 and 33,709,251 shares issued and outstanding	33	34
Class B common stock - 100,000,000 shares authorized, \$.001 par value, 54,606,905 shares issued and outstanding	55	55
Additional paid-in capital	129,386	146,781
Retained earnings	188,899	158,064
Deferred compensation	(6,652)	(6,688)
Accumulated other comprehensive income	(44,300)	(43,604)
	-----	-----
	267,421	254,642
	-----	-----
Total liabilities and stockholders' equity	\$ 575,750	\$ 606,433
	=====	=====

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

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

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
	-----	-----
Revenue	\$ 233,751	\$ 227,863
Cost of sales	41,017	45,689
	-----	-----
Gross profit	192,734	182,174
	-----	-----
Operating expenses:		
Distributor incentives	87,649	83,127
Selling, general and administrative	58,005	48,071
	-----	-----
Total operating expenses	145,654	131,198
	-----	-----
Operating income	47,080	50,976
Other income (expense), net	1,864	2,185
	-----	-----
Income before provision for income taxes and minority interest	48,944	53,161
Provision for income taxes	18,109	16,405
Minority interest	--	3,081
	-----	-----
Net income	\$ 30,835	\$ 33,675
	=====	=====
Net income per share (Note 6):		
Basic	\$ .35	\$ .41
Diluted	\$ .35	\$ .39
Weighted average common shares outstanding:		
Basic	87,706	82,004
Diluted	89,175	86,316
Pro forma data:		
Income before pro forma provision for income taxes and minority interest		\$ 53,161
Pro forma provision for income taxes (Note 5)		19,563
Pro forma minority interest		1,947
		-----
Pro forma net income		\$ 31,651
		=====
Pro forma net income per share (Note 6):		
Basic		\$ .39
Diluted		\$ .37

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

Nu Skin Enterprises, Inc.  
Consolidated Statements of Cash Flows (Unaudited)  
(in thousands)

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
	-----	-----
Cash flows from operating activities:		
Net income	\$ 30,835	\$ 33,675
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,217	3,105
Amortization of deferred compensation	686	1,015
Income applicable to minority interest	--	3,081
Changes in operating assets and liabilities:		
Accounts receivable	(730)	(6,448)
Related parties receivable	(815)	(5,651)
Inventories, net	8,891	(9,709)
Prepaid expenses and other	(554)	(6,432)
Other assets	(399)	(3,075)
Accounts payable	(1,628)	50
Accrued expenses	(32,609)	(23,223)
Related parties payable	37	11,295
	-----	-----
Net cash provided by (used in) operating activities	10,931	(2,317)
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(3,417)	(2,982)
Payments for lease deposits	(1,218)	(1,502)
Receipt of refundable lease deposits	26	108
	-----	-----
Net cash used in investing activities	(4,609)	(4,376)
	-----	-----
Cash flows from financing activities:		
Payments on long-term debt	(14,545)	--
Repurchase of shares of common stock	(11,766)	--
Exercise of distributor and employee stock options	814	--
Termination of Nu Skin USA license fee	(10,000)	--
Payments to stockholders for notes payable	--	(3,722)
	-----	-----
Net cash used in financing activities	(35,497)	(3,722)
	-----	-----
Effect of exchange rate changes on cash	364	(4,816)
	-----	-----
Net decrease in cash and cash equivalents	(28,811)	(15,231)
Cash and cash equivalents, beginning of period	188,827	174,300
	-----	-----
Cash and cash equivalents, end of period	\$ 160,016	\$ 159,069
	=====	=====

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



1. THE COMPANY

Nu Skin Enterprises, Inc. (the "Company"), is a network marketing company involved in the distribution and sale of premium quality, innovative personal care and nutritional products. The Company distributes Nu Skin brand products in markets throughout the world. The Company's operations throughout the world are divided into three segments: North Asia, which consists of Japan and South Korea; Southeast Asia, which consists of Taiwan, Thailand, Hong Kong (including Macau), the Philippines, Australia, and New Zealand; and Other Markets, which consists of the United Kingdom, Austria, Belgium, Denmark, France, Germany, Italy, Ireland, Poland, Portugal, Spain, Sweden, the Netherlands, Brazil, the United States (the Company's subsidiaries operating in these countries are collectively referred to as the "Subsidiaries") and sales to and license fees from the Company's other private affiliates.

As discussed in Note 2, the Company completed the NSI Acquisition on March 26, 1998. Prior to the NSI Acquisition, each of the Subsidiaries elected to be treated as an S corporation. In connection with the NSI Acquisition, the Acquired Entities' S corporation status was terminated, and the Acquired Entities declared distributions to the stockholders that included all of the Acquired Entities' previously earned and undistributed taxable S corporation earnings totaling \$87.1 million in 1997 and \$37.6 million in 1998 (the "S Distribution Notes").

Also in connection with the NSI Acquisition, on December 31, 1997, NSI carved-out and distributed the net assets of its USA division ("Nu Skin USA") to the NSI Stockholders. Immediately prior to this distribution, NSI declared a distribution to the NSI Stockholders that included all of Nu Skin USA's previously earned and undistributed taxable S corporation earnings totaling \$49.1 million. This distribution and all other historical transactions of Nu Skin USA are excluded from the Company's consolidated financial statements for the first quarter of 1998.

As discussed in Note 3, the Company completed the Pharmanex Acquisition on October 16, 1998, which enhanced the Company's involvement with the distribution and sale of nutritional products.

In February 1999, the Company announced its intent to acquire Big Planet, Inc., an Internet-based company that offers Internet connectivity, e-commerce, telecommunications and other technology products and services to consumers in North America. The Company also announced its intent to acquire the Company's remaining affiliates in Canada, Mexico and Guatemala. As discussed in Note 4, in March 1999, Nu Skin International, a subsidiary of the Company, terminated its distribution license and various other license agreements and other intercompany agreements with Nu Skin USA. Also, in March 1999, through a newly formed wholly-owned subsidiary, the Company acquired selected assets of Nu Skin USA.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information as of March 31, 1999 and December 31, 1998 and for the three-month periods ended March 31, 1999 and 1998. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 1998.

2. ACQUISITION OF NU SKIN INTERNATIONAL, INC. AND CERTAIN AFFILIATES

On March 26, 1998, the Company completed the acquisition (the "NSI Acquisition") of the capital stock of Nu Skin International, Inc.





Zealand and certain other NSI affiliates (the "Acquired Entities") for \$70.0 million in preferred stock and long-term notes payable to the stockholders of the Acquired Entities (the "NSI Stockholders") totaling approximately \$6.2 million. In addition, contingent upon NSI and the Company meeting specific earnings growth targets, the Company may pay up to \$25.0 million in cash per year over a four-year period to the NSI Stockholders. Also, as part of the NSI Acquisition, the Company assumed approximately \$171.3 million in S Distribution Notes and incurred acquisition costs totaling \$3.0 million. The net assets acquired totaling \$90.4 million include net deferred tax liabilities totaling \$7.4 million recorded upon the conversion of the Acquired Entities from S to C corporations. All contingent consideration paid will be accounted for as an adjustment to the purchase price and allocated to the Acquired Entities' assets and liabilities.

The NSI Acquisition was accounted for by the purchase method of accounting, except for that portion of the Acquired Entities under common control of a group of stockholders, which portion was accounted for in a manner similar to a pooling of interests. The common control group is comprised of the NSI Stockholders who are immediate family members. The minority interest, which represents the ownership interests of the NSI Stockholders who are not immediate family members, was acquired during the NSI Acquisition. Prior to the NSI Acquisition, a portion of the Acquired Entities' net income, capital contributions and distributions (including cash dividends and S Distribution Notes) had been allocated to the minority interest.

For the portion of the NSI Acquisition accounted for by the purchase method, the Company recorded inventory step-up of \$21.6 million and intangible assets of \$34.8 million. During 1998, the inventory step-up was fully amortized. For the three-month period ended March 31, 1999, the Company recorded amortization of intangible assets relating to the NSI Acquisition of \$0.7 million. No amortization for these intangible assets was recorded for the three-month period ended March 31, 1998.

For the portion of the NSI Acquisition accounted for in a manner similar to a pooling of interests, the excess of purchase price paid over the book value of the net assets acquired was recorded as a reduction of stockholders' equity.

In connection with the presentation of the Company's consolidated financial statements for the first quarter of 1998, the portion of the NSI Acquisition and the resulting Preferred Stock issued to the common control group is reflected as if such stock had been issued on the date of the Company's incorporation on September 4, 1996. On May 5, 1998, the stockholders of the Company approved the automatic conversion of the Preferred Stock issued in the NSI Acquisition into 2,986,663 shares of Class A Common Stock. Under the terms of the NSI Acquisition, the 2,986,663 shares of Class A Common Stock were adjusted down by 8,504 shares in June 1998.

### 3. ACQUISITION OF PHARMANEX, INC.

On October 16, 1998, the Company completed the acquisition of privately-held Generation Health Holdings, Inc., the parent company of Pharmanex, Inc. ("Pharmanex"), for \$77.6 million, which consisted of approximately 4.0 million shares of the Company's Class A Common Stock, including 261,008 shares issuable upon exercise of options assumed by the Company (the "Pharmanex Acquisition"). Contingent upon Pharmanex meeting specific revenue and other requirements, approximately 565,000 of the 4.0 million shares are being held in escrow and will be returned to the Company if such requirements are not met within one year from the date of the Pharmanex Acquisition. The contingent shares issued, if any, will be accounted for as an adjustment to the purchase price and allocated to the acquired assets and liabilities. Also, as part of the Pharmanex Acquisition, the Company assumed approximately \$34.0 million in liabilities and incurred acquisition costs totaling \$1.3 million. The net assets acquired totaling \$3.6 million include net deferred tax assets totaling \$0.8 million. In connection with the closing of the Pharmanex Acquisition, the Company paid approximately \$29.0 million relating to the assumed liabilities.

The Pharmanex Acquisition was accounted for by the purchase method of

accounting. The Company recorded inventory step-up of \$3.7 million and intangible assets of \$92.4 million. In addition, the Company allocated \$13.6 million to purchased in-process research and development

based on a discounted cash-flow method reflecting the stage of completion of the related projects. During 1998, the in-process research and development amount was fully written off. For the three-month period ended March 31, 1999, the Company recorded amortization of intangible assets relating to the Pharmanex Acquisition of \$1.8 million and amortization of inventory step-up relating to the Pharmanex Acquisition of \$1.0 million.

Pro forma results as if the Pharmanex Acquisition had occurred at January 1, 1998 have not been presented because the results are not considered material.

4. ACQUISITION OF CERTAIN ASSETS OF NU SKIN USA, INC.

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

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

5. INCOME TAXES

As a result of the NSI Acquisition described in Note 2, the Acquired Entities are no longer treated as S corporations for U.S. Federal income tax purposes. The consolidated statements of income include a pro forma presentation for income taxes, including the effect on minority interest, which would have been recorded as if the Acquired Entities had been taxed as C corporations rather than as S corporations for the three-month period ended March 31, 1998.

6. NET INCOME PER SHARE

Net income per share and pro forma net income per share are 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 dilutive potential common shares that were outstanding during the periods presented.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's Subsidiaries enter into significant transactions with each other and third parties which may not be denominated in the respective Subsidiaries' functional currencies. The Company seeks to reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of foreign currency exchange contracts and through certain intercompany loans of foreign currency. The Company does not use such derivative financial instruments for trading or speculative purposes. The Company regularly monitors its foreign currency risks and periodically takes measures to reduce the impact of foreign exchange fluctuations on the Company's operating results. Gains and losses on foreign currency forward contracts and certain intercompany loans of foreign currency are recorded as other income and expense in the consolidated statements of income.

At March 31, 1999 and December 31, 1998, the Company held foreign currency forward contracts with notional amounts totaling approximately \$53.5 million and \$46.3 million, respectively, to hedge foreign currency items. These contracts do not qualify as hedging transactions and, accordingly, have been marked to market. The net gains on foreign currency forward contracts were \$2.5 million and \$1.9 million for the three-month periods ended March 31, 1999 and 1998, respectively. These contracts at March 31, 1999 have maturities through September 1999.



At March 31, 1999 and December 31, 1998, the intercompany loan from Nu Skin Japan Co., Ltd. ("Nu Skin Japan") to Nu Skin Hong Kong ("Nu Skin Hong Kong") totaled approximately \$55.0 million and \$57.3 million, respectively. The Company recorded exchange gains totaling \$ 0.8 million and \$0.9 million resulting from this intercompany loan for the three-month periods ended March 31, 1999 and 1998, respectively.

At March 31, 1999 and December 31, 1998, the intercompany loan from Nu Skin Japan to the Company totaled approximately \$78.2 million and \$82.0 million, respectively. There were no exchange gains or losses resulting from this intercompany loan for the three-month periods ended March 31, 1999 and 1998.

8. REPURCHASE OF COMMON STOCK

During the first quarter of 1999, the Company repurchased approximately 780,000 shares of Class A common stock from Nu Skin USA, open market repurchases and certain stockholders for approximately \$11.8 million.

9. COMPREHENSIVE INCOME

The components of comprehensive income, net of related tax, for the three-month periods ended March 31, 1999 and 1998, were as follows (in thousands):

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
	-----	-----
Net income	\$ 30,835	\$ 33,675
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(696)	(3,746)
	-----	-----
Comprehensive income	\$ 30,139	\$ 29,929
	=====	=====

10. SEGMENT INFORMATION

During 1998, the Company adopted Statement of Financial Accounting Standards No. 131 ("SFAS 131"), Disclosures about Segments of an Enterprise and Related Information. As described in Note 1, the Company's operations throughout the world are divided into three reportable segments: North Asia, Southeast Asia and Other Markets. Segment data includes intersegment revenue, intersegment profit and operating expenses and intersegment receivables and payables. The Company evaluates the performance of its segments based on operating income. Information as to the operations of the Company in each of the three segments is set forth below (in thousands):

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
	-----	-----
Revenue		
North Asia	\$ 173,048	\$ 157,073
Southeast Asia	67,781	84,821
Other Markets	67,401	71,987
Eliminations	(74,479)	(86,018)
	-----	-----
Totals	\$ 233,751	\$ 227,863
	=====	=====



Operating Income

North Asia	\$	28,120	\$	33,042
Southeast Asia		8,732		6,926
Other Markets		4,371		1,332
Eliminations		5,857		9,676
		-----		-----
Totals	\$	47,080	\$	50,976
		=====		=====

		As of March 31, 1999		As of December 31, 1998
		-----		-----
Total Assets				
North Asia	\$	120,482	\$	167,867
Southeast Asia		97,776		110,518
Other Markets		464,766		500,299
Eliminations		(107,274)		(172,251)
		-----		-----
Totals	\$	575,750	\$	606,433
		=====		=====

Information as to the Company's operation in different geographical areas is set forth below (in thousands):

Revenue

Revenue from the Company's operations in Japan totaled \$169,630, and \$154,573 for the three-month periods ended March 31, 1999 and 1998, respectively. Revenue from the Company's operations in Taiwan totaled \$28,007 and \$34,537 for the three-month periods ended March 31, 1999 and 1998, respectively. Revenue from the Company's operations in the United States (which includes intercompany revenue) totaled \$63,143 and \$69,144 for the three-month periods ended March 31, 1999 and 1998, respectively.

Long-lived assets

Long-lived assets in Japan were \$21,490 and \$20,242 as of March 31, 1999 and December 31, 1998, respectively. Long-lived assets in Taiwan were \$2,421 and \$2,466 as of March 31, 1999 and December 31, 1998, respectively. Long-lived assets in the United States were \$215,659 and \$213,856 as of March 31, 1999 and December 31, 1998, respectively.

11. NEW ACCOUNTING STANDARDS

Reporting on the Costs of Start-Up Activities

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 ("SOP 98-5"), Reporting on the Costs of Start-Up Activities. The statement is effective for fiscal years beginning after December 15, 1998. The statement requires costs of start-up activities and organization costs to be expensed as incurred. The Company has adopted SOP 98-5 for calendar year 1999. The adoption of SOP 98-5 did not materially affect the Company's consolidated financial statements.

Accounting for Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities. The statement requires companies to recognize all derivatives as either assets or liabilities, with the instruments measured at fair value. The accounting for changes in fair value, gains or losses, depends on the intended use of the derivative and its resulting designation. The statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company will adopt SFAS 133 by January 1, 2000. The Company is currently evaluating the impact the adoption of SFAS 133 will have on the Company's consolidated financial statements.





12. SUBSEQUENT EVENTS

On May 3, 1999, the Company entered into an agreement to acquire Big Planet, Inc. ("Big Planet"). In addition, the Company plans to acquire its remaining affiliates in Canada, Mexico and Guatemala in May 1999.

The acquisition of Big Planet is expected to be accounted for by the purchase method of accounting. The acquisition of the Company's remaining affiliates in Canada, Mexico and Guatemala is expected to be recorded for the consideration paid, except for the portion of the Company's remaining affiliates in Canada, Mexico and Guatemala which is under common control of a group of stockholders, which portion is expected to be recorded at predecessor basis.

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

1999 compared to 1998

Revenue increased 2.6% to \$233.8 million from \$227.9 million for the three-month period ended March 31, 1999, compared with the same period in 1998. The increase in revenue resulted primarily from the favorable impact of strengthening foreign currencies relative to the U.S. dollar during the first quarter of 1999 compared to the same period in 1998.

Revenue in North Asia, which consists of Japan and South Korea, increased 10.1% to \$173.0 million for the three-month period ended March 31, 1999, from \$157.1 million for the same period in 1998. This increase was primarily due to the revenue increase in Japan of 9.7% for the three-month period ended March 31, 1999, compared with the same period in 1998. This increase in revenue in Japan resulted from the strengthening of the Japanese yen relative to the U.S. dollar during the three-month period ended March 31, 1999, compared to the same period in 1998. Revenue in Japan for the three-month period ended March 31, 1999 in Japanese yen remained constant compared to the same period in 1998 due primarily to the continued economic recession in Japan. Revenue in South Korea during the three-month period ended March 31, 1999 increased 36.7%, compared to the same period in 1998 as a result of both a strengthening of the South Korean won and a 22.9% increase in local currency growth.

Revenue in Southeast Asia, which consists of Taiwan, Thailand, Hong Kong, the Philippines, Australia and New Zealand, totaled \$37.0 million for the three-month period ended March 31, 1999, a decrease of 19.7% from revenue of \$46.1 million for the same period in 1998. This decrease in revenue resulted primarily from a decline of 18.9% in revenue in Taiwan. The Company's operations in Taiwan have continued to suffer the impact of increased competition, and the PRC's temporary ban on direct selling, where many Taiwanese distributors hoped to expand their businesses. In addition, the Company's operations in Thailand and the Philippines have been impacted negatively by the region's economic recession.

Revenue in the Company's other markets, which include the United Kingdom, Germany, Italy, the Netherlands, France, Belgium, Spain, Portugal, Ireland, Austria, Poland, Denmark, Sweden, Brazil, the United States and sales to and license fees from the Company's remaining private affiliates, decreased 4.0% to \$23.7 million for the three-month period ended March 31, 1999, compared to \$24.7 million for the same period in 1998. This modest decrease was primarily due to increased revenue generated by the Company's North American private affiliates during the first quarter of 1998 as a result of a successful global convention held during the first quarter of 1998 which was not repeated during the first quarter of 1999.

Gross profit as a percentage of revenue was 82.5% for the three-month period ended March 31, 1999, compared to 79.9% for the same period in 1998. The increase in the gross profit as a percentage of revenue for the three-month period ended March 31, 1999 resulted from the strengthening of the Japanese yen and other Asian currencies relative to the U.S. dollar, higher margin sales to distributors in the United States following the termination of the Company's license agreement with Nu Skin USA, local manufacturing efforts and reduced duty rates. The Company purchases a significant majority of goods in U.S. dollars and recognizes revenue in local currency and is consequently subjected to exchange rate risks in its gross margins.

Distributor incentives as a percentage of revenue increased to 37.5% for the three-month period ended March 31, 1999 from 36.5% for the same period in 1998. The primary reason for this increase in the first quarter of 1999 was due to the Company beginning to sell products to distributors in the United States and paying the requisite commissions related to those sales.

Selling, general and administrative expenses as a percentage of revenue increased to 24.8% for the three-month period ended March 31, 1999 from 21.1% for the same period in 1998. In dollar terms, selling, general and administrative expenses increased to \$58.0 million for the three-month period ended March 31, 1999 from \$48.1 million for the same period in 1998. This increase as a percentage of revenue and in dollar terms was due to stronger foreign currencies in the first quarter of 1999 which resulted in higher expenses in foreign markets, additional overhead expenses relating to the

operations in the United States and an additional \$3.5 million in amortization resulting from the Company's acquisitions of NSI and Pharmanex.

Operating income decreased 7.6% to \$47.1 million for the three-month period ended March 31, 1999 from \$51.0 million for the same period in 1998. Operating margin decreased to 20.1% for the three-month period ended March 31, 1999 from 22.4% for the same period in 1998. The operating income and margin decreases resulted primarily from the increases in distributor incentives and selling, general and administrative expenses and was partially offset by the gross margin improvement during the first quarter of 1999.

Other income remained nearly constant at \$1.9 million for the three-month period ended March 31, 1999 compared to \$2.2 million for the same period in 1998. The Company recognized hedging gains from forward contracts and intercompany loans in both the first quarters of 1999 and 1998. The hedging gains and interest income on the Company's cash balances in the first quarter of 1999 were partially offset by the interest expense relating to the Company's outstanding debt.

Provision for income taxes increased 10.4% to \$18.1 million for the three-month period ended March 31, 1999 from \$16.4 million for the same period in 1998 due to an increase in the effective tax rate from 30.9% during the first quarter of 1998 to 37.0% for the first quarter of 1999 and is partially offset by higher income during the first quarter of 1998. This increase in the effective tax rate is due to NSI and its affiliates being taxed as C corporations rather than as S corporations during the first quarter of 1999. The pro forma provision for income taxes presents income taxes as if NSI and its affiliates had been taxed as C corporations rather than as S corporations for the three-month period ended March 31, 1998.

Minority interest represents the ownership interest of NSI held by individuals who are not immediate family members. The minority interest was purchased as part of the NSI Acquisition on March 26, 1998.

Net income decreased by \$2.9 million or 8.6% to \$30.8 million for the three-month period ended March 31, 1999 from \$33.7 million for the same period in 1998 due to the increased distributor incentives, selling, general and administrative expenses and income taxes. Net income as a percentage of revenue decreased to 13.2% for the three-month period ended March 31, 1999 from 14.8% for the same period in 1998.

#### Liquidity and Capital Resources

Historically, the Company's principal needs for funds have been for distributor incentives, working capital (principally inventory purchases), operating expenses, capital expenditures and the development of operations in new markets. The Company has generally relied entirely on cash flow from operations to meet its business objectives without incurring long-term debt to unrelated third parties to fund operating activities.

The Company generates significant cash flow from operations due to favorable gross margins and minimal capital requirements. Additionally, the Company does not generally extend credit to distributors but requires payment prior to shipping products. This process eliminates the need for significant accounts receivable from distributors. During the first quarter of each year, the Company pays significant accrued income taxes in many foreign jurisdictions including Japan. These large cash payments somewhat offset the significant cash generated in the first quarter. During the three-month period ended March 31, 1999, the Company generated \$10.9 million from operations compared to using \$2.3 million during the three-month period ended March 31, 1998. This increase in cash generated from operations primarily related to reduced purchases of inventory during the first quarter of 1999 compared to the same period in 1998.

As of March 31, 1999, working capital was \$120.2 million compared to \$164.6 million as of December 31, 1998. This decrease is primarily due to the increase at March 31, 1999 in the current portion of long-term debt. Cash and cash equivalents at March 31, 1999 and December 31, 1998 were \$160.0 million and \$188.8 million, respectively.

Capital expenditures, primarily for equipment, computer systems and software, office furniture and leasehold improvements, were \$3.4 million for the three-month period ended March 31, 1999. In addition, the Company anticipates additional capital expenditures in 1999 of approximately \$35.0 million to further enhance its infrastructure, including enhancements to computer systems and software and call-center facilities in order to accommodate anticipated future growth.



In March 1998, the Company completed the NSI Acquisition for \$70.0 million in preferred stock, which was subsequently converted into Class A common stock, and long-term notes payable to the stockholders of NSI and such affiliates totaling approximately \$6.2 million. Also, as part of the NSI Acquisition, the Company assumed approximately \$171.3 million in S distribution notes and incurred acquisition costs totaling \$3.0 million. During the second quarter of 1998, the S distribution notes and long-term notes payable to the NSI stockholders were paid in full with proceeds from the credit facility described below. In addition, NSI and the Company met earnings growth targets in 1998 resulting in a contingent payment payable to the NSI stockholders of \$25.0 million as of March 31, 1999 and December 31, 1998. Contingent upon NSI and the Company meeting earnings growth targets over the next three years, the Company may pay up to \$25.0 million in cash in each of the next three years to the NSI stockholders. The contingent consideration of \$25.0 million earned in 1998 was paid in the second quarter of 1999 and has been accounted for as an adjustment to the purchase price and allocated to the assets and liabilities of NSI and its previously private affiliates. Any additional contingent consideration paid over the next three years, if any, will be accounted for in a similar manner.

In May 1998, the Company and its Japanese subsidiary Nu Skin Japan entered into a \$180.0 million credit facility with a syndicate of financial institutions for which ABN-AMRO, N.V. acted as agent. This credit facility was used to satisfy liabilities which were assumed as part of the NSI Acquisition. The Company borrowed \$110.0 million and Nu Skin Japan borrowed the Japanese yen equivalent of \$70.0 million denominated in local currency. Payments totaling \$41.6 million were made during the second quarter of 1998 and payments totaling \$14.5 million were made during the first quarter of 1999 relating to the \$180.0 million credit facility. As of March 31, 1999, the balance relating to the \$180.0 million credit facility totaled \$136.0 million of which approximately \$52.3 million is due in 2000 and approximately \$83.7 million will be due in 2001. The U.S. portion of the credit facility bears interest at either a base rate as specified in the credit facility or the London Inter-Bank Offer Rate plus an applicable margin, in the borrower's discretion. The Japanese portion of the credit facility bears interest at either a base rate as specified in the credit facility or the Tokyo Inter-Bank Offer Rate plus an applicable margin, in the borrower's discretion. The maturity date for the credit facility is three years from the borrowing date, with a possible extension of the maturity date upon approval of the lenders. The credit facility provides that the amounts borrowed are to be used for general corporate purposes. The Company is currently in compliance with all financial and other covenants under the credit facility. During 1998, the Company entered into a \$10.0 million revolving credit agreement with ABN-AMRO, N.V. Advances are available under the agreement through May 18, 1999 with a possible extension upon approval of the lender. There were no outstanding balances under this credit facility at March 31, 1999.

During 1998, the board of directors authorized the Company to repurchase up to \$20.0 million of the Company's outstanding shares of Class A common stock. As of March 31, 1999, the Company had repurchased 997,954 shares for an aggregate price of approximately \$12.2 million. In addition, in March 1999, the board of directors separately authorized and the Company completed the purchase of approximately 700,000 shares of the Company's Class A common stock from Nu Skin USA and certain stockholders for approximately \$10.0 million.

As part of the Pharmanex Acquisition, the Company assumed approximately \$34.0 million in liabilities and incurred acquisition costs totaling \$1.3 million. The net assets acquired totaling \$3.6 million include net deferred tax assets totaling \$0.8 million. In connection with the closing of the Pharmanex Acquisition, the Company paid approximately \$29.0 million relating to the assumed liabilities.

In March 1999, NSI terminated its distribution license and various other license agreements and other intercompany agreements with Nu Skin USA and paid Nu Skin USA a \$10.0 million termination fee. The Company also, through a newly formed wholly-owned subsidiary, acquired selected assets of Nu Skin USA and assumed approximately \$8.0 million of Nu Skin USA's liabilities in March 1999.

The Company has entered into an agreement to acquire its affiliate Big Planet for an aggregate of approximately \$37.0 million, of which approximately \$14.5 million is payable in the form of a promissory note and approximately \$22.5 million is payable in cash. The Company currently expects this transaction to close by June 30, 1999. The Company has also agreed to loan to Big Planet up to \$7.5 million to fund its operations through the closing of the acquisition. Big Planet incurred operating losses of approximately \$22.0 million in 1998 and the Company anticipates Big Planet will continue to incur operating losses in the foreseeable future.



The Company had related party payables of \$25.1 million and \$25.0 million at March 31, 1999 and December 31, 1998, respectively. In addition, the Company had related party receivables of \$23.1 million and \$22.3 million, respectively, at those dates. Related party balances outstanding in excess of 60 days bear interest at a rate of 2% above the U.S. prime rate. As of March 31, 1999, no material related party payables or receivables had been outstanding for more than 60 days.

The Company leases office space and computer hardware under noncancellable long-term operating leases. Minimum future operating lease obligations at December 31, 1998 were \$29.6 million with minimum obligations for 1999 of \$8.9 million.

Management considers the Company to be liquid and able to meet its obligations on both a short and long-term basis. The Company currently believes existing cash balances together with future cash flows from operations will be adequate to fund cash needs relating to the implementation of its strategic plans.

#### Year 2000

The Company has developed a comprehensive plan to address Year 2000 issues. In connection with this plan, the Company has established a committee that is responsible for assessing and testing its systems to identify Year 2000 issues, and overseeing the upgrade or remediation of non-compliant Year 2000 systems. This committee reports on a regular basis to the Company's executive management team and the audit committee of the board of directors on the progress and status of the plan and the Year 2000 issues affecting the Company.

To date, the Company has completed a broad scope assessment and audit of its information technology systems and non-information technology systems to identify and prioritize potential Year 2000 issues and is currently performing a micro-based assessment designed to identify specific Year 2000 issues at the hardware, software and processing levels. Through this process, the Company has identified potential Year 2000 issues in its information systems, and is in the process of addressing these issues through upgrades and other remediation. The Company currently estimates that the cost of all upgrades related to Year 2000 issues, including scheduled upgrades intended primarily to increase efficiencies within the Company and also address Year 2000 issues, is anticipated to be approximately \$10.0 million through the remainder of 1999, which the Company anticipates will be funded by cash from operations. To date, the Company has spent approximately \$3.0 million. The Company currently anticipates that it will complete the micro-based analysis and remediation on all of the Company's significant in-house systems by the third quarter of 1999. Through the remainder of 1999, the Company will continue to run broad scope tests of its in-house systems to confirm that the Company has adequately addressed all Year 2000 issues and continue its work on the systems of the Company's foreign offices.

As part of the Year 2000 plan, the Company is also assessing and monitoring its vendors and suppliers and other third parties for Year 2000 readiness. To date, the committee has sent questionnaires to these third parties seeking their assessment and evaluation of their own Year 2000 readiness and has received responses back from a substantial majority of these third parties. Members of the committee have already begun follow-up calls to the Company's top fifty vendors and plan to visit the Company's significant suppliers and vendors in person for purposes of evaluating their Year 2000 readiness and sharing Year 2000 information. The Company will continue the follow-up with third party vendors throughout the remainder of 1999.

Based on the Company's evaluation of the Year 2000 issues affecting the Company, management believes that Year 2000 readiness of the Company's vendors and suppliers, which is beyond the Company's control, is currently the most significant area of risk, particularly in its foreign markets. Management does not believe it is possible at this time to quantify or estimate the most reasonable worst case Year 2000 scenario. However, the Company is beginning to formulate contingency plans to limit, to the extent possible, interruption of the Company's operations arising from the failure of third parties to be Year 2000 compliant as the Company moves forward in the implementation of its Year 2000 plan. The Company will continue to work with third parties as indicated above to further evaluate and quantify this risk and will continue the development of contingency plans throughout the remainder of 1999 as this process moves forward. There can be no assurance, however, that the Company will be able to successfully identify and develop contingency plans for all Year 2000 issues that could, directly or indirectly, harm its operations, some of





which are beyond the Company's control. In particular, the Company cannot predict or evaluate domestic and foreign governments' and utility companies' preparation for the Year 2000 or the readiness of other third parties (domestic and foreign) that do not have relationships with the Company, and the resulting impact that the failure of such parties to be Year 2000 compliant may have on the economy in general and on its business.

The foregoing discussion of the Year 2000 issues contains forward-looking statements that represent the Company's current expectations or beliefs. These forward-looking statements are subject to risks and uncertainties that could cause outcomes to be different from those currently anticipated including those risks identified under the heading "Note Regarding Forward-looking Statements."

#### Seasonality and Cyclicity

In addition to general economic factors, the direct selling industry is impacted by seasonal factors and trends such as major cultural events and vacation patterns. For example, Japan, Taiwan, Hong Kong, South Korea and Thailand celebrate their respective local New Year in the Company's first quarter. Management believes that direct selling in Japan and Europe is also generally negatively impacted during the month of August, which is in the Company's third quarter, when many individuals traditionally take vacations.

The Company has experienced rapid revenue growth in most of its new markets from the commencement of operations. In Japan, Taiwan and Hong Kong, the initial rapid growth was followed by a short period of stable or declining revenue followed by renewed growth fueled by new product introductions, an increase in the number of active distributors and increased distributor productivity. In South Korea, the Company experienced a significant decline in its 1997 revenue from revenue in 1996 and experienced additional quarterly sequential declines in 1998. Revenue in Thailand also decreased significantly after the commencement of operations in March 1997. Management believes that the revenue declines in South Korea and Thailand were partly due to normal business cycles in new markets, but were primarily due to volatile economic conditions and weakened currencies in those markets. Revenue declines in South Korea also resulted from government and media actions targeted at sellers of foreign and luxury goods. In addition, the Company may experience variations on a quarterly basis in its results of operations, as new products are introduced and new markets are opened. No assurance can be given that the Company's revenue growth rate in new markets where Nu Skin operations have not commenced will follow this pattern.

#### Currency Risk and Exchange Rate Information

A majority of the Company's revenue and many of its expenses are recognized primarily outside of the United States except for inventory purchases which are primarily transacted in U.S. dollars from vendors in the United States. Each subsidiary's local currency is considered the functional currency. All revenue and expenses are translated at weighted average exchange rates for the periods reported. Therefore, the Company's reported sales and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar.

Given the uncertainty of exchange rate fluctuations, the Company cannot estimate the effect of these fluctuations on its future business, product pricing, results of operations or financial condition. However, because a majority of the Company's revenue is realized in local currencies and the majority of its cost of sales is denominated in U.S. dollars, the Company's gross profits will be positively affected by a weakening in the U.S. dollar and will be negatively affected by a strengthening in the U.S. dollar. The Company seeks to reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of foreign currency exchange contracts and through intercompany loans of foreign currency. The Company does not use such derivative financial instruments for trading or speculative purposes. The Company regularly monitors its foreign currency risks and periodically take measures to reduce the impact of foreign exchange fluctuations on its operating results.

The Company's foreign currency derivatives are comprised of over-the-counter forward contracts with major international financial institutions. As of March 31, 1999, the primary currency for which the Company had net underlying foreign currency exchange rate exposure was the Japanese yen. Based on the Company's foreign exchange contracts at March 31, 1999 as discussed in Note 7 of the notes to the Consolidated Financial Statements, the impact of a 10% appreciation or 10% depreciation of the U.S. dollar



against the Japanese yen would not result in significant other income or expense recorded in the Consolidated Statements of Income.

#### Outlook

The Company anticipates that stronger foreign currencies in 1999 as compared to 1998 will positively impact reported revenue in 1999, assuming that exchange rates remain at current levels. Management believes that the acquisitions of Pharmanex, Big Planet and Nu Skin operations in the United States should also positively impact revenue. Earnings in each of the second, third and fourth quarters of 1998 were negatively impacted due to nonrecurring charges following our acquisitions during 1998. Management also currently anticipates gross margin improvement during 1999 due to stronger foreign currencies, selling products directly to U.S. distributors rather than recognizing lower margin intercompany revenue, as well as continued local manufacturing efforts and the resulting reduced duty rates. However, management also anticipates that distributor incentives as a percentage of revenue will increase due to paying commissions to U.S. based distributors. Selling, general and administrative expenses will generally be higher throughout 1999 due to increased amortization of intangible assets acquired in the acquisitions of Pharmanex and NSI, as well as stronger foreign currencies. In addition, assumed overhead related to the acquired U.S. operations will increase the Company's selling, general and administrative expenses.

#### Note Regarding Forward-Looking Statements

Certain statements made above in the Liquidity and Capital Resources section, the Year 2000 section, the Outlook section and Note 12 to the Consolidated Financial Statements included herein are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). These forward-looking statements involve risks and uncertainties and are based on certain assumptions that may not be realized. Actual results and outcomes may differ materially from those discussed or anticipated. The forward-looking statements and associated risks described in this filing relate to, among other things, (i) the anticipation of significant cash flow from operations, (ii) the Company's expectation that it will be able to rely entirely on cash flow from operations to fund its business objectives without incurring long-term debt to unrelated third parties, (iii) the Company's expectation that it will be able to successfully address any Year 2000 related issues, including with third parties, as more fully described under the Year 2000 section above, (iv) the Company's expectation concerning its ability to develop viable contingency or back up plans in the event any of its systems or the systems of its vendors or suppliers are not Year 2000 compliant, (v) the Company's expectation that it will be able to fund its Year 2000 program from cash from operations, (vi) management's belief that the Company is liquid and able to meet its obligations both on a short and long-term basis, (vii) the anticipation that revenue will be positively impacted by current currency exchange rates compared to 1998 and recent acquisitions, (viii) the planned acquisition of Big Planet and introduction of Pharmanex products into its Asian markets, (ix) management's belief that gross margins will improve, and (x) the Company's plan to implement forward contracts and other hedging strategies to manage foreign currency risks.

Important factors and risks that might cause actual results to differ from those anticipated include, but are not limited to: (a) lower than expected revenue, revenue growth, cash flow from operations and gross margin improvement because of adverse economic, business or political conditions, increased competition, adverse publicity in the Company's markets, particularly Japan and Taiwan, or the Company's inability, for any reason, to open new markets, introduce new products, implement its marketing and local sourcing initiatives and other strategic plans as well as the potential negative effect of distributor actions such as decreased selling efforts or increased turnover; (b) variations in operating results including revenue, gross margin and earnings caused by renewed or sustained weakness of Asian economies, particularly Japan, and fluctuation in foreign currencies particularly the yen; (c) the risk that the Company's new business opportunities and new product offerings, including Pharmanex and Big Planet, will not gain market acceptance or meet the Company's expectations; (d) the inability to successfully complete the planned acquisition of Big Planet; (e) the Company's inability to favorably implement forward contracts and other hedging strategies to manage foreign currency risk; (f) difficulties in integrating the business of Pharmanex and Big Planet with the Company's operations; (g) delays in introducing Pharmanex and Big Planet products as a result of unanticipated problems and the significant laws and regulations applicable to nutritional supplements and the products and services offered by Big Planet, which could delay or prevent the Company from introducing certain of such products into its markets; (h) the inability of the Company to gain market acceptance of new products; (i) increased expenditures required to address the Year 2000 issue if



the Company's technology requirements change or unforeseen problems are discovered; (j) risks that the Company's and its vendors' plans to remedy Year 2000 issues may be inadequate which could result in disruptions of the Company's business; (k) increased government regulation of direct selling activities and products in existing and future markets such as the PRC's restrictions on direct selling; (l) management's inability to effectively manage the Company's growth; (m) the risk that the Tenth Circuit Court of Appeals could overturn the recent federal district court ruling allowing the Company to sell Cholestin as a dietary supplement, which ruling has been appealed by the Food and Drug Administration; (n) risks inherent in the importation, regulation and sale of personal care and nutritional products in the Company's markets including product liability issues; (o) the Company's reliance on and the concentration of outside manufacturers; (p) taxation and transfer pricing issues, including the Company's inability to fully use its foreign tax credits; (q) seasonal and cyclical trends; and (r) unanticipated increases in the costs of supplies of products. For a more detailed discussion of risks and uncertainties related to the Company's business, please refer to the Company's Form 10-K for the year ended December 31, 1998, and any amendments thereto, and other documents filed by the Company with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 3 of Part I of Form 10-Q is incorporated herein by reference from the section entitled "Currency Risk and Exchange Rate Information" in "Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations" of Part I and also in Note 7 to the Financial Statements contained in Item 1 of Part I.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the Company's Annual Report on Form 10-K for information concerning the legal proceeding entitled Natalie Capone on behalf of Herself and All Others Similarly Situated v. Nu Skin Canada, Inc., Nu Skin International, Inc. Blake Roney, et. al.

At the time of the Company's acquisition of Pharmanex, Inc. in the fourth quarter of 1998, Pharmanex was a party to an action entitled Pharmanex, Inc. v. Donna Shalala which was filed by Pharmanex with the United States District Court for the District of Utah, Central Division ("Court") in April 1997 after the Food and Drug Administration informed Pharmanex that it considered Pharmanex's product, Cholestin, to be a drug. The matter was held in abeyance pending an issuance of a final decision by the FDA. On May 20, 1998, the FDA issued a "Final Order" announcing the FDA's decision that it considers Cholestin to be a "drug" and a "new drug" rather than a dietary supplement. On June 1, 1998, Pharmanex filed an amended complaint requesting the Court to find that the FDA decision was contrary to the law. On February 16, 1999, the Court ruled that Cholestin was not a drug and could be legally sold as a dietary supplement. The FDA has since appealed to the Tenth Circuit Court of Appeals seeking to overturn the district court's decision. If the decision is overturned, the Company will not be able to sell Cholestin without FDA approval. If Cholestin is determined to be a drug requiring FDA approval, the Company's sales of Cholestin will decrease and the Company's business will be harmed.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Regulation S-K Number -----	Description -----
10.1	Credit Agreement dated May 8, 1998 by and among Nu Skin Enterprises, Inc, Nu Skin Japan Co. Ltd., the Lenders named therein and ABN AMRO Bank N.V., as agent for the Lenders. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998.
10.2	Amendment No. 1 to Credit Agreement dated June 30, 1998
10.3	Amendment No. 2 to Credit Agreement dated February 22, 1999
10.4	Form of Amendment No. 3 to Credit Agreement dated May 10, 1999
10.5	Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan
27.1	Financial Data Schedule - Three Months Ended March 31, 1999

(b) Reports on Form 8-K. The Company filed the following Current Reports on Form 8-K during the quarterly period ended March 31, 1999:

(i) Current Report on Form 8-K filed February 9, 1999 regarding the execution of a letter of intent to acquire its affiliate, Big Planet, Inc., and its private affiliates operating in North America.

(ii) Current Report on Form 8-K filed March 23, 1999 regarding the termination of the license agreement with its private affiliate, Nu Skin USA, Inc., and the acquisition of selected assets of Nu Skin USA, Inc.

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 this 14th day of May, 1999.

NU SKIN ENTERPRISES, INC.

By: /s/ Corey B. Lindley  
Corey B. Lindley  
Its: Chief Financial Officer  
(Principal Financial and  
Accounting Officer)



EXHIBIT INDEX

- 10.1 Credit Agreement dated May 8, 1998 by and among Nu Skin Enterprises, Inc, Nu Skin Japan Co. Ltd., the Lenders named therein and ABN AMRO Bank N.V., as agent for the Lenders. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998.
- 10.2 Amendment No. 1 to Credit Agreement dated June 30, 1998
- 10.3 Amendment No. 2 to Credit Agreement dated February 22, 1999
- 10.4 Form of Amendment No. 3 to Credit Agreement dated May 10, 1999
- 10.5 Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan
- 27.1 Financial Data Schedule - Three Months Ended March 31, 1999

AMENDMENT NO. 1  
TO CREDIT AGREEMENT

THIS AMENDMENT NO. 1 TO CREDIT AGREEMENT (this "Amendment") is entered into as of the Effective Date (as defined below) by and among:

(1) NU SKIN ENTERPRISES, INC., a Delaware corporation formerly named Nu Skin Asia Pacific, Inc. ("NSE");

(2) NU SKIN JAPAN CO., LTD., a Japanese corporation ("NSJ");

(3) The financial institutions listed in Schedule I to the Credit Agreement described below (such financial institutions referred to herein collectively as "Lenders"); and

(4) ABN AMRO BANK N.V., as agent for Lenders (in such capacity, "Agent").

RECITALS

A. Certain credit facilities are being provided to NSE and NSJ (collectively, "Borrowers") upon the terms and subject to the conditions of a Credit Agreement, dated as of May 8, 1998, by and among Borrowers, Lenders and Agent (the "Credit Agreement", the terms defined therein being used herein as therein defined).

B. From time to time in connection with bona fide hedging operations, Borrowers may request that one or more Lenders or their Affiliates enter into Rate Contracts and, to induce such Lenders or their Affiliates to enter into such Rate Contracts, Borrowers requests that such Rate Contracts be entitled to share ratably in the benefits of any guaranties and security provided for the credit facilities under the Credit Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the above Recitals and the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Amendments to Section I. Interpretation.

(a) The definition of "Credit Documents" in Section I of the Credit Agreement is hereby amended to add the words ", the Lender Rate Contracts" after the words "Security Documents".

(b) A definition of "Lender Rate Contract" is hereby added to Section I of the Credit Agreement as follows:

"Lender Rate Contract" shall mean any Rate Contract entered into by either Borrower or its Subsidiaries with a Lender or its Affiliates as permitted by this Agreement.

2. Amendment to Paragraph 2.11 Taxes on Payment. Paragraph 2.11 of the Credit Agreement is hereby amended to add the following new subparagraph (e):

(e) Lender Rate Contracts. Nothing contained in this Paragraph 2.11 shall override or supercede any term or provision of any Lender Rate Contract regarding withholding taxes relating to Rate Contracts.

3. Amendments to Section VI Default.

(a) Paragraph 6.01(a) of the Credit Agreement is hereby amended to add the following new clause (ii) and to renumber former clause (ii) as clause (iii):

, (ii) fail to make any payment or transfer when due under any Lender Rate Contract,

(b) A new Paragraph 6.03 is hereby added to the Credit Agreement as follows:

6.03. Lender Rate Contract Remedies. Notwithstanding any other provision of this Section VI, each Lender or its Affiliate which has entered into a Lender Rate Contract shall have the right, with prior notice to Agent, but without the approval or consent of Agent or any other Lender, (a) to declare an event of default, termination event or other similar event thereunder which will result in the early termination of such Lender Rate Contract, (b) to determine net termination amounts in accordance with the terms of such Lender Rate Contract and to set-off amounts between Lender Rate Contracts of such Lender, and (c) to prosecute any legal action against either Borrower

or its Subsidiaries to enforce net amounts owing to such Lender or its Affiliate under such Lender Rate Contracts.

4. Amendment to Paragraph 8.05 Successors and Assigns. Subparagraph 8.05(c) of the Credit Agreement is hereby amended to delete the word "and" at the end of clause (v), to delete the period at the end of clause (vi) and substitute "; and", and to add the following new clause (vii):

(vii) Any Assignor Lender which is, or which has an Affiliate which is, a party to a Lender Rate Contract may not make an Assignment of all of its Commitment or all of its Loans to an Assignee Lender unless such Assignee Lender or its Affiliate shall also assume all obligations of such Assignor Lender or its Affiliate with respect to such Lender Rate Contract.

5. Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all parties hereto shall be deemed to constitute a complete, executed original for all purposes.

6. Effective Date. This Amendment shall become effective on the date (the "Effective Date") when Agent has received counterparts of this Amendment executed by both Borrowers, the Required Lenders and Agent.

7. Reference to and Effect on Credit Documents. On and after the Effective Date, each reference in the Credit Agreement to "this Agreement," "hereof," "herein," and "hereunder" and words of similar import, and each reference in the other Credit Documents to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended by this Amendment. Except as specifically amended by this Amendment, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed.

8. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the Effective Date.

BORROWERS: NU SKIN ENTERPRISES, INC.

By: /s/ Corey B. Lindley  
Name: Corey B. Lindley  
Title: Chief Financial Officer  
Date: June 29, 1998

NU SKIN JAPAN CO., LTD.

By: /s/ Steven J. Lund  
Name: Steven J. Lund  
Title: Representative Director  
Date: June 29, 1998

AGENT: ABN AMRO BANK N.V.

By: /s/ Tamira Treffers-Herrera  
Name: Tamira Treffers-Herrera  
Title: Vice President & Director

By: /s/ Robert Protass  
Name: Robert Protass  
Title: Assistant Vice President

Date: June 29, 1998

LENDERS: ABN AMRO BANK N.V.

By: /s/ Tamira Treffers-Herrera  
Name: Tamira Treffers-Herrera  
Title: Vice President & Director

By: /s/ Robert Protass  
Name: Robert Protass

Title: Assistant Vice President

Date: June 29, 1998

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By: /s/ Kevin C. Leader  
Name: Kevin C. Leader  
Title: Vice President  
Date: June 22, 1998

BANK ONE, UTAH, NATIONAL ASSOCIATION

By: /s/ Stephen A. Cazier  
Name: Stephen A. Cazier  
Title: Vice President  
Date:

BANQUE NATIONALE DE PARIS

By: /s/ D. Guy Gibb  
Name: D. Guy Gibb  
Title: Vice President

By: /s/ Jeffery S. Kajisa  
Name: Jeffery S. Kajisa  
Title: Assistant Vice President

Date:

KEYBANK NATIONAL ASSOCIATION

By: /s/ J.T. Taylor  
Name: J.T. Taylor  
Title: Vice President

By:  
Name:  
Title:

Date: June 22, 1998

NATIONSBANK, N.A.

By: /s/ Natalie E. Herbert  
Name: Natalie E. Herbert  
Title: Vice President  
Date: June 25, 1998

UNION BANK OF CALIFORNIA, N.A.

By: /s/ David E. Taylor  
Name: David E. Taylor  
Title: Vice President  
Date:

U.S. BANK, NATIONAL ASSOCIATION

By: /s/ Thomas A. Eshom  
Name: Thomas A. Eshom  
Title: Vice President  
Date: June 26, 1998

ZIONS FIRST NATIONAL BANK

By: /s/ Richard W. Thomsen  
Name: Richard W. Thomsen  
Title: Vice President  
Date: July 6, 1998

AMENDMENT NO. 2  
TO CREDIT AGREEMENT

THIS AMENDMENT NO. 2 TO CREDIT AGREEMENT (this "Amendment") is entered into as of the Effective Date (as defined below) by and among:

- (1) NU SKIN ENTERPRISES, INC., a Delaware corporation formerly named Nu Skin Asia Pacific, Inc. ("NSE");
- (2) NU SKIN JAPAN CO., LTD., a Japanese corporation ("NSJ");
- (3) The financial institutions listed in Schedule I to the Credit Agreement described below (such financial institutions referred to herein collectively as "Lenders"); and
- (4) ABN AMRO BANK N.V., as agent for Lenders (in such capacity, "Agent").

RECITALS

A. Certain credit facilities are being provided to NSE and NSJ (collectively, "Borrowers") upon the terms and subject to the conditions of a Credit Agreement, dated as of May 8, 1998, as amended by Amendment No. 1, effective as of June 30, 1998, by and among Borrowers, Lenders and Agent (the "Credit Agreement", the terms defined therein being used herein as therein defined).

B. Borrowers have requested that the amount of the principal payments due on March 31, 1999, with respect to the U.S. Borrowing and the Japanese Borrowing be reduced by the amount of the principal prepayments made on June 30, 1998, with respect to the U.S. Borrowing and the Japanese Borrowing.

AGREEMENT

NOW, THEREFORE, in consideration of the above Recitals and the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Amendments to Section II. Credit Facilities.

(a) Subparagraph 2.01(f) and clause (iv)(B) of Subparagraph 2.03(d) of the Credit Agreement are each hereby amended to substitute "\$554,700" in place of "27.7778% of the original principal amount of the U.S. Borrowing" where such phrase appears opposite the date March 31, 1999.

(b) Subparagraph 2.02(e) and clause (iv)(C) of Subparagraph 2.03(d) of the Credit Agreement are each hereby amended to substitute "(Y)1,580,000,000" in place of "27.7778% of the original principal amount of the Japanese Borrowing" where such phrase appears opposite the date March 31, 1999.

2. Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all parties hereto shall be deemed to constitute a complete, executed original for all purposes.

3. Effective Date. This Amendment shall become effective on the date (the "Effective Date") when Agent has received counterparts of this Amendment executed by both Borrowers, all Lenders and Agent.

4. Reference to and Effect on Credit Documents. On and after the Effective Date, each reference in the Credit Agreement to "this Agreement," "hereof," "herein," and "hereunder" and words of similar import, and each reference in the other Credit Documents to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended by this Amendment. Except as specifically amended by this Amendment, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed.

5. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the Effective Date.

BORROWERS: NU SKIN ENTERPRISES, INC.

By: /s/ Brian R. Lords

Name: Brian R. Lords  
Title: Treasurer  
Date: February 8, 1999

NU SKIN JAPAN CO., LTD.

By: /s/ Corey B. Lindley  
Name: Corey B. Lindley  
Title: Auditor  
Date: February 8, 1999

AGENT: ABN AMRO BANK N.V.

By: /s/ Tamira Trefers-Herrera  
Name: Tamira Treffers-Herrera  
Title: Vice President and Director

By: /s/ Robert Protass  
Name: Robert Protass  
Title: Assistant Vice President

Date:

LENDERS: ABN AMRO BANK N.V.

By: /s/ Tamira Trefers-Herrera  
Name: Tamira Treffers-Herrera  
Title: Vice President and Director

By: /s/ Robert Protass  
Name: Robert Protass  
Title: Assistant Vice President

Date:

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By: /s/ Therese Fontaine  
Name: Therest Fontaine  
Title: Vice President  
Date:

BANK ONE, UTAH, NATIONAL ASSOCIATION

By: /s/ Stephen A. Cazier  
Name: Stephen A. Cazier  
Title: Vice President  
Date: February 22, 1999

BANQUE NATIONALE DE PARIS

By: /s/ Debra Wright  
Name: Debra Wright  
Title: Vice President

By: /s/ Katherine Wolfe  
Name: Katherine Wolfe  
Title: Vice President

Date:

KEYBANK NATIONAL ASSOCIATION

By: /s/ Mary K. Young  
Name: Mary K. Young  
Title: Assistant Vice President

By:  
Name:  
Title:

Date:

NATIONSBANK, N.A.

By: /s/ Therese Fontaine  
Name: Therese Fontaine  
Title: Vice President  
Date:

UNION BANK OF CALIFORNIA, N.A.

By: /s/ Wanda Headrick  
Name: Wanda Headrick  
Title: Vice President  
Date: February 19, 1999

U.S. BANK, NATIONAL ASSOCIATION

By: /s/ Thomas A. Eshom  
Name: Thomas A. Eshom  
Title: Vice President  
Date: February 17, 1999

ZIONS FIRST NATIONAL BANK

By: /s/ Richard W. Thomsen  
Name: Richard W. Thomsen  
Title: Vice President  
Date: February 9, 1999



AMENDMENT NO. 3  
TO CREDIT AGREEMENT

THIS AMENDMENT NO. 3 TO CREDIT AGREEMENT (this "Amendment"), dated as of May 10, 1999, is entered into by and among:

(1) NU SKIN ENTERPRISES, INC., a Delaware corporation ("NSE");

(2) NU SKIN JAPAN CO., LTD., a Japanese corporation ("NSJ");

(3) The financial institutions listed in Schedule I to the Credit Agreement described below (such financial institutions referred to herein collectively as "Lenders"); and

(4) ABN AMRO BANK N.V., as agent for Lenders (in such capacity, "Agent").

RECITALS

A. NSE, NSJ, Lenders and Agent are parties to a Credit Agreement dated as of May 8, 1998, as amended by Amendment No. 1 to Credit Agreement ("Amendment No. 1") effective as of June 30, 1998 and Amendment No. 2 to Credit Agreement ("Amendment No. 2") effective as of February 22, 1999 (such Credit Agreement, as so amended, the "Credit Agreement").

B. NSE and NSJ (collectively, "Borrowers") have requested Lenders and Agent to (1) amend the Credit Agreement in certain respects and (2) waive an Event of Default arising under the Credit Agreement as a result of the failure by NSE to comply with a financial covenant set forth therein.

C. Lenders and Agent are willing so to amend the Credit Agreement and waive such Event of Default upon the terms and subject to the conditions set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower, Lenders and Agent hereby agree as follows:

1. Definitions, Interpretation. All capitalized terms defined above and elsewhere in this Amendment shall be used herein as so defined. Unless otherwise defined herein, all other capitalized terms used herein shall have the respective meanings given to those terms in the Credit Agreement, as amended by this Amendment. The rules of construction set forth in Section I of the Credit Agreement shall, to the extent not inconsistent with the terms of this Amendment, apply to this Amendment and are hereby incorporated by reference.

2. Amendments to Credit Agreement. Subject to the satisfaction of the conditions set forth in Paragraph 5 below, the Credit Agreement is hereby amended as follows:

(a) Paragraph 1.01 is amended by changing the definitions of the terms "Fixed Charge Coverage Ratio" and "Tangible Net Worth" set forth therein to read in their entirety as follows:

"Fixed Charge Coverage Ratio" shall mean, with respect to either Borrower for any period, the ratio, determined on a consolidated basis in accordance with GAAP, of:

(a) EBITDA of such Borrower and its Subsidiaries for such period;

to

(b) The sum of (i) all Interest Expenses of such Borrower and its Subsidiaries for such period, plus (ii) the current portion of the long-term Indebtedness of such Borrower and its Subsidiaries for such period (excluding, in the case of NSJ, long-term Indebtedness of NSJ and its Subsidiaries to NSE and NSE's other Subsidiaries).

"Tangible Net Worth" shall mean, with respect to NSE or NSJ at any time, the remainder at such time, determined on a consolidated basis in accordance with GAAP, of:

(a) The total assets of such Borrower and its Subsidiaries at such time;

minus

(b) The sum (without limitation and without duplication of deductions) of:

(i) The total liabilities of such Borrower and its Subsidiaries at such time,

(ii) All reserves of such Borrower and its Subsidiaries at such time for anticipated losses and expenses (to the extent not deducted in calculating total assets in clause (a) above), and

(iii) The remainder of:

(A) All intangible assets of such Borrower and its Subsidiaries at such time (to the extent included in calculating total assets in clause (a) above), including goodwill (including any amounts, however designated on the balance sheet, representing the cost of acquisition of businesses and investments in excess of underlying tangible assets), trademarks, trademark rights, trade name rights, copyrights, patents, patent rights, licenses, unamortized debt discount, marketing expenses, organizational expenses, non-compete agreements and deferred research and development;

minus

(B) The lesser of (1) all intangible assets arising from the acquisition of NSI and the other related Persons referred to in Schedule 5.02(d) (to the extent included in calculating all intangible assets in clause (b)(iii)(A) above) and (2) \$90,000,000.

(b) Subparagraph 5.01(a) is amended by changing clause (vii) thereof to read in its entirety as follows:

(vii) As soon as available and in no event later than ninety (90) days after the first day of each fiscal year of each Borrower, the consolidated plan and forecast of such Borrower and its Subsidiaries for such fiscal year, including quarterly cash flow projections and quarterly projections of such Borrower's compliance with each of the covenants set forth in Paragraph 5.03;

(c) Subparagraph 5.02(d) is amended by changing clause (iii)(B) thereof to read in its entirety as follows:

(B) The aggregate consideration paid by Borrowers and their Subsidiaries for all such acquisitions (excluding consideration consisting of the Equity Securities of Borrowers or their Subsidiaries) does not exceed \$25,000,000 in the 1999 fiscal year or any fiscal year thereafter; provided that any portion of such amount limitation not used in any year may be carried forward in subsequent years to increase the amount of such limitation in such subsequent years until used.

(d) Subparagraph 5.03(b) is amended to read in its entirety as follows:

(b) Fixed Charge Coverage Ratio. Neither Borrower shall permit its Fixed Charge Coverage Ratio to be less than (i) 3.00 to 1.00 for any consecutive four-quarter period ending on the last day of any fiscal quarter through and including December 31, 1999 or (ii) 2.25 for any consecutive four-quarter period ending on the last day of any fiscal quarter thereafter.

(e) Subparagraph 5.03(d) is amended to read in its entirety as follows:

(d) Tangible Net Worth. Neither Borrower shall permit its Tangible Net Worth on any date of determination (such date to be referred to herein as a "determination date") which occurs after December 31, 1998 (such date to be referred to herein as the "base date") to be less than the sum on such determination date of the following:

(i) Eighty-five percent (85%) of such Borrower's Tangible Net Worth on the base date;

(ii) Sixty percent (60%) of the sum of such Borrower's consolidated quarterly net income (ignoring any quarterly losses and deducting, in the case of NSJ, dividends paid by NSJ to NSE) for each quarter after the base date through and including the quarter ending immediately prior to the determination date;

(iii) Seventy-five percent (75%) of the Net Proceeds of all Equity Securities issued by such Borrower and its Subsidiaries during the period commencing on the base date and ending on the determination date; and

(iv) Seventy-five percent (75%) of the principal amount of all debt securities of such Borrower and its Subsidiaries converted to Equity Securities during the period commencing on the base date and ending on the determination date.

(f) Schedule II is amended by changing the pricing grid set forth therein to read in its entirety as follows:

NSE'S DEBT/ EBITDA RATIO	PRICING PERIOD LEVEL	APPLICABLE MARGIN FOR BASE RATE PORTIONS	APPLICABLE MARGIN FOR LIBOR PORTIONS	APPLICABLE MARGIN FOR JAPANESE LOAN PORTIONS
Less Than 0.50	1	0%	0.700%	0.700%
Greater than or equal to 0.50, Less than 1.00	2	0%	0.850%	0.850%
Greater than 1.00	3	0%	1.100%	1.100%

3. Waiver. Subject to the satisfaction of the conditions set forth in Paragraph 5 below, Lenders hereby waive any Event of Default arising under Subparagraph 6.01(b) of the Credit Agreement as a result of the failure by NSE to comply with the Tangible Net Worth requirement set forth in Subparagraph 5.03(d) of the Credit Agreement on March 31, 1999, provided that NSE's Tangible Net Worth on such date was not less than \$168,000,000.

4. Representations and Warranties. Each Borrower hereby represents and warrants to Agent and Lenders that the following are true and correct on the date of this Amendment and that, after giving effect to the amendments set forth in Paragraph 2 above and the waiver set forth in Paragraph 3 above, the following will be true and correct on the Effective Date (as defined below):

(a) The representations and warranties of Borrowers set forth in Paragraph 4.01 of the Credit Agreement and in the other Credit Documents are true and correct in all material respects; and

(b) No Default has occurred and is continuing.

(Without limiting the scope of the term "Credit Documents," Borrower expressly acknowledges in making the representations and warranties set forth in this Paragraph 4 that, on and after the date hereof, such term includes this Amendment.)

5. Effective Date. The amendments effected by Paragraph 2 above and the waiver effected by Paragraph 3 above shall become effective on May 10, 1999 (the "Effective Date"), subject to receipt by Agent and Lenders on or prior to the Effective Date of the following, each in form and substance satisfactory to

Agent, the Lenders and their respective counsel:

(a) This Amendment duly executed by Borrowers, Required Lenders and Agent;

(b) A letter in the form of Exhibit A hereto, dated the Effective Date and duly executed by all Material Domestic Subsidiaries of NSE and, in the case of any such Subsidiaries that are organized under the laws of jurisdictions outside the United States and domesticated under the laws of Delaware (or any other state of the United States), by the Delaware (or other state) counterparts of such Subsidiaries;

(c) An amendment fee for each U.S. Lender equal to one tenth of one percent (0.10%) of the outstanding principal amount of such Lender's U.S. Loan on the Effective Date, payable in Dollars;

(d) An amendment fee for each Japanese Lender equal to one tenth of one percent (0.10%) of the outstanding principal amount of such Lender's Japanese Loan on the Effective Date, payable in Yen; and

(e) Such other evidence as Agent or any Lender may reasonably request to establish the accuracy and completeness of the representations and warranties and the compliance with the terms and conditions contained in this Amendment and the other Credit Documents.

6. Effect of this Amendment. On and after the Effective Date, each reference in the Credit Agreement and the other Credit Documents to the Credit Agreement shall mean the Credit Agreement as amended hereby. Except as specifically amended above, (a) the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and affirmed and (b) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power, or remedy of the Lenders or Agent, nor constitute a waiver of any provision of the Credit Agreement or any other Credit Document.

7. Miscellaneous.

(a) Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

(b) Headings. Headings in this Amendment are for convenience of reference only and are not part of the substance hereof.

(c) Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

(d) NSE Guaranty. In its capacity as the guarantor under the NSE Guaranty, NSE hereby (i) consents to Amendment No. 1, Amendment No. 2 and this Amendment (collectively, the "Amendments"), (ii) agrees that the Amendments in no way affect or alter the rights, duties, or obligations of NSE, Agent or Lenders under the NSE Guaranty, (iii) agrees its consent to the Amendments shall not be construed (A) to have been required by the terms of the NSE Guaranty or any other document, instrument or agreement relating thereto or (B) to require the consent of NSE in its capacity as guarantor in connection with any future amendment of the Credit Agreement or any other Credit Document.

[The first signature page follows.]

IN WITNESS WHEREOF, Borrowers, Agent and Lenders have caused this Amendment to be executed as of the day and year first above written.

BORROWERS: NU SKIN ENTERPRISES, INC.

By: /s/ Corey B. Lindley  
Name: Corey B. Lindley  
Title: CFO

NU SKIN JAPAN CO., LTD.

By: /s/ Corey B. Lindley  
Name: Corey B. Lindley  
Title: Auditor

AGENT: ABN AMRO BANK N.V.

By:  
Name:  
Title:

By:  
Name:  
Title:

LENDERS: ABN AMRO BANK N.V.

By:  
Name:  
Title:

By:  
Name:  
Title:

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By:  
Name:  
Title:

BANK ONE, UTAH, NATIONAL ASSOCIATION

By:  
Name:  
Title:

BANQUE NATIONALE DE PARIS

By:  
Name:  
Title:

By:  
Name:  
Title:

KEYBANK NATIONAL ASSOCIATION

By:  
Name:  
Title:

By:  
Name:  
Title:

NATIONSBANK, N.A.

By:  
Name:  
Title:

UNION BANK OF CALIFORNIA, N.A.

By:  
Name:  
Title:

U.S. BANK NATIONAL ASSOCIATION

By:  
Name:  
Title:

ZIONS FIRST NATIONAL BANK

By:  
Name:  
Title:

EXHIBIT A

GUARANTOR CONSENT LETTER

May 10, 1999

TO: ABN AMRO Bank N.V.,  
As Agent for the Lenders under the Credit Agreement referred to below

1. Reference is made to the following:

(a) The Credit Agreement dated as of May 8, 1998 (the "Credit Agreement") among Nu Skin Enterprises, Inc., ("NSE") Nu Skin Japan Co., Ltd. ("NSJ"), the financial institutions listed in Schedule I thereto ("Lenders") and ABN AMRO Bank N.V., as agent for Lenders (in such capacity, "Agent");

(b) The Guaranty dated as of May 8, 1998 (the "Subsidiary Guaranty") executed by the undersigned ("Guarantors") in favor of Agent for the benefit of Lenders;

(c) The Amendment No. 1 to Credit Agreement effective as of June 30, 1998 ("Amendment No. 1") among NSE, NSJ, Lenders and Agent;

(d) The Amendment No. 2 to Credit Agreement effective as of February 22, 1999 ("Amendment No. 2") among NSE, NSJ, Lenders and Agent; and

(e) Amendment No. 3 to Credit Agreement dated as of May 10, 1999 ("Amendment No. 3") among NSE, NSJ, Lenders and Agent.

Unless otherwise defined herein, all capitalized terms used herein shall have the respective meanings given to those terms in the Credit Agreement.

2. Each Guarantor hereby consents to Amendment No. 1, Amendment No. 2 and Amendment No. 3 (collectively, the "Amendments"). Each Guarantor expressly agrees that the Amendments shall in no way affect or alter the rights, duties, or obligations of such Guarantor, Lenders or Agent under the Subsidiary Guaranty.

3. From and after the date hereof, the term "Credit Agreement" as used in the Subsidiary Guaranty shall mean the Credit Agreement, as amended by the Amendments.

4. No Guarantor's consent to the Amendments shall be construed (i) to have been required by the terms of the Subsidiary Guaranty or any other document, instrument or agreement relating thereto or (ii) to require the consent of such Guarantor in connection with any future amendment of the Credit Agreement or any other Credit Document.

IN WITNESS WHEREOF, each Guarantor has executed this Guarantor Consent Letter as of the day and year first written above.

NU SKIN JAPAN COMPANY LIMITED,  
a Delaware Corporation

By: /s/ Truman Hunt  
Name: Truman Hunt  
Title: Vice President

NU SKIN JAPAN CO., LTD.,  
a Japanese Corporation

By: /s/ Corey B. Lindley  
Name: Corey B. Lindley  
Title: Auditor

NU SKIN KOREA, INC.,  
a Delaware Corporation

By: /s/ Truman Hunt  
Name: Truman Hunt  
Title: Vice President

NU SKIN KOREA, LTD.,  
a South Korean Corporation

By: /s/ Blake M. Roney  
Name: Blake M. Roney  
Title: Representative Director

NU SKIN INTERNATIONAL, INC.,  
a Utah Corporation

By: /s/ Truman Hunt  
Name: Truamn Hunt  
Title: Vice President



NU SKIN TAIWAN, INC.,  
a Utah Corporation

By: /s/ Truman Hunt  
Name: Truman Hunt  
Title: Vice President

NU SKIN HONG KONG, INC.,  
a Utah Corporation

By: /s/ Truman Hunt  
Name: Truman Hunt  
Title: Vice President

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

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SECOND

AMENDED AND RESTATED

NU SKIN ENTERPRISES, INC.

1996 STOCK INCENTIVE PLAN

1. PURPOSE

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

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

2. DEFINITIONS

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

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

- Code Section, and "disinterested persons" (within the meaning of Rule 16b-3 of the Exchange Act), to the extent required for compliance with such Rule.
- (f) "Company" means Nu Skin Enterprises, Inc.
  - (g) "Consultant" means any individual who provides services to the Company as an independent contractor and not as an Employee or Director.
  - (h) "Contingent Stock" means stock which will be issued to a Grantee upon the attainment of certain conditions pursuant to Section 9 hereof.
  - (i) "Director(s)" means a member or the members of the Board.
  - (j) "Employee" means any individual who is an employee of the Company, a Parent or Subsidiary.
  - (k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
  - (l) "Fair Market Value" of a Share means on, or with respect to, any given date:
    - (i) If the Shares are listed on a national stock exchange, the closing market price of such Shares as reported on the composite tape for issues listed on such exchange on such date or, if no trade shall have been reported for such date, on the next preceding date on which there were trades reported; provided, that if no such quotation shall have been made within the ten business days preceding such date, Fair Market Value shall be determined under (iii) below.
    - (ii) If the Shares are not listed on a national stock exchange but are traded on the over-the-counter market, the mean between the closing dealer bid and asked price of such Shares as reported by the National Association of Securities Dealers through their Automated Quotation System for such date, or if no quotations shall have been made on such date, on the next preceding date on which there were quotations; provided, that, if such quotations shall have been made within the ten business days preceding such date, Fair Market Value shall be determined under (iii) below.
    - (iii) If (i) and (ii) do not apply, the Fair Market Value of a Share shall be determined without regard to any control premium or discount for lack of control (except as otherwise required by Section 422 of the Code) by the Committee in good faith consistent with the valuation of the Company as provided by a third party appraiser for

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

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

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

### 3. ADMINISTRATION

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

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

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

#### 4. SHARES SUBJECT TO THE PLAN

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

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

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

#### 5. PARTICIPANTS

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

#### 6. AWARDS UNDER THE PLAN

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

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

#### 7. STOCK OPTIONS

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

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

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

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



- approved by the Committee as security for a loan and to deliver all or part of the loan proceeds to the Company in payment of all or part of the purchase price and any withholding taxes, or (iv) such other method or form of consideration as may be determined to be appropriate by the Committee consistent with applicable laws, rules and regulations, including a true cashless or net exercise procedure. The adoption of such rules by the Committee shall not provide any Grantee with any vested right to exercise Options pursuant to the methods or form of consideration set forth in such rules. The Committee may rescind any rule governing the exercise of Options at any time, and upon such rescission, no Grantee shall have any further rights to exercise Options pursuant to the methods or form of consideration set forth in such rule. In addition, the Committee shall have the right to provide in any rule adopted pursuant hereto that (i) such rule shall only apply to designated Options or grants of Options, (ii) such rule shall apply to all Options generally, or (iii) prior Committee approval, which may be granted or withheld in its sole discretion, shall be required with respect to such exercise method or form of consideration. The Committee shall have no obligation to make the rules applicable to all Grantees or to all Options. The Committee shall have no obligation to adopt rules providing for any of the above methods of exercise or forms of consideration.
- (d) Notwithstanding anything herein to the contrary, the aggregate Fair Market Value (determined as of the time the Option is granted) of Incentive Stock Options for any Employee which may become first exercisable in any calendar year shall not exceed \$100,000.
- (e) Notwithstanding anything herein to the contrary, no Incentive Stock Option shall be granted to any individual if, at the time the Option is to be granted, the individual owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company unless at the time such Option is granted the Option Price is at least 110% of the Fair Market Value of the stock subject to the Option and such Option by its terms is not exercisable after the expiration of five years from the date such Option is granted.
- (f) Each Option Agreement for an Incentive Stock Option shall contain such other terms, conditions and provisions as the Committee may determine to be necessary or desirable in order to qualify such Option as an incentive stock option within the meaning of Section 422 of the Code, or any amendment thereof, substitute therefor, or regulation thereunder. Subject to the limitations of Section 18, and without limiting any provisions hereof,

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

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

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

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

## 8. STOCK APPRECIATION RIGHTS

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

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

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

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

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

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

#### 9. CONTINGENT STOCK AWARDS

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

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

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

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

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

10. RESTRICTED STOCK AWARDS

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

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

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

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

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

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

## 11. GENERAL RESTRICTIONS

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

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

## 12. RIGHTS OF A SHAREHOLDER

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

## 13. RIGHTS TO TERMINATE EMPLOYMENT

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

#### 14. WITHHOLDING OF TAXES

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

#### 15. NON-ASSIGNABILITY

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

#### 16. NON-UNIFORM DETERMINATIONS

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

#### 17. ADJUSTMENTS

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

17.2 In the event of a consolidation of the Company, a merger in which the Company is not the surviving entity, or the sale of all or substantially all of the Company assets, the exercisability of any or all outstanding Awards shall automatically be accelerated so that such

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

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

#### 18. AMENDMENT

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

18.2 The termination or modification or amendment of the Plan shall not, without the consent of a Grantee, affect a Grantee's rights under an Award previously granted. Notwithstanding the foregoing, however, the Company reserves the right to terminate the Plan in whole or in part, at any time and for any reason, provided that appropriate compensation, as



determined in the sole and absolute discretion of the Committee, is made to Grantees with respect to Awards previously granted.

19. EFFECT ON OTHER PLAN

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

20. DURATION OF PLAN

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

21. FUNDING OF THE PLAN

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

22. PLAN STATUS

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

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

23. GOVERNING LAW

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

NU SKIN ENTERPRISES, INC.

By: /s/ Truman Hunt  
Its: Vice President and General Counsel

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