
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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	87-0565309
(State or Other Jurisdiction	(I.R.S. Employer
of Incorporation or Organization)	Identification No.)
75 West Center Street, Provo, Utah	84601
(Address of Principal Executive Offices)	(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 October 31, 1999, 32,676,881 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 - THIRD 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) September 30, 1999	December 31, 1998
ASSETS		
Current assets		
Cash and cash equivalents	\$ 108,150	\$ 188,827
Accounts receivable	17,569	13,777
Related parties receivable	15,394	22,255
Inventories, net	80,948	79,463
Prepaid expenses and other	73,194	50,475
	-----	-----
	295,255	354,797
Property and equipment, net	55,120	42,218
Other assets, net	264,895	209,418
	-----	-----
Total assets	\$ 615,270	\$ 606,433
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 17,722	\$ 17,903
Accrued expenses	107,825	132,723
Related parties payable	14,809	25,029
Current portion of long-term debt	54,891	14,545
	-----	-----
	195,247	190,200
Long-term debt, less current portion	87,822	138,734
Other liabilities	22,857	22,857
	-----	-----
Total liabilities	305,926	351,791
	-----	-----
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, 32,796,696 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	126,507	146,781
Retained earnings	232,033	158,064
Deferred compensation	(7,828)	(6,688)
Accumulated other comprehensive income	(41,456)	(43,604)
	-----	-----
	309,344	254,642
	-----	-----
Total liabilities and stockholders' equity	\$ 615,270	\$ 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 Sept. 30, 1999	Three Months Ended Sept. 30, 1998	Nine Months Ended Sept. 30, 1999	Nine Months Ended Sept. 30, 1998
Revenue	\$ 220,088	\$ 217,852	\$ 665,125	\$ 654,766
Cost of sales	37,557	44,290	114,593	134,581
Cost of sales - amortization of inventory step-up (Note 2)	--	8,640	--	21,600
	-----	-----	-----	-----
Gross profit	182,531	164,922	550,532	498,585
	-----	-----	-----	-----
Operating expenses				
Distributor incentives	85,495	79,961	254,784	238,359
Selling, general and administrative	66,648	47,600	185,873	142,301
	-----	-----	-----	-----
Total operating expenses	152,143	127,561	440,657	380,660
	-----	-----	-----	-----
Operating income	30,388	37,361	109,875	117,925
Other income (expense), net	(5,192)	3,101	(1,348)	10,595
	-----	-----	-----	-----
Income before provision for income taxes and minority interest	25,196	40,462	108,527	128,520
Provision for income taxes	4,070	14,971	34,558	44,288
Minority interest	--	--	--	3,081
	-----	-----	-----	-----
Net income	\$ 21,126	\$ 25,491	\$ 73,969	\$ 81,151
	=====	=====	=====	=====
Net income per share (Note 7):				
Basic	\$.24	\$.30	\$.85	\$.97
Diluted	\$.24	\$.30	\$.84	\$.94
Weighted average common shares outstanding:				
Basic	86,927	85,318	87,177	83,983
Diluted	87,951	86,242	88,285	86,319

Pro forma data:

Income before pro forma provision for income taxes and minority interest	\$ 128,520
Pro forma provision for income taxes (Note 6)	47,424
Pro forma minority interest	1,944

Pro forma net income	\$ 79,152
	=====

Pro forma net income per share (Note 7):

Basic	\$.94
Diluted	\$.92

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

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

	Nine Months Ended Sept. 30, 1999	Nine Months Ended Sept. 30, 1998
Cash flows from operating activities:		
Net income	\$ 73,969	\$ 81,151
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,844	9,232
Amortization of deferred compensation	2,762	2,730
Amortization of inventory step-up	--	21,600
Income applicable to minority interest	--	3,081
Changes in operating assets and liabilities:		
Accounts receivable	(3,185)	(1,302)
Related parties receivable	(3,411)	3,165
Inventories, net	(184)	4,103
Prepaid expenses and other	(19,773)	(18,423)
Other assets	(12,227)	(14,108)
Accounts payable	(895)	(12,685)
Accrued expenses	(47,734)	(19,032)
Related parties payable	198	13,399
	-----	-----
Net cash provided by operating activities	11,364	72,911
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(22,620)	(14,414)
Payments for lease deposits	(1,886)	(1,660)
Receipt of refundable lease deposits	752	1,066
Purchase of Big Planet, net of cash acquired	(13,571)	--
	-----	-----
Net cash used in investing activities	(37,325)	(15,008)
	-----	-----
Cash flows from financing activities:		
Exercise of distributor and employee stock options	2,529	--
Termination of Nu Skin USA license fee	(10,000)	--
Payment to stockholders under the NSI Acquisition (Note 2)	(25,000)	--
Payments on long-term debt	(14,545)	(41,634)
Proceeds from long-term debt	--	181,538
Payment to stockholders for notes payable	--	(180,000)
Repurchase of shares of common stock	(19,612)	(1,521)
	-----	-----
Net cash used in financing activities	(66,628)	(41,617)
	-----	-----
Effect of exchange rate changes on cash	11,912	(16,310)
	-----	-----
Net decrease in cash and cash equivalents	(80,677)	(24)
Cash and cash equivalents, beginning of period	188,827	174,300
	-----	-----
Cash and cash equivalents, end of period	\$ 108,150	\$ 174,276
	=====	=====

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

1. THE COMPANY

Nu Skin Enterprises, Inc. (the "Company"), is a direct selling company involved in the distribution and sale of premium quality, innovative personal care and nutritional products and technology products and services. 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, Iceland, Italy, Ireland, Luxemburg, Poland, Portugal, Spain, Sweden, the Netherlands, Brazil, Canada, Mexico, Guatemala and the United States (the Company's subsidiaries operating in these countries are collectively referred to as the "Subsidiaries").

As discussed in Note 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").

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.

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, Inc. (Nu Skin USA"). Also, in March 1999, through a newly formed wholly-owned subsidiary, the Company acquired selected assets of Nu Skin USA. In May 1999, the Company acquired Nu Skin Canada, Inc., Nu Skin Mexico, Inc. and Nu Skin Guatemala, Inc. (collectively, the "North American Affiliates").

As discussed in Note 5, the Company completed the Big Plant Acquisition on July 13, 1999, which enabled the Company to provide marketing and distribution of technology-based products and services.

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 September 30, 1999 and for the three and nine-month periods ended September 30, 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. ("NSI"), NSI affiliates operating in Europe, Australia and New Zealand and certain other NSI affiliates (the "Acquired Entities") for \$70.0 million in preferred stock and long-term notes payable to the stockholders of the Acquired Entities (the "NSI Stockholders") totaling approximately \$6.2 million. In addition, contingent upon NSI and the Company meeting specific earnings growth targets, the Company may pay up to \$25.0 million in cash per year over a four-year period to the NSI Stockholders. A payment of \$25.0 million was paid on April 1, 1999 to the NSI Stockholders based on NSI and the Company meeting specific

earnings growth targets for the year ended December 31, 1998. 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 of accounting, 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 and nine-month periods ended September 30, 1999, the Company recorded amortization of intangible assets relating to the NSI Acquisition of \$0.6 million and \$1.9 million, respectively, and for the three and nine-month periods ended September 30, 1998, the Company recorded amortization of \$0.5 million and \$1.0 million for those same intangible assets, respectively.

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

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. Approximately 130,959 shares were returned to the Company following the first year anniversary. The Company entered into a mutual release of claims and modification agreement which was accepted by former stockholders of Generation Health Holdings, Inc., holding approximately 88% of the consideration received, pursuant to which the Company agreed to release 134,038 shares from escrow and agreed to extend the period in which Pharmanex could meet specific revenue requirements. See Item 5 of this Form 10-Q. 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 and nine-month periods ended September 30, 1999, the Company recorded amortization of

intangible assets relating to the Pharmanex Acquisition of \$1.7 million and \$5.2 million and amortization of inventory step-up relating to the Pharmanex Acquisition of \$0.9 million and \$2.8 million, respectively.

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

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. and paid Nu Skin USA a \$10.0 million termination fee. Also, on that same date, through a newly formed wholly-owned subsidiary, the Company acquired selected assets of Nu Skin USA and assumed approximately \$8.0 million of Nu Skin USA liabilities.

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

5. ACQUISITION OF BIG PLANET, INC.

On July 13, 1999, the Company completed the acquisition of Big Planet, Inc. ("Big Planet"), for \$29.2 million, which consisted of a cash payment of \$14.6 million and a note payable of \$14.6 million (the "Big Planet Acquisition"). In addition, the Company loaned approximately \$4.5 million in connection with the closing to redeem the option holders and certain management stockholders of Big Planet.

The Big Planet Acquisition was accounted for by the purchase method of accounting. The Company recorded intangible assets of \$47.0 million which will be amortized over a period of 20 years. For each of the three and nine-month periods ended September 30, 1999, the Company recorded amortization on each of the intangible assets relating to the Big Planet Acquisition of \$0.5 million. Big Planet incurred operating losses of approximately \$22.0 million in 1998 and approximately \$22.8 million from the period January 1, 1999 through July 12, 1999.

Big Planet has agreed to purchase technology and telecommunications products, services and equipment from several suppliers. If Big Planet does not satisfy the terms of its commitments under these agreements, the total aggregate termination penalty is approximately \$24.7 million.

6. 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. The significant decrease in the effective tax rate for the third quarter of 1999 is related to the utilization of foreign tax credits as a result of the Company's global tax restructuring plans.

7. 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.

8. 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 September 30, 1999 and December 31, 1998, the Company held foreign currency forward contracts with notional amounts totaling approximately \$51.3 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 losses on foreign currency forward contracts were \$4.8 million and \$0.5 million for the three-month periods ended September 30, 1999 and 1998, respectively, and were \$2.2 million for the nine-month period ended September 30, 1999. The net gains on foreign currency forward contracts were \$2.9 million for the nine-month period ended September 30, 1998. These contracts at September 30, 1999 have maturities through May 2000.

9. REPURCHASE OF COMMON STOCK

During the three and nine-month periods ended September 30, 1999, the Company repurchased approximately 303,000 and 1,305,000 shares, respectively, of Class A common stock from Nu Skin USA as described in Note 4, open market repurchases and certain stockholders for approximately \$3.7 million and \$19.2 million, respectively.

10. COMPREHENSIVE INCOME

The components of comprehensive income, net of related tax, for the three and nine-month periods ended September 30, 1999 and 1998, were as follows (in thousands):

	Three Months Ended Sept. 30, 1999 -----	Three Months Ended Sept. 30, 1998 -----	Nine Months Ended Sept. 30, 1999 -----	Nine Months Ended Sept. 30, 1998 -----
Net income	\$ 21,126	\$ 25,491	\$ 73,969	\$ 81,151
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	2,783 -----	(1,015) -----	2,148 -----	(9,562) -----
Comprehensive income	\$ 23,909 =====	\$ 24,476 =====	\$ 76,117 =====	\$ 71,589 =====

11. 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):

Nu Skin Enterprises, Inc.
Notes to Consolidated Financial Statements

	Three Months Ended Sept. 30, 1999	Three Months Ended Sept. 30, 1998	Nine Months Ended Sept. 30, 1999	Nine Months Ended Sept. 30, 1998
Revenue				
North Asia	\$ 148,232	\$ 161,634	\$ 464,636	\$ 466,659
Southeast Asia	69,186	74,559	206,947	237,025
Other Markets	84,668	65,824	234,651	212,281
Eliminations	(81,998)	(84,165)	(241,109)	(261,199)
Totals	\$ 220,088	\$ 217,852	\$ 665,125	\$ 654,766

Operating Income

North Asia	\$ 18,396	\$ 29,232	\$ 69,032	\$ 90,018
Southeast Asia	10,203	2,396	26,264	12,870
Other Markets	2,016	5,062	7,510	6,840
Eliminations	(227)	671	7,069	8,197
Totals	\$ 30,388	\$ 37,361	\$ 109,875	\$ 117,925

	As of Sept. 30, 1999	As of December 31, 1998
Total Assets		
North Asia	\$ 130,117	\$ 167,867
Southeast Asia	110,939	110,518
Other Markets	473,192	500,299
Eliminations	(98,978)	(172,251)
Totals	\$ 615,270	\$ 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 \$143,984 and \$158,559 for the three-month periods ended September 30, 1999 and 1998, respectively, and totaled \$452,846 and \$458,518 for the nine-month periods ended September 30, 1999 and 1998, respectively. Revenue from the Company's operations in Taiwan totaled \$26,883 and \$28,737 for the three-month periods ended September 30, 1999 and 1998, respectively, and totaled \$80,808 and \$92,324 for the nine-month periods ended September 30, 1999 and 1998, respectively. Revenue from the Company's operations in the United States (which includes intercompany revenue) totaled \$78,950 and \$63,012 for the three-month periods ended September 30, 1999 and 1998, respectively, and totaled \$219,467 and \$203,733 for the nine-month periods ended September 30, 1999 and 1998, respectively.

Long-lived assets

Long-lived assets in Japan were \$32,334 and \$20,242 as of September 30, 1999 and December 31, 1998, respectively. Long-lived assets in Taiwan were \$3,537 and \$2,466 as of September 30, 1999 and December 31, 1998, respectively. Long-lived assets in the United States were \$267,288 and \$213,856 as of September 30, 1999 and December 31, 1998, respectively.

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, 2000. The Company will adopt SFAS 133 by January 1, 2001. The Company is currently evaluating the impact the adoption of SFAS 133 will have on the Company's consolidated financial statements.

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

1999 compared to 1998

Revenue increased 1.0% and 1.6% to \$220.1 million and \$665.1 million from \$217.9 million and \$654.8 million for the three and nine-month periods ended September 30, 1999, compared with the same periods in 1998, respectively, primarily as a result of strengthening foreign currencies and the addition of revenue from operations in the United States and Big Planet.

Revenue in North Asia, which consists of Japan and South Korea, decreased 8.3% and 0.4% to \$148.2 million and \$464.6 million for the three and nine-month periods ended September 30, 1999, from \$161.6 million and \$466.7 million for the same periods in 1998, respectively. This decrease in revenue during the third quarter was due mostly to a 26.9% sequential decrease in local currency revenue in Japan offset by an increase of 12% in the Japanese yen to the U.S. dollar during the quarter. Management believes that the local currency revenue decline in Japan is due mostly to distributor uncertainty related to the global implementation of a new divisional business model with an enhanced compensation plan in connection with the integration of Pharmanex and Big Planet, and issues concerning the Company's compensation plan requirements, which became increasingly difficult for distributors to reach as consumer confidence continued to lag. These factors continued from the second quarter of 1999 into the third quarter. Revenue in South Korea during the three and nine-month periods ended September 30, 1999 increased 38.1% and 44.8%, respectively, compared to the same periods in 1998 as a result of both a strengthening of the South Korean won and strong local currency growth for the same periods following several quarters of extensive educational training programs and the launch of new nutritional products in that market.

Revenue in Southeast Asia, which consists of Taiwan, Thailand, Hong Kong (including Macau), the Philippines, Australia and New Zealand, totaled \$36.1 million and \$108.0 million for the three and nine-month periods ended September 30, 1999, a decrease of 5.2% and 12.7% from revenue of \$38.1 million and \$123.7 million for the same periods in 1998, respectively. This decrease in revenue resulted primarily from a decline of 6.5% and 12.5% in revenue in Taiwan for the three and nine-month periods ended September 30, 1999, compared to the same periods in 1998, respectively. The Company's operations in Taiwan suffered the impact of a devastating earthquake in Taiwan, which occurred during the third quarter of 1999. In addition, operations in Taiwan have continued to suffer the impact of increased competition and an overall decline in sales in the direct selling industry in Taiwan, which management believes is largely due to distractions to distributors by fluctuations in direct selling activities in the People's Republic of China as well as economic concerns throughout Southeast Asia.

Revenue in the Company's other markets, which include the United Kingdom, Germany, Iceland, Italy, the Netherlands, France, Belgium, Spain, Portugal, Ireland, Austria, Luxemburg, Poland, Denmark, Sweden, Brazil, Canada, Mexico, Guatemala and the United States, increased 97.2% and 43.6% to \$35.7 million and \$92.5 million for the three and nine-month periods ended September 30, 1999, compared to \$18.1 million and \$64.4 million for the same periods in 1998, respectively. This increase in revenue was primarily due to the additional revenue stream from sales in the United States resulting from the termination of the Company's license agreement with Nu Skin USA, which occurred in March 1999, and the additional revenue resulting from the Big Planet Acquisition.

Gross profit as a percentage of revenue was 82.9% and 82.8% for the three and nine-month periods ended September 30, 1999, compared to 75.7% and 76.2% for the same periods in 1998. The increase in the gross profit as a percentage of revenue for the three and nine-month periods ended September 30, 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's gross margin was negatively impacted by the Big Planet Acquisition, which includes the sale of lower margin technology products and services. In addition, in the first and second quarters of 1998, the Company recorded amortization of inventory step-up related to the NSI Acquisition of \$8.6 million and \$13.0 million, respectively, which did not recur in 1999. 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 38.8% and 38.3% for the three and nine-month periods ended September 30, 1999 from 36.7% and 36.4% for the same periods in 1998.

The primary reason for this increase in 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 30.3% and 27.9% for the three and nine-month periods ended September 30, 1999 from 21.8% and 21.7% for the same periods in 1998. In dollar terms, selling, general and administrative expenses increased to \$66.6 million and \$185.9 million for the three and nine-month periods ended September 30, 1999 from \$47.6 million and \$142.3 million for the same periods in 1998. This increase as a percentage of revenue and in dollar terms was due to stronger foreign currencies in 1999 which resulted in higher expenses in foreign markets, additional overhead expenses relating to the operations in the United States, an additional \$9.9 million during the first nine months of 1999 in amortization resulting from the Company's acquisitions of NSI, Pharmanex and Big Planet, and an additional \$5.5 million of selling, general and administrative expenses related to the Big Planet Acquisition.

Operating income decreased 18.7% and 6.8% to \$30.4 million and \$109.9 million for the three and nine-month periods ended September 30, 1999 from \$37.4 million and \$117.9 million for the same periods in 1998 and operating margin decreased to 13.8% and 16.5% from 17.1% and 18.0% for the same periods, respectively. Operating margins have declined due to the decline in local currency revenue in Japan and the increases in distributor incentives and selling, general and administrative expenses, which more than offset the improvements in gross margins. These increased expenses are mostly related to the NSI Acquisition, the termination of the Company's license agreement with Nu Skin USA, stronger foreign currencies and the Big Planet Acquisition.

Other income decreased to an expense of \$5.2 million and \$1.3 million for the three and nine-month periods ended September 30, 1999 from income of \$3.1 million and \$10.6 million for the same periods in 1998, respectively. This decrease was primarily due to the significant hedging losses recorded in the third quarter of 1999 from forward contracts and intercompany loans resulting from a stronger Japanese yen in relation to the U.S. dollar.

Provision for income taxes decreased 72.7% and 21.9% to \$4.1 million and \$34.6 million for the three and nine-month periods ended September 30, 1999 from \$15.0 million and \$44.3 million for the same periods in 1998, respectively. This decrease is due to the reduced effective tax rate from 37.0% in the second and third quarters of 1998 to 36.0% in the second quarter of 1999 and 16.2% in the third quarter of 1999. This significant decrease in the effective tax rate for the third quarter of 1999 is related to the utilization of foreign tax credits as a result of the Company's global tax restructuring plans. 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 17.3% and 8.9% to \$21.1 million and \$74.0 million for the three and nine-month periods ended September 30, 1999 from \$25.5 million and \$81.2 million for the same periods in 1998 and net income as a percentage of revenue decreased to 9.6% and 11.1% from 11.7% and 12.4% for the same periods, respectively. Net income decreased due to the factors noted above in operating income and other income, and was somewhat offset by the factors noted in provision for income taxes.

Liquidity and Capital Resources

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

The Company generates significant cash flow from operations due to favorable gross margins and minimal capital requirements. Additionally, the Company does not generally extend credit to distributors but requires payment prior to shipping products. This process eliminates the need for significant accounts receivable from distributors. During the first and third quarters of each year, the Company pays significant accrued income taxes in many foreign jurisdictions including Japan. These large cash payments somewhat offset the significant cash generated in these quarters. During the nine-month period ended

September 30, 1999, the Company generated \$11.4 million from operations compared to \$72.9 million generated during the nine-month period ended September 30, 1998. This decrease in cash generated from operations primarily related to reduced net income in 1999 compared to 1998, excluding amortization from the NSI and Pharmanex acquisitions, and also due to the significant operating expenses in 1999 resulting from the Company's operations in the United States and funding of Big Planet operations.

As of September 30, 1999, working capital was \$100.0 million compared to \$164.6 million as of December 31, 1998. This decrease is primarily due to the increase at September 30, 1999 in the current portion of long-term debt and the Big Planet Acquisition that occurred in the third quarter of 1999. Cash and cash equivalents at September 30, 1999 and December 31, 1998 were \$108.2 million and \$188.8 million, respectively.

Capital expenditures, primarily for equipment, computer systems and software, office furniture and leasehold improvements, were \$22.6 million for the nine-month period ended September 30, 1999. In addition, the Company anticipates additional capital expenditures through the remainder of 1999 of approximately \$8.0 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. Pursuant to the terms of the NSI Acquisition, 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 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 September 30, 1999, the balance relating to the \$180.0 million credit facility totaled \$142.7 million of which approximately \$54.9 million is due in 2000 and approximately \$87.8 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 plus an applicable margin 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 the applicable Tokyo Inter-Bank Offer Rate plus an applicable margin. 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 1999, the Company renewed a \$10.0 million revolving credit agreement with ABN-AMRO, N.V. Advances are available under the agreement through May 18, 2000 with a possible extension upon approval of the lender. There were no outstanding balances under this credit facility at September 30, 1999.

During 1998, the board of directors authorized the Company to repurchase up to \$20.0 million of the Company's outstanding shares of Class A common stock and in July 1999, the board of directors authorized the Company to repurchase up to an additional \$10.0 million of the Company's outstanding shares of Class A common stock. As of September 30, 1999, the Company had repurchased 1,601,454 shares in public and private transactions for an aggregate price of approximately \$21.0 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 asset purchase agreement.

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. In May 1999, the Company completed the acquisition of its private affiliates Nu Skin Canada, Nu Skin Mexico and Nu Skin Guatemala for approximately \$2.0 million (inclusive of cash distributed by the acquired entities prior to closing) in cash and assumed net liabilities of up to \$4.0 million.

In July 1999, the Company completed the acquisition of its affiliate Big Planet for an aggregate of approximately \$29.2 million, of which approximately \$14.6 million is payable in the form of a promissory note and approximately \$14.6 million was paid in cash. In connection with the closing of Big Planet, the Company loaned Big Planet approximately \$4.5 million to redeem the option holders and management stockholders of Big Planet. In addition, the Company loaned Big Planet approximately \$10.3 million to fund Big Planet operations through the closing of the acquisition. Big Planet incurred operating losses of approximately \$22.0 million in 1998, approximately \$22.8 million from the period January 1, 1999 through July 12, 1999 and approximately \$5.8 million from the period July 13, 1999 through September 30, 1999. The Company anticipates Big Planet will continue to incur operating losses in the foreseeable future. Big Planet has agreed to purchase technology and telecommunications products, services and equipment from several suppliers. If Big Planet does not satisfy the terms of its commitments under these agreements, the total aggregate termination penalty is approximately \$24.7 million. The largest of these purchase commitments is for long distance telecommunication services. At the current level of long distance service provided to Big Planet customers and assuming reasonable growth, management believes that it will be able to satisfy this purchase commitment.

The Company had related party payables of \$14.8 million and \$25.0 million at September 30, 1999 and December 31, 1998, respectively. In addition, the Company had related party receivables of \$15.4 million and \$22.3 million at September 30, 1999 and December 31, 1998, respectively. Related party balances outstanding in excess of 60 days bear interest at a rate of 2% above the U.S. prime rate. As of September 30, 1999, no material related party payables or receivables had been outstanding for more than 60 days.

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 the Company's 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. The Company has also completed 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 has completed the micro-based assessment and remediation of substantially all of its significant in-house corporate systems, domestic and foreign, and has completed the integration tests of the domestic remediated systems and all of such systems have been installed and put into service. The Company is nearing completion of the testing of its remediated systems in its foreign markets and plans to have any of those remediated systems that are not currently in service installed and placed in service over the next several weeks. Over the next several weeks the Company plans to recheck its desktop applications and computers to verify Year 2000 compliance and that no changes have occurred since the last review.

As part of the Year 2000 plan, the Company has also assessed and monitored its vendors and suppliers and other third parties for Year 2000

readiness. The committee 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 also visited in person the Company's key vendors and suppliers to assess the Year 2000 readiness of such suppliers and vendors and to share Year 2000 information and plans for contingencies. The Company will continue the follow-up with third party vendors throughout the remainder of 1999.

The Company has also completed an evaluation of the Year 2000 readiness of recently-acquired Big Planet, Inc. and the actions taken to date by Big Planet to assess and remediate any Year 2000 issues with respect to its operations and systems. Big Planet had established its own plan and resources to address Year 2000 issues and has continued that work following the acquisition. The majority of Big Planet's systems and hardware have been deployed in 1998 and 1999 and management believes that such systems are not a high risk area for traditional Year 2000 concerns. However, Big Planet's management team is aggressively reviewing all systems and is completing its Year 2000 compliance testing procedures. Big Planet management believes that it will be able to address any remaining Year 2000 issues or develop adequate contingency plans to limit any material interruption of its business prior to the end of the year. The Company believes that any interruption of Big Planet's business would not have a material impact on the Company's financial condition.

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 the Year 2000 issues, is anticipated to be approximately \$3.0 million through the remainder of 1999, which the Company anticipates will be funded by cash from operations. To date, the Company has spent approximately \$10.0 million.

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 and related contingency plans, 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 the most reasonable worst case Year 2000 scenario. However, the Company has begun 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. These plans include, among other things, maintaining two months of inventory and providing for back-up electrical power where feasible. 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 remedy all Year 2000 issues or 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, which could cause an interruption of the Company's 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."

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 takes 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 September 30, 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 September 30, 1999 as discussed in Note 8 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

Management believes that the acquisitions of Pharmanex, Big Planet and Nu Skin operations in the United States should positively impact the Company's long-term revenue and earnings growth rates. Management currently anticipates gross margins to stabilize on a sequential basis over the next few quarters as the Company continues selling products directly to U.S. distributors rather than recognizing lower margin intercompany revenue, as well as a stronger Japanese yen and reduced duties from the Company's global tax restructuring plans and local manufacturing efforts. Management also anticipates that distributor incentives as a percentage of revenue will continue to be higher in the fourth quarter of 1999 due to paying commissions to U.S. based distributors. Selling, general and administrative expenses as a percentage of revenue will generally be higher in the fourth quarter of 1999 and the first quarter of 2000 as compared to the prior year due to increased amortization of intangible assets acquired in the acquisitions of Pharmanex and NSI, as well as stronger foreign currencies and expenses related to the Company's global convention in the fourth quarter and its Japanese convention in the first quarter of 2000. In addition, overhead related to the acquired U.S. operations as well as Big Planet will increase selling, general and administrative expenses. Management expects to return to historic tax rates in the fourth quarter of 1999.

The foregoing outlook section contains forward-looking statements that represent the Company's current expectations or beliefs concerning future operating results. 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 below under the heading "Note Regarding Forward-looking Statements."

Note Regarding Forward-Looking Statements

With the exception of historical facts, the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations, in particular in the Liquidity and Capital Resources section, the Year 2000 section, and the Outlook section, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act") which reflect the Company's current expectations and beliefs regarding the future results of operations, performance and achievements of the Company. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may not materialize. These forward-looking statements include, but are not limited to, statements concerning (i) the Company's belief that existing cash and cash flow from operations will be adequate to fund cash needs, including the capital requirements of its Year 2000 remediation program; (ii) the Company's expectations concerning its ability to identify and remediate or address any Year 2000 related issues, including with third parties, and its ability to develop viable contingency plans in the event the Company's or its vendor's systems are not compliant, all as more fully described under the Year 2000 section above; (iii) management's belief that recent acquisitions should positively impact the Company's long-term revenue and earnings growth rates; (iv) management's anticipation that gross margins will stabilize; (v) management's anticipation that distributor incentives and selling, general and administrative expenses will generally be higher in the fourth quarter of 1999 and the first quarter of 2000 as compared to the prior year, and that tax rates will return to historical levels in the fourth quarter; and (vi) the Company's plan to implement forward contracts and other hedging strategies to manage foreign currency risks. In addition, when used in this report, the words or phrases, "will likely result," "expects," "anticipates," "will continue," "intends," "plans," "believes," "the Company or management believes," and similar expressions are intended to help identify forward looking statements.

The Company wishes to caution readers that the risks and uncertainties set forth below, and the other risks and factors described herein and in the Company's other filings with the Securities and

Exchange Commission (which contain a more detailed discussion of the risks and uncertainties related to the Company's business) could cause (and in some cases in the past have caused) the Company's actual results and outcomes to differ materially from those discussed or anticipated. The Company also wishes to advise readers that it is not obligated to update or revise these forward looking statements to reflect new events or circumstances. Important factors and risks that might cause actual results to differ from those anticipated include, but are not limited to:

(a) Management's ability to successfully integrate the business of Pharmanex and Big Planet with the Company's existing operations and shift to a product-based divisional structure, which is subject to risks including continued or renewed confusion or uncertainty among the Company's distributor's which the Company believes has adversely affected the productivity of the Company's distributors during the last couple of quarters, and unforeseen expenses or difficulties in shifting to a divisional strategy.

(b) The ability of the Company to retain its key and executive level distributors. The Company has experienced a reduction in the number of active and executive distributors. Because the Company's products are distributed exclusively through its distributors, the Company's operating results could be adversely affected if the Company's existing and new business opportunities and products do not generate sufficient economic incentive to retain its existing distributors or to sponsor new distributors, or if the Company receives adverse publicity.

(c) Because a substantial majority of the Company's sales are generated from the Asian region, particularly Japan and Taiwan, significant variations in operating results including revenue, gross margin and earnings from those expected could be caused by (i) renewed or sustained weakness of Asian economies, or (ii) any weakening of foreign currencies, particularly the yen, which has recently strengthened significantly and helped offset the effects of the decline in local currency revenue in Japan, and the risk that the Company will not be able to favorably implement forward contracts and other hedging strategies to manage foreign currency risk.

(d) Adverse business or political conditions, increased competition, the maturity of the direct sales channel in certain select markets such as Taiwan, adverse publicity, or changes in laws and regulations (including any increased government regulation of direct selling activities and products in existing and future markets such as the PRC's restrictions on direct selling or changes in U.S. or foreign tax regulations), unanticipated increases in expenses, the Company's reliance on outside manufacturers, and general business risks that could adversely affect the Company's ability to sell products and expand or maintain its existing distributor force or otherwise adversely affect its operating results.

(e) Risks associated with the Company's new business opportunities, new product offerings and new markets, including: any legal or regulatory restrictions, particularly those applicable to nutritional products and the services offered by Big Planet, that might delay or prevent the Company from introducing such opportunities and products into all of its markets or limit the ability of the Company to effectively market such products, the risk that such opportunities and products will not gain market acceptance or meet the Company's expectations as a result of increased competition, any lack of market acceptance by consumers or the Company's distributors, and the risk that sales from such new business opportunities and product offerings could reduce sales of existing products and will not generate incremental revenue growth.

(f) Any increased expenditures required to address the Year 2000 issue if the Company's technology requirements change or unforeseen problems are discovered and the risk that the Company's and its vendors' plans to remedy Year 2000 issues and any related contingency plans may be inadequate, or that undetected and unanticipated issues will arise, which could result in disruptions of the Company's business.

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 8 to the Financial Statements contained in Item 1 of

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the Company's Annual Report on Form 10-K and its Quarterly Report on Form 10-Q for information concerning the legal proceedings. There have been no material developments in these proceedings since the date of the filing of the Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.

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

In connection with the acquisition of Generation Health Holdings, Inc., and its subsidiary Pharmanex, Inc. (the "Merger"), the representatives of the former stockholders of Generation Health Holdings, Inc. disputed on behalf of such stockholders certain claims for indemnification made by the Company, the calculation of balance sheet adjustments, issues regarding the 434,834 shares of stock held in escrow (the "Cholestin Escrow") subject to the satisfaction of certain conditions regarding Pharmanex's product, Cholestin, and certain other issues. Effective October 16, 1999, the Company entered into a Mutual Release of Claims and Modification Agreement (the "Agreement") with former stockholders of Generation Health Holdings, Inc. who received approximately 88% of the consideration received in the transaction and who accepted the terms of the Agreement (the "Accepting Holders"). Among other things, the Agreement provides that: (A) 79,099 shares of the Class A Common Stock issued in the transaction will be reconveyed to the Company to satisfy certain indemnification claims made by the Company (after netting out 24,434 shares the Company agreed to issue as part of the balance sheet adjustment); (B) 134,038 shares of the Class A Common Stock held in the Cholestin Escrow were released to the Accepting Holders; (C) the time period in which the performance criteria for sales of Cholestin could be met for release of shares from the Cholestin Escrow was extended until June 15, 2000 for the Accepting Holders and such shares now will be released from the Cholestin Escrow to the extent of the percentage of such performance criteria achieved; (D) the Accepting Holders and the Company granted mutual releases of claims; and (E) Accepting Holders holding approximately 3.0 million shares of Class A Common Stock received in the Merger agreed to not sell or transfer such shares, subject to certain exceptions, until the earliest of (i) February 10, 2000, (ii) the third day following the date the Company publicly releases its earnings for 1999 and (iii) the date, if applicable, the Company otherwise publicly announces or states that its earnings for 1999 will be less than analysts' estimates. A copy of the Mutual Release of Claims and Modification Agreement is filed as Exhibit 10.1 to this report and incorporated herein by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Regulation S-K
Number

Description

10.1 Mutual Release of Claims and Modification Agreement dated as of October 16, 1999 by and among Nu Skin Enterprises and the Stockholder Representatives on behalf of the former stockholders of Generations Health Holdings, Inc.

27.1 Financial Data Schedule - Nine Months Ended September 30, 1999

- (b) Current Report on Form 8-K. A Current Report on Form 8-K was filed on July 28, 1999 regarding the acquisition of Big Planet, 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 12th day of November, 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 Mutual Release of Claims and Modification Agreement dated as of October 16, 1999 by and among Nu Skin Enterprises and the Stockholder Representatives on behalf of the former stockholders of Generations Health Holdings, Inc.

- 27.1 Financial Data Schedule - Nine Months Ended September 30, 1999

MUTUAL RELEASE OF CLAIMS AND MODIFICATION AGREEMENT

THIS MUTUAL RELEASE OF CLAIMS AND MODIFICATION AGREEMENT (the "Agreement") is made and entered into as of this 16th day of October, 1999, by and among NU SKIN ENTERPRISES, INC., a Delaware corporation ("Nu Skin"), John Diekman, Gerald Cohn, William E. McGlashan, Jr., Henry S. Burdick and Peter Castleman, acting in all matters pursuant to the direction of at least four of such persons, as representatives and Attorney-in-Fact of the Stockholders (the "Stockholders Representatives") of GENERATION HEALTH HOLDINGS, INC., a Delaware corporation (the "Company") pursuant to the power of attorney granted to such Stockholders Representatives by the Stockholders of Generation Health Holdings, Inc. (the "Stockholders"), pursuant to the Stockholder's Letter and LASALLE BANK NATIONAL ASSOCIATION, a national banking association, as escrow agent (the "Escrow Agent").

WITNESSETH:

WHEREAS, Nu Skin, Sage Acquisition Corporation ("Merger Sub") and the Company entered into that Restated Agreement and Plan of Merger and Reorganization dated as of October 16, 1998 (the "Merger Agreement", and capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Merger Agreement);

WHEREAS, pursuant to the Merger Agreement, the Company merged with and into Merger Sub in accordance with the General Corporation Law of the State of Delaware and upon the terms and subject to the conditions set forth in the Merger Agreement;

WHEREAS, the parties hereto wish to resolve certain disputes and grant a mutual release of claims and in connection therewith modify certain rights, obligations and liabilities of those Stockholders who timely accept the terms and conditions of this Agreement by executing and delivering a Stockholder's Election Form substantially in the form attached hereto as Exhibit A (the "Accepting Holders"), which executed Election Form shall be attached hereto as Exhibit B with a schedule of the names of the Accepting Holders, and Nu Skin as set forth in the Merger Agreement, the Cholestin Escrow Agreement, the Escrow Agreement, the Registration Rights Agreement and the Stockholder Escrow Agreement dated as of October 16, 1998 by and among the Stockholders Representatives, the Escrow Agent and the Stockholders (the "Stockholder Escrow Agreement"); and

WHEREAS, the Accepting Holders received in excess of sixty percent (60%) of the Merger Consideration (as defined below);

NOW, THEREFORE, in consideration of the covenants and agreements herein set forth, the parties hereto agree as follows:

1. CHOLESTIN ESCROW.

(a) Notwithstanding that Nu Skin has or will notify the Escrow Agent that the conditions set forth in Section 5.16(a) of the Merger Agreement necessary for the distribution to the Stockholders of the Total Cholestin Escrow Shares have not been satisfied and directing the Escrow Agent to distribute such shares to Nu Skin in accordance with Section 5.16(a) of the Merger Agreement and the Cholestin Escrow Agreement, in consideration of the release of claims by the Accepting Holders set forth in Section 3 below and the other terms and conditions of this Agreement, with respect to the Accepting Holders only, the Total Cholestin Escrow Shares held in the names of the Accepting Holders (the "Accepting Holders Total Cholestin Escrow Shares") will not be cancelled and returned to Nu Skin pursuant to Section 5.16 of the Merger Agreement and the Cholestin Escrow Agreement at this time, but shall be held and distributed to the Accepting Holders and/or Nu Skin, as the case may be, as set forth in this Agreement. All other Total Cholestin Escrow Shares, other than the Accepting Holders Total Cholestin Escrow Shares, shall be cancelled and returned to Nu Skin by the Escrow Agent promptly following October 25, 1999 in the manner contemplated by the Merger Agreement and the Cholestin Escrow Agreement. The provisions of Section 5.16 of the Merger Agreement shall continue to apply to the Accepting Holders Total Cholestin Escrow Shares, which provisions are incorporated herein by reference, subject to the following changes: (i) all references to "the first anniversary of the Effective Date" shall be deleted and replaced with "June 15, 2000", and (ii) rather than distributing the shares on an all or nothing basis at June 15, 2000, the shares shall be distributed to the Accepting Holders pro rata based on the percentage of the Sales objective satisfied as set forth below.

(b) Notwithstanding any other provision in the Merger Agreement, the Cholestin Escrow Agreement or the certificate delivered or to be delivered to the Escrow Agent pursuant to Section 7(c) of the Cholestin Escrow Agreement to

the contrary, Nu Skin shall deliver to the Escrow Agent on or before October 25, 1999 written instructions pursuant to this Agreement authorizing and instructing the Escrow Agent promptly to deliver the Initial Release Amount (as defined below) to the Accepting Holders pro rata. For purposes of this Section 1(b), the "Initial Release Amount" shall equal 152,192 shares (35% of the Total Cholestin Escrow Shares) multiplied by a fraction, the numerator of which is the number of Accepting Holders Total Cholestin Escrow Shares and the denominator of which is the Total Cholestin Escrow Shares.

(c) Notwithstanding any other provision in the Merger Agreement or the Cholestin Escrow Agreement to the contrary, on each of January 15, 2000 and April 15, 2000, and within 20 days after June 15, 2000 (each a "Release Date"), Nu Skin shall deliver to the Escrow Agent written instructions pursuant to this Agreement authorizing and instructing the Escrow Agent to deliver to the Accepting Holders pro rata the Earned Amount (as defined below) of the then remaining Accepting Holders Total Cholestin Escrow Shares. For purposes of this Section 1(c), "Earned Amount" shall equal (i) the percentage equivalent of the total Sales (net of returns) in the United States or worldwide, as the case may be, by Nu Skin of products containing Cholestin as calculated as of the 31st day of the month immediately preceding January 15, 2000 and April 15, 2000, and as calculated as of June 15, 2000, divided by \$12,000,000 for United States sales or \$75,000,000 for worldwide sales, whichever percentage is greater, multiplied by (ii) the Accepting Holders Total Cholestin Escrow Shares, minus (iii) the number of Accepting Holders Total Cholestin Escrow Shares theretofore released and delivered to the Accepting Holders.

(d) Promptly upon receipt of written instructions contemplated by Section 1 hereof, (i) the Escrow Agent shall deliver a copy of such written instructions to the Stockholders Representatives and (ii) the Escrow Agent, the Stockholders Representatives and Nu Skin shall take such action as may be necessary to cause certificates representing the amount of shares specified in the written instructions delivered pursuant to Sections 1(b) or (c) hereof to be distributed to the Accepting Holders pro rata in accordance with the procedures set forth in Sections 7(b) and (e) of the Cholestin Escrow Agreement.

(e) The provisions set forth in Section 7(b), (c), (d) and (e) of the Cholestin Escrow Agreement, subject to the modifications in this Agreement, shall continue in effect with respect to any of the Accepting Holders Total Cholestin Escrow Shares on deposit after June 15, 2000 with respect to Sales made through that date. If as of June 15, 2000, total Cholestin Sales have not reached one of (i) \$12,000,000 in the United States or (ii) \$75,000,000 worldwide then the portion of the Accepting Holders Total Cholestin Escrow Shares which are not distributed to the Accepting Holders based on sales through June 15, 2000 in accordance with the formula set forth above shall be cancelled and returned to Nu Skin. Within twenty days after June 15, 2000, Nu Skin shall deliver a certificate to the Stockholder Representatives and the Escrow Agent indicating the number of the remaining Accepting Holder Total Escrow Shares to be delivered to the Accepting Holders pursuant to this Agreement and the number that are to be returned to Nu Skin for cancellation. The provisions of Section 7(b), (c), (d) and (e) of the Cholestin Escrow Agreement, subject to the modifications in this Agreement, shall apply with respect to the procedures to be followed with respect to such certificate and the distribution of shares to the Stockholders or Nu Skin as the case may be. Accepting Holders shall deliver to the Escrow Agent stock transfer powers duly executed in blank (with signatures duly notarized if requested by Nu Skin) to facilitate the distribution of Accepting Holder Total Escrow Shares as contemplated by this Section 1.

(f) Notwithstanding any other provision of this Agreement, the Merger Agreement, the Cholestin Escrow Agreement or the certificate delivered or to be delivered to the Escrow Agent pursuant to Section 7(c) of the Cholestin Escrow Agreement to the contrary, in each circumstance in which Accepting Holders Total Cholestin Escrow Shares are to be distributed to the Accepting Holders, the number of such shares to be distributed to the Accepting Holders shall be rounded to the nearest whole number. Under no circumstances shall any Accepting Holder receive more shares from the Escrow Fund (as defined in the Cholestin Escrow Agreement) than were deposited in that Escrow Fund by or on behalf of such Accepting Holder.

2. TRADING LIMITATIONS.

(a) Each Stockholder who received a certificate or certificates representing 21,000 or fewer shares of Class A Common Stock in connection with the Merger, including, without limitation, the Escrow Shares and the Cholestin Escrow Shares (the "Merger Consideration"), shall, as of October 16, 1999, be released from the trading limitations set forth in Article III of that certain Stockholder's Letter executed by each Stockholder prior to the Merger; provided, however, that any Accepting Holder who received more than 10,000 shares of Merger Consideration may, at such Accepting Holder's sole discretion, elect to be governed by the trading limitations set forth in Section 2(b) hereof by so indicating on such Accepting Holder's Election Form, and in consideration of

making such election, Nu Skin shall permit such Accepting Holder to participate in the liquidity event, if any, contemplated by Section 6 hereof.

(b) Each Accepting Holder who received a certificate or certificates representing more than 21,000 shares of Merger Consideration irrevocably agrees that, except pursuant to the exercise of registration rights in accordance with the Registration Rights Agreement, such Accepting Holder shall not, from the date hereof and for a period ending on the first to occur of (a) three days following the date that Nu Skin publicly announces its earnings for the fiscal year ended December 31, 1999 or issues a press release or public statement indicating that its earnings for the fiscal year ended December 31, 1999 will be below analysts' expectations, (b) February 10, 2000 and (c) the consummation of a transaction sponsored or arranged by Nu Skin in which each Accepting Holder's shares of Class A Common Stock are purchased by Nu Skin or a third party (a "liquidity event"), but only with respect to those shares sold in such liquidity event, (i) offer to sell, sell, contract to sell, pledge or otherwise dispose of any Merger Consideration or any securities substantially similar to the Merger Consideration, including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive, shares of Class A Common Stock or any substantially similar securities, but excluding shares of Class A Common Stock, if any, owned by such Accepting Holder that do not constitute Merger Consideration or (ii) establish a "put equivalent position" with respect to any of the Merger Consideration within the meaning of Rule 16a-1(h) under the Securities Exchange Act of 1934, as amended, or (iii) publicly announce an intention to take any of the actions set forth in (i) or (ii) above; provided, however, that the limitations set forth above shall not apply to (A) any bona fide transfers or gifts to the ancestors, siblings, descendants, spouse or domestic partner of such Accepting Holder, or any trust for the benefit of such persons or such Accepting Holder, if such Accepting Holder has provided prior written notice to Nu Skin of such transfer and such transferee has agreed in writing to be bound by the terms hereof or (B) any transfer of Merger Consideration to the Stockholders Representatives pursuant to Section 9.01 of the Merger Agreement; provided, further, that any Accepting Holder who is subject to paragraph (b) of this Section 2 may, at such Accepting Holder's sole discretion, take any of the actions set forth in clauses (i) through (iii) above on or after October 16, 1999 with respect to such Accepting Holder's pro rata percentage of 150,000 of the shares of Merger Consideration. Nu Skin and the transfer agent with respect to the Class A Common Stock are hereby authorized to enforce the provisions of the preceding sentence by refusing to permit transfers which Nu Skin believes may violate such sentence.

(c) Nu Skin agrees that prior to March 26, 2000, it will not modify, amend or waive the terms of any transfer restrictions in force as of October 10, 1999 as set forth in that certain Amended and Restated Stockholders Agreement, as amended through October 10, 1999, among the Nu Skin founding stockholder group in a manner that could adversely effect the Accepting Holders, except that Nu Skin may waive such transfer restrictions solely with respect to charitable contributions approved by Nu Skin's special committee of outside directors charged with evaluating requests by members of the NUS founding stockholder group for release of their shares of Class A Common Stock as charitable contributions consistent with its fiduciary duties and past practices.

3. RELEASE AND WAIVER.

(a) Each of the Accepting Holders hereby fully releases, remises, acquits, and forever discharges Nu Skin and each of its affiliates, officers, directors, employees, agents, successors and assigns, and each of such person's respective heirs, executors, administrators, trustees, beneficiaries, assigns, predecessors and successors ("Accepted Parties") from any and all claims, suits, obligations, liabilities, causes of action, demands, charges, complaints, damages, losses, attorney's fees, and costs or expenses, of any kind whatsoever, whether at law or in equity, whether known or unknown, that the Accepting Holders, any predecessor or successor in interest of the Accepting Holders, now has, ever had, or might conceive or accrue in the future against any of the Accepting Holders Released Parties arising out of, occurring in connection with, or otherwise relating to the Merger Agreement and all related transactions, from the beginning of the world up to and including the date hereof; provided, however, that the foregoing release shall not apply to or affect (i) any obligations, duties or rights arising under this Agreement, (ii) any obligations, duties or rights under Sections 5.08, 5.09, 5.12, 5.13, 5.14 or 5.22 of the Merger Agreement, the Registration Rights Agreement or the respective Stockholder's Letters (other than Article II), (iii) any obligations, duties or rights under any employment agreement, consulting agreement, confidentiality agreement, or lost certificate affidavit entered into by and between Nu Skin and any Stockholder in connection with the Merger Agreement, or any promissory note assumed or succeeded to by Nu Skin or its affiliates as a result of the Merger or (iv) any obligations of Nu Skin under the Merger Agreement (as modified by this Agreement), the Escrow Agreement (as modified by this Agreement), and/or the Cholestin Escrow Agreement (as modified by this Agreement), which by the respective terms of such agreements are to be performed following the date of this Agreement.

(b) Nu Skin, on behalf of itself and all its affiliates, hereby fully releases, remises, acquits, and forever discharges each Accepting Holder and each of such person's respective heirs, executors, administrators, trustees, beneficiaries, assigns, predecessors and successors ("Nu Skin Released Parties") from any and all claims, suits, obligations, liabilities, causes of action, demands, complaints, damages, losses, attorney's fees, and costs or expenses, of any kind whatsoever, whether at law or in equity, whether known or unknown, that Nu Skin, any predecessor or successor in interest of Nu Skin, now has, ever had, or might conceive or accrue in the future against any of the Nu Skin Released Parties arising out of, occurring in connection with, or otherwise relating to breaches of representations, warranties and covenants under the Merger Agreement and all related documentation among Nu Skin, the Stockholders and/or the Stockholders Representatives, from the beginning of the world up to and including the date hereof; provided, however, that the foregoing release shall not apply to or affect (i) any obligations, duties or rights arising under this Agreement, (ii) any obligations, duties or rights under Sections 5.08, 5.09, 5.12, 5.13, 5.14 or 5.22 of the Merger Agreement, the Registration Rights Agreement or the respective Stockholder's Letters (other than Article II), (iii) any obligations, duties or rights under any employment agreement, consulting agreement, confidentiality agreement, or lost certificate affidavit entered into by and between Nu Skin and any Stockholder in connection with the Merger Agreement, or any promissory note assumed or succeeded to by Nu Skin or its affiliates as a result of the Merger or (iv) any obligations of the Accepting Holders under the Merger Agreement (as modified by this Agreement), the Escrow Agreement (as modified by this Agreement), and/or the Cholestin Escrow Agreement (as modified by this Agreement), which by the respective terms of such agreements are to be performed following the date of this Agreement.

(c) Notwithstanding the respective releases given by the parties herein, each party hereto shall be entitled to enforce any right created, or conferred upon such party, by this Agreement, including through instituting legal action against an otherwise released person. If any party hereto brings an action to enforce its rights hereunder, the prevailing party shall be entitled to recover its costs and expenses, including court costs and attorneys' fees incurred in connection with such suit.

(d) The mutual releases set forth in this Section 3 are entered into by the Accepting Holders and Nu Skin without any admission of liability to any other, but solely for the purpose of avoiding costly litigation, further uncertainty, controversy, and legal expense. Without limiting the foregoing, nothing contained herein shall be taken or construed to be an inference or admission by any party or as evidencing or indicating in any degree the truth or correctness of any claims or defense asserted by any party.

4. BOOK VALUE ADJUSTMENTS. Pursuant to Section 2.08 of the Merger Agreement, Nu Skin shall deliver to the Escrow Agent for deposit into the Escrow Account (as defined in the Escrow Agreement) as of October 16, 1999, a certificate representing 24,434 shares of Class A Common Stock. The Stockholders and Nu Skin hereby agree that upon such deposit, all required adjustments to the Merger Consideration shall have been made and no further adjustments to the Merger Consideration shall be made pursuant to Section 2.08 of the Merger Agreement.

5. General escrow.

(a) As of October 16, 1999, the Escrow Agent shall distribute to Nu Skin a total of 103,533 Total Escrow Shares¹ from the Escrow Account (as defined in the Escrow Agreement). The Escrow Agent, the Stockholders Representatives and Nu Skin shall cause a certificate representing such shares to be delivered to Nu Skin as payment in full of claims made by Nu Skin pursuant to Sections 7.02(a)(v) and (vii) of the Merger Agreement. Nu Skin, for itself and all Indemnified Parties, hereby agrees that the Reserved Amount (as defined in the Escrow Agreement) is \$0.00 following the distribution of Total Escrow Shares described above. All other Total Escrow Shares, other than those distributed to Nu Skin pursuant to this Section 5(a) or subject to Sections 5(c), 5(d) and 5(f) below, shall be distributed to the Stockholders promptly following the one year anniversary of the Effective Date as contemplated by the Escrow Agreement. Following the distribution to Nu Skin of the Total Escrow Shares pursuant to this Section 5(a), Nu Skin shall have no further interest in the Escrow Fund (as defined in the Escrow Agreement) and Nu Skin shall have no further rights, duties or obligations under the Escrow Agreement.

(b) Upon the Escrow Agent's receipt of certificates representing the shares referenced in Section 4 hereof, the Escrow Agent shall increase the number of shares of Class A Common Stock beneficially owned by each Stockholder or Accepting Holder, as applicable, in the Escrow Fund (as defined in the Escrow Agreement), pro rata based on such Stockholder's proportionate interest in such deposited shares. In lieu of issuing and depositing the 24,434 shares required by Section 4 hereof, Nu Skin may authorize the Escrow Agent to reduce by 24,434 the number of shares to be delivered to Nu Skin pursuant to Section 5(a).

(c) Notwithstanding any other provision in the Merger Agreement or in Escrow Agreement to the contrary, the Accepting Holders' pro rata portion of the set aside in the Escrow Fund (as defined in the Escrow Agreement) originally consisting of \$250,000 in cash and Class A Common Stock and 33,207 Escrow Shares established pursuant to Section 10(b)(ii) of the Escrow Agreement (the "SR Expense Set Aside") remaining after payment of all Stockholders Representatives, accrued and unpaid expenses through the date this Agreement is actually executed and delivered, shall be held by the Escrow Agent in the Escrow Account (as defined in the Escrow Agreement) to pay the accrued and unpaid fees and expenses of the Stockholders Representatives without regard to the termination of the Escrow Fund (as defined in the Escrow Agreement). Any claims made by the Stockholders Representatives against the SR Expense Set Aside shall comply with the provisions of Section 10(b)(ii) of the Escrow Agreement. As soon as the Stockholders Representatives are satisfied that their responsibilities to the Stockholders have been discharged, the Stockholders Representatives shall deliver a certificate to the Escrow Agent to that effect. Upon the Escrow Agent's receipt of such certificate, the Escrow Agreement shall be deemed terminated in accordance with Section 14 of the Escrow Agreement and the balance of the SR Expense Set Aside shall be distributed in accordance with Section 8(h) of the Escrow Agreement.

(d) As of October 25, 1999, the Escrow Agent and the Stockholders Representatives shall take such action as may be necessary to (i) reduce the Accepting Holders' pro rata portion of 173,913 shares of Class A Common Stock on deposit in the Escrow Fund (as defined in the Escrow Agreement), (ii) cause a certificate representing such shares to be transferred to the Escrow Agent for deposit into the Escrow Fund (as defined in the Stockholder Escrow Agreement). Following such deposit, the Escrow Fund (as defined in the Stockholder Escrow Agreement) shall be held or distributed, as the case may be, in accordance with the terms of the Stockholder Escrow Agreement. Notwithstanding any other provision to the contrary in the Stockholder Escrow Agreement, including, without limitation, Section 13(b) thereof, the Stockholders Escrow Agreement shall not terminate until the Stockholders Representatives are satisfied that their obligations as described in Section 3 of the Stockholders Escrow Agreement, and all reasonable expenses incurred in connection therewith, have been discharged, at which time the Stockholders Representatives shall deliver a certificate to the Escrow Agent to that effect and the Escrow Agent shall promptly, but no later than ten days following receipt of such certificate from the Stockholders Representatives, distribute to the Stockholders pro rata any cash or shares of Class A Common Stock remaining in the Escrow Fund (as defined in the Stockholders Escrow Agreement).

(e) For the purposes of Sections 5(c) and 5(d) hereof, the Accepting Holders' (as a group) pro rata portion of (i) the remaining SR Expense Set Aside as described in Section 5(c) and (ii) the 173,913 shares that were to be deposited pursuant to Stockholders Escrow Agreement as described in Section 5(d) will be equal to a fraction (expressed as a percentage), the numerator of which is the total number of shares of Merger Consideration received by the Accepting Holders and the denominator of which is the total number of shares of Merger Consideration received by all Stockholders.

(f) The Rejecting Holders' portion of (i) the remaining SR Expense Set Aside (after payment of all Stockholders Representatives' accrued and unpaid expenses through the date that this Agreement is actually executed and delivered) and (ii) the 173,193 Shares of Merger Consideration that were to have been deposited in escrow pursuant to the Stockholders Escrow Agreement, will be distributed to each Rejecting Holder pro rata in accordance with Section 8(h) of the Escrow Agreement. For the purposes of this Section 5(f), each Rejecting Holder's pro rata interest in the distributions pursuant to this Section 5(f) shall equal the total amount to be distributed multiplied by a fraction, the numerator of which is the number of shares of Merger Consideration received by such Rejecting Holder and the denominator of which is the total number of shares of Merger Consideration received by all Rejecting Holders.

6. LIQUIDITY.

Nu Skin agrees to use its reasonable best efforts, acting in good faith, to provide Accepting Holders who are subject to the trading limitations set forth in Section 2(b) hereof an opportunity to participate in a commercially reasonable liquidity event on or before April 15, 2000. For purposes of this Section 6, each Accepting Holder acknowledges that a commercially reasonable liquidity event may include a private or public transaction at a price per share below the closing price of Class A Common Stock on the day immediately preceding the date of the closing of such liquidity event; provided, however, that the per share consideration received by Accepting Holders in connection with such liquidity event shall in no event be less than the per share amount of consideration offered to the Nu Skin founding stockholder group or to Nu Skin in connection with a related financing transaction; provided, further, that any Accepting Holder who participates in such liquidity event and thereby has the opportunity to sell at least 50% of all of such Stockholder's Merger

Consideration, excluding for purposes of such calculation any shares of such Stockholder's Merger Consideration held in escrow as of the date of the liquidity event (the "Eligible Shares"), agrees that the trading limitations set forth in Section 2(b) hereof shall remain in effect until the later of (a) the end of the restricted period set forth in Section 2(b) hereof or (b) 90 days following the closing of such liquidity event; and, provided further, that (i) if less than fifty percent (50%) of the Eligible Shares are tendered in such liquidity event, Accepting Holders who elect not to participate in such liquidity event (the "Non-participating Holders") agree that the trading limitations set forth in Section 2(b) hereof shall remain in effect with respect to such Accepting Holders shares of Merger Consideration until 60 days following the closing of such liquidity event and (ii) if fifty percent (50%) or more of the Eligible Shares are tendered in such liquidity event, Non-participating Holders agree that the trading limitations set forth in Section 2(b) hereof shall remain in effect with respect to such Accepting Holders shares of Merger Consideration until 45 days following the closing of such liquidity event; provided, however, that (x) notwithstanding (i) or (ii) above, in no event shall the restricted period end prior to the period set forth in Section 2(b) and (y) under no circumstances shall any Accepting Holder be required to agree to any transfer restriction relating to a liquidity event that is more restrictive as to time, scope or otherwise, than those agreed to by any member of the Nu Skin founding stockholder group participating in such (or a related) liquidity event.

7. REGISTRATION RIGHTS.

Each Accepting Holder irrevocably agrees to vote such Accepting Holder's shares of Merger Consideration in favor of not more than one demand registration right under the Registration Rights Agreement.

8. Effectiveness.

Each of the Merger Agreement, the Cholestin Escrow Agreement, the Escrow Agreement and the Stockholder Escrow Agreement is specifically amended to the extent provided herein and as necessary to give effect to such amendments. Except as provided in the immediately preceding sentence, such agreements shall continue in full force and effect.

9. ESCROW AGENT.

The Escrow Agent shall receive fees in the amount of (a) \$3,000 for the administration of the Escrow Fund (as defined in the Cholestin Escrow Agreement, as modified by this Agreement) and (b) \$2,750 for the administration of the Escrow Fund (as defined in the Escrow Agreement, as modified by this Agreement) for services rendered by the Escrow Agent under this Agreement for the period from October 17, 1999 through October 16, 2000. All such fees owed to the Escrow Agent hereunder shall be paid and satisfied out of those respective Escrow Funds or such other sources as the parties hereto shall mutually agree. All computations required to be made under the terms of this Agreement in calculating the number of shares to be distributed from any escrow by the Escrow Agent hereunder shall be made by Nu Skin and/or the Stockholders Representatives, and such party shall provide any such computation in writing to the other parties hereto.

10. GOVERNING LAW.

This Agreement, and all matters relating hereto, shall be governed by, and construed in accordance with the laws of the State of Delaware applicable to contracts executed and to be performed within that State.

11. ENTIRE AGREEMENT.

This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, both written and oral, between the parties, or any of them, with respect to the subject matter hereof.

12. COOPERATION.

Each party agrees to cooperate with the other and to take all action reasonably necessary to give full effect to the provisions and intent of this Agreement.

13. AMENDMENTS.

This Agreement may not be amended or modified except by an instrument in writing signed by, or on behalf of, the Stockholders Representatives, Nu Skin and the Escrow Agent.

14. AUTHORIZATION.

The Stockholders Representatives, Nu Skin and the Escrow Agent each represent and warrant (i) this Agreement has been duly and validly authorized,

executed and delivered, subject to the application of equitable remedies, and (ii) each person executing this Agreement on behalf of the parties hereto is duly authorized and fully competent to execute this Agreement on behalf of such parties.

15. NOTICES.

All notices or other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, or by overnight courier service, telecopy, or registered or certified mail (postage prepaid, return receipt requested) to the respective parties hereto at their address set forth below:

if to the Stockholders Representatives:

John Diekman
c/o Bay City Capital, LLC
750 Battery Street, Suite 600
San Francisco, California 94111
Telecopier: (415) 837-0996

with a copy to:

Latham & Watkins
233 South Wacker Drive, Suite 5800
Chicago, Illinois 60606
Attention: Michael A. Pucker
Telecopier: (312) 993-9767

if to Nu Skin:

Nu Skin Enterprises, Inc.
One Nu Skin Plaza
75 West Center Street
Provo, Utah 84601
Attention: M. Truman Hunt
Telecopier: (801) 345-3099

if to the Escrow Agent:

LaSalle Bank National Association
135 South LaSalle Street
Suite 1960
Chicago, Illinois 60603
Attention: Mark F. Rimkus
Telecopy: (312) 904-2236

or to such other persons or addresses as may be designated in writing by the party to receive such notice as provided above.

16. COUNTERPARTS.

This Agreement may be executed in any number of counterparts, and by different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which when taken together shall constitute one and the same agreement.

17. NO third party beneficiaries.

This Agreement is for the sole benefit of the parties hereto, the Stockholders and their permitted assigns, and nothing herein, express or implied, is intended to or shall confer upon any other person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

18. SEVERABILITY.

If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic and legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any party. Upon such determination that any term or other provisions is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated by this Agreement be consummated as originally contemplated to the fullest extent possible.

19. SUCCESSORS AND ASSIGNS.

This Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto as of the date first written above.

NU SKIN ENTERPRISES, INC.

By: /s/ M. Truman Hunt
Name: M. Truman Hunt
Title: Vice President and
General Counsel

/s/ John Diekman
John Diekman

/s/Gerald L. Cohn
Gerald L. Cohn

/s/William McGlashan, Jr.
William McGlashan, Jr.

/s/Henry S. Burdick
Henry S. Burdick

/s/Peter Castleman
Peter Castleman

Not individually, but each in his capacity as a Stockholders Representative and as attorneys in fact of the Accepting Holders

LASALLE BANK NATIONAL ASSOCIATION,
as Escrow Agent

By: Russell C. Bergman
Name: Russell C. Bergman
Title: Vice President

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