

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-12421

**NU SKIN ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**87-0565309**

(IRS Employer Identification No.)

**75 West Center Street  
Provo, Utah 84601**

(Address of principal executive offices, including zip code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$.001 par value	NUS	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Based on the closing sales price of the Class A common stock on the New York Stock Exchange on June 28, 2019, the last business day of the Registrant's second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$2.70 billion. All executive officers and directors of the Registrant, and all stockholders holding more than 10% of the Registrant's outstanding voting stock (other than institutional investors, such as registered investment companies, eligible to file beneficial ownership reports on Schedule 13G), have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the Registrant.

As of January 31, 2020, 55,547,214 shares of the Registrant's Class A common stock, \$.001 par value per share, and no shares of the Registrant's Class B common stock, \$.001 par value per share, were outstanding.

**Documents incorporated by reference.** Portions of the Registrant's Definitive Proxy Statement for the Registrant's 2020 Annual Meeting of Stockholders are incorporated by reference in Part III of this report. The Definitive Proxy Statement or an amendment to this Form 10-K will be filed with the Securities and Exchange Commission within 120 days after the Registrant's fiscal year end.

---

## TABLE OF CONTENTS

	Page	
<b>PART I</b>		
ITEM 1.	<a href="#">BUSINESS</a>	1
	<a href="#">PRODUCTS</a>	1
	<a href="#">DISTRIBUTION CHANNEL</a>	3
	<a href="#">GEOGRAPHIC REGIONS</a>	6
	<a href="#">REGULATION</a>	6
	<a href="#">COMPETITION</a>	12
	<a href="#">EMPLOYEES</a>	12
	<a href="#">AVAILABLE INFORMATION</a>	12
	<a href="#">INFORMATION ABOUT OUR EXECUTIVE OFFICERS</a>	13
ITEM 1A.	<a href="#">RISK FACTORS</a>	14
ITEM 1B.	<a href="#">UNRESOLVED STAFF COMMENTS</a>	32
ITEM 2.	<a href="#">PROPERTIES</a>	33
ITEM 3.	<a href="#">LEGAL PROCEEDINGS</a>	33
ITEM 4.	<a href="#">MINE SAFETY DISCLOSURES</a>	33
<b>PART II</b>		
ITEM 5.	<a href="#">MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</a>	34
ITEM 6.	<a href="#">SELECTED FINANCIAL DATA</a>	36
ITEM 7.	<a href="#">MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	37
ITEM 7A.	<a href="#">QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	50
ITEM 8.	<a href="#">FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</a>	51
ITEM 9.	<a href="#">CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</a>	83
ITEM 9A.	<a href="#">CONTROLS AND PROCEDURES</a>	83
ITEM 9B.	<a href="#">OTHER INFORMATION</a>	83
<b>PART III</b>		
ITEM 10.	<a href="#">DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</a>	84
ITEM 11.	<a href="#">EXECUTIVE COMPENSATION</a>	84
ITEM 12.	<a href="#">SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</a>	84
ITEM 13.	<a href="#">CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</a>	84
ITEM 14.	<a href="#">PRINCIPAL ACCOUNTANT FEES AND SERVICES</a>	84
<b>PART IV</b>		
ITEM 15.	<a href="#">EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</a>	84
ITEM 16.	<a href="#">FORM 10K SUMMARY</a>	86
<a href="#">SIGNATURES</a>		87

---

## FORWARD-LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K, IN PARTICULAR “ITEM 1. BUSINESS” AND “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS,” CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, THAT REPRESENT OUR CURRENT EXPECTATIONS AND BELIEFS. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACT ARE “FORWARD-LOOKING STATEMENTS” FOR PURPOSES OF FEDERAL AND STATE SECURITIES LAWS AND INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS OF MANAGEMENT’S EXPECTATIONS REGARDING OUR PERFORMANCE, INITIATIVES, STRATEGIES, PRODUCTS, INGREDIENTS, PRODUCT INTRODUCTIONS AND OFFERINGS, PRODUCT SOURCING, GROWTH, ACQUISITIONS AND ACQUIRED COMPANIES’ PERFORMANCE, OPPORTUNITIES AND RISKS; STATEMENTS OF PROJECTIONS REGARDING FUTURE SALES, EXPENSES, OPERATING RESULTS, TAXES AND DUTIES, CAPITAL EXPENDITURES, SOURCES AND USES OF CASH, FOREIGN-CURRENCY FLUCTUATIONS OR DEVALUATIONS, AND OTHER FINANCIAL ITEMS; STATEMENTS OF MANAGEMENT’S EXPECTATIONS AND BELIEFS REGARDING OUR MARKETS, SALES FORCE, SALES COMPENSATION PLAN AND CUSTOMER BASE; STATEMENTS REGARDING THE PAYMENT OF FUTURE DIVIDENDS AND STOCK REPURCHASES; STATEMENTS REGARDING THE OUTCOME OF LITIGATION AND OTHER LEGAL MATTERS; ACCOUNTING ESTIMATES AND ASSUMPTIONS; STATEMENTS OF BELIEF; AND STATEMENTS OF ASSUMPTIONS UNDERLYING ANY OF THE FOREGOING. IN SOME CASES, YOU CAN IDENTIFY THESE STATEMENTS BY FORWARD-LOOKING WORDS SUCH AS “BELIEVE,” “EXPECT,” “PROJECT,” “ANTICIPATE,” “ESTIMATE,” “COMMIT,” “INTEND,” “PLAN,” “TARGETS,” “LIKELY,” “WILL,” “WOULD,” “COULD,” “MAY,” “MIGHT,” THE NEGATIVE OF THESE WORDS AND OTHER SIMILAR WORDS. WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENT, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE, EXCEPT AS REQUIRED BY LAW. WE CAUTION AND ADVISE READERS THAT THESE STATEMENTS ARE BASED ON ASSUMPTIONS THAT MAY NOT BE REALIZED AND INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE EXPECTATIONS AND BELIEFS CONTAINED HEREIN. FOR A SUMMARY OF THESE RISKS, SEE “ITEM 1A. RISK FACTORS.”

In this Annual Report on Form 10-K, references to “dollars” and “\$” are to United States dollars.

Nu Skin, Pharmanex and ageLOC are our trademarks. The italicized product names used in this Annual Report on Form 10-K are product names and also, in certain cases, our trademarks.

---

**PART I****ITEM 1. BUSINESS**

Founded 35 years ago, Nu Skin Enterprises, Inc. develops and distributes a comprehensive line of premium-quality beauty and wellness solutions in approximately 50 markets worldwide. In 2019, our revenue of \$2.4 billion was primarily generated by our three primary brands: our beauty and personal care brand, Nu Skin; our nutritional products brand, Pharmanex; and our anti-aging brand, ageLOC. We operate in the direct selling channel, primarily utilizing person-to-person marketing to promote and sell our products.

In addition to our core Nu Skin business, we also explore new areas of growth and opportunity through our strategic investment arm known as Rhyz Inc. Rhyz investments include personal care and nutritional product manufacturing companies and indoor-growing technologies, which are sometimes referred to as controlled-environment agriculture. In 2019, the Rhyz companies generated \$122.0 million of our 2019 reported revenue (excluding sales to our core Nu Skin business), substantially all of which was from the manufacturing companies.

About 87% of our revenue came from outside of the United States in 2019, with approximately 30% of our revenue coming from Mainland China, our largest revenue market. Given the size of our international operations, our results, as reported in U.S. dollars, are often impacted by foreign-currency fluctuations. In 2019, our revenue was negatively impacted 3% from foreign-currency fluctuations compared to 2018. In addition, our results can be impacted by global economic, political, demographic and business trends and conditions.

Our operations are subject to various laws and regulations globally, particularly with respect to our product categories and our distribution channel. See Item 1A. Risk Factors for a more detailed description of the risks associated with our business.

**PRODUCTS**

We offer a branded, differentiated product portfolio. We believe our innovative approach to product development and distribution provides us with a competitive advantage in personal care and nutritional products and direct selling. We believe that our acquired and licensed technologies, research collaborations and in-house research expertise enable us to introduce innovative, proprietary products.

**Product Categories**

We have two primary product categories: personal care products and wellness products. We develop and distribute innovative, premium-quality products in these two categories under our Nu Skin and Pharmanex brands, respectively. We also develop and distribute products under our ageLOC brand, which features innovative, premium-quality anti-aging products in both the personal care and wellness categories and in many cases is co-branded with our Nu Skin and Pharmanex products. We also offer products under other brands, including personal care products that are conducive to social sharing, such as cosmetics and other socially demonstrable and shareable products.

Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of personal care and wellness products for the years ended December 31, 2019, 2018 and 2017. This table should be read in conjunction with the information presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, which discusses the factors impacting revenue trends and the costs associated with generating the aggregate revenue presented.

**Revenue by Product Category**  
(U.S. dollars in millions)<sup>(1)</sup>

Product Category	Year Ended December 31,					
	2019		2018		2017	
Personal Care <sup>(2)</sup>	\$ 1,423.5	58.8%	\$ 1,659.7	62.0%	\$ 1,456.4	63.9%
Wellness <sup>(2)</sup>	863.1	35.7%	921.3	34.4%	817.2	35.9%
Other <sup>(3)</sup>	133.8	5.5%	98.0	3.6%	5.5	0.2%
	<u>\$ 2,420.4</u>	<u>100.0%</u>	<u>\$ 2,679.0</u>	<u>100.0%</u>	<u>\$ 2,279.1</u>	<u>100.0%</u>

(1) In 2019, 87% of our sales were transacted in foreign currencies that were then converted to U.S. dollars for financial reporting purposes at weighted-average exchange rates. Foreign-currency fluctuations negatively impacted reported revenue by approximately 3% in 2019 compared to 2018 and positively impacted reported revenue by approximately 1% in 2018 compared to 2017.

(2) Includes sales of personal care and wellness products in our core Nu Skin business.

(3) Other includes the external revenue from our Rhyz companies along with a limited number of other products and services, including household products and technology services.

**Personal Care.** Our strategy for our personal care products category is to leverage our distribution channel to strengthen Nu Skin's position as an innovative leader in the masstige and premium personal care markets. We are committed to continuously improving and evolving our product formulations to develop and incorporate innovative and proven ingredients. We formulate many of the products in our personal care category with ingredients that are scientifically proven to provide visible results. Our personal care products also include our innovative skin care devices. In 2019, our top-selling products by revenue in this category were two of our innovative skin care devices and related consumables: our *ageLOC Spa* systems and our *ageLOC LumiSpa* skin treatment and cleansing device. Our ageLOC personal care products accounted for 49% of our personal care category revenue and 30% of our total revenue in 2019. Also included in our personal care category are our Epoch® products, which feature botanical ingredients derived from renewable sources, and a number of other cosmetic and personal care products, some of which are conducive to social sharing.

**Wellness.** Our strategy for our wellness category is to continue to introduce innovative, substantiated products based on research and development and quality manufacturing. Direct selling has proven to be an effective method of marketing our high-quality wellness products because our sales force can personally educate consumers on the quality and benefits of our products, differentiating them from our competitors' offerings. In 2019, our three top-selling products by revenue in this category were our *LifePak* nutritional supplements, our *ageLOC Youth* nutritional supplements and our *ageLOC TR90* weight management and body shaping system. Our ageLOC nutritional products accounted for 45% of our nutritional supplements product category revenue and 17% of our total revenue in 2019.

## Product Development

We are committed to developing and marketing innovative products. We have several products in development, including next-generation skin care products and nutritional supplements. In our research and product development, we leverage the three disciplines of science, technology and sourcing to create innovative products that address consumer needs. We also develop and offer products that are conducive to social sharing, including cosmetics and other socially demonstrable and shareable products.

Our research and product development activities include:

- Global consumer research to identify needs and insights and refine product concepts;
- Internal research, product development and quality testing;
- Joint research projects, collaborations and clinical studies;
- Identification and assessment of technologies for potential licensing arrangements; and
- Acquisition of technologies.

We maintain research and product development facilities in the United States and Mainland China. We also contract with third parties for clinical studies and collaborate on basic research projects with researchers from universities and other research institutions in the United States and Asia, whose staffs include scientists with basic research expertise in, among others, natural product chemistry, biochemistry, dermatology, nutrition, pharmacology and clinical studies.

We also work to identify and assess innovative technologies developed by third parties for potential licensing, supply or acquisition arrangements. Because of the nature of our distribution channel, which allows us to provide a high level of product information on a person-to-person basis, we often have third parties who are interested in licensing innovative technologies to us to incorporate into our products and commercialize through our distribution channel. Licensing arrangements allow us to leverage the research activities of third parties that have resulted in demonstrated technologies, without all of the upfront costs and uncertainty associated with internal development. We have also invested in acquisitions to supplement our research capabilities and to acquire technologies, including our acquisition of Pharmanex in 1998; the license and acquisition of the technology underlying our *BioPhotonic Scanner*, a non-invasive tool that measures the level of carotenoid anti-oxidants in skin, in the early 2000s; and the acquisition of assets related to the genetic sources of aging from LifeGen Technologies, LLC in 2011. We incur expenses for royalties and amortization for previous technology-related acquisitions.

## Intellectual Property

Our major trademarks are registered in the United States and in each market where we operate or have plans to operate, and we consider trademark protection to be very important to our business. Our major trademarks include Nu Skin®, our fountain logos, Pharmanex®, ageLOC®, LifePak®, Galvanic Spa®, TR90®, Epoch®, ageLOC Me® and LumiSpa®. In addition, a number of our products, including our facial spas, *ageLOC Body Spa*, *LumiSpa*, *TR90* and *Pharmanex BioPhotonic Scanner*, are based on proprietary technologies, some of which are patented or licensed from third parties. We also rely on patents and trade secret protection to protect our proprietary formulas and other proprietary information for our ageLOC products and other products.

## Sourcing and Production

For markets other than Mainland China, in 2019, we sourced most of our personal care products and wellness products from trusted third-party suppliers and manufacturers. In Mainland China, we operate manufacturing facilities where we produce the majority of our personal care products and nutritional supplements sold in Mainland China. We also produce some products at these facilities that are exported to other markets.

In 2019, we acquired ingredients and products from three suppliers that represented more than 10% of our personal care purchases and three suppliers that represented more than 10% of our nutritional supplement purchases. We maintain good relationships with these suppliers and do not anticipate that any party will terminate these relationships in the near term. In the event we become unable to source any products or ingredients from these suppliers, we believe that we would be able to produce or replace those products or substitute ingredients. We also have ongoing relationships with secondary and tertiary suppliers. We procure our *ageLOC Spa* systems and other products or ingredients from single vendors that may own or control the product formulations, ingredients, or other intellectual property rights associated with the products or ingredients. We maintain good relationships with these vendors and do not anticipate termination of these relationships in the near term. However, to continue offering these product categories following any termination of our relationship with these vendors, we would need to develop and manufacture alternative products and source them from other vendors. Please refer to Item 1A. Risk Factors for a discussion of risks and uncertainties associated with our supplier relationships and with the sourcing of raw materials and ingredients.

In 2018, we acquired three companies that primarily do the following, respectively: develop and manufacture personal care products, develop and manufacture nutritional supplements, and source and procure product packaging. These businesses are owned by our Rhyz strategic investment arm. We believe these manufacturers allow us to leverage their expertise to enhance our supply chain capabilities. These businesses continue to operate outside of our core Nu Skin business and sell products to companies in the personal care and nutritional industries, generating \$122.0 million in revenue from sales to external customers in 2019.

We also continue, through our Rhyz entity, to invest in controlled-environment agriculture technologies. We believe these technologies will enhance our ability to source clean, sustainable ingredients. We also have found that some of this technology has broader applications in agriculture feed, and we are pursuing these potential opportunities through an entity called Gröv Technologies, LLC, a subsidiary of Rhyz. Gröv Technologies is also pursuing opportunities involving fresh-produce and grow-lighting technologies.

## **DISTRIBUTION CHANNEL**

We operate in the direct selling channel, primarily utilizing person-to-person marketing to promote and sell our products. We support these personal marketing efforts with marketing content, events, websites, apps and other technology solutions. We believe our distribution channel is an effective vehicle to distribute our products because:

- our sales force has rapid reach to potential customers through their social networks and the social networks of those to whom they are connected;
- our sales force can personally educate consumers about our products, which we believe is more effective for differentiating our products than using traditional mass-media advertising;
- our distribution channel allows for product demonstrations and trial by potential consumers;
- our distribution channel allows our sales force to provide personal testimonials of product efficacy; and
- as compared to other distribution methods, our sales force has the opportunity to provide consumers higher levels of service.

While our person-to-person marketing philosophy remains consistent globally, various aspects of our business may differ from market to market, including product mix and pricing, compensation structure, access to distribution outlets or product stores, the manner of getting products to consumers, product claims, branding and product formulations. In addition, in Mainland China we have implemented a business model that, unlike the business model we use in our other markets, utilizes retail stores, sales employees, independent direct sellers and independent marketers to market our products.

In many of our markets, our sales force has had success with social sharing, in which they use social media platforms to find new customers and promote and sell our products. We seek to support these efforts with products that are conducive to social sharing and with technology solutions to facilitate this model. Social sharing presents certain risks and challenges to our business, as discussed further in Item 1A. Risk Factors.

Given that members of our sales force are independent contractors in most markets, we do not control or direct their promotional efforts. We do, however, require that our sales force abide by policies and procedures that require them to act in an ethical and consumer-protective manner and in compliance with applicable laws and regulations. As a member of direct selling associations globally, we promote and abide by the industry's codes of ethics and consumer-protective standards to support and protect those who sell and purchase our products through the direct selling channel.

## **Consumer Group and Sales Network**

Our distribution channel is composed of two primary groups: our consumer group—individuals who buy our products primarily for personal or family consumption and share products with friends and family; and our sales network—individuals who personally buy, use and resell products, and who also find new consumers, and recruit, train and develop new sellers. We strive to develop both our consumer group and our sales network. Our strategy for growing our consumer group is to offer high-quality, innovative products that provide demonstrable benefits. Our strategy for growing our sales network is to provide a meaningful business opportunity for those persons who demonstrate the desire and ability to develop both a consumer group and a team of sellers, including through sales compensation, incentives and recognition.

To monitor the growth trends in our consumer group, we track the number of persons who purchased products directly from the company during the previous three months (“Customers”). We believe a significant majority of Customers purchase our products primarily for personal or family consumption but are not actively pursuing the opportunity we offer to generate income by marketing and reselling products. Our Customer numbers do not include consumers who purchase products directly from members of our sales force.

To monitor the growth in our sales network, we track the number of independent distributors, and sales employees and independent marketers in Mainland China, who achieve certain qualification requirements (“Sales Leaders”). The following chart sets forth information concerning our Customers and Sales Leaders for the last three years.

**Total Number of Customers and Sales Leaders<sup>(1)</sup> by Region**

	As of December 31, 2019		As of December 31, 2018		As of December 31, 2017	
	Customers	Sales Leaders	Customers	Sales Leaders	Customers	Sales Leaders
Mainland China	292,812	17,987	303,789	33,129	192,604	40,610
Americas/Pacific	220,216	7,607	248,609	8,354	244,467	8,871
South Korea	168,972	7,251	182,026	7,565	172,553	8,431
Southeast Asia	136,349	7,480	153,465	8,933	121,764	8,020
Japan	125,557	5,916	130,181	5,916	132,041	6,592
EMEA	153,330	4,619	149,085	4,791	135,051	4,683
Hong Kong/Taiwan	65,669	3,900	76,891	4,767	71,091	4,671
Total	1,162,905	54,760	1,244,046	73,455	1,069,571	81,878

(1) Our Velocity sales compensation program enhancements were designed to drive and reward increased productivity of our Sales Leaders, with adjusted requirements for qualifying and maintaining “Sales Leader” status, which has impacted the number of independent distributors under our global compensation program who achieve such requirements. For example, the sales volume necessary to achieve initial qualification has been increased in some markets, financial rewards have been increased for higher monthly sales productivity, and qualification requirements to maintain and advance status have been modified. The enhanced program also provides some flexibility to remain a Sales Leader with a lower sales volume for a short time. We began introducing Velocity in the fourth quarter of 2017 and continued rolling it out across our markets through the first half of 2019. We have now introduced Velocity in all of our markets other than Mainland China, which operates under a different business model and is not impacted by these changes.

**Global Direct Selling Channel**

Outside of Mainland China, individuals can elect to participate in our business as follows:

- “Distributor-Direct Consumers”—Individuals who purchase products directly from an independent distributor at a price established by the distributor.
- “Company-Direct Consumers”—Individuals who purchase products directly from the company. These consumers are typically referred by a distributor and may purchase at retail price or at a discount. These individuals do not have the right to build a Nu Skin business by reselling product or by recruiting others.
- “Basic Distributors”—Distributors who purchase products for personal or family use or for resale to other consumers. These individuals are not eligible to receive compensation on a multi-level basis unless they elect to qualify as a Sales Leader under our global sales compensation plan. We consider these individuals to be part of our consumer group, as we believe a significant majority of these distributors are purchasing products for personal use and not actively recruiting others, and their purchasing levels are similar to our “Company-Direct Consumers.”
- “Sales Leaders and Qualifiers”—Distributors who have qualified or are trying to qualify as a Sales Leader. These distributors have elected to pursue the business opportunity as a Sales Leader and are actively recruiting consumers and distributors and building a sales network under our global sales compensation plan and constitute our sales network.

To become a distributor, an individual signs a distributor agreement and receives a business portfolio, which is free in most markets and in some cases is delivered in electronic form. In some markets, we charge a small fee for the business portfolio, which is limited to our costs. The business portfolio generally consists of documentation concerning the business, including copies of the sales compensation plan, distributor policies and procedures, product catalog and other documentation, but does not include products. There are no requirements to purchase products or other materials to become a distributor, and no commissions are paid on any purchase of a business portfolio.

We offer a generous product return policy, which also includes returns of business support materials. In most markets, we offer a return policy that allows our distributors to return unopened and unused items for up to 30 days for a full refund, or 12 months subject to a 10% restocking fee. Distributors are not required to terminate their distributorship to return product. Actual returns have historically been less than 5% of annual revenue. We believe our generous return policy minimizes the financial risks associated with being a distributor.



In addition to our product return policy, we strive to be as customer protective as possible. We seek to ensure that those who use our products or participate in our business opportunity are treated fairly and are not misled by inappropriate product or earnings claims.

There are two fundamental ways in which our distributors can earn money:

- by reselling products purchased from the company to consumers; and
- through sales compensation earned on the sale of products under our global sales compensation plan.

We believe that our global sales compensation plan, which has been implemented in each of our markets except Mainland China, is among the most generous in the direct selling industry and is one of our competitive advantages. Our Sales Leaders can receive sales compensation under our global sales compensation plan for product sales from the company to their own network of consumers as well as for product sales from the company to other Sales Leaders and their consumer groups. This type of sales compensation is often referred to as “multi-level” compensation. Our sales force is not required to recruit or sponsor others, and we do not pay any sales compensation for recruiting or sponsoring. While all of our distributors can sponsor others at any time, our Sales Leaders and those in qualification to become Sales Leaders are those who generally are actively sponsoring others. Pursuant to our global sales compensation plan, we pay consolidated sales compensation in a Sales Leader’s home market, in local currency, for product sales in the Sales Leader’s own consumer group and for product sales in the Sales Leader’s team of Sales Leaders across all geographic markets.

### **Mainland China Business Model**

Because of restrictions on direct selling and multi-level commissions in Mainland China, we have implemented a business model for that market that is different from the business model we use in our other markets. We have structured our business model in Mainland China based on several factors: the guidance we have received from government officials, our interpretation of applicable regulations, our understanding of the practices of other international direct selling companies operating in Mainland China, and our understanding as to how regulators are interpreting and enforcing the regulations.

In Mainland China, we utilize sales employees to sell products through our retail stores and website; independent direct sellers, who can sell away from our stores where we have a direct selling license and a service center and can also sell through our website; and independent marketers, who are licensed business owners authorized to sell our products at their own approved premises or through our stores and website. We rely on our sales employees, independent direct sellers and independent marketers to attract new consumers and promote repeat purchases, and to educate our sales force about our products, culture and policies through frequent training meetings.

Our sales employees, independent direct sellers and independent marketers in Mainland China do not participate in our global sales compensation plan, but are instead compensated according to a separate compensation model established for Mainland China. Sales employees, independent direct sellers and independent marketers earn (1) retail bonuses on their product sales; and (2) a salary (sales employee) or service fee (independent marketer), which is reviewed and adjusted quarterly based on their position and performance, taking into account such factors as the sales productivity of the Sales Leader him/herself and of the sales representatives that such Sales Leader trains, collaborates with, supports and services. Sales Leaders can also earn other bonuses or special incentives based on various performance metrics. We generally compensate our Mainland China Sales Leaders at a level that is competitive with other direct selling companies in the market and reflective of the compensation of our Sales Leaders globally.

Operating in Mainland China entails certain risks and uncertainties to our business, as discussed further in Item 1. Business—“Regulation” and Item 1A. Risk Factors. We endeavor to mitigate these risks and uncertainties through various measures, including by seeking to understand and obey laws and regulations, training our employees and sales force, engaging in dialogue with government officials to better understand their goals and explain our plans, and cooperating in inquiries and other matters of interest to regulators. However, these efforts do not eliminate the significant risks associated with operating in Mainland China.

Our global sales compensation plan and our Mainland China business model, including our related know-how, processes and systems, play a significant role in helping us to attract and incentivize our sales force. We have strategically developed and refined our global sales compensation plan and our Mainland China business model to distinguish the business opportunity that we offer from those of other companies and to seek to provide us with a competitive advantage.

### **Sales Incentives, Meetings, Recognition and Training**

An important part of our distribution channel is motivating our Sales Leaders and recognizing their achievements. We hold regular meetings and events globally in order to recognize Sales Leaders who have achieved various levels of success in our business. These meetings also allow the company and key Sales Leaders to provide training to other Sales Leaders. We utilize a variety of sales incentives such as incentive trips to motivate Sales Leaders. In addition to rewarding performance, incentive trips provide Sales Leaders and the company opportunities to share best practices and set goals, generate alignment of Sales Leaders around key initiatives, and provide a high level of motivation and team building.

## Product Launch Process

We use a variety of methods to launch our products, enabling us to tailor the launch process to the specific market and the specific product. Prior to making a key product generally available for purchase, we may do one or more introductory offerings of the product, such as a preview of the product to our Sales Leaders, a limited-time offer, or other product introduction or promotion. In some of these offerings, we may sell the product for a limited time, often in limited quantities, and then remove it from the market for a period of time before making it generally available for purchase. We refer to this entire process, beginning with the introductory offering through general availability of the product, as a product launch or our launch process.

Sales Leader previews, limited-time offers and other product introductions and promotions may generate significant activity and a high level of purchasing, which can result in a higher-than-normal increase in revenue during the quarter and can skew year-over-year and sequential comparisons. We believe our product launch process attracts new Customers and Sales Leaders to our business, increases consumer trial and provides us with important marketing and forecasting information about our products. Please refer to Item 1A. Risk Factors for more information on risks related to our product launch process.

## GEOGRAPHIC REGIONS

We currently sell and distribute our products in approximately 50 markets. We have divided our markets into seven segments: Mainland China; South Korea; Southeast Asia, which includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam; Americas/Pacific, which includes Australia, Canada, Latin America, New Zealand and the United States; Japan; Hong Kong/Taiwan, which also includes Macau; and Europe, Middle East and Africa (“EMEA”), which includes several markets in Europe as well as Israel, Russia and South Africa. We also generate revenue in our Manufacturing and Grow Tech segments, which consist of the manufacturing and controlled-environment agriculture businesses within our Rhyz strategic investment arm. The following table sets forth the revenue for each of the segments and the Other category for the years ended December 31, 2019, 2018 and 2017.

(U.S. dollars in millions)	Year Ended December 31,								
	2019		2018		2017				
<i>Nu Skin</i>									
Mainland China	\$	722.5	30%	\$	886.5	33%	\$	717.0	32%
Americas/Pacific		349.1	14		385.0	14		342.4	15
South Korea		330.0	14		373.4	14		361.7	16
Southeast Asia		301.6	12		316.9	12		268.6	12
Japan		260.0	11		254.9	10		256.1	11
EMEA		167.2	7		182.4	7		160.3	7
Hong Kong/Taiwan		166.3	7		185.9	7		166.7	7
Other		1.7	—		3.4	—		6.3	—
<b>Total Nu Skin</b>		<b>2,298.4</b>	<b>95</b>		<b>2,588.4</b>	<b>97</b>		<b>2,279.1</b>	<b>100</b>
<i>Manufacturing</i>		121.9	5		90.6	3		—	—
<i>Grow Tech</i>		0.1	—		—	—		—	—
<b>Total</b>	<b>\$</b>	<b>2,420.4</b>	<b>100%</b>	<b>\$</b>	<b>2,679.0</b>	<b>100%</b>	<b>\$</b>	<b>2,279.1</b>	<b>100%</b>

Additional comparative revenue and related financial information is presented in Note 18 to the consolidated financial statements contained in this report.

## REGULATION

Our business is subject to various laws and regulations globally, particularly with respect to our direct selling business models and our product categories. In addition, as a United States entity operating through subsidiaries in foreign jurisdictions, we are subject to foreign exchange control, transfer pricing and customs laws that regulate the flow of funds between us and our subsidiaries and for product purchases, management services and contractual obligations, such as the payment of sales commissions.

As is the case with most companies in our industry, we receive inquiries from time to time from government regulatory authorities regarding the nature of our business and other issues, such as compliance with local direct selling, transfer pricing, customs, taxation, foreign exchange control, securities and other laws. Negative publicity related to government inquiries into our operations in the United States in the early 1990s, in South Korea in the late 1990s and in Mainland China in 2014 has negatively impacted our business.

## Direct Selling Regulations

Direct selling is regulated by various national, state and local government agencies in the United States and foreign markets. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, including “pyramid” schemes, which compensate participants primarily for recruiting additional participants without significant emphasis on product sales to consumers. The laws and regulations in our current markets generally:

- impose requirements related to order cancellations, product returns, inventory buy-backs and cooling-off periods for our sales force and consumers;
- require us, or our sales force, to register with government agencies;
- impose limits on the amount of sales compensation we can pay;
- impose reporting requirements; and
- require that our sales force is compensated for sales of products and not for recruiting others.

The laws and regulations governing direct selling may be modified or reinterpreted from time to time, which may cause us to modify our sales compensation and business models. In almost all of our markets, regulations are subject to discretionary interpretation by regulators and judicial authorities. There is often ambiguity and uncertainty with respect to the state of direct selling and anti-pyramiding laws and regulations. In the United States, for example, federal law provides law enforcement agencies, such as the Federal Trade Commission (“FTC”), broad latitude in policing unfair or deceptive trade practices, but does not provide a bright-line test for identifying a pyramid scheme. Several states have passed legislation that more clearly distinguishes between illegal pyramid schemes and legitimate multi-level marketing business models. Recent settlements between the FTC and other direct selling companies and guidance from the FTC have addressed inappropriate earnings and lifestyle claims, problematic compensation structures and the importance of focusing on consumers. For more information about these matters and their potential impact on our business, see Item 1A. Risk Factors—“Challenges to the form of our network marketing system could harm our business.”

The regulatory environment in Mainland China is particularly complex and continues to evolve. Mainland China’s direct selling and anti-pyramiding regulations contain various restrictions, including a prohibition on the payment of multi-level compensation. The regulations are subject to discretionary interpretation by state, provincial and local regulators as well as local customs and practices. Regulators continue to act cautiously as they monitor the development of direct selling in Mainland China. As of January 31, 2020, we have obtained direct selling licenses in 37 cities in 25 provinces and municipalities in Mainland China. To expand our direct selling model into additional provinces, we currently must obtain a series of approvals from the local Department of Commerce in such provinces, the Shanghai Municipal Commission of Commerce (our supervisory authority), as well as the Ministry of Commerce, PRC (“MOFCOM”), which is the national governmental authority overseeing direct selling. In the course of obtaining these approvals, the respective authorities under MOFCOM must also consult and seek opinions on our business operations from the Ministry of Public Security and the Administration for Market Regulation at both provincial and state levels.

Our operations in Mainland China are subject to significant government and media scrutiny and investigations. At times, investigations and other regulatory actions have limited our ability to conduct business in Mainland China. For example, initially as a result of negative media coverage about the healthcare-related product claims made by another direct selling company in Mainland China, the government’s scrutiny of activities within the health products and direct selling industries was during 2019, and continues to be, at higher levels. During this time, we have been receiving and addressing an increased number of government reviews, inspections, and inquiries and consumer complaints in Mainland China; our ability to hold certain business meetings has been limited; and negative media coverage has spread to include additional companies, including ours. Another example occurred in 2014. In response to media and government scrutiny of our Mainland China business in 2014, we voluntarily took a number of actions in Mainland China, including temporarily suspending our business meetings, temporarily suspending acceptance of applications for any new sales representatives, and extending our product refund and return policies. These voluntary measures and the adverse publicity had a significant negative impact on our business. We face a risk that future investigations and other regulatory actions may result in fines, revocation of licenses or other significant sanctions.

Several markets, including Mainland China, South Korea, Indonesia and Vietnam, impose limits on the amount of commissions we can pay to our sales force. For example, under regulations in Mainland China, direct selling companies may pay independent direct sellers in Mainland China up to a maximum 30% of the revenue they generate through their own sales of products to consumers. Additionally, in South Korea, local regulations limit sales compensation to 35% of our total value of goods or services supplied in South Korea. We have implemented various measures to comply with these limits, including adjusting the commissionable value of some of our products in this market.

In some markets, regulations applicable to the activities of our Sales Leaders may affect our business because we are, or regulators may assert that we are, responsible for our Sales Leaders’ conduct. In these markets, regulators may request or require that we take steps to ensure that our Sales Leaders comply with local regulations. For example, in Japan, we have taken steps to comply with strict requirements regarding how distributors approach prospective customers. From time to time, we receive warnings from consumer centers in certain prefectures about the number of general inquiries and complaints about us and our distributors. As a result, we continually evaluate and enhance our distributor compliance, education and training efforts in Japan.

Our sales force is required to comply with work authorization and other local legal requirements prior to working in a market. Some markets, including Mainland China and Vietnam, also prohibit or restrict participation of overseas personnel or foreigners in direct selling activities. We have implemented policies that are designed to comply with these regulations and inform our sales force regarding the types of activities that are not permitted. However, we cannot assure that actions of our sales force will not violate local laws or regulations or our policies.

Please refer to Item 1A. Risk Factors for more information on regulatory and other risks associated with our business.

## Product Regulations

Our personal care and wellness products and related promotional and marketing activities are subject to extensive government regulation by numerous federal, state and local government agencies and authorities, including the United States Food and Drug Administration (the “FDA”), the FTC, the Consumer Product Safety Commission, the Department of Agriculture, United States and State Attorneys General and other state regulatory agencies in the United States, as well as the State Administration for Market Regulation in Mainland China, the Food and Drug Administration in Taiwan, the Ministry of Food and Drug Safety in South Korea, the Ministry of Health, Labour and Welfare in Japan and similar government agencies in all other markets in which we operate. In the United States, the FDA, in particular, regulates the formulation, manufacture and labeling of over-the-counter (“OTC”) drugs, cosmetics, dietary supplements, foods and medical devices such as those distributed by us.

**Regulation of Personal Care Products in the United States.** Our personal care products are subject to various laws and regulations that regulate cosmetic and personal care products and set forth regulations that, among other things, determine whether a product can be marketed as a “cosmetic” or requires further approval as an OTC drug. In the United States, the regulation of cosmetic content and labeling is under the primary jurisdiction of the FDA. Cosmetics are not subject to pre-market approval by the FDA, but their ingredients and their label and labeling content are regulated by the FDA, and it is the burden of those who sell cosmetics to ensure that they are safe for use as directed and not adulterated or misbranded. The labeling of cosmetic products is subject to the requirements of the Federal Food, Drug, and Cosmetic Act (“FDCA”), the Fair Packaging and Labeling Act and other FDA regulations.

The FDCA defines cosmetics by their intended use, as “articles intended to be rubbed, poured, sprinkled, or sprayed on, introduced into, or otherwise applied to the human body . . . for cleansing, beautifying, promoting attractiveness, or altering the appearance.” Among the products included in this definition are skin moisturizers, perfumes, lipsticks, fingernail polishes, eye and facial makeup preparations, shampoos, permanent waves, hair colors, toothpastes and deodorants, as well as material intended for use as a component of a cosmetic product. A product may be considered a drug if it is intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease, or is intended to affect the structure or any function of the body (“structure/function claims”). A product’s intended use can be inferred from marketing or product claims, and regulators may consider the marketing claims of our sales force. Structure/function claims are generally prohibited for cosmetic products as are disease prevention and treatment claims. The FDA prohibits certain ingredients from being included in cosmetic products. It is possible that cosmetic product ingredients now commonly in use that are the product of certain scientific advancements or production processes may be restricted or prohibited in the future as more is learned about such ingredients.

In recent years, the FDA has issued warning letters to many cosmetic companies alleging improper structure/function claims regarding their cosmetic products, including, for example, product claims regarding gene activity, cellular rejuvenation, and rebuilding collagen. Cosmetic companies confront difficulty in determining whether a claim would be considered by the FDA to be an improper structure/function claim. Given this difficulty, and our research and product development focus on the sources of aging and the influence of certain ingredients on gene expression, there is a risk that we could receive a warning letter, be required to modify our product claims or take other actions to satisfy the FDA if the FDA determines any of our marketing materials contain improper structure/function claims for our cosmetic products. In addition, plaintiffs’ lawyers have filed class action lawsuits against some of our competitors after our competitors received these FDA warning letters. There can be no assurance that we will not be subject to government actions or lawsuits, which could harm our business.

Certain products, such as sunscreens and acne treatments, are classified as OTC drugs (and cosmetics, depending on claims) and have specific ingredient, labeling and manufacturing requirements. OTC drug products may be marketed if they conform to the requirements of an FDA-established OTC drug monograph that is applicable to that drug. Drug products not conforming to monograph requirements require an approved New Drug Application (“NDA”) before marketing may begin. Under these provisions, if the agency were to find that a product or ingredient of one of our OTC drug products is not generally recognized as safe and effective or is not included in a final monograph that is applicable to one of our OTC drug products, we may be required to reformulate or cease marketing that product until it is the subject of an approved NDA or until the time, if ever, that the monograph is amended to include such product. The labeling of these products is subject to the requirements of the FDCA and the Fair Packaging and Labeling Act and other FDA regulations.

**Regulation of Personal Care Products in Other Markets.** The other markets in which we operate have similar regulations. In Mainland China, personal care products, other than devices, are placed into one of two categories, “special-purpose cosmetics” and “non-special-purpose cosmetics.” Products in both categories require submission of formulas and other information with the health authorities, and certain products require human clinical studies. The product registration process for some categories of personal care products in Mainland China can be unpredictable and generally takes from 9 to 18 months to complete. However, in some cases, product registration in Mainland China has taken several years. In Japan, the Ministry of Health, Labour and Welfare regulates the sale and distribution of cosmetics and requires us to have an import business license and to register each personal care product imported into Japan. In Taiwan, all “medicated” cosmetic products require registration. In South Korea, all “functional” cosmetics are required to either undergo examination by or be reported to the Ministry of Food and Drug Safety. The sale of cosmetic products is regulated in the European Union (the “EU”) under the EU Cosmetics Directive, which requires a uniform application for foreign companies making personal care product sales. Similar regulations in any of our markets may limit our ability to import products or utilize key ingredients or technologies globally and may delay product launches while the registration and approval process is pending. Changing regulations may require us to stop selling, discontinue or reformulate and re-register products in order to sell those products.

**Regulation of Wellness Products in the United States.** Our wellness products are also subject to applicable regulations of government agencies in the markets in which we operate. In the United States, we generally market our wellness products as conventional foods or dietary supplements. The FDA has jurisdiction over this regulatory area. The FDA imposes specific requirements for the labels and labeling of food and dietary supplements, including the requirements of the Food Allergen Labeling and Consumer Protection Act of 2004, which mandates declaration of the presence of major food allergens. In addition, the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 contains requirements with regard to the sale and importation of food products in the United States.

The FDA Food Safety Modernization Act (“FSMA”), which was signed into law in 2011, also increased the FDA’s authority with respect to food safety and made significant changes to the FDCA with respect to strengthening the U.S. food safety system. It enables the FDA to focus more on preventing food safety problems rather than primarily reacting to problems after they occur. The law also provides the FDA with enforcement authorities designed to achieve higher rates of compliance with prevention- and risk-based food safety standards and to better respond to and contain problems when they do occur. The law also gives the FDA important tools to hold imported foods to the same standards as domestic foods and directs the FDA to build an integrated national food safety system in partnership with state and local authorities. The FDA is actively enforcing FSMA requirements, subjecting food and nutritional supplements to increased regulatory scrutiny. Pursuant to FSMA, the FDA is authorized, among other things, to order mandatory recalls, issue “administrative detention” orders, and revoke manufacturing facility registrations (effectively preventing the operation of a food or dietary supplement manufacturing facility), and importers of foods and nutritional supplements are subject to Foreign Supplier Verification Program requirements.

The FDA regulates dietary supplements principally under the Dietary Supplement Health and Education Act of 1994 (“DSHEA”). DSHEA formally defines what may be sold as a dietary supplement, defines statements of nutritional support and the conditions under which they may lawfully be used, and includes provisions that permit the FDA to regulate manufacturing practices and labeling claims applicable to dietary supplements. Because the majority of our wellness products are regulated under DSHEA, we are generally not required to obtain regulatory approval prior to introducing a dietary supplement into the United States market. Prior to marketing a product, we are obligated to notify the FDA of any structure/function claims that we intend to make about the product in any product-related materials.

Generally, under DSHEA, dietary ingredients that were on the market before October 15, 1994 may be used in dietary supplements without notifying the FDA. However, a “new” dietary ingredient (i.e., a dietary ingredient that was not marketed in the United States before October 15, 1994) must be the subject of a new dietary ingredient notification submitted to the FDA unless the ingredient has been “present in the food supply as an article used for food” without having been “chemically altered.” The enforcement of the term “chemically altered” has been and continues to evolve within the FDA. As such, an ingredient that is deemed today not to be “chemically altered” may be viewed otherwise in the future, which could lead to our being required to reformulate or cease marketing the product until such time that we can find a suitable replacement. A new dietary ingredient notification must provide the FDA with evidence of a “history of use or other evidence of safety” which establishes that use of the dietary ingredient “will reasonably be expected to be safe.” A new dietary ingredient notification must be submitted to the FDA at least 75 days before the new dietary ingredient can be marketed. Under DSHEA, the FDA may seek to remove from the market any new dietary ingredient that the FDA determines to be unsafe. In addition, the FDA may also deem a dietary supplement an unapproved drug where the marketing claims made in connection with the sale or promotion of the product effectively place it in the drug category.

**Regulation of Nutritional Products Globally.** In our foreign markets, nutritional supplements are generally regulated by similar government agencies, such as the Mainland China State Administration for Market Regulation, the South Korea Ministry of Food and Drug Safety; the Japan Ministry of Health, Labour and Welfare and the Taiwan Department of Health. We typically market our wellness products in international markets as foods, health foods, dietary supplements, food supplements or other similar categorizations under applicable regulatory regimes. With few exceptions, in the event a product or ingredient is classified as a drug or pharmaceutical product in any market, we will generally not be able to distribute that product in that market through our distribution channel because of pre-market approvals and strict regulations applicable to drug and pharmaceutical products. Mainland China also has highly restrictive nutritional supplement product regulations. Products marketed as “health foods” are subject to extensive laboratory and clinical analysis by government authorities, and the product registration process in Mainland China takes a minimum of two years and may be substantially longer. In some cases it has taken us four years or longer to obtain product registrations. A pre-market process has been established for “health foods,” which allows products with only basic nutritional ingredients (some vitamins and minerals) to be notified rather than registered. We market both “health foods” and “general foods” in Mainland China. There is some risk associated with the common practice in Mainland China of marketing a product as a “general food” while seeking “health food” classification. If government officials feel the categorization of our products is inconsistent with product claims, form of delivery, ingredients or function, this could end or limit our ability to market such products in Mainland China in their current form. In addition, we are not permitted to market or sell “general foods” through our direct sales channel in Mainland China and any efforts by our independent direct sellers to do so could result in negative publicity, fines and other government sanctions being imposed against us.

The markets in which we operate all have varied regulations that distinguish foods and nutritional supplements from “pharmaceutical products.” Because of the varied regulations, some products or ingredients that are recognized as a “food” in certain markets may be treated as a “pharmaceutical” in other markets. In Japan, for example, if a specified ingredient is not listed as a “food” by the Ministry of Health and Welfare, we must either modify the product to eliminate or substitute that ingredient, or petition the government to treat such ingredient as a food. We experience similar issues in our other markets. This is particularly a challenge in Europe, where regulations often still differ from member state to member state, despite EU regulations designed to harmonize the laws of EU member states. As a result, we often must modify the ingredients and/or the levels of ingredients in our products for certain markets, or create unique formulations for multiple markets. In some circumstances, the regulations in foreign markets may require us to obtain regulatory approval prior to introduction of a new product or limit our use of certain ingredients altogether.

Because of negative publicity associated with some adulterated or misbranded supplements, including pharmaceutical drugs marketed as dietary supplements, there has been an increased movement in the United States and other markets to expand the regulation of dietary supplements, which could lead to additional restrictions or requirements in the future. In general, the regulatory environment is becoming more complex with increasingly stricter regulations each year.

**Manufacturing Process.** In 2008, and as subsequently updated under the regulations implementing the FSMA, the FDA established regulations to require current “good manufacturing practices” for dietary supplements and food products in the United States. The regulations ensure that dietary supplements and food products are produced in a quality manner, do not contain contaminants or impurities above pre-established levels, and are accurately labeled. The regulations include requirements for establishing quality control procedures for us and our vendors and suppliers, designing and constructing manufacturing plants, and testing ingredients and finished products throughout our supply chain. The regulations also include requirements for record keeping and handling consumer product complaints. If dietary supplements or food products contain contaminants or allergens or do not contain the type or quantity of dietary ingredient they are represented to contain, the FDA would consider those products to be adulterated or misbranded. Our business is subject to additional FDA regulations, such as new dietary ingredient regulations and adverse event reporting regulations that require us to document and track adverse events and report serious adverse events that involve hospitalization, permanent impairment or death associated with consumers’ use of certain of our products. Compliance with these regulations has increased, and may further increase, the cost of manufacturing and selling certain of our products as we incur internal costs, oversee and inspect more aspects of third-party manufacturing and work with our vendors to assure they are in compliance and maintain accurate recordkeeping to establish controls. Failure to comply with good manufacturing practices could also result in product recalls.

**Advertising and Product Claims.** Most of our major markets also regulate advertising and product claims regarding the efficacy and quality of products and require adequate and reliable scientific substantiation of all claims. In most of our foreign markets, we are typically not able to make any “medicinal” claims with respect to our wellness products. In some cases, such regulations may limit our ability to inform consumers of some of the benefits our products offer.

In the United States, the FDA generally prohibits disease diagnosis, prevention and treatment claims when made for a dietary supplement. DSHEA, however, permits substantiated, truthful and non-misleading “statements of nutritional support” to be included in labeling for dietary supplements without FDA pre-approval. Such statements may describe how a particular dietary ingredient affects the structure, function or general well-being of the body, or the mechanism of action by which a dietary ingredient may affect the structure, function or well-being of the body, but such statements may not state that a dietary supplement will reduce the risk or incidence of a disease unless such claim has been reviewed and approved by the FDA. In addition, the FDA permits companies to use FDA-approved full and qualified health claims for products containing specific ingredients that meet stated requirements.



A company that uses a statement of nutritional support in labeling must possess evidence substantiating that the statement is truthful and not misleading. The FDA has issued guidance defining a manufacturer's obligations to substantiate structure/function claims. Such statements, when used in labeling, must also be submitted to the FDA no later than thirty days after first marketing the product with the statement that they possess the necessary evidence and must be accompanied by an FDA mandated label disclaimer that "This statement has not been evaluated by the FDA. This product is not intended to diagnose, treat, cure or prevent any disease." There can be no assurance, however, that the FDA or FTC will not determine that a particular statement of nutritional support that we want to use is an unacceptable disease claim or an unauthorized nutrient-disease relationship claim otherwise permitted with FDA approval as a "health claim" or that such claims have competent and reliable scientific evidence. Such a determination might prevent the use of such a claim or result in additional FDA enforcement.

We are aware of media reports regarding dietary supplements, which call for the repeal or amendment of DSHEA. Individuals or groups that are opposed to supplements or question their safety or efficacy may attempt to use these media reports to propose legislation intended to amend or repeal DSHEA. Some of the legislative proposals may include variations on premarket approval, enhanced premarket safety or substantiation required and changing the definition of a "dietary ingredient" to remove either botanicals or selected classes of ingredients now treated as dietary ingredients.

Most of the other markets in which we operate have not adopted legislation like DSHEA, and we may be subject to more restrictive limitations on the claims we can make about our products in these markets. For example, in Japan, our nutritional supplements are marketed as food products, which significantly limits our ability to make claims regarding these products. If marketing materials produced or used by us or our sales force globally make claims that exceed the scope of allowed claims for nutritional supplements, the FDA or other regulatory authorities could deem our products to be unapproved drugs. In Mainland China, we also face significant restrictions on our ability to make product claims regarding the efficacy of our products. Violations, alleged violations, or negative media attention related to our compliance with these restrictions could harm consumers' perception of our business and products and could negatively impact the registration, licensing status and sales of our products.

The FTC, which exercises primary jurisdiction over the advertising of all of our products in the United States, has instituted enforcement actions against dietary supplement, food, and cosmetic companies for, among other things, deceptive advertising and lack of adequate scientific substantiation for claims. We also face limitations on our use of the scientific experts who have helped us develop and test some of our products. In the United States, for example, the FTC's Guides Concerning the Use of Endorsements and Testimonials in Advertising may restrict marketing to those results obtained by a "typical" consumer and require disclosure of any material connections between an endorser and the company or products they are endorsing. In Mainland China, some media outlets have questioned the nature and extent of our connections with our Scientific Advisory Board and others who have helped in developing our scientific approach or testing our products. This negative publicity could harm consumers' perception of our business and our products, which could negatively impact our revenue. We cannot be sure that the FTC, or comparable foreign agencies, will not question our advertising or other operations in the future.

In recent years, the FTC has initiated numerous investigations of and actions against companies that sell dietary supplements and cosmetic products. The FTC has issued guidance to assist companies in understanding and complying with its substantiation requirement. The FTC may enforce compliance with the law in a variety of ways, both administratively and judicially, using compulsory process, cease and desist orders, and injunctions. FTC enforcement can result in consent decrees or orders requiring, among other things, injunctive provisions, corrective advertising, consumer redress, and such other relief as the agency deems necessary to protect the public. Violation of these consent decrees or orders could result in substantial financial or other penalties. No assurance can be given that the FTC will not question our advertising or other operations in the United States in the future. Any action in the future by the FTC could materially and adversely affect our ability to successfully market our products in the United States.

In connection with investigations that occurred in the early 1990s of certain alleged unsubstantiated product and earnings claims made by our distributors, we entered into a consent decree with the FTC and various agreements with state regulatory agencies. The consent decree requires us to, among other things, supplement our procedures to enforce our policies, not allow our distributors to make earnings representations without making certain average earnings disclosures and not allow our distributors to make unsubstantiated product claims. The FTC could initiate an enforcement action to the extent the FTC determines that our advertising or promotional practices are deceptive or contrary to the requirements of the consent decree.

**Regulation of Medical Devices.** In 2014, our facial spa was cleared for marketing through the 510(k) process with the FDA as a medical device with cosmetic benefit. Medical devices are highly regulated by the FDA. Manufacturers of medical devices must register and list their products with the FDA annually, whether they are located domestically or overseas. Foreign jurisdictions may take note of the fact that we have registered a medical device in the United States and require us to register in their market as well. The FDA has broad regulatory powers in the areas of clinical testing, manufacturing and labeling of medical devices. Medical devices must be labeled in accordance with the FDA's general device labeling requirements and whatever particular label requirements the FDA may designate for that type of device.

In addition, medical device manufacturers must adhere to certain “good manufacturing practices” in accordance with the FDA’s Quality System Regulation, which regulates the manufacture of medical devices, prescribes record-keeping procedures and provides for the routine inspection of facilities for compliance with such regulations. If in connection with these inspections, the FDA believes the manufacturer has failed to comply with applicable regulations and/or procedures, it may issue observations that would necessitate prompt corrective action. If the FDA inspection observations are not addressed and/or corrective action taken in a timely manner and to the FDA’s satisfaction, the FDA may issue a Warning Letter (which would similarly necessitate prompt corrective action) and/or proceed directly to other forms of enforcement action. Failure to respond timely to FDA inspection observations, a Warning Letter or other notice of noncompliance and to promptly come into compliance could result in the FDA bringing enforcement action against us, which could include the shutdown of our production facilities, denial of importation rights to the United States for products manufactured in overseas locations and criminal and civil fines.

Our *Pharmanex BioPhotonic Scanner*, *ageLOC LumiSpa*, *ageLOC Spa* systems and any future devices may be subject to the regulations of various health, consumer-protection and other government authorities around the world. These regulations vary from market to market and affect whether our products are required to be registered as medical devices, the claims that can be made with respect to these products, who can use them, and where they can be used. We have been required to register our *ageLOC Spa* systems as medical devices in a few markets. Under applicable direct selling regulations in Mainland China, our *Pharmanex BioPhotonic Scanner*, *ageLOC LumiSpa* and *ageLOC Spa* systems are registered as “health care equipment” or “household appliances.” We have been subject to regulatory inquiries in the United States, Japan and other markets with respect to the status of the *Pharmanex BioPhotonic Scanner* as a non-medical device. Any determination that medical device clearance is required for one of our products, in a market where we currently market and sell such product as a cosmetic or non-medical device, could require us to expend significant time and resources in order to meet the additional stringent standards imposed on medical device companies or prevent us from marketing the product. Please refer to Item 1A. Risk Factors for more information on the regulatory risks associated with our *Pharmanex BioPhotonic Scanner*, *ageLOC LumiSpa* and *ageLOC Spa* systems.

## COMPETITION

### Direct Selling

We compete with other direct selling organizations, some of which have a longer operating history, and greater visibility, name recognition and financial resources than we do. Leading global direct selling companies include Amway, Avon Products and Herbalife. We also compete with local direct selling companies. For example, leading direct selling companies in Mainland China include Joymain and Sunhope. We compete with these companies to attract and retain our sales force and consumers based on the strength of our product offerings, sales compensation, multiple business opportunities, management and international operations.

### Products

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

## EMPLOYEES

As of December 31, 2019, we had approximately 4,900 full- and part-time employees worldwide. This does not include approximately 20,000 sales employees in our Mainland China operations. Although we have statutory employee representation obligations in certain markets, our employees are generally not represented by labor unions except where expressly required by law. We believe that our relationship with our employees is good, and we do not foresee a shortage in qualified personnel necessary to operate our business.

## AVAILABLE INFORMATION

Our website address is [www.nuskin.com](http://www.nuskin.com). We make available, free of charge on our Investor Relations website, [ir.nuskin.com](http://ir.nuskin.com), our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

We also use our Investor Relations website, [ir.nuskin.com](http://ir.nuskin.com), as a channel of distribution of additional Company information that may be deemed material. Accordingly, investors should monitor this channel, in addition to following our press releases, Securities and Exchange Commission filings and public conference calls and webcasts. The contents of our website shall not be deemed to be incorporated herein by reference.



We have adopted a Code of Conduct that applies to all of our employees, officers and directors, including those of our subsidiaries. Our Code of Conduct is available in the “Corporate Governance” section of our Investor Relations website at [ir.nuskin.com](http://ir.nuskin.com). In addition, stockholders may obtain a copy, free of charge, by making a written request to Investor Relations, Nu Skin Enterprises, Inc., 75 West Center Street, Provo, Utah 84601. Any amendments or waivers (including implicit waivers) regarding the Code of Conduct requiring disclosure under applicable SEC rules or NYSE listing standards will be disclosed in the same section of our website.

## INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Our executive officers as of January 31, 2020 are as follows:

Name	Age	Position
Steven J. Lund	66	Executive Chairman of the Board
Ritch N. Wood	54	Chief Executive Officer
Ryan S. Napierski	46	President
Mark H. Lawrence	50	Executive Vice President and Chief Financial Officer
Joseph Y. Chang	67	Executive Vice President of Product Development and Chief Scientific Officer
D. Matthew Dorny	55	Executive Vice President, General Counsel and Secretary

*Steven J. Lund* has served as Executive Chairman of our board of directors since 2012. Mr. Lund previously served as Vice Chairman of our board of directors from 2006 to 2012 and as President, Chief Executive Officer and a member of our board of directors from 1996, when we went public, until 2003. Mr. Lund was a founding stockholder of our company. Mr. Lund is a trustee of the Nu Skin Force for Good Foundation, a charitable organization established in 1996 by our company to help encourage and drive the philanthropic efforts of our company and its sales force and employees to enrich the lives of others. Mr. Lund worked as an attorney in private practice prior to joining our company as Vice President and General Counsel. He received a B.A. degree from Brigham Young University and a J.D. degree from Brigham Young University’s J. Reuben Clark Law School.

*Ritch N. Wood* has served as our Chief Executive Officer since 2017. Previously, he served as our Chief Financial Officer since 2002. Mr. Wood joined our company in 1993 and served in various capacities before his appointment as Chief Financial Officer, including Vice President of Finance and Vice President of New Market Development. Prior to joining us, he worked for the accounting firm of Grant Thornton LLP. Mr. Wood earned a B.S. and a Master of Accountancy degree from Brigham Young University.

*Ryan S. Napierski* has served as our Company’s President since 2017. Previously, he served as President of Global Sales and Operations from 2015 to 2017. Prior to serving in that position, he served as both President of our North Asia region since 2014 and President of Nu Skin Japan since 2010. Mr. Napierski has fulfilled multiple leadership positions for Nu Skin since joining our company in 1995, including Vice President of Business Development and General Manager of the United Kingdom. Mr. Napierski has a Bachelor’s degree in business, a Master’s degree in business administration from Duke University and a Master’s degree in international business from Goethe Universitat in Germany.

*Mark H. Lawrence* has served as our Chief Financial Officer since 2017. From 2016 to 2017, Mr. Lawrence served as vice president of finance for the Innovation Center at Vivint Smart Home, a home automation company. From 2013 to 2016, Mr. Lawrence was head of finance at Amazon Lab126, a consumer electronics research and development company that is a subsidiary of Amazon.com. During 2013, he served as senior vice president of worldwide finance at Polycom, a voice and video communications company, and from 2002 to 2013 he served in various financial positions at Brocade Communications Systems, a networking hardware, software and services company. Mr. Lawrence holds a bachelor’s degree from Brigham Young University and a Master of Business Administration degree from the University of California, Davis.

*Joseph Y. Chang* has served as our Chief Scientific Officer and Executive Vice President of Product Development since 2006. Dr. Chang served as President of our Pharmanex division from 2000 to 2006. From 1997 to 2000, he served as Vice President of Clinical Studies and Pharmacology of Pharmanex. Dr. Chang has over 35 years of pharmaceutical experience. He received a B.S. degree from Portsmouth University and a Ph.D. degree from the University of London.

*D. Matthew Dorny* has served as our General Counsel and Secretary since 2003. Mr. Dorny previously served as Assistant General Counsel from 1998 to 2003. Prior to joining us, Mr. Dorny was a securities and business attorney in private practice in Salt Lake City, Utah. Mr. Dorny received B.A., M.B.A. and J.D. degrees from the University of Utah.

## ITEM 1A. RISK FACTORS

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

### **Challenges to the form of our network marketing system could harm our business.**

We may be subject to challenges by government regulators regarding the form of our network marketing system. Legal and regulatory requirements concerning the direct selling industry generally do not include “bright line” rules and are inherently fact-based and subject to interpretation. As a result, regulators and courts have discretion in their application of these laws and regulations, and the enforcement or interpretation of these laws and regulations by government agencies or courts can change.

Recent settlements between the FTC and other direct selling companies and guidance from the FTC have addressed inappropriate earnings and lifestyle claims, problematic compensation structures and the importance of focusing on consumers. These developments have created ambiguity as to the proper interpretation of the law and related court decisions. Any adverse rulings or legal actions could impact our business if direct selling laws or anti-pyramid laws are interpreted more narrowly or in a manner that results in additional burdens or restrictions on direct selling companies. For example:

- In 2015, the FTC took aggressive actions against a multi-level marketing company, alleging an illegal business model and inappropriate earnings claims.
- In 2016, the FTC entered into a settlement with a multi-level marketing company, requiring the company to modify its business model, including basing sales compensation and qualification only on sales to retail and preferred customers and on purchases by a distributor for personal consumption within allowable limits. Although this settlement does not represent judicial precedent or a new FTC rule, the FTC has indicated that the industry should look at this settlement, and the principles underlying its specific measures, for guidance.
- In September 2019, the FTC entered into a settlement with a multi-level marketing company, alleging an illegal business model and compensation structure and inappropriate earnings claims. The company agreed to a prohibition from engaging in multi-level marketing. The FTC and another multi-level company are currently in litigation, and that company has indicated the FTC is seeking to limit the levels of payment in its compensation structure as a condition to settlement.

Although we take steps to educate our distributors on proper claims, if our distributors make improper claims, or if regulators determine we are making any improper claims, this could lead to an FTC investigation and could harm our business. In addition, if the requirements in the actions listed above lead to new industry standards or new rules, or if they limit the levels in the network for which payments can be made, our business could be impacted and we may need to amend our global sales compensation plan. With a majority of our revenue in the United States coming from sales to retail customers, preferred customers, and distributors who have never sponsored other distributors, we believe that we can demonstrate consumer demand for our products, but we continue to monitor developments to assess whether we should make any changes to our business or global sales compensation plan. If we are required to make changes or if the FTC seeks to enforce similar measures in the industry, either through rulemaking or an enforcement action against our company, our business could be harmed.

We could also be subject to challenges by private parties in civil actions. We are aware of civil actions against other direct-selling companies in the United States, that have, and may in the future, resulted in significant settlements. Allegations by short sellers directed at us and our competitors regarding the legality of multi-level marketing in various markets and adverse media reports have also created intense public scrutiny of us and our industry. Our business has also been subject to formal and informal inquiries from various government regulatory authorities in the past regarding our business and our compliance with local laws and regulations. All of these actions and any future scrutiny of us or our industry could generate negative publicity or further regulatory actions that could result in fines, restrict our ability to conduct our business in our various markets, enter into new markets, motivate our sales force and attract consumers.

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

Growth in our sales force and consumers and our results of operations can be particularly impacted by adverse publicity regarding us, the nature of our direct selling business models, our products or the actions of our sales force and employees. Given the nature of our operations, lack of clarity on applicable legal requirements and standards, and our continuous need to recruit and retain consumers and members of our sales force, we are particularly vulnerable to adverse publicity. Specifically, we are susceptible to adverse publicity concerning:

- suspicions about the legality and ethics of network marketing;
- continued media or regulatory scrutiny regarding our business and our business model, including in Mainland China;
- the safety or effectiveness of our or our competitors' products or the ingredients in such products;
- inquiries, investigations, fines, legal actions, or mandatory or voluntary product recalls involving us, our competitors, our business models or our respective products;
- the actions of our current or former sales force and employees, including any allegations that our sales force or employees have overstated or made false product claims or earnings representations, or engaged in unethical or illegal activity;
- misperceptions about the types and magnitude of economic benefits offered at different levels of sales engagement in our business; and
- public, governmental or media perceptions of the direct selling, nutritional supplement or personal care industries generally.

These issues have previously resulted in negative publicity and have harmed our business. For example, we believe that negative media stories in Mainland China regarding improper claims and in Europe regarding claims and activities by our sales force negatively impacted our results. Critics of our industry, short sellers and other individuals have in the past and may in the future utilize the internet, the press and other means to publish criticisms of the industry, our company and our competitors, or make allegations regarding our business and operations, or the business and operations of our competitors. In some cases, such adverse publicity or allegations can lead to government and regulatory scrutiny. We continue to see increased adverse publicity regarding the direct selling and healthcare products industries. We or others in our industry may receive similar negative publicity or allegations in the future, and it may harm our business and reputation.

**Our operations in Mainland China are subject to significant government scrutiny, and we could be subject to fines or other penalties.**

Our operations in Mainland China are subject to significant regulatory scrutiny. The legal system in Mainland China provides government authorities broad latitude to conduct investigations, and many Chinese regulations, including those governing our business, are subject to significant interpretation, which may vary from jurisdiction to jurisdiction. Because of significant government concerns in Mainland China regarding improper direct selling activities, government regulators closely scrutinize activities of direct selling companies and activities that resemble direct selling. The government in Mainland China continues to inspect and interview companies in the direct selling industry on a regular basis, which has and may continue to increase regulatory scrutiny of the industry and our business.

Initially as a result of negative media coverage about the healthcare-related product claims made by another direct selling company in Mainland China, the government's scrutiny of activities within the health products and direct selling industries was during 2019 and continues to be at higher levels. During this time, we have been receiving and addressing an increased number of government reviews, inspections, and inquiries and consumer complaints in Mainland China; our ability to hold certain business meetings has been limited; and negative media coverage has spread to include additional companies, including ours.

Government regulators frequently make inquiries into our business activities and investigate complaints from consumers and others regarding our business. Some of these inquiries and investigations in the past have resulted in the payment of fines by us or members of our sales force, interruption of sales activities at stores and warnings. Any determination by government regulators in these inquiries or investigations that our operations or activities, or the activities of our sales employees, independent direct sellers or independent marketers, are not in compliance with applicable regulations could result in substantial fines, extended interruptions of business, and termination of necessary licenses and permits, including our direct selling and other licenses, all of which could harm our business.

We train our sales force in Mainland China on how our Mainland China business model differs from our global business model. However, Sales Leaders in Mainland China may attend regional and global events or interact with Sales Leaders from other markets. Although our global model and Mainland China business model differ, mistakes may be made as to how those working in Mainland China should promote the business in Mainland China. These mistakes by our sales force, or allegations of such mistakes, have, and may in the future, led to government reviews and investigations of our operations in Mainland China. For example, in 2014, a series of articles was published in Mainland China containing a number of allegations, including, among other things, that our compensation practices violated Chinese regulations against pyramid and multi-level sales models, that our recruiting and training techniques were unlawful or inappropriate and that certain of our sales force in Mainland China failed to adequately follow and enforce our policies and regulations. As a result of these allegations, in 2014 Chinese regulators conducted a review of our business model and operations in Mainland China. Such reviews and investigations, as well as the adverse publicity, reputational harm and adjustments to our operations that could accompany them, has and could in the future have a significant negative impact on our revenue and the number of Sales Leaders and Customers in the region. In addition, media scrutiny could result in further regulatory scrutiny and investigations in Mainland China and could negatively impact our revenue, sales force and business in this market, including the interruption of sales activities, loss of licenses, and the imposition of fines, and any other adverse actions or events.

**If direct selling regulations in Mainland China are modified, interpreted or enforced in a manner that results in negative changes to our business model or the imposition of a range of potential penalties, our business would be significantly negatively impacted.**

The government of Mainland China has adopted direct selling and anti-pyramiding regulations that impose significant restrictions and limitations on businesses in our industry. Most notably, the regulations prohibit multi-level compensation, which is the basis of how we compensate our sales force outside of Mainland China. The regulations also prohibit overseas personnel from participating in direct selling in Mainland China. We have structured our business model in Mainland China based on several factors: the guidance we have received from government officials, our interpretation of applicable regulations, our understanding of the practices of other international direct selling companies operating in Mainland China, and our understanding as to how regulators are interpreting and enforcing the regulations. In Mainland China, we utilize sales employees to sell products through our retail stores and website; independent direct sellers, who can sell away from our stores where we have a direct selling license and a service center and can also sell through our website; and independent marketers, who are licensed business owners authorized to sell our products at their own approved premises or through our stores and website. We generally compensate our Sales Leaders at a level that is competitive with other direct selling companies in the market and reflective of the compensation of our Sales Leaders globally.

The nature of the political, regulatory and legal systems in Mainland China gives regulatory agencies at both the local and central levels of government broad discretion to interpret and enforce regulations as they deem appropriate to promote social stability. We face a risk that regulators may change the way in which they currently interpret and enforce the direct selling regulations, or that such regulations may be modified. If our business practices are deemed to be in violation of applicable regulations as they may be interpreted or enforced, in particular our use of the sales productivity of a Sales Leader and the sales representatives that such Sales Leader trains, collaborates with, supports and services in setting his/her salary or service fee on a quarterly basis, then we could be sanctioned and/or required to change our business model, either of which could significantly harm our business.

In January 2019, the Mainland China government announced a 100-day campaign to review and inspect the health products and direct selling industries. This campaign involved a number of regulatory agencies. Although the 100-day period has ended, there has continued to be a heightened level of media and regulatory scrutiny of these industries and of our business and products. There is also uncertainty whether any changes to the regulations that apply to these industries will be made based on the review. If changes are made to any of the regulations that apply to our business model, products or operations, our business could be harmed.

**Epidemics, including the recent outbreak of coronavirus, and other crises could negatively impact our business.**

Due to the person-to-person nature of direct selling, our results of operations could be harmed if the fear of a communicable and rapidly spreading disease or other crises such as natural disasters result in travel restrictions or cause people to avoid group meetings or gatherings or interaction with other people. It is difficult to predict the impact on our business, if any, of the emergence of new epidemics or other crises. We currently anticipate that the outbreak of the coronavirus, meeting restrictions and many people's hesitance to go to public places in response to this outbreak, and travel restrictions and quarantines that the Mainland China government and other governments are instituting, will have a significant negative impact on our business in that market and possibly other markets.

In addition, most of our nutritional supplement revenue is generated from products that are encapsulated in bovine- and/or porcine-sourced gel capsules. If we experience production difficulties, quality control problems or shortages in supply in connection with bovine or porcine related health concerns, this could result in additional risk of product shortages or write-downs of inventory. We may be unable to introduce our products in some markets if we are unable to obtain the necessary regulatory approvals or if any product ingredients are prohibited, which could harm our business.

**Our ability to expand our business in Mainland China could be negatively impacted if we are unable to obtain additional necessary national and local government approvals in Mainland China.**

As of January 31, 2020, we have obtained direct selling licenses in 37 cities in 25 provinces and municipalities in Mainland China. To expand our direct selling model into additional provinces, we currently must obtain a series of approvals from district, city, provincial and national government agencies with respect to each province in which we wish to expand. The process for obtaining the necessary government approvals to conduct direct selling continues to evolve and is lengthy, as we are required to work with a large number of provincial, city, district and national government authorities. The complexity of the approval process as well as the government's continued cautious approach as direct selling develops in Mainland China makes it difficult to predict the timeline for obtaining these approvals. Furthermore, any media or regulatory scrutiny of our business in Mainland China could increase the time and difficulty we may face in obtaining additional licenses. If media or regulatory scrutiny of our business in Mainland China results in significant delays in obtaining licenses elsewhere in Mainland China, or if the current processes for obtaining approvals are delayed further for any reason or are changed or interpreted differently than currently understood, our ability to receive direct selling licenses in Mainland China and our growth prospects in this market, could be negatively impacted.

**If we are not able to register products for sale in Mainland China, our business could be harmed.**

We face lengthy timelines with respect to product registrations in Mainland China. The process for obtaining product permits and licenses may require extended periods of time that may prevent us from launching new product initiatives in Mainland China on the same timelines as other markets around the world. For example, products marketed in Mainland China as “health foods” are subject to extensive laboratory and clinical analysis by government authorities, and with a few exceptions, the product registration process in Mainland China takes a minimum of two years and may be substantially longer. If the recent media and government scrutiny of the healthcare industry results in more burdensome regulations related to product registration, we may have more difficulty getting new nutritional products registered for sale in Mainland China. We market both “health foods” and “general foods” in Mainland China. There is some risk associated with the common practice in Mainland China of marketing a product as a “general food” while seeking “health food” classification. If government officials feel the categorization of our products is inconsistent with product claims, form of delivery, ingredients or function, we could be prohibited or limited in marketing such products in Mainland China in their current form.

As we expand our direct selling channel, we face additional product marketing restrictions compared to our retail store channel. Under applicable direct selling regulations in Mainland China, we can only register products for direct selling if we manufacture them and if they fall within categories that are authorized for direct selling, such as cosmetics, cleaning supplies, health foods, healthcare devices, small kitchen utensils and household appliances. Products that are not categorized as direct selling products and products that are manufactured by third parties are prohibited from marketing or selling through our direct sales channel. If we cannot successfully manufacture our own direct selling products, we will not be able to sell these products through the direct sales channel. Any marketing and sale of non-direct selling products by our independent direct sellers could result in negative publicity, fines and other government sanctions being imposed against us.

**Recently enacted tariffs, other potential changes to tariff and import/export regulations, and ongoing trade disputes between the United States and other jurisdictions may have a negative effect on global economic conditions and our business, financial results and financial condition.**

The United States has proposed and enacted additional tariffs on certain items. Further, there have been ongoing discussions and activities regarding changes to other U.S. trade policies and treaties. In response, a number of our markets, including Mainland China, have indicated that they may impose tariffs on imports of U.S. goods, or have already implemented tariffs on imports of U.S. goods, or they may take other measures in response to these U.S. actions. These developments may have a material adverse effect on global economic conditions and the stability of global financial markets, and they may significantly reduce global trade and, in particular, trade between Mainland China and the United States. Any of these factors could depress economic activity, create anti-American consumer sentiment, restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations. In addition, any actions by foreign markets to implement further trade policy changes, including limiting foreign investment or trade, increasing regulatory scrutiny or taking other actions which impact U.S. companies’ ability to obtain necessary licenses or approvals could negatively impact our business.

Tariff discussions between the United States and its trading partners are ongoing and fluid. Any additional tariffs are subject to a number of uncertainties as they are implemented, including future adjustments and changes to the products covered by additional tariffs and to the countries included or excluded from such tariffs. The ultimate reaction of other countries, and the individuals in each of these countries, and the impact of these tariffs or other actions on the United States, Mainland China, the global economy and our business, financial condition and results of operations, cannot be predicted at this time, nor can we predict the impact of any other developments with respect to global trade.

**Inability of products and other initiatives to gain or maintain sales force and market acceptance could harm our business.**

Our operating results could be adversely affected if our products, business opportunities and other initiatives do not generate sufficient enthusiasm and economic benefit to retain our existing consumers and sales force or to attract new consumers and people interested in joining our sales force. Potential factors affecting the attractiveness of our products, business opportunities and other initiatives include, among other items, perceived product quality and value, product exclusivity or effectiveness, economic success in our business opportunity, restrictions in social or digital media for sharing products and attracting consumers, adverse media attention or regulatory restrictions on claims.

In addition, our ability to develop and introduce new products could be impacted by, among other items, government regulations, the inability to attract and retain qualified research and development staff, the termination of third-party research and collaborative arrangements, intellectual property of competitors that may limit our ability to offer innovative products or that challenge our own intellectual property, or problems related to manufacturing or quality control, and difficulties in anticipating changes in consumer tastes and buying preferences. Our operating results could be adversely impacted if our products fail to gain or maintain sales force and market acceptance.

In addition, in our more mature markets, one of the challenges we face is keeping Sales Leaders with established businesses and high-income levels motivated and actively engaged in business building activities and in developing new Sales Leaders. We may also face challenges retaining our sales force as the population of our markets transitions to a new, millennial demographic, with its associated new and different dynamics of loyalty. Many millennials are particularly savvy with social sharing across multiple business opportunity platforms. There can be no assurance that our initiatives will continue to generate excitement among our sales force in the long term or that planned initiatives will be successful in maintaining sales force activity and productivity or in motivating Sales Leaders to remain engaged in business building and developing new Sales Leaders. Some initiatives may have unanticipated negative impacts on our sales force, particularly changes to our sales compensation plans. The introduction of a new product or key initiative can also negatively impact other product lines to the extent our Sales Leaders focus their efforts on the new product or initiative. In addition, if any of our products fails to gain acceptance, we could see an increase in product returns.

**Foreign-currency fluctuations and inflation in foreign markets could impact our financial position and results of operations.**

In 2019, approximately 87% of our sales occurred in markets outside of the United States in each market's respective local currency. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenue and expenses in our markets outside the United States from their local currencies into U.S. dollars using weighted-average exchange rates. If the U.S. dollar strengthens relative to local currencies, our reported revenue, gross profit and net income will likely be reduced. Foreign-currency fluctuations can also cause losses and gains resulting from translation of foreign-currency-denominated balances on our balance sheet.

In addition, high levels of inflation and currency devaluations in any of our markets could negatively impact our balance sheet and results of operations. Gains and losses resulting from the remeasurement of non-U.S. dollar monetary assets and liabilities of our subsidiaries operating in highly inflationary economies are recorded in our net earnings. For example, during 2015 and 2014, we recorded \$10.2 million and \$46.3 million, respectively, of non-cash foreign-currency charges related to the devaluation of the Venezuela currency after Venezuela was designated as a highly inflationary economy under U.S. generally accepted accounting principles. During the third quarter of 2016, we ceased business operations in Venezuela. During 2018, Argentina also was designated as a highly inflationary economy; accordingly, beginning with the third quarter of 2018, we began to apply highly inflationary accounting for our Argentina operations, which has resulted in additional foreign-currency charges. Other markets may be designated as highly inflationary economies in the future, which could result in further foreign-currency charges.

Although we may engage in transactions intended to reduce our exposure to foreign-currency fluctuations, there can be no assurance that these transactions will be effective. Complex global political and economic dynamics can affect exchange rate fluctuations. For example, significant foreign-currency fluctuations occurred as a result of the 2016 referendum in the United Kingdom in which voters approved an exit from the European Union. Rules related to the 2017 U.S. tax reform legislation also could affect foreign-currency fluctuations. In addition, members of the current U.S. presidential administration have expressed antipathy toward some international trade agreements and have begun to implement or have suggested the implementation of tariffs, border taxes or other measures that could impact the level of trade between the United States and other markets. Any such proposal or measure could impact the value of the U.S. dollar. It is difficult to predict future fluctuations and the effect these fluctuations may have upon future reported results or our overall financial condition.

**Difficult economic conditions could harm our business.**

Difficult economic conditions could adversely affect our business by causing a decline in demand for our products, particularly if the economic conditions are prolonged or worsen. In addition, such economic conditions may adversely impact access to capital for us and our suppliers, may decrease the ability of our sales force and consumers to obtain or maintain credit cards, and may otherwise adversely impact our operations and overall financial condition.

**Transition from LIBOR to an alternative benchmark interest rate could have an adverse effect on our overall financial position.**

Our indebtedness levels and the required payments on such indebtedness may be impacted by expected reforms related to LIBOR. The variable interest rates payable under our credit facility are linked to LIBOR as the benchmark for establishing such rates. Recent national, international and other regulatory guidance and reform proposals regarding LIBOR are expected to ultimately cause LIBOR to be discontinued or become unavailable as a benchmark rate. Although our credit facility includes mechanics to facilitate the adoption by us and our lenders of an alternative benchmark rate for use in place of LIBOR, no assurance can be made that such alternative rate will perform in a manner similar to LIBOR and may result in interest rates that are higher or lower than those that would have resulted had LIBOR remained in effect.



**Improper sales force actions could harm our business.**

Sales force activities that violate applicable laws or regulations could result in government or third-party actions against us, which could harm our business.

For example, in 2014, allegations were made by various media outlets that certain of our sales representatives in Mainland China failed to adequately follow and enforce our policies and regulations. In response to these and other allegations, Chinese regulators commenced a review of our business in Mainland China. In response to this media scrutiny and government review, we voluntarily took a number of actions in Mainland China, including temporarily suspending our business meetings, temporarily suspending acceptance of applications for any new sales representatives, and extending our product refund and return policies. The adverse publicity and suspension of business meetings and acceptance of applications had a significant negative impact on our revenue and the number of Sales Leaders and Customers in the region. Similar or more extreme actions by government agencies in Mainland China in the future could have a significant adverse impact on our business and results of operations.

The direct selling industry in Japan continues to experience regulatory and media scrutiny, and other direct selling companies have been suspended from sponsoring activities in the past. Japan imposes strict requirements regarding how distributors approach prospective customers. From time to time, we receive warnings from consumer centers in certain prefectures about the number of general inquiries and complaints about us and our distributors. As a result, we continually evaluate and enhance our distributor compliance, education and training efforts in Japan. However, we cannot be certain that our efforts will successfully prevent regulatory actions against us, including fines, suspensions or other sanctions, or that the company and the direct selling industry will not receive further negative media attention, all of which could harm our business.

Except in Mainland China, members of our sales force are not employees and act independently of us. The most significant area of risk for such activities relates to improper product claims and claims regarding the business opportunity of joining our sales force. We implement strict policies and procedures to ensure our sales force complies with legal requirements. However, given the size of our sales force, we experience problems from time to time. For example, product claims made by some of our sales force in 1990 and 1991 led to a United States Federal Trade Commission (“FTC”) investigation that resulted in our entering into a consent agreement with the FTC and various agreements with state regulatory agencies. In addition, rulings by the South Korean Federal Trade Commission and by judicial authorities against us and other companies in South Korea indicate that, if our sales force engages in criminal activity, we may be held liable or penalized for failure to supervise them adequately. Our sales force may attempt to anticipate which markets we will open in the future and begin marketing and sponsoring activities in markets where we are not qualified to conduct business. We could face fines, suspensions or other legal action if our sales force violates applicable laws and regulations, and our reputation and brand could be negatively impacted.

We have also seen an increase in the use of social media by our sales force to promote our business opportunity and products, which increases the burden on us to monitor compliance of such activities and increases the risk that such social media content could contain problematic claims in violation of our policies and applicable regulations. In addition, social media platforms could decide to block, or decrease the prominence of, our sales force’s content for any reason, including if our sales force violates the social media platform’s policies.

**If our business practices or policies or the actions of our sales force are deemed to be in violation of applicable local regulations regarding foreigners, then we could be sanctioned and/or required to change our business model, which could significantly harm our business.**

Our sales force is required to comply with work authorization and other local legal requirements prior to working in a market. Some markets, including Mainland China and Vietnam, also prohibit or restrict participation of foreigners in direct selling activities. We have implemented policies that are designed to comply with these regulations and inform our sales force regarding the types of activities that are not permitted. However, we cannot assure that actions of our sales force will not violate local laws or regulations or our policies. If our business practices or policies or the actions of our sales force are deemed to be in violation of applicable regulations as they may be interpreted or enforced, then we could be sanctioned and/or required to change our business model, which could result in adverse publicity and significantly harm our business.

**If we are unable to retain our existing sales force and recruit additional people to join our sales force, our revenue will not increase and may even decline.**

Our products are primarily marketed by our sales force, and we depend on them to generate virtually all of our revenue. Our sales force may terminate their services at any time, and like most direct selling companies, we experience high turnover among our sales force from year to year. People who join our company to purchase our products for personal consumption or for short-term income goals frequently only stay with us for a short time. Sales Leaders who have committed time and effort to build a sales organization will generally stay for longer periods. To increase our revenue, we must increase the number of and/or the productivity of our sales force.

We have experienced periodic fluctuations in both Sales Leaders and Customers in the past and could experience such fluctuations again in the future. For example, our Sales Leaders in Mainland China declined 46% from December 31, 2018 to December 31, 2019 due to such factors as meeting restrictions and negative media scrutiny, as discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Our ability to retain our Sales Leaders and Customers could be affected as our sales force makes increased use of social sharing channels, which may allow them to more easily engage their consumers and sales network in other opportunities. If our initiatives do not drive growth in both Sales Leaders and Customers, our operating results could be harmed. While we take many steps to help train, motivate and retain our sales force, we cannot accurately predict how the number and productivity of our sales force may fluctuate because we rely primarily upon our Sales Leaders to find new consumers, and to find, train and develop new Sales Leaders. Our operating results could be harmed if we and our Sales Leaders do not generate sufficient interest in our business and its products to retain and motivate our existing sales force and attract new people to join our sales force.

The number and productivity of our sales force could be negatively impacted by several additional factors, including:

- any adverse publicity regarding us, our products, our distribution channel, or our competitors;
- lack of interest in, dissatisfaction with, or the technical failure of, existing or new products;
- lack of compelling products or income opportunities, including through our sales compensation plans and other incentive trips and offerings;
- negative sales force reaction to changes in our sales compensation plans;
- any negative public perception of our products and their ingredients;
- any negative public perception of our sales force and direct selling businesses in general;
- our actions to enforce our policies and procedures;
- any regulatory actions or charges against us or others in our industry;
- general economic and business conditions, including employment levels and employment trends such as the gig and sharing economies;
- recruiting efforts of our competitors; and
- potential saturation or maturity levels in a given market, which could negatively impact our ability to attract and retain our sales force in such market.

**The loss of key Sales Leaders could negatively impact our growth and our revenue.**

As of December 31, 2019, we had a global network of 1,162,905 Customers. Approximately 54,760 of our Customers were Sales Leaders. As of December 31, 2019, approximately 390 Sales Leaders occupied the highest levels under our global sales compensation plan, and in Mainland China we have approximately 320 key Sales Leaders who play a significant role in managing, training and servicing our sales force in that market and driving sales. We rely on these Sales Leaders for substantially all of our revenue. As a result, the loss of a high-level or key Sales Leader or a group of leading Sales Leaders, whether by their own choice or through disciplinary actions by us for violations of our policies and procedures, could negatively impact our growth and our revenue.

**Our business could be negatively impacted if we fail to execute our product launch process or ongoing product sales due to difficulty in forecasting or increased pressure on our supply chain, information systems and management.**

Prior to making a key product generally available for purchase, we may do one or more introductory offerings of the product, such as a preview of the product to our Sales Leaders, a limited-time offer, or other product introduction or promotion. These offerings may generate significant activity and a high level of purchasing, which can result in a higher-than-normal increase in revenue during the quarter and skew year-over-year and sequential comparisons. These offerings may also increase our product return rate. We may experience difficulty effectively managing growth associated with these offerings and may face increased risk of improper sales force activities and related government scrutiny.

In addition, the size and condensed schedule of these product offerings increase pressure on our supply chain and order processing systems. We have in the past, and may in the future, failed to appropriately scale our system capacity and operations in response to changes in demand for our existing products or to the demand for new products, which reduces our sales force's confidence in our business and could harm our reputation and profitability.

As our sales force increases its use of social platforms to interact with customers, our business results could be adversely affected if our implementation of new platforms and processes to support our sales force is delayed. In addition, we are dependent on third parties for testing and delivery of portions of these and other of our information system platforms. Unanticipated changes or system failures by third parties could harm our ability to meet the expectations of our sales force, thus resulting in harm to our revenue, reputation and sales force confidence in our systems.



If we are unable to accurately forecast sales levels in each market for product launches or ongoing product sales, obtain sufficient ingredients, components or packaging or produce a sufficient supply to meet demand, we may incur higher expedited shipping costs and we may temporarily run out of stock of certain products, which could negatively impact the enthusiasm of our sales force and consumers. Conversely, if demand does not meet our expectations for a product launch or ongoing product sales or if we change our planned launch strategies or initiatives, we could incur inventory write-downs. For example, in 2015 and 2014, we incurred inventory write-downs of \$37.9 million and \$50.0 million, respectively, which primarily resulted from reduced sales expectations for product launches primarily in our Greater China region. Any additional write-down of inventory in any of our markets would negatively impact our gross margins. If we fail to effectively forecast product demand in the product launch process or for ongoing product sales, our reputation and profitability could be negatively impacted.

**If our *ageLOC Spa* systems, *Pharmanex BioPhotonic Scanner*, *ageLOC LumiSpa* or any future devices, including our innovative daily-use beauty device that we plan to launch in the second half of 2020, are determined to be medical devices in a particular geographic market or if our sales force uses these products for medical purposes or makes improper medical claims, our ability to continue to market and distribute such devices could be harmed, and we could face legal or regulatory actions.**

One of our strategies is to market unique and innovative products that allow our sales force to distinguish our products, including our *ageLOC Spa* systems, *Pharmanex BioPhotonic Scanner*, *ageLOC LumiSpa* and our innovative daily-use beauty device that we plan to launch in the second half of 2020. Any determination by regulatory authorities in our markets that these products or any future devices must receive clearance or be registered as medical devices could restrict our ability to import or sell the product in such market until registration is obtained. While we have not been required to register our *ageLOC Spa* systems, *Pharmanex BioPhotonic Scanner* or *ageLOC LumiSpa* as medical devices in most of our markets, we have registered our *ageLOC Spa* systems as a medical device in Indonesia, Thailand and Colombia. In addition, we have received clearance from the United States Food and Drug Administration to market our facial spa for over-the-counter use. There have been legislative proposals in the Philippines relating to the regulation of medical devices that could affect the way we market our *ageLOC Spa* systems, *Pharmanex BioPhotonic Scanner* and *ageLOC LumiSpa* in this market. In addition, if our sales force attempts to import or export products from one market to another in violation of our policy or is making medical claims regarding our products or using our products to perform medical diagnoses or other activities limited to licensed professionals or approved medical devices (in markets where the product is not approved), it could negatively impact our ability to market or sell these products and subject us to legal or regulatory actions.

Where necessary, obtaining medical device registrations and clearances could require us to provide documentation concerning product manufacturing and clinical utility, to make design, specification and manufacturing process modifications to meet standards imposed on medical device companies, and to modify our marketing claims regarding the registered product. While we successfully obtained clearance to market our facial spa for over-the-counter use in the United States, and registered our *ageLOC Spa* systems as a medical device in Indonesia, Thailand and Colombia, because medical device regulations vary widely from market to market, there can be no assurance we will not face challenges or delays in obtaining clearance in other markets, or that we will be able to make any required modifications or provide documentation necessary to obtain clearance. If we obtain such medical device clearance in order to sell a product in one market, such clearance may be used as precedent for requiring similar approval for the product in another market, or for similar products in the same market. These additional requirements could increase the cost associated with manufacturing and selling these products as non-medical devices in such markets.

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

Various government agencies throughout the world regulate direct sales practices. Laws and regulations in Japan, South Korea and Mainland China are particularly stringent and subject to broad discretion in enforcement by regulators. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as “pyramid schemes,” that compensate participants primarily for recruiting additional participants without significant emphasis on product sales to consumers. The laws and regulations in our current markets often:

- impose requirements related to sign-up, order cancellations, product returns, inventory buy-backs and cooling-off periods for our sales force and consumers;
- require us, or our sales force, to register with government agencies;
- impose limits on the amount of sales compensation we can pay;
- impose reporting requirements; and
- require that our sales force is compensated primarily for selling products and not for recruiting others.

Complying with these widely varying and sometimes inconsistent rules and regulations can be difficult, time-consuming and expensive, and may require significant resources. The laws and regulations governing direct selling are modified from time to time, and like other direct selling companies, we are subject from time to time to government inquiries and investigations in our various markets related to our direct selling activities. This can require us to make changes to our business model and aspects of our sales compensation plan in the markets impacted by such changes and investigations. In addition, markets where we currently do business could change their laws or regulations to prohibit direct selling. If we are unable to obtain necessary licenses and certifications within required deadlines or continue business in existing markets or commence operations in new markets because of these laws, our revenue and profitability may decline. For example, we are currently in the process of renewing our license in Vietnam. Any delay could negatively impact our revenue.

**Limits on the amount of sales compensation we pay could inhibit our ability to attract and retain our sales force, negatively impact our revenue and cause regulatory risks.**

Several markets, including Mainland China, South Korea, Indonesia and Vietnam, impose limits on the amount of sales compensation we can pay to our sales force. For example, under regulations in Mainland China, direct selling companies may pay independent direct sellers in Mainland China up to a maximum 30% of the revenue they generate through their own sales of products to consumers. Additionally, in South Korea, local regulations limit sales compensation to 35% of our total value of goods or services supplied in South Korea. These regulations may limit the incentive for people to join our sales force and may reduce our ability to differentiate ourselves from our competitors in attracting and retaining our sales force.

In addition, we have been required to modify our sales compensation plan in certain markets, including South Korea, from time to time to remain in compliance with applicable sales compensation limits. Because sales compensation, as a percentage of revenue, can fluctuate as sales force productivity fluctuates, we may be required to make further changes to stay within applicable sales compensation limits or may be at risk of exceeding them. In addition, which revenues and expenses are within the scope of these regulations is not always clear, and interpretation and enforcement of these laws are subject to change, which could require us to make further changes or result in non-compliance with these regulations. Any failure to keep sales compensation within legal limits in Mainland China, South Korea, Indonesia, Vietnam or any other market that imposes a sales compensation limit could result in fines or other sanctions, including suspensions.

**Government regulations and private party actions relating to the marketing and advertising of our products and services may restrict, inhibit or delay our ability to sell our products and harm our business.**

Government authorities regulate advertising and product claims regarding the efficacy and benefits of our products. These regulatory authorities typically require adequate and reliable scientific substantiation to support any marketing claims. What constitutes such reliable scientific substantiation can vary widely from market to market and there is no assurance that the research and development efforts that we undertake to support our claims will be deemed adequate for any particular product or claim. If we are unable to show adequate and reliable scientific substantiation for our product claims, or our marketing materials or the marketing materials of our sales force make claims that exceed the scope of allowed claims for dietary supplements, cosmetics or devices that we offer, the United States Food and Drug Administration (the “FDA”) or other regulatory authorities could take enforcement action requiring us to revise our marketing materials, amend our claims or stop selling certain products, which could harm our business.

For example, in recent years, the FDA has issued warning letters to many cosmetic companies alleging improper structure/function claims regarding their cosmetic products, including, for example, product claims regarding gene activity, cellular rejuvenation, and rebuilding collagen. There is a degree of subjectivity in determining whether a claim is an improper structure/function claim. Given this subjectivity and our research and development focus on the sources of aging and the influence of certain ingredients on gene expression, there is a risk that we could receive a warning letter, be required to modify our product claims or take other actions to satisfy the FDA if the FDA determines any of our marketing materials include improper structure/function claims for our cosmetic products. In addition, plaintiffs’ lawyers have filed class action lawsuits against some of our competitors after our competitors received these FDA warning letters. There can be no assurance that we will not be subject to government actions or class action lawsuits, which could harm our business.

In the United States, the FTC’s Guides Concerning the Use of Endorsements and Testimonials in Advertising (“Guides”) require disclosure of material connections between an endorser and the company they are endorsing, and they generally do not allow marketing using atypical results. Our sales force has historically used testimonials and “before and after” photos to market and sell some of our popular products such as our *ageLOC Spa* systems and *ageLOC Transformation* anti-aging skin care system. We intend to continue to use testimonials for our popular products, including weight management products and other personal care products. In highly regulated and scrutinized product categories such as weight management, if we or our sales force fails to comply with the Guides or makes improper product claims, the FTC could bring an enforcement action against us and we could be fined and/or forced to alter our marketing materials.

## **Regulations governing the registration or pre-approval of our products could harm our business.**

Our products are subject to numerous domestic and foreign government agencies' and authorities' laws and extensive regulations governing the ingredients and products that may be marketed without pre-market approval and/or registration. Many of these laws and regulations involve a high level of subjectivity, are inherently fact-based and subject to interpretation, and vary significantly from market to market. These laws and regulations can also limit the claims we can make regarding our products and often restrict our ability to introduce products or ingredients into one or more markets.

At times these laws and regulations may delay or prevent us altogether from launching a product in a market, require us to reformulate a product or limit or amend the claims made regarding a product. If these laws and regulations further restrict, inhibit or delay our ability to introduce or market our products or limit the claims we are able to make regarding our products, our business may be harmed.

For example, in the United States, some legislators and industry critics have pushed for years to increase regulatory authority by the FDA over nutritional supplements. In 2011, the FDA proposed draft guidance to clarify the FDA's interpretation of the dietary ingredient notification requirements, and in August 2016, the FDA issued a revised draft guidance that superseded the 2011 version. This draft guidance is not yet final but appears to indicate that the FDA is expanding its definition of what is considered a "new dietary ingredient" in the United States. The industry has worked with the FDA for several years, providing comments to the FDA to modify this guidance. While still in flux, if enacted in final form as proposed, this guidance could impose new and significant regulatory barriers for our nutritional supplement products or unique ingredients, which could delay or inhibit our ability to formulate, introduce and sell nutritional supplements as we have in the past.

We face similar pressures in our other markets, which continue to set restrictions on ingredients and their acceptable maximum levels, as well as on ingredient characterization, quality and levels. In Europe, for example, we are unable to market supplements that contain ingredients that were not marketed in Europe prior to May 1997 ("novel foods") without going through an extensive registration and pre-market approval process.

Such regulations in any given market can also limit our ability to import products and can delay product launches as we go through the registration and approval process for those products. Furthermore, if we fail to comply with these regulations, we could face enforcement action, and we could be fined or forced to alter or stop selling our products.

The FDA does not have a pre-market approval system for cosmetics. However, cosmetic products may become subject to more extensive regulation in the future. These events could interrupt the marketing and sale of our products, severely damage our brand reputation and image in the marketplace, increase the cost of our products, cause us to fail to meet customer expectations or cause us to be unable to deliver merchandise in sufficient quantities or of sufficient quality to our stores, any of which could result in lost sales, which could have a material adverse effect on our business, financial condition, profitability and cash flows.

## **New regulations governing the formulation, introduction, marketing and sale of our products to consumers could harm our business.**

Our operations could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute our products or impose additional burdens or requirements on us in order to continue selling our products. In addition, the adoption of new regulations or changes in the interpretations and enforcement of existing regulations may result in significant compliance costs or discontinuation of product sales and may impair the marketability of our products, resulting in significant loss of net sales.

We have observed a general increase in regulatory activity and activism in the United States and across many markets globally where we operate, and the regulatory landscape is becoming more complex with increasingly strict requirements. In particular, the requirements are impacting the ingredients we can include in our products, the accepted quantities of those ingredients and the quality and characterization of the ingredients. Global regulators have in recent years become overall more restrictive on the accepted levels of active ingredients that we can use in our product, in some cases banning them outright. They have also become more restrictive on permitted contaminant levels in ingredients and, in many cases, have forced complete removal of such contaminants. In certain cases, such as regarding some pesticides which are virtually ubiquitous in nature, it has proven difficult to comply with the requirements. Further, many of the restrictions regarding ingredient quality are not directly applicable to our products, leaving the possibility that our interpretation of compliance may not match that of the enforcing authorities. Often there is a lack of an equivalent active ingredient present in the marketplace. In other cases, the removal or reduction of a technical ingredient, such as various types of parabens, leads to a significant change to the character of the product that may make it no longer desirable or safe to the consumer. If this trend in new regulations continues, we may find it necessary to alter some of the ways we have traditionally marketed our products in order to stay in compliance with a changing regulatory landscape and this could add to the costs of our operations and/or have an adverse impact on our business.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, would have on our business. Future changes could include requirements for the reformulation of certain products to meet new standards, the recall or discontinuation of certain products that cannot be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, and additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our business, financial condition, and operating results.

**Our operations could be harmed if we fail to comply with Good Manufacturing Practices.**

Across our markets, there are regulations on a diverse range of Good Manufacturing Practices that apply to us and to our vendors covering product categories such as dietary supplements, cosmetics, foods, over-the-counter drugs and medical devices. The Good Manufacturing Practices impose stringent requirements on a variety of topics, including vendor qualifications, ingredient identification, manufacturing controls and record keeping. Ingredient identification requirements, which often require us to confirm the levels, identity and potency of ingredients listed on our product labels within a narrow range, are particularly burdensome and difficult for us because our products contain many different ingredients. Additionally, certain Good Manufacturing Practices obligate us to track and periodically report adverse events to government agencies. Compliance with these increasing regulations may further increase the cost of manufacturing certain of our products as we work with our vendors to assure they are qualified and in compliance. In addition, our operations could be harmed if regulatory authorities determine that we or our vendors are not in compliance with these regulations or if public reporting of adverse events harms our reputation for quality and safety. A finding of noncompliance may result in administrative warnings, penalties or actions impacting our ability to continue selling certain products, including public withdrawals, seizures and recalls. For example, in prior years, we have had product recalls in the United States based on labeling issues. Problems associated with product recalls could be exacerbated due to the global nature of our business because a recall in one jurisdiction could lead to recalls in other jurisdictions. In addition, these risks associated with noncompliance could increase as we acquire businesses, including the businesses in our Rhyz strategic investment arm and any businesses we may acquire in the future.

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

We and our supply chain acquire ingredients, components, products and packaging from third-party suppliers and manufacturers. A loss of any of these suppliers and any difficulties in finding or transitioning to alternative suppliers could harm our business. In addition, we obtain some of our products and ingredients from sole suppliers that own or control the product formulations, ingredients or other intellectual property rights associated with such products. We also license the right to distribute some of our products from third parties. In the event we are unable to renew these contracts, we may need to discontinue some products or develop substitute products, which could harm our revenue. In addition, if we experience supply shortages or regulatory impediments with respect to the raw materials, ingredients, components or packaging we use for our products, we may need to seek alternative supplies or suppliers and may experience difficulties in finding replacements that are comparable in quality and price. For example, some of our nutritional products, including *g3* juice and *ageLOC Youth (Youthspan or Y-Span* in some markets), incorporate unique natural ingredients that are only harvested once per year and/or may have limited global supplies. If demand exceeds forecasts, we may have difficulties in obtaining additional supplies to meet the excess demand until the next growing season. If we are unable to successfully respond to such issues, our business could be harmed.

**Production difficulties, quality control problems, inaccurate forecasting and reliance on third-party suppliers could harm our business.**

Production difficulties, quality control problems, inaccurate forecasting and our reliance on third party suppliers to manufacture and deliver products that meet our specifications in a timely manner could harm our business. Occasionally, we have experienced production difficulties with respect to our products, including the availability of raw materials, components, packaging and products that do not meet our specifications and quality control standards. These production difficulties and quality problems have in the past, and could in the future, result in stock outages or shortages in our markets with respect to such products, harm our sales, or create inventory write-downs for unusable products.

**Product diversion may have a negative impact on our business.**

We see our products being sold through online marketplace sites and other distribution channels in certain markets. Although we continually take steps to control product diversion, including products sold in Mainland China, this activity continues to be a challenge, and we believe that changes to our global sales compensation plan or increased use of online channels for conducting sales transactions have and may continue to lead to increased product diversion. Product diversion causes confusion regarding our distribution channels and negatively impacts the ability of our sales force to sell our products. It also creates a negative impression regarding the viability of the business opportunity for our sales force, which can harm our ability to recruit new people to join our sales force. Product diversion schemes may also involve illegal importation, investment or other activities and harm our brand if gray market or counterfeit goods are passed off as our own. If we are unable to effectively address this issue or if diversion increases, our business could be harmed.

**Changes to our sales compensation plans could be viewed negatively by some of our sales force, could fail to achieve desired long-term results and have a negative impact on revenue.**

Our sales compensation includes some components that differ from market to market. We modify components of our sales compensation from time to time to keep our sales compensation plans and business models competitive and attractive to our existing sales force and people interested in joining our sales force, to address changing market dynamics, to provide incentives to our sales force that we believe will help grow our business, to conform to local regulations and to address other business needs. Because of the size of our sales force and the complexity of our sales compensation plans, it is difficult to predict how such changes will be viewed by our sales force and whether such changes will achieve their desired results. Certain changes we have made to our global sales compensation plan in the past, which were successful in several markets, did not achieve anticipated results in certain other markets and negatively impacted our business. For example, in the fourth quarter of 2017, we began to implement significant changes to our global sales compensation plan, which we have now rolled out across all of our markets with the exception of Mainland China which operates under a different business model. Although we believe these changes have yielded some positive results in many of our markets to date, they have not been viewed positively by some segments of our sales force, and it is difficult to predict the long-term impacts of these changes.

Among the recent changes to our global sales compensation program is a change in the way that Sales Leaders who have developed larger sales organizations qualify for advancement in the plan. While we anticipate that these changes will result in Sales Leaders developing more sustainable and progressing sales teams over time, we have seen a corresponding reduction in directly developed Sales Leaders for this group of Sales Leaders with larger sales organizations during the transition. We also have introduced a new bonus program for our sales force, funded in part by slightly increased prices for some of our products. These price increases could decrease consumer demand, causing the bonus program to result in higher selling expenses without a corresponding increase in revenue.

In addition, we have been required to modify our sales compensation plan in certain markets, including South Korea, from time to time to remain in compliance with applicable sales compensation limits. Changes to reduce sales compensation have had a negative impact on the sales force in the past and could in the future.

**We may become involved in legal proceedings and other matters that, if adversely adjudicated or settled, could adversely affect our financial results.**

We have been, and may again become in the future, party to litigation, investigations, audits or other legal matters. For example, in 2014, we were named as a defendant in a purported class action complaint relating to negative media and regulatory scrutiny of our business in Mainland China and as a nominal defendant in a shareholder derivative suit relating to the same issues. Also, beginning in 2014, we were in discussions with the Securities and Exchange Commission (“SEC”), which discussions were focused on a charitable donation we made in Mainland China in 2013 and issues related thereto. In April 2015, the SEC informed us that it was initiating a non-public, formal investigation into these issues. We also have been involved in two separate disputes with customs authorities in Japan with respect to customs assessments on several of our products. Although we settled the purported class action, shareholder derivative action and SEC investigation during 2016 and the Japan courts reached final decisions on the customs disputes in 2013 and 2018, these matters were, and any future matters that we may become involved in may be, expensive and time consuming. In general, litigation claims or other legal matters could result in settlements or damages that could significantly affect financial results. It is not possible to predict the final resolution of any litigation to which we may become party, and the impact of these matters on our business, results of operations and financial condition could be material.

**Non-compliance with anti-corruption laws could harm our business.**

Our international operations are subject to various anti-corruption laws, including principally the U.S. Foreign Corrupt Practices Act (the “FCPA”). The FCPA and the anti-corruption laws of other jurisdictions where we operate generally prohibit companies and their agents or intermediaries from making improper payments for the purpose of obtaining or retaining business, and they require companies to maintain accurate books and records and internal accounting controls. We dedicate time and resources to internal investigations of any allegation that we are not or may not be in compliance with anti-corruption laws. Additionally, such allegations, even if untrue, may result in a government investigation, particularly given the trend in recent years of increased anti-corruption law enforcement activity and regulatory investigative actions by regulators in numerous jurisdictions, including the U.S. Department of Justice (“DOJ”) and the SEC. Our corporate policies require all employees to comply with the FCPA and other applicable anti-corruption laws, including the FCPA’s books-and-records and internal-accounting-controls requirements. Any regulatory determination, however, that our operations or activities are not in compliance with existing anti-corruption laws or regulations could result in the imposition of substantial fines and other penalties from U.S. or other regulatory entities.

We have in the past been found to have violated various aspects of the FCPA, and we may face similar fines or sanctions in the future. For example, in 2016, we reached a resolution with the SEC, in which the SEC found that our books and records and internal controls related to a charitable contribution in Mainland China in 2013 were insufficient, and we agreed to pay \$765,688 to the SEC. In agreeing to this settlement, we neither admitted nor denied the SEC's findings. Although we have implemented additional anti-corruption policies, controls and training globally to prevent similar situations from arising in the future, we cannot be certain that these efforts will be effective or prevent future fines or penalties under the FCPA or other anti-corruption laws. Our competitors operating in China have also faced similar allegations from U.S. regulators and been fined accordingly in some circumstances. For example, in 2014, one of our competitors entered into a large settlement with U.S. regulators related to allegations that its employees violated the FCPA in Mainland China and other markets.

Additionally, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing or new laws might be administered or interpreted. Alleged or actual violations of any such existing or future laws (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others) may result in criminal or civil sanctions or reputational harm, which could have a material adverse effect on our business, financial condition and results of operations.

**Our ability to conduct business in international markets may be affected by political, legal, tax and regulatory risks.**

Our ability to capitalize on growth in new international markets and to maintain the current level of operations in our existing international markets is exposed to risks associated with our international operations, including:

- the possibility that a government might ban or severely restrict our sales compensation and business models;
- the possibility that local civil unrest, political instability or changes in diplomatic or trade relationships might disrupt our operations in one or more markets—for example, the ongoing social incidents in Hong Kong, which began in 2019, have negatively affected our business in that market;
- the lack of well-established or reliable legal systems in certain areas where we operate;
- the presence of high inflation in the economies of international markets in which we operate;
- the possibility that a government authority might impose legal, tax, customs, or other financial burdens on us or our sales force, due, for example, to the structure of our operations in various markets;
- the possibility that a government authority might challenge the status of our sales force as independent contractors or impose employment or social taxes on our sales force; and
- the possibility that governments may impose currency remittance restrictions limiting our ability to repatriate cash.

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

Our success depends to a significant degree upon the continued contributions of our senior and regional management, many of whom would be difficult to replace. Our senior and regional management employees may voluntarily terminate their employment with us at any time. In addition, we need to continue to attract and develop qualified management personnel to sustain growth in our markets. If we are not able to successfully retain existing personnel and identify, hire and integrate new personnel, our business and growth prospects could be harmed.

**Government authorities may question our tax or customs positions or change their laws in a manner that could increase our effective tax rate or otherwise harm our business.**

As a U.S. company doing business globally, we are subject to applicable tax and customs laws, including those relating to intercompany pricing regulations and transactions between our corporate entities in the jurisdictions in which we do business. Periodically, we are audited by tax and customs authorities around the world. If authorities challenge our tax or customs positions, including those regarding transfer pricing and customs valuation and classification, we may be subject to penalties, interest and payment of back taxes or customs duties. The tax and customs laws in each jurisdiction change from time to time and are further subject to interpretation by the local government agencies. We have experienced increased efforts by customs authorities in some markets to reclassify our products or otherwise increase the level of duties we pay on our products. Despite our best efforts to be aware of and comply with tax and customs laws, including changes to and interpretations thereof, there is a potential risk that the local authorities may argue that we are out of compliance. Such situations may require that we defend our positions and/or adjust our operating procedures in response to such changes. Any or all of these potential risks may increase our effective tax rate, increase our overall tax or customs expense or otherwise harm our business.



**We may be held responsible for certain taxes or assessments relating to the activities of our sales force, which could harm our financial condition and operating results.**

We are subject to the risk in some jurisdictions of being responsible for social security, withholding or other taxes with respect to payments to our sales force. In addition, authorities in some jurisdictions have challenged the “independent contractor” status of distributors of some multi-level marketing companies, and they may continue to do so. In the event that local laws and regulations, or the interpretation of local laws and regulations, change to require us to treat members of our sales force as employees rather than independent contractors, or that our independent distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for a variety of obligations that are imposed upon employers relating to their employees, including social security, withholding and related taxes, minimum wage laws, and any related assessments and penalties, which could harm our financial condition and operating results. This risk increases as our sales force increases its use of social sharing, as several jurisdictions’ regulations protect in-person or in-home sales demonstrations from creating an employment relationship but are less protective of online demonstrations. If our independent distributors were deemed to be employees rather than independent contractors, we would also face the risk of increased liability for their actions.

**We could be subject to changes in our tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities, which could have a material and adverse impact on our operating results, cash flows and financial condition.**

We are subject to taxes in the United States and numerous foreign jurisdictions, where our subsidiaries are organized. Tax laws, regulations, administrative practices and interpretations in various jurisdictions may be subject to change, with or without notice, due to economic, political and other conditions. As a result, significant judgment is required in evaluating and estimating our provision for income taxes. Our future effective tax rates could be affected by numerous factors, such as intercompany transactions, changes in our business operations, acquisitions and dispositions, entry into new markets, the amount of our foreign earnings and where earned, losses incurred in jurisdictions, the inability to realize tax benefits, changes in foreign currency exchange rates, changes in our stock price, uncertain tax positions, allocation and apportionment of state taxes, changes in our deferred tax assets and liabilities and their valuation. In addition, a number of countries are pursuing changes to their tax laws applicable to corporate multinationals, as the U.S. did with its tax reform legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the “Tax Reform Act”). Foreign governments may enact tax laws in response to the Tax Reform Act that could result in further changes to global taxation and may materially affect our operating results and financial condition.

The Tax Reform Act made significant changes to the rules applicable to the taxation of corporations, such as reduction of the U.S. corporate tax rate from 35% to 21%. The Tax Reform Act changes are complex and subject to additional guidance to be issued by the U.S. Treasury and the Internal Revenue Service. The Tax Reform Act requires complex computations, significant judgments to be made in interpretation of the provisions of the Tax Reform Act and the preparation and analysis of information not previously relevant or regularly produced. As future guidance related to the Tax Reform Act is issued, adjustments to previously recorded amounts may be necessary, which may materially impact our provision for income taxes in the period in which the adjustments are made. In addition, the individual states’ reactions to the federal tax changes are evolving. As a result, the overall impact of the Tax Reform Act is uncertain. It is possible that the application of any new rules may have a material and adverse impact on our operating results, cash flows and financial condition.

We are currently subject to tax controversies in various jurisdictions, and these jurisdictions may assess additional income tax liabilities against us. Developments in an audit, investigation or other tax controversy could have a material effect on our operating results, cash flows or financial condition in the period or periods for which that development occurs, as well as for prior and subsequent periods. We regularly assess the likelihood of an adverse outcome resulting from these proceedings to determine the adequacy of our tax accruals. Although we believe our tax estimates are reasonable, the outcome of audits, investigations and any other tax controversies could be materially different from our historical income tax provisions.

**The loss of or a disruption in our manufacturing and distribution operations could adversely affect our business.**

As of December 31, 2019, our principal properties consisted of our corporate headquarters and other office locations, distribution centers and warehouses, research and development centers, and manufacturing facilities. Additionally, we also use third party manufacturers to manufacture many of our key products. As a company engaged in manufacturing, distribution and research and development on a global scale, we are subject to the risks inherent in such activities, including industrial accidents, environmental events, fires, strikes and other labor or industrial disputes, disruptions in logistics or information systems, loss or impairment of key manufacturing or distribution sites, import and export restrictions or delays, product quality control, safety, licensing requirements and other regulatory or government issues, as well as natural disasters, pandemics, border disputes, acts of terrorism and other external factors over which we have no control. These risks may be heightened if we consolidate certain of our manufacturing, distribution or supply facilities or if we are unable to successfully enhance our disaster recovery planning. The loss of, or damage to, any of our facilities or centers, or that of our third-party manufacturers could have a material adverse effect on our business, results of operations and financial condition.

**Disruptions to transportation channels that we use to distribute our products to international warehouses may adversely affect our margins and profitability in those markets.**

We may experience disruptions to the transportation channels used to distribute our products, including increased airport and shipping port congestion, a lack of transportation capacity, increased fuel expenses, import or export controls or delays, and labor disputes or shortages. Disruptions in our container shipments may result in increased costs, including the additional use of airfreight to meet demand. Congestion to ports can affect previously negotiated contracts with shipping companies, resulting in unexpected increases in shipping costs and reduction in our profitability.

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

The markets for our products are intensely competitive. Our results of operations may be harmed by market conditions and competition in the future. Many competitors have much greater name recognition and financial resources than we have, which may give them a competitive advantage. For example, our Nu Skin products compete directly with branded, premium retail products and with the products of other direct selling companies. Because of regulatory restrictions concerning claims about the efficacy of personal care products and dietary supplements, we may have difficulty differentiating our products from our competitors' products, and competing products entering the personal care and nutritional market could harm our revenue. In addition, our business may be negatively impacted if we fail to adequately adapt to trends in consumer behavior and technologies.

We also compete with other direct selling companies to attract and retain our sales force and consumers. Some of these competitors have longer operating histories and greater visibility, name recognition and financial resources than we do. Some of our competitors have also adopted and could continue to adopt some of our successful business strategies, including our global sales compensation plan. Consequently, to successfully compete in this industry, and attract and retain our sales force and consumers, we must ensure that our business opportunities and sales compensation plans are financially rewarding. Although we believe we have significant competitive advantages, we cannot assure that we will be able to continue to successfully compete in this industry.

**We may incur product liability claims that could harm our business.**

We sell a variety of different products for human consumption and use, including cosmetics, dietary supplements, conventional foods, OTC drugs and devices. Our cosmetics, dietary supplements and conventional foods are not generally subject to pre-market approval or registration processes so we cannot rely upon a government safety panel to qualify or approve our products for use, and some ingredients may not have long histories of human consumption or use. We rely upon published and unpublished safety information including clinical studies on ingredients used in our products and conduct our own clinical and safety studies on some key ingredients and products, but not all products. A product may be safe for the general population when consumed or used as directed but could cause an adverse reaction for some individuals, such as a person who has a health condition or allergies or who is taking a prescription medication. While we include what we believe are adequate instructions and warnings and we have historically had low numbers of reported reactions, previously unknown adverse reactions could occur. If we discover that our products are causing adverse reactions, or if we determine that any of our employees have not properly handled reports of adverse reactions, we could suffer further adverse publicity or government sanctions.

As a result of the type of products that we sell, we may be subject to various product liability claims, including that the products fail to meet quality or manufacturing specifications, contain contaminants, include inadequate instructions as to their proper use, include inadequate warnings concerning side effects and interactions with other substances or for persons with health conditions or allergies, or cause adverse reactions or side effects. Consumer protection laws and regulations governing our business continue to expand, and in some states such as California, class-action lawsuits based on increasingly novel theories of liability are expanding. Product liability claims could increase our costs, and adversely affect our business and financial results. As we continue to offer an increasing number of new products through larger scale, limited-time offers our product liability risk may increase.

If our sales force or employees provide improper or inappropriate advice regarding our products, their use or safety, we may be subject to additional product liability.

We have generally elected to self-insure our product liability risks. We continue to periodically evaluate whether we can and should obtain product liability insurance. Based upon our current approach to product liability risk management, if any of our products are found to cause any injury or damage or we become subject to product liability claims, we will be subject to the full amount of liability associated with any injuries or damages. This liability could be substantial and may exceed our existing reserves and harm our business.



**Our intellectual property may infringe on the rights of others, resulting in costly litigation.**

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. In particular, there has been an increase in the filing of suits alleging infringement of intellectual property rights, which pressure defendants into entering settlement arrangements quickly to dispose of such suits, regardless of their merit. Other companies or individuals may allege that we, or our sales force, consumers, licensees or other parties indemnified by us infringe on their intellectual property rights. Even if we believe that such claims are without merit, defending such intellectual property litigation can be costly, distract management's attention and resources, and the outcome is inherently uncertain. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our products. Any of these results may adversely affect our financial condition.

**If we are unable to protect our intellectual property rights, our ability to compete could be negatively impacted.**

The market for our products depends to a significant extent upon the value associated with our product innovations and our brand equity. We rely upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other markets, and non-disclosure, confidentiality and other types of agreements with our employees, sales force, consumers, suppliers and other parties, to establish, maintain and enforce our intellectual property rights. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property rights may not be sufficient to permit us to provide competitive advantages, which could result in costly product redesign efforts, discontinuance of certain product offerings or other competitive harm. In addition, the laws of certain foreign markets where we have significant business, including markets such as Mainland China, do not protect our intellectual property rights to the same extent as the laws of the United States. The costs required to protect our patents and trademarks may be substantial or even not practical. We have filed patent and trademark applications to protect our intellectual property rights in our new technologies, however, there can be no assurance that our patent and trademark applications will be approved and issue, that any patents and trademarks issued will adequately protect our intellectual property, or that such patents and trademarks will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Moreover, many of our products rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms or at all.

To enforce and protect our intellectual property rights, we may initiate litigation against third parties, such as patent and trademark infringement suits or interference proceedings and seek indemnification by contract or otherwise. Any lawsuits that we initiate could be expensive, take significant time and divert management's attention from other business concerns, and we may ultimately fail to prevail or recover on any indemnification claim. Litigation also puts our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing. Additionally, we may provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially valuable. The occurrence of any of these events may adversely affect our financial condition or diminish our investments in this area.

**If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our products could be adversely affected.**

In addition to patented technology, we rely on our unpatented proprietary technology, trade secrets, processes and know-how. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated. We generally seek to protect this information by confidentiality, non-disclosure and assignment of invention agreements with our employees, consultants, scientific advisors and third parties. Our employees may leave to work for competitors. Our distributors or Sales Leaders may seek other opportunities. These agreements may be breached, and we may not have adequate remedies for any such breach. In addition, our trade secrets may be disclosed to or otherwise become known or be independently developed by competitors. To the extent that our current or former employees, distributors, Sales Leaders, consultants or contractors use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions. If, for any of the above reasons, our intellectual property is disclosed or misappropriated, it would harm our ability to protect our rights and adversely affect our financial condition.

**We may be subject to claims that we, or our employees, have inadvertently or otherwise used or disclosed alleged trade secrets or other proprietary information of our employees' former employers.**

We employ individuals who were previously employed at other personal care product or nutritional supplement companies, including our competitors or potential competitors. To the extent that our employees are involved in research areas that are similar to those in which they were involved with their former employers, we may be subject to claims that such employees have inadvertently or otherwise used or disclosed the alleged trade secrets or other proprietary information of the former employers. Litigation may be necessary to defend against such claims.

**Any acquired companies or future acquisitions may expose us to additional risks.**

We have acquired certain businesses, and we may continue to do so in the future as we encounter acquisition prospects that would complement our current product offerings, increase the size and geographic scope of our operations or otherwise offer growth and operating efficiency opportunities. The financing for any of these acquisitions could dilute the interests of our stockholders, result in an increase in our indebtedness or both. Our past acquisitions have, and future acquisitions could, entailed numerous risks, including:

- difficulties in assimilating acquired operations or products, including the loss of key employees from acquired businesses and disruption to our direct selling channel;
- diversion of management's attention from our core business;
- increased fixed costs;
- adverse effects on existing business relationships with our suppliers, sales force or consumers; and
- risks associated with entering markets or industries in which we have limited or no prior experience, including limited expertise in running the business, developing the technology, and selling and servicing the products.

Our failure to successfully complete the integration of any acquired business, or a failure to adjust our fixed costs quickly enough or sufficiently to adapt to rapidly changing market conditions, could have a material adverse effect on our business, financial condition and operating results. In addition, there can be no assurance that we will be able to identify suitable acquisition candidates or consummate acquisitions on favorable terms.

**A failure of our internal controls over financial reporting or our regulatory compliance efforts could harm our stock price and our financial and operating results or could result in fines or penalties.**

We have implemented internal controls to help ensure the accuracy and completeness of our financial reporting, including to detect and prevent fraudulent actions within our financial and accounting processes, and we have implemented compliance policies and programs to help ensure that our employees and sales force comply with applicable laws and regulations. Our internal audit team regularly audits our internal controls and various aspects of our business and compliance program, and we regularly assess the effectiveness of our internal controls. There can be no assurance, however, that our internal or external assessments and audits will identify all fraud, misstatements in our financial reporting, and significant deficiencies or material weaknesses in our internal controls. Material weaknesses have in the past, and may in the future, resulted in a material misstatement of our financial results, requiring us to restate our financial statements, as occurred in 2014, when our management concluded that we did not maintain effective controls over the presentation and disclosure of hyper-inflationary accounting for our Venezuela subsidiary.

From time to time, we initiate further investigations into our business operations to further bolster our regulatory compliance efforts or based on the results of our internal and external audits or on complaints, questions or allegations made by employees or other parties regarding our business practices and operations. In addition, our business and operations may be investigated by applicable government authorities. In the event any of these investigations identify material violations of applicable laws by our employees, sales force or affiliates, we could be subject to adverse publicity, fines, penalties or loss of licenses or permits.

**System failures, capacity constraints and other information technology difficulties could harm our business.**

With global operations and a complex sales compensation plan, our business is highly dependent on efficiently functioning information technology systems, including websites, mobile applications, data centers, databases, networks and other systems. We rely on these systems for accepting and processing sales orders, operating our sales force and customer support operations, tracking and compensating our sales force, conducting our corporate and regional operations, and other aspects of our business. Accordingly, the performance, reliability and availability of our systems are critical to our business, reputation, and ability to attract and retain our sales force and customers.

Our systems may be damaged or disrupted by fires, floods, earthquakes or other natural disasters, human error, telecommunications failures, power loss, physical or electronic break-ins, computer viruses, cyber attacks, changes in our information technology systems or organization, and other events. We have, and may in the future, experienced system failures and outages. We cannot guarantee that the preventive measures we take, including redundancies, security protocols, network protection mechanisms and other procedures currently in place, or that may be in place in the future, will be adequate to prevent or remedy system failure or interruption, data loss, security breaches or other data security incidents. Furthermore, any mitigation process could take several days or more, thus resulting in a loss of revenue, loss of confidence of our sales force and harm to our reputation.

In addition, we make significant expenditures on our information technology infrastructure and other technology initiatives, and these items could become obsolete or impaired, which has and may in the future cause us to incur significant expenses to address. For example, in the fourth quarter of 2018, we engaged a chief transformation officer, who was charged with reviewing and evaluating our information technology infrastructure and organization and our social sharing and digital initiatives. Following this review, we determined to alter our strategic direction with respect to some of our systems and tools, resulting in impairment charges of approximately \$49 million. We also incurred approximately \$22 million in severance payments and other expenses related to the reorganization of our Information Technology Department and other corporate and regional offices. In addition to these charges, additional cash outlay and new personnel were necessary for execution of new plans and strategy.

Our systems could also be strained by growth in our business. Although we work to expand and enhance our ecommerce features, network infrastructure and other technologies to accommodate increases in the volume of traffic to our ecommerce channels, we may be unsuccessful in these efforts. Our failure, or our suppliers' failure, to achieve or maintain system capacity could significantly reduce our ability to fulfill orders and could harm our business, reputation, revenue and financial condition.

**Cyber security risks and the failure to maintain the integrity of company, employee, sales force or guest data could expose us to data loss, litigation, liability and harm to our reputation.**

We collect, store and transmit large volumes of company, employee, sales force and guest data, including payment card information, personally identifiable information and other personal information, for business purposes, including for transactional and promotional purposes, and our various information technology systems enter, process, summarize and report such data. The integrity and protection of this data is critical to our business.

We are subject to significant security and privacy regulations, as well as requirements imposed by the payment card industry. For example, during 2018, the General Data Protection Regulation went into effect in the European Union, imposing increased data protection regulations, the violation of which could result in fines of up to 4% of our annual revenue. Many other jurisdictions have similarly enacted security and privacy regulations, including California and Mainland China, and we believe this trend will continue. In the United States, congressional committees have held preliminary hearings about the advisability of a federal data privacy law, but it is uncertain whether the federal government will adopt such a law and whether it would preempt state data privacy laws. The prospect of new data privacy laws and ambiguity regarding the interpretation of existing laws has resulted in significant uncertainty and compliance costs. In addition to laws specifically governing privacy and data security, in some cases, federal and state regulators and state attorneys general and administrative agencies have interpreted more general consumer protection laws to impose standards for the online collection, use, dissemination and security of data. Although we monitor regulatory developments in this area, any actual or perceived failure by us to comply with these requirements could subject us to significant penalties, lawsuits and negative publicity and require changes to our business practices. In particular, maintaining compliance with these and other evolving regulations and requirements around the world often requires changes to our information system architecture and data storage processes. Making these changes is, and will likely continue to be, difficult and expensive. Investigations by the regulators of data security laws could also result in the payment of fines and harm our reputation. Private actions by affected individuals could also result in significant monetary or reputational damage.

Similarly, a failure to adhere to the payment card industry's data security standards could cause us to incur penalties from payment card associations, termination of our ability to accept credit or debit card payments, litigation and adverse publicity, any of which could have a material adverse effect on our business and financial condition.

In addition, a penetrated or compromised data system or the intentional, inadvertent or negligent release, misuse or disclosure of data could result in theft, loss, or fraudulent or unlawful use of company, employee, sales force or guest data. Although we take measures to protect the security, integrity and confidentiality of our data systems, we experience cyber attacks of varying degrees and types on a regular basis. Our infrastructure may be vulnerable to these attacks, and in some cases it could take time to discover them. Our security measures may also be breached due to employee error or malfeasance, system errors or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information to gain access to our data or our users' or customers' data. Any such breach or unauthorized access could result in the unauthorized disclosure, misuse or loss of sensitive information and lead to significant legal and financial exposure, regulatory inquiries or investigations, loss of confidence by our sales force and customers, disruption of our operations, damage to our reputation, and costs associated with remediating the incident. These risks are heightened as we work with third-party partners, including providers of mobile and cloud technologies, and as our sales force uses social media, as the partners and social media platforms could be vulnerable to the same types of breaches. Acquisition activity, which we have engaged in and which we may continue to engage in, may also heighten these risks, as the systems of the companies we acquire are not under our control prior to the acquisitions and it may take time to evaluate these systems and implement appropriate modifications to them.

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

Our Class A common stock closed at \$71.84 per share on January 31, 2018 and closed at \$32.59 per share on January 31, 2020. During this two-year period, our Class A common stock traded as low as \$32.52 per share and as high as \$88.68 per share. Many factors, including some we may be unable to control, could cause the market price of our Class A common stock to fall. Some of these factors include:

- fluctuations in our operating results;
- government investigations of our business;
- trends or adverse publicity related to our business, products, industry or competitors;
- the sale of shares of Class A common stock by significant stockholders;
- demand, and general trends in the market, for our products;
- acquisitions by us or our competitors;
- economic or currency exchange issues in markets in which we operate;
- changes in estimates of our operating performance or changes in recommendations by securities analysts;
- speculative trading, including short selling and options trading; and
- general economic, business, regulatory and political conditions.

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

**Some of the markets in which we operate have currency controls in place, which change from time to time and may restrict our repatriation of cash.**

If foreign governments restrict transfers of cash out of their country and control exchange rates, we may be limited as to the timing and amount of cash we can repatriate and may not be able to repatriate cash at beneficial exchange rates, which could have a material adverse effect on our financial position, results of operations or cash flows.

We typically fund the cash requirements of our operations in the United States through intercompany dividends, intercompany loans and intercompany charges for products, use of intangible property, and corporate services. However, some markets impose government-approval or other requirements for the repatriation of dividends. For example, in Mainland China, we are unable to repatriate cash from current operations in the form of dividends until we file the necessary statutory financial statements for the relevant period. As of December 31, 2019, we had \$76.6 million in cash denominated in Chinese RMB. Currency exchange restrictions in Venezuela also impeded our Venezuela subsidiary's ability to obtain U.S. dollars to pay for imported products or to repatriate dividends to the United States. We ceased business operations in Venezuela in 2016.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our principal properties consist of the following:

**Offices**

Our principal administrative offices are our corporate headquarters in Provo, Utah and our offices in Shanghai, China.

**Distribution Centers**

We distribute our products through distribution centers and warehouses in many of our markets, with our principal facilities being in Provo, Utah and Mainland China.

**Research and Development Centers**

We operate research and development centers in Provo, Utah, and in Shanghai, China.

**Manufacturing Facilities**

We operate manufacturing facilities in Mainland China, and two of the companies in our Rhyz strategic investment arm (Manufacturing segment) operate manufacturing facilities in Provo, Utah and Draper, Utah.

We own the above properties, except we lease the manufacturing facility in Provo, Utah and the land for our facilities in Shanghai China.

**ITEM 3. LEGAL PROCEEDINGS**

We are currently in litigation with Don Roberts, a consultant in the agriculture industry. Mr. Roberts claims he is a general partner in our indoor-growing business and related businesses. He also claims he was instrumental in developing some of the business's intellectual property. In May 2019, we filed a lawsuit in the U.S. District Court for the District of Utah, seeking a declaratory judgment that Mr. Roberts is not an inventor of any of the business's intellectual property and is not a partner in the business. This lawsuit was dismissed on jurisdictional grounds in December 2019. We have filed a notice of appeal of that dismissal to the U.S. Court of Appeals for the Tenth Circuit. In November 2019, Mr. Roberts filed suit in Utah's Fifth Judicial District Court, seeking a declaratory judgment that he is a general partner and, as such, is entitled to a 50% ownership interest and 50% of the profits generated by the business. Mr. Roberts also seeks damages exceeding \$250 million. We have filed a motion to dismiss this action in state court. We believe Mr. Roberts's claims are without merit, and we intend to vigorously defend ourselves.

From time to time, we are involved in other legal proceedings arising in the ordinary course of business.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

**ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information and Holders**

Our Class A common stock is listed on the New York Stock Exchange and trades under the symbol “NUS.” The approximate number of holders of record of our Class A common stock as of January 31, 2020 was 251. This number of holders of record does not represent the actual number of beneficial owners of shares of our Class A common stock because shares are frequently held in “street name” by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

**Purchases of Equity Securities by the Issuer**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) <sup>(1)</sup>
October 1 – 31, 2019	—	\$ —	—	\$ 470.2
November 1 – 30, 2019	—	—	—	\$ 470.2
December 1 – 31, 2019	—	—	—	\$ 470.2
Total	—	\$ —	—	

(1) In August 2018, we announced that our board of directors approved a stock repurchase plan. Under this plan, our board of directors authorized the repurchase of up to \$500 million of our outstanding Class A common stock on the open market or in privately negotiated transactions.

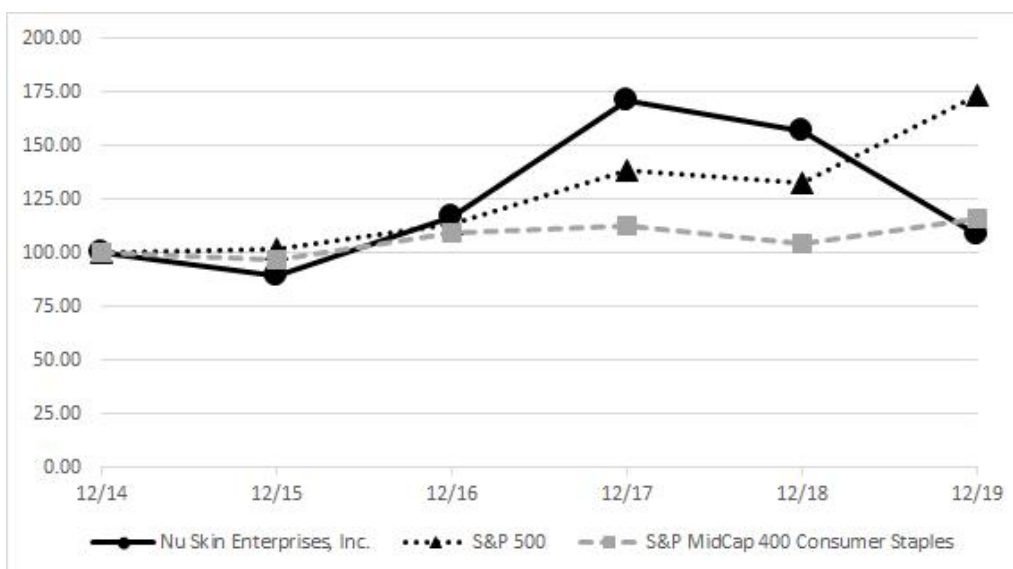
**Recent Sales of Unregistered Securities**

None.

**Stock Performance Graph**

The following graph shows the changes in value over the five-year period ended December 31, 2019 of an assumed \$100 investment in our Class A common stock, the S&P MidCap 400 Consumer Staples Index and the S&P 500 Index.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**  
Among Nu Skin Enterprises, Inc., the S&P 500 Index, and the S&P MidCap 400 Consumer Staples Index



Measured Period	Nu Skin	S&P 500 Index	S&P MidCap 400 Consumer Staples Index
December 31, 2014	100.00	100.00	100.00
December 31, 2015	89.49	101.38	96.43
December 31, 2016	116.69	113.51	109.04
December 31, 2017	170.99	138.29	112.62
December 31, 2018	156.76	132.23	104.57
December 31, 2019	108.15	173.86	115.91

The stock performance graph above shall not be deemed to be “soliciting material” or to be “filed” with the U.S. Securities and Exchange Commission or subject to the liabilities of Section 18 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In addition, it shall not be deemed incorporated by reference by any statement that incorporates this Annual Report on Form 10-K by reference into any filing under the Securities Act of 1933 (the “Securities Act”) or the Exchange Act, except to the extent that we specifically incorporate this information by reference.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data as of and for the years ended December 31, 2019, 2018, 2017, 2016 and 2015 have been derived from the audited consolidated financial statements:

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(U.S. dollars in thousands, except per share data and cash dividends)				
<b>Income Statement Data:</b>					
Revenue	\$ 2,420,416	\$ 2,679,008	\$ 2,279,099	\$ 2,207,797	\$ 2,247,047
Cost of sales	581,420	634,140	502,078	500,457 <sup>(1)</sup>	489,510 <sup>(2)</sup>
Gross profit	<u>1,838,996</u>	<u>2,044,868</u>	<u>1,777,021</u>	<u>1,707,340</u>	<u>1,757,537</u>
Operating expenses:					
Selling expenses	955,600	1,071,020	938,024	922,083	951,372
General and administrative expenses	615,970	662,302	564,514	554,153	561,463
Restructuring and impairment expenses <sup>(3)</sup>	—	70,686	—	—	—
Total operating expenses	<u>1,571,570</u>	<u>1,804,008</u>	<u>1,502,538</u>	<u>1,476,236</u>	<u>1,512,835</u>
Operating income	267,426	240,860	274,483	231,104	244,702
Other income (expense), net	(12,254)	(21,194)	(8,916)	(18,265)	(32,743) <sup>(4)</sup>
Income before provision for income taxes	255,172	219,666	265,567	212,839	211,959
Provision for income taxes	81,619	97,779	136,130 <sup>(5)</sup>	69,753	78,913
Net income	<u>\$ 173,553</u>	<u>\$ 121,887</u>	<u>\$ 129,437</u>	<u>\$ 143,086</u>	<u>\$ 133,046</u>
Net income per share:					
Basic	\$ 3.13	\$ 2.21	\$ 2.45	\$ 2.58	\$ 2.29
Diluted	\$ 3.10	\$ 2.16	\$ 2.36	\$ 2.55	\$ 2.25
Weighted-average common shares outstanding (000s):					
Basic	55,518	55,170	52,806	55,412	57,997
Diluted	55,927	56,476	54,852	56,097	59,057
<b>Balance Sheet Data (at end of period):</b>					
Cash and cash equivalents and current investments	\$ 344,043	\$ 398,257	\$ 438,246	\$ 368,126	\$ 303,725
Working capital	383,406	359,582	330,419	315,326	298,795
Total assets	1,769,006	1,694,446	1,589,872	1,474,045	1,505,843
Current portion of long-term debt	27,500	69,455	77,840	82,727	67,849
Long-term debt	334,461	361,008	310,790	334,165	181,745
Stockholders' equity	875,289	781,867	704,596	664,070	825,621
Cash dividends declared per share	1.48	1.46	1.44	1.42	1.40
<b>Supplemental Operating Data (at end of period):</b>					
Approximate number of Customers <sup>(6)</sup>	1,162,905	1,244,046	1,069,571	987,563	993,788
Number of Sales Leaders <sup>(7)</sup>	54,760	73,455	81,878	61,627	67,575

(1) Includes a non-cash Japan customs expense of \$31.4 million.

(2) Includes write-down of inventory of \$37.9 million, resulting primarily from reduced sales expectations primarily in our Greater China region.

(3) Consists of expenses incurred in connection with restructuring and exit activities.

(4) Includes \$10.2 million of foreign currency charges, related to the devaluation of the Venezuela currency.

(5) Includes a negative non-cash net impact of \$47.7 million from 2017 tax reform legislation in the United States.

(6) "Customers" are persons who purchased products directly from the company during the previous three months. Our Customer numbers do not include consumers who purchase products directly from members of our sales force.

(7) "Sales Leaders" are independent distributors, and sales employees and independent marketers in Mainland China, who achieve certain qualification requirements.



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

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes, which are included in this Annual Report on Form 10-K.

### **Business Overview**

#### **Our Products**

Founded 35 years ago, Nu Skin Enterprises, Inc. develops and distributes a comprehensive line of premium-quality beauty and wellness solutions in approximately 50 markets worldwide. In 2019, our revenue of \$2.4 billion was primarily generated by our three primary brands: our beauty and personal care brand, Nu Skin; our wellness products brand, Pharmanex; and our anti-aging brand, ageLOC. We operate in the direct selling channel, primarily utilizing person-to-person marketing to promote and sell our products.

In addition to our core Nu Skin business, we also explore new areas of growth and opportunity through our strategic investment arm known as Rhyz Inc. Rhyz investments include personal care and nutritional product manufacturing companies and indoor-growing technologies, which are sometimes referred to as controlled-environment agriculture. In 2019, the Rhyz companies generated \$122.0 million of our 2019 reported revenue (excluding sales to our core Nu Skin business), substantially all of which was from the manufacturing companies.

#### **Our Global Operations**

Nu Skin's operations span approximately 50 markets with approximately 87% of our 2019 revenue coming from outside of the United States. Given the size of our international operations, our results, as reported in U.S. dollars, are often impacted by foreign-currency fluctuations. In 2019, our revenue was negatively impacted 3% from foreign-currency fluctuations compared to 2018. In addition, our results can be impacted by global economic, political, demographic and business trends and conditions.

#### **A Global Network of Sales Leaders and Customers**

As of December 31, 2019, we had 1,162,905 persons who purchased products directly from the company during the previous three months ("Customers"). We believe a significant majority of Customers purchase our products primarily for personal or family consumption but are not actively pursuing the opportunity to generate income by marketing and reselling products.

Our revenue is highly influenced by the number and productivity of our Sales Leaders. Sales Leaders are independent distributors, and sales employees and independent marketers in Mainland China, who achieve certain qualification requirements.

We have been successful in attracting and motivating our sales force by:

- developing and marketing innovative, technologically and scientifically advanced products;
- providing compelling initiatives and strong support; and
- offering an attractive sales compensation structure.

Our global sales force helps us to rapidly introduce products and penetrate our markets with modest up-front promotional expense. We rely on our sales force to create consumer demand for our products, as opposed to a traditional approach of advertising-generated consumer awareness. Our approach is particularly effective with products that benefit from personal education and demonstration. Similar to other companies in our industry, we experience relatively high turnover among our sales force.

To enhance customer retention, we have developed product subscription and loyalty programs that provide incentives for consumers to commit to purchase a specific amount of product on a monthly basis. All purchases under these programs are subject to our standard product payment and return policies. We believe these subscription and loyalty programs have improved consumer retention, have had a stabilizing impact on revenue and have helped generate recurring sales.

#### **Product Innovation**

Our sales force markets and sells our products, and attracts others to the opportunity, based on the distinguishing benefits and innovative characteristics of our products. As a result, we leverage our scientific expertise and product development resources to introduce innovative beauty and wellness products. We are also seeing a greater use of social media by our sales force to market and sell our products. To continue to leverage social media, it is imperative that we develop demonstrable products that are unique and engaging to younger consumers.

Since 2008, we have focused on the development of products under our ageLOC brand, an innovative line of anti-aging solutions that feature skin treatment and nutritional products. This anti-aging line includes such products as our *ageLOC LumiSpa* skin treatment and cleansing device, *ageLOC TR90* weight management system, *ageLOC Spa* systems and gels, *ageLOC Youth* nutritional supplement and *ageLOC Me* customized skin care system. Any delays or difficulties in introducing compelling products or attractive initiatives or tools into our markets may have a negative impact on our revenue and our number of Customers and Sales Leaders.

### **Our Product Launch Process**

We use a variety of methods to launch our products, enabling us to tailor the launch process to the specific market and the specific product. Prior to making a key product generally available for purchase, we often do one or more introductory offerings of the product, such as a preview of the product to our Sales Leaders, a limited-time offer, or other product introduction or promotion. These offerings may generate significant activity and a high level of purchasing, which can result in a higher-than-normal increase in revenue during the quarter and can skew year-over-year and sequential comparisons. We believe our product launch process attracts new Customers and Sales Leaders to our business, increases consumer trial and provides important marketing and forecasting information about the products to our company.

### **Income Statement Presentation**

We report revenue in nine segments, and we translate revenue from each market’s local currency into U.S. dollars using weighted-average exchange rates. The following table sets forth revenue information by segment for the periods indicated. This table should be reviewed in connection with the information presented under “Results of Operations,” which describes selling expenses and other costs associated with generating the aggregate revenue presented.

#### **Revenue by Segment**

<i>(U.S. dollars in millions)</i>	<b>Year Ended December 31,</b>					
	<b>2019</b>		<b>2018</b>		<b>2017</b>	
<i>Nu Skin</i>						
Mainland China	\$ 722.5	30%	\$ 886.5	33%	\$ 717.0	32%
Americas/Pacific	349.1	14	385.0	14	342.4	15
South Korea	330.0	14	373.4	14	361.7	16
Southeast Asia	301.6	12	316.9	12	268.6	12
Japan	260.0	11	254.9	10	256.1	11
EMEA	167.2	7	182.4	7	160.3	7
Hong Kong/Taiwan	166.3	7	185.9	7	166.7	7
Other	1.7	—	3.4	—	6.3	—
<b>Total Nu Skin</b>	<b>2,298.4</b>	<b>95</b>	<b>2,588.4</b>	<b>97</b>	<b>2,279.1</b>	<b>100</b>
<i>Manufacturing</i>	121.9	5	90.6	3	—	—
<i>Grow Tech</i>	0.1	—	—	—	—	—
<b>Total</b>	<b>\$ 2,420.4</b>	<b>100%</b>	<b>\$ 2,679.0</b>	<b>100%</b>	<b>\$ 2,279.1</b>	<b>100%</b>

Cost of sales primarily consists of:

- cost of products purchased from third-party vendors;
- costs of self-manufactured products;
- cost of adjustments to inventory carrying value;
- freight cost of shipping products to our sales force and import duties for the products; and
- royalties and related expenses for licensed technologies.

We source the majority of our products from third-party vendors. Under direct selling regulations in Mainland China, we are required to manufacture the products we distribute through independent direct sellers in Mainland China. In 2018 we acquired three companies in the United States that are producing some of our products. Cost of sales and gross profit, on a consolidated basis, may fluctuate as a result of changes in the ratio between self-manufactured products and products sourced from third-party vendors. In addition, because we purchase a significant amount of our goods in U.S. dollars and recognize revenue in local currencies, our gross margin is subject to exchange rate risks. Because our gross margins vary from product to product and due to higher pricing in some markets, changes in product mix and geographic revenue mix can impact our gross margin on a consolidated basis.

Selling expenses are our most significant expense and are classified as operating expenses. Selling expenses include sales commissions paid to our sales force, special incentives, costs for incentive trips and other rewards, as well as salaries, service fees, benefits, bonuses and other labor and unemployment expenses we pay to our sales force in Mainland China. Selling expenses do not include amounts we pay to our sales force based on their personal purchases; rather, such amounts are reflected as reductions to revenue. Our global sales compensation plan, which we employ in all our markets except Mainland China, is an important factor in our ability to attract and retain our Sales Leaders. Under our global sales compensation plan, Sales Leaders can earn “multi-level” compensation, where they earn commissions for product sales to their consumer groups as well as the product sales made through the sales network they have developed and trained. We do not pay commissions on sales materials. Fluctuations occur in the amount of commissions paid as our numbers of Customers and Sales Leaders change from month to month, but the fluctuation in the overall payout as a percentage of revenue tends to be relatively small. Selling expenses as a percentage of revenue typically increase in connection with a significant product offering, due to growth in the number of Sales Leaders qualifying for increased sales compensation and promotional incentives. From time to time, we make modifications and enhancements to our global sales compensation plan in an effort to help motivate our sales force and develop leadership characteristics, which can have an impact on selling expenses. For example, in the fourth quarter of 2017, we began to implement significant enhancements to our global sales compensation plan, which we have now rolled out across all markets other than Mainland China. One of the changes is a new bonus program for our sales force, which has an increasing effect on our selling expenses as a percentage of revenue.

Outside of Mainland China, distributors also have the opportunity to make profits by purchasing products from us at a discount and selling them to consumers with a mark-up. We do not account for, nor pay, additional commissions on these mark-ups received by distributors. In many markets, we also allow individuals who are not part of our sales force, whom we refer to as “preferred customers,” to buy products directly from us at a discount. We pay commissions on preferred customer purchases to the referring member of our sales force.

General and administrative expenses include:

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

Labor expenses are the most significant portion of our general and administrative expenses. Promotion and advertising expenses include costs of sales force conventions held in various markets worldwide, which we generally expense in the period in which they are incurred. Because our various sales force conventions are not held during each fiscal year, or in the same period each year, their impact on our general and administrative expenses may vary from year to year and from quarter to quarter. For example, we held our global convention in October 2019 and will have another global convention in the fall of 2021, as we currently plan to hold a global convention every other year. In addition, we hold regional conventions and conventions in our major markets at different times during the year. These conventions have significant expenses associated with them. Because we have not incurred expenses for these conventions during every fiscal year or in comparable interim periods, year-over-year comparisons have been impacted accordingly.

Provision for income taxes depends on the statutory tax rates in each of the jurisdictions in which we operate. For example, statutory tax rates in 2019 were approximately 17% in Hong Kong, 20% in Taiwan, 25% in South Korea, 37% in Japan and 25% in Mainland China. We are subject to taxation in the United States at the statutory corporate federal tax rate of 21% in 2019, and we pay taxes in multiple states within the United States at various tax rates. Our overall effective tax rate was 32.0% for the year ended December 31, 2019.

### **Critical Accounting Policies**

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

**Revenue.** Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with revenue recognized at shipping point, the point in time the customer obtains control of the products. We recognize revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. In most markets, we offer a return policy that allows our sales force to return unopened and unused product for up to 12 months subject to a 10% restocking fee. Reported revenue is net of returns, which have historically been less than 5% of annual revenue. The majority of the Company's contracts have a single performance obligation and are short term in nature. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales.

Through our product subscription and loyalty programs, which vary from market to market, participants who commit to purchase on a monthly basis receive a discount. We account for this discount as a reduction in the transaction price. Participants may cancel their commitment at any time, however some markets charge a one-time early cancellation fee. All purchases under these programs are subject to our standard product payment and return policies.

**Income Taxes.** We account for income taxes in accordance with the Income Taxes Topic of the Financial Accounting Standards Codification. This Topic establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. We take an asset and liability approach for financial accounting and reporting of income taxes. We pay income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between Nu Skin affiliates around the world. Deferred tax assets and liabilities are created in this process. As of December 31, 2019, we had net deferred tax assets of \$20.0 million. We net these deferred tax assets and deferred tax liabilities by jurisdiction. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized. These deferred tax assets assume sufficient future earnings will exist for their realization, and are calculated using anticipated tax rates. In certain jurisdictions, valuation allowances have been recorded against the deferred tax assets specifically related to use of foreign tax credits, research and development credits and net operating losses. When we determine that there is sufficient taxable income to utilize the foreign tax credits, the research and development credits, or the net operating losses, the valuation allowances will be released. In the event we were to determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination was made.

We evaluate our indefinite reinvestment assertions with respect to foreign earnings for each period. Other than earnings we intend to reinvest indefinitely, we accrue for the U.S. federal and state income taxes applicable to the earnings. For all foreign earnings, we accrue the applicable foreign income taxes. We intend to utilize the offshore earnings to fund foreign investments, specifically capital expenditures. Undistributed earnings that we have indefinitely reinvested aggregate to \$60.0 million as of December 31, 2019. If this amount were repatriated to the United States, the amount of incremental taxes would be approximately \$6.0 million.

The company files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The company is no longer subject to tax examinations from the IRS for all years for which tax returns have been filed before 2015. With a few exceptions, we are no longer subject to state and local income tax examination by tax authorities for the years before 2016. In 2009, we entered into a voluntary program with the IRS called Compliance Assurance Process ("CAP"). The objective of CAP is to contemporaneously work with the IRS to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. We have elected to participate in the CAP program for 2020 and may elect to continue participating in CAP for future tax years; we may withdraw from the program at any time. In major foreign jurisdictions, we are generally not subject to income tax examinations for years before 2013. However, statutes in certain markets may be as long as ten years for transfer pricing related issues. We are currently under examination in certain foreign jurisdictions; however, the outcomes of those reviews are not yet determinable.

Our unrecognized tax benefits are related to multiple foreign and domestic jurisdictions. There are potential changes in unrecognized tax benefits from the multiple jurisdictions in which we operate, as well as the expiration of various statutes of limitation and possible completion of tax examinations; however, we do not anticipate that our total unrecognized tax benefits will significantly change over the next 12 months.

At December 31, 2019, we had \$13.5 million in unrecognized tax benefits of which \$13.5 million, if recognized, would affect the effective tax rate. In comparison, at December 31, 2018, we had \$11.5 million in unrecognized tax benefits of which \$11.4 million, if recognized, would affect the effective tax rate. We recognized a benefit of approximately \$0.7 million in interest and penalties during the year ended December 31, 2019 and \$1.3 million in interest and penalties during the year ended December 31, 2018. We had approximately \$3.6 million, \$2.9 million and \$1.6 million of accrued interest and penalties related to uncertain tax positions at December 31, 2019, 2018 and 2017, respectively. Interest and penalties related to uncertain tax positions are recognized as a component of income tax expense.

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

**Goodwill and Other Intangible Assets.** Goodwill is recorded when the cost of acquired businesses exceeds the fair value of the identifiable net assets acquired. Goodwill is allocated to the reportable segments. Goodwill and intangible assets with indefinite useful lives are not amortized, but are assessed for impairment annually on June 30. In addition, impairment testing is conducted when events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Any declines in the business performance or individual reporting units could lead to declines the fair value. Goodwill and intangible assets with indefinite useful lives would be written down to fair value if considered impaired. Guidance under Accounting Standards Codification (“ASC”) 350, *Intangibles - Goodwill and Other*, requires an entity to test goodwill for impairment on at least an annual basis. The Company had the option to perform a qualitative assessment to determine whether further impairment testing is necessary or to perform a quantitative assessment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. Under the qualitative assessment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. If under the quantitative assessment the fair value of a reporting unit is less than its carrying amount, then the amount of the impairment loss, if any, must be measured. The Company elected to perform the qualitative assessment during fiscal years 2019 and 2018, and determined that it is not more likely than not the carrying value exceeds the fair value of the reporting units. In fiscal year 2017, a quantitative assessment was performed. Intangible assets with finite useful lives are amortized to their estimated residual values over such finite lives using the straight-line method and reviewed for impairment whenever events or circumstances warrant such a review.

No impairment charges were recorded for goodwill or intangibles during the periods presented.

## Results of Operations

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

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Revenue	100.0%	100.0%	100.0%
Cost of sales	24.0	23.7	22.0
Gross profit	76.0	76.3	78.0
<b>Operating expenses:</b>			
Selling expenses	39.5	40.0	41.1
General and administrative expenses	25.4	24.7	24.8
Restructuring and impairment expenses	—	2.6	—
Total operating expenses	64.9	67.3	65.9
Operating income	11.0	9.0	12.1
Other income (expense), net	(0.5)	(0.8)	(0.4)
Income before provision for income taxes	10.5	8.2	11.7
Provision for income taxes	3.4	3.7	6.0
Net income	7.2%	4.5%	5.7%

### 2019 Compared to 2018

#### Overview

Revenue in 2019 decreased 10% to \$2.42 billion from \$2.68 billion in 2018. As of the end of the fourth quarter of 2019, Sales Leaders were down 25% and Customers were down 7% compared to the prior year. Earnings per share for 2019 were \$3.10, compared to \$2.16 for 2018.

The declines in revenue and Sales Leaders are partially due to sales meeting restrictions and negative media scrutiny in Mainland China, as discussed in the Segment Results section below, along with the lack of a major product launch in 2019, which we believe may have caused some decreased engagement in our sales force. Beginning in the second half of 2020, we plan to launch our new innovative daily-use beauty device. Our revenue was also negatively impacted 3% from foreign-currency fluctuations in 2019.

The year-over-year increase in earnings per share for 2019 primarily relates to the impact of the fourth quarter 2018 restructuring, which negatively impacted 2018 earnings per share by approximately \$1.37. The decrease in earnings per share excluding the restructuring expense reflects the lower revenue in 2019, partially offset by less foreign-currency losses for 2019.

We currently anticipate that the outbreak of the coronavirus, meeting restrictions and many people's hesitance to go to public places in response to this outbreak, and travel restrictions and quarantines that the Mainland China government and other governments are instituting will have a significant negative impact on our business in Mainland China and possibly other markets, including Taiwan and Hong Kong.

#### **Segment Results**

We report our business in nine segments to reflect our current management approach. Effective as of the first quarter of 2019, we reorganized the structure of our segments to separately disclose a Manufacturing segment, which includes the manufacturing and packaging subsidiaries that we acquired in the first quarter of 2018, and a Grow Tech segment, which focuses on developing controlled-environment agriculture technologies. Our Manufacturing and Grow Tech segments were previously included in the Other category. Effective as of the first quarter of 2018, we reorganized the structure of our segments to reflect that our Pacific region, which was previously managed by our Southeast Asia regional management and was included in our South Asia/Pacific operating segment, is now managed by our Americas regional management and is included in our Americas/Pacific operating segment. Segment information for the year ended December 31, 2018 has been recast to reflect this change.

The following table sets forth revenue for the years ended December 31, 2019 and 2018 for each of our reportable segments (U.S. dollars in thousands):

	Year Ended December 31,		Change	Constant Currency Change <sup>(1)</sup>
	2019	2018		
<i>Nu Skin</i>				
Mainland China	\$ 722,526	\$ 886,472	(18)%	(15)%
Americas/Pacific	349,078	385,034	(9)%	(4)%
South Korea	329,978	373,357	(12)%	(6)%
Southeast Asia	301,620	316,890	(5)%	(5)%
Japan	260,039	254,939	2%	1%
EMEA	167,165	182,394	(8)%	(3)%
Hong Kong/ Taiwan	166,335	185,893	(11)%	(9)%
Other	1,621	3,423	(53)%	(53)%
<b>Total Nu Skin</b>	<b>2,298,362</b>	<b>2,588,402</b>	<b>(11)%</b>	<b>(8)%</b>
<i>Manufacturing</i>	121,917	90,606	35%	35%
<i>Grow Tech</i>	137	—	100%	100%
<b>Total</b>	<b>\$ 2,420,416</b>	<b>\$ 2,679,008</b>	<b>(10)%</b>	<b>(7)%</b>

(1) Constant-currency revenue change is a non-GAAP financial measure. See “Non-GAAP Financial Measures,” below.

The table below sets forth segment contribution for the years ended December 31, 2019 and 2018 for each of our reportable segments (U.S. dollars in thousands). Segment contribution excludes certain intercompany charges, specifically royalties, license fees, transfer pricing and other miscellaneous items. We use segment contribution to measure the portion of profitability that the segment managers have the ability to control for their respective segments. For additional information regarding our segments and the calculation of segment contribution, see Note 18 to the consolidated financial statements contained in this report.

	2019	2018	Change
<i>Nu Skin</i>			
Mainland China	\$ 191,570	\$ 253,598	(24)%
Americas/Pacific	57,090	52,433	9%
South Korea	99,892	107,215	(7)%
Southeast Asia	82,455	78,598	5%
Japan	61,081	56,676	8%
EMEA	10,195	14,773	(31)%
Hong Kong/Taiwan	33,569	33,392	1%
<b>Total Nu Skin</b>	<b>535,852</b>	<b>596,685</b>	<b>(10)%</b>
<i>Manufacturing</i>	15,693	7,754	102%
<i>Grow Tech</i>	(19,509)	(9,228)	(111)%

The following table provides information concerning the number of Customers and Sales Leaders as of December 31, 2019 and 2018. “Customers” are persons who have purchased products directly from the Company during the three months ended as of the date indicated. Our Customer numbers do not include consumers who purchase products directly from members of our sales force. “Sales Leaders” are independent distributors, and sales employees and independent marketers in Mainland China, who achieve certain qualification requirements. Our Velocity sales compensation program enhancements have adjusted the requirements for qualifying and maintaining “Sales Leader” status, which has impacted the number of independent distributors under our global compensation program who achieve such requirements. For example, the sales volume necessary to achieve initial qualification has been increased in some markets, financial rewards have been increased for higher monthly sales productivity, and qualification requirements to maintain and advance status have been modified. The enhanced program also provides some flexibility to remain a Sales Leader with a lower sales volume for a short time. We began introducing Velocity in the fourth quarter of 2017 and continued rolling it out across our markets through the first half of 2019. We have now introduced Velocity in all of our markets other than Mainland China, which operates under a different business model and is not impacted by these changes.

	As of December 31, 2019		As of December 31, 2018		% Increase (Decrease)	
	Customers	Sales Leaders	Customers	Sales Leaders	Customers	Sales Leaders
Mainland China	292,812	17,987	303,789	33,129	(4)%	(46)%
Americas/Pacific	220,216	7,607	248,609	8,354	(11)%	(9)%
South Korea	168,972	7,251	182,026	7,565	(7)%	(4)%
Southeast Asia	136,349	7,480	153,465	8,933	(11)%	(16)%
Japan	125,557	5,916	130,181	5,916	(4)%	—
EMEA	153,330	4,619	149,085	4,791	3%	(4)%
Hong Kong/Taiwan	65,669	3,900	76,891	4,767	(15)%	(18)%
<b>Total</b>	<b>1,162,905</b>	<b>54,760</b>	<b>1,244,046</b>	<b>73,455</b>	<b>(7)%</b>	<b>(25)%</b>



Following is a narrative discussion of our results in each segment, which supplements the tables above.

**Mainland China.** The year-over-year decrease in revenue and Sales Leaders in Mainland China for 2019 reflects the restrictions on sales meetings. In addition, we believe the negative media scrutiny of the industry had a negative impact on consumer sentiment, which also made it more difficult to attract and retain Customers and Sales Leaders. As previously disclosed, during the first half of 2019, the Mainland China government conducted a 100-day campaign to review and inspect the health products and direct selling industries. In connection with this campaign, the government's scrutiny of activities within the health products and direct selling industries was during 2019, and continues to be, at higher levels. During this time, we have been receiving and addressing an increased number of government reviews, inspections, inquiries and consumer complaints in Mainland China, and our ability to hold certain business meetings has been limited. The decline in revenue also reflects the negative impact of foreign-currency fluctuations of 3%. Due in part to the restrictions on sales meetings, we increased customer initiatives during 2019, which we believe helped the Customer number to decline only slightly despite the large decrease in Sales Leaders.

The year-over-year decrease in segment contribution primarily reflects lower revenue in 2019. In addition, selling expense as a percentage of revenue increased 2.2 percentage points. The salaries and service fees of our sales force in Mainland China are fixed until they are adjusted in a quarterly evaluation process. As a result, we have variations in our selling expenses as a percentage of revenue, particularly when there is a sequential change in revenue.

As noted above, we currently anticipate that the outbreak of the coronavirus and related issues will have a significant negative impact on our Mainland China business.

**Americas/Pacific.** The year-over-year decreases in revenue, Sales Leaders and Customers were significantly impacted by our Argentina market, where the economy is experiencing hyperinflation. The revenue decline in our Argentina market accounts for over \$22.2 million of the total decline for the segment for 2019. We have implemented price increases in response to inflation in Argentina. Our revenue in this segment was negatively impacted 5% from foreign-currency fluctuations for 2019, primarily due to the weakening Argentine peso. The declines in revenue, Sales Leaders and Customers in this segment also reflect continued softness in our North America markets, coupled with the lack of a significant new product launch in 2019.

The year-over-year increase in segment contribution for 2019 primarily reflects a decline in general and administrative expense from headcount reductions from our 2018 restructuring plan, and incremental cost-saving initiatives, along with improvements in gross margin from product mix, partially offset by the decline in revenue.

**South Korea.** Although our business in South Korea continued to be challenged in 2019, it showed stabilization during 2019. Our reported revenue also reflects a negative impact of 6% from foreign-currency fluctuations for 2019. Additionally, during the fourth quarter of 2018, we launched a new product that generated incremental revenue of \$14.2 million in 2018 over the amount generated in 2019. Competitive pressures have continued to negatively affect our revenue, Sales Leaders and Customer acquisition in this segment.

The year-over-year decrease in segment contribution primarily reflects the decline in revenue, partially offset by improved gross margin from favorable sales mix and a 2.6 percentage point decline in selling expense as a percentage of revenue.

**Southeast Asia.** The year-over-year decreases in revenue, Sales Leaders and Customers in our Southeast Asia segment reflect the lack of a major product launch in 2019 to engage our sales force.

The year-over-year increase in segment contribution primarily reflects improved gross margin due to changes in product mix, a decrease in selling expense as a percentage of revenue, and a decrease in general and administrative expense as a percentage of revenue as a result of a distributor event that was hosted in 2018 and not in 2019. These items were partially offset by the revenue decline in 2019.

**Japan.** Our Japan segment has been showing steady improvements with continued market stabilization, resulting in 1% constant-currency revenue growth for 2019, with a 1% benefit from favorable foreign-currency fluctuations. However, our Sales Leader and Customer numbers in our Japan segment continued to reflect a soft direct selling market, which we believe is attributable to a challenging regulatory environment and an aging demographic.

The year-over-year increase in segment contribution reflects increased revenue and a 1.0 percentage-point increase in gross margin as a percentage of sales.

**EMEA.** The year-over-year decline in revenue and Sales Leaders in this segment reflects negative media scrutiny in our United Kingdom market, along with a longer than anticipated adjustment for our Sales Leaders with the Velocity sales compensation program. Our reported revenue also reflects a negative impact of 5% from foreign-currency fluctuations for 2019.

The year-over-year decrease in segment contribution for 2019 primarily reflects lower revenue in 2019, along with a 1.9 percentage-point increase in selling expense as a percentage of revenue.

We currently do not expect that the United Kingdom's withdrawal from the European Union will have a material impact on our business, but will continue to monitor this situation.

**Hong Kong/Taiwan.** The year-over-year decline in revenue, Sales Leaders and Customers in our Hong Kong/Taiwan segment reflects business disruptions from the social incidents in Hong Kong. It is uncertain when the situation will be resolved.

Despite the lower revenue for 2019, segment contribution improved slightly due to a 4.8 percentage point decline in selling expense as a percentage of revenue and a decline in general and administrative expense as a percentage of revenue due to the 2018 Greater China sales force event that was held in the segment.

**Manufacturing.** Our Manufacturing segment generated a 35% increase in revenue for 2019. Our previous investment in additional capacity has allowed our manufacturing companies to continue to increase revenue. The companies in this segment were acquired during the first quarter of 2018; as a result, the year-over-year revenue comparison reflects only a partial period in 2018. These companies provide products and services both to our Nu Skin business and external customers. Reported revenue includes only the revenue generated by sales to external customers.

The \$7.9 million improvement in segment contribution reflects the revenue increases and improved gross margin, primarily due to purchase accounting adjustments recorded in 2018.

**Grow Tech.** Our Grow Tech segment continues to invest in controlled-environment agriculture technologies. We believe these technologies will enhance our ability to source clean, sustainable ingredients. We also have found that some of this technology has broader applications in agriculture, and we are pursuing these potential opportunities. We are expecting continued losses in 2020 from this segment as we continue to research and refine the technology.

## **Consolidated Results**

### **Revenue**

Revenue for the year ended December 31, 2019 decreased 10% to \$2.42 billion, compared to \$2.68 billion in the prior-year period. For a discussion and analysis of this increase in revenue, see "Overview" and "Segment Results," above.

### **Gross profit**

Gross profit as a percentage of revenue decreased to 76.0% in 2019, compared to 76.3% in 2018. Gross profit as a percentage of revenue for core Nu Skin increased 0.3% to 78.4%. The increased revenue for our Manufacturing segment, paired with lower revenue for our core Nu Skin business, lowered consolidated gross margin for 2019. As previously disclosed, the gross margin of our Manufacturing segment is significantly lower than that of our core Nu Skin business.

### **Selling expenses**

Selling expenses as a percentage of revenue decreased to 39.5% in 2019 compared, to 40.0% in 2018. This decrease was driven by the increase in revenue from our Manufacturing segment, which does not carry significant selling expenses and therefore lowered consolidated selling expenses. Our core Nu Skin business's selling expense as a percentage of revenue increased 0.2 percentage points to 41.6% for 2019, compared to 41.4% for 2018. Selling expenses for our core Nu Skin business are driven by the specific performance of our individual Sales Leaders. Given the size of our sales force and the various components of our compensation and incentive programs, selling expenses as a percentage of revenue typically fluctuate plus or minus approximately 100 basis points from period to period.

### **General and administrative expenses**

General and administrative expenses decreased to \$616.0 million in 2019, compared to \$662.3 million in 2018. The \$46.3 million decrease primarily relates to decreases in labor expense due to decreased employee headcount during 2019, primarily as a result of our restructuring program in the fourth quarter of 2018 and higher employee incentive compensation for 2018 from achievement of performance goals. As a percentage of revenue, general and administrative increased 0.7% to 25.4% for 2019, compared to 24.7% for 2018.

## **Restructuring and impairment expenses**

In the fourth quarter of 2018, we adopted a restructuring program. This program primarily impacted our information technology infrastructure and organization and other departments within our corporate and Americas offices. As a result of the restructuring program, we recorded a non-cash charge of \$48.6 million for impairment of information technology assets, including internally developed software for our social sharing and digital initiatives, and \$22.1 million of cash charges, including \$20.1 million for employee severance and \$2.0 million for other related cash charges with our restructuring. We additionally recorded \$7.2 million of non-cash inventory write-offs as restructuring charges, which were recorded in cost of sales and in connection with our business strategy. The restructuring charges were predominately recorded in our Corporate and Other category. As of December 31, 2019, the program has been completed and all payments have been made.

## **Other income (expense), net**

Other income (expense), net for 2019 was \$12.3 million of expense, compared to \$21.2 million of expense in 2018. The decreases in expense primarily reflect foreign-currency fluctuations; foreign-currency translation losses decreased \$12.6 million for 2019. The foreign-currency translation losses primarily related to fluctuations of the Argentine peso and the Chinese RMB compared to the U.S. dollar for 2018. The decrease in expense for 2019 additionally reflects a non-cash charge of \$7.2 million in the first quarter of 2018 related to the conversion of our then-outstanding convertible notes, offset by a non-cash gain of \$13.6 million on our step acquisitions in the first quarter of 2018, as the fair value of our pre-acquisition interests in these companies exceeded the book value at the time of the acquisitions.

## **Provision for income taxes**

Provision for income taxes decreased to \$81.6 million in 2019 from \$97.8 million in 2018. Our effective tax rate decreased to 32.0% of pre-tax income in 2019 from 44.5% in 2018. Our 2018 effective tax rate was impacted significantly by the restructuring and impairment expenses incurred in the fourth quarter of 2018, which reduced our pre-tax income.

For 2020, we currently anticipate that our effective tax rate will be approximately 31-37%. Our actual 2020 effective tax rate could differ materially from this estimate. Our future effective tax rates could fluctuate significantly, being affected by numerous factors, such as intercompany transactions, changes in our business operations, foreign audits, increases in uncertain tax positions, acquisitions, entry into new markets, the amount of our foreign earnings, including earnings being lower than anticipated in jurisdictions where we have a lower statutory rate and higher than anticipated in jurisdictions where we have a higher statutory rate, losses incurred in jurisdictions, the inability to realize tax benefits, withholding taxes, changes in foreign currency exchange rates, changes in our stock price, changes in our deferred tax assets and liabilities and their valuation.

## **Net income**

As a result of the foregoing factors, net income in 2019 increased to \$173.6 million, compared to \$121.9 million in 2018.

## **2018 Compared to 2017**

For a comparison of our operating results for 2018 compared to 2017, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 52 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as filed with the SEC on February 14, 2019.

## **Liquidity and Capital Resources**

Historically, our principal uses of cash have included operating expenses (particularly selling expenses) and working capital (principally inventory purchases), as well as capital expenditures, stock repurchases, dividends, debt repayment and the development of operations in new markets. We have at times incurred long-term debt, or drawn on our revolving line of credit, to fund strategic transactions, stock repurchases, capital investments and short-term operating needs. We typically generate positive cash flow from operations due to favorable margins and have generally relied on cash from operations to fund operating activities. We generated \$177.9 million in cash from operations during 2019, compared to \$202.7 million in cash from operations during 2018. This decrease in cash generated from operations during 2019 primarily reflects higher payout of accruals in the first quarter of 2019, mainly attributable to severance payments related to our 2018 restructuring, and higher commission payments due to a strong fourth quarter of 2018.

As of December 31, 2019, cash and cash equivalents, including current investments, were \$344.0 million compared to \$398.3 million as of December 31, 2018. This decrease in cash and cash equivalents primarily reflects quarterly dividend payments, debt repayments, and purchases of property and equipment, partially offset by cash flow from operations and proceeds from debt. Working capital as of December 31, 2019 was \$383.4 million compared to \$359.6 million as of December 31, 2018. The increase in working capital was primarily attributable to an increased prepaid expense, a decrease to accruals from the payout of the severance in the first quarter of 2019, and a decrease in our borrowings on the revolving line of credit, which was partially offset by the lower cash balance at the end of 2019, compared to 2018.

**Capital expenditures.** Capital expenditures in 2019 totaled \$66.1 million. We expect that the capital expenditures in 2020 will be primarily related to:

- the expansion and upgrade of facilities in our various markets;
- purchases and expenditures for computer systems and equipment, software, and application development; and
- purchases of equipment and development of our technology in our Grow Tech initiative.

We estimate that capital expenditures for the uses listed above will total approximately \$60–70 million for 2020. In addition, we are also in the building phase for a new manufacturing plant in Mainland China. To date we have spent approximately \$13 million and expect that our expenditures for this project will total approximately \$55 million over the next 2-3 years, including approximately \$15-18 million during 2020.

**Conversion and satisfaction of convertible notes.** In June 2016, we issued \$210.0 million principal amount of convertible 4.75% senior notes due 2020 (the “Convertible Notes”) to Ping An ZQ China Growth Opportunity Limited (“Ping An ZQ”) at face value. During the first quarter of 2018, Ping An ZQ elected to convert the Convertible Notes pursuant to their terms. In connection with such conversion and pursuant to the terms of the indenture governing the Convertible Notes, we became obligated to deliver shares of Class A common stock and cash to Ping An ZQ. We satisfied our obligation to deliver shares of Class A common stock to Ping An ZQ during the first quarter of 2018 and, in April 2018, satisfied our obligations under the Convertible Notes by paying Ping An ZQ \$213.4 million.

**Credit agreement.** In April 2018, we entered into a Credit Agreement (the “Credit Agreement”) with various financial institutions as lenders and Bank of America, N.A., as administrative agent. The Credit Agreement provides for a \$400.0 million term loan facility and a \$350.0 million revolving credit facility, each with a term of five years. Concurrently with the closing of the Credit Agreement, we drew the full amount of the term loan facility and \$78.5 million of the revolving facility, each of which initially bear interest at the London Interbank Offered Rate (“LIBOR”) plus 2.25%. We used the proceeds of the term loan and the draw on the revolving facility to pay off the Previous Credit Agreement, as defined below, and the outstanding balance on the Convertible Notes. The interest rate applicable to the facilities is subject to adjustment based on our consolidated leverage ratio. The term loan facility amortizes in quarterly installments in amounts resulting in an annual amortization of 5.0% during the first and second years, 7.5% during the third and fourth years and 10.0% during the fifth year after the closing date of the Credit Agreement, with the remainder payable at final maturity. The Credit Agreement requires us to maintain a consolidated leverage ratio not exceeding 2.25 to 1.00 and a consolidated interest coverage ratio of no less than 3.00 to 1.00. We are currently in compliance with all debt covenants under the Credit Agreement.

**Modification of previous credit agreement.** In April 2018, we repaid debt that was outstanding under our credit agreement, dated as of October 9, 2014 (the “Previous Credit Agreement”) with various financial institutions as lenders, and Bank of America, N.A., as administrative agent. We had indebtedness of \$257.6 million in principal amount outstanding under the Previous Credit Agreement as of both March 31, 2018 and the repayment date of April 18, 2018. See Note 6 to the consolidated financial statements contained in this Annual Report for further information regarding the Credit Agreement, Convertible Notes and other debt.

**Stock repurchase plan.** In 2018, our board of directors approved a stock repurchase plan authorizing us to repurchase up to \$500.0 million of our outstanding shares of Class A common stock on the open market or in private transactions. During 2019, we repurchased approximately 14,000 shares of our Class A common stock under the plan for \$0.8 million. As of December 31, 2019, \$470.2 million was available for repurchases under the plan. Our stock repurchases are used primarily to offset dilution from our equity incentive plans and for strategic initiatives.

**Dividends.** Our board of directors declared and paid cash dividends on our Class A common stock of \$0.37 per share during each quarter of 2019. These quarterly cash dividends totaled approximately \$82.2 million. The board of directors has approved an increased quarterly cash dividend of \$0.375 per share of Class A common stock to be paid on March 11, 2020, to stockholders of record on February 28, 2020. Annually, this would increase the dividend to \$1.50 from \$1.48 in 2019. Currently, we anticipate that our board of directors will continue to declare quarterly cash dividends and that the cash flows from operations will be sufficient to fund our future dividend payments. However, the continued declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other relevant factors.

**Cash from foreign subsidiaries.** As of December 31, 2019 and 2018, we held \$344.0 million and \$398.3 million, respectively, in cash and cash equivalents, including current investments. These amounts include \$277.9 million and \$348.1 million as of December 31, 2019 and 2018, respectively, held in our operations outside of the United States. Substantially all of our non-U.S. cash and cash equivalents are readily convertible into U.S. dollars or other currencies, subject to procedural or other requirements in certain markets, as well as an indefinite-reinvestment designation, as described below.

We typically fund the cash requirements of our operations in the United States through intercompany dividends, intercompany loans and intercompany charges for products, use of intangible property, and corporate services. However, some markets impose government-approval or other requirements for the repatriation of dividends. For example, in Mainland China, we are unable to repatriate cash from current operations in the form of dividends until we file the necessary statutory financial statements for the relevant period. As of December 31, 2019 and 2018, we had \$76.6 million and \$122.9 million, respectively, in cash denominated in Chinese RMB. We also have intercompany loan arrangements with some of our markets, including Mainland China, that allow us to access available cash, subject to certain limits in Mainland China and other jurisdictions. We also have drawn on our revolving line of credit to address cash needs until we can repatriate cash from Mainland China or other markets, and we may continue to do so. Except for \$60 million of earnings in Mainland China that we designated as indefinitely reinvested during the second quarter of 2018, we currently plan to repatriate undistributed earnings from our non-U.S. operations as necessary, considering the cash needs of our non-U.S. operations and the cash needs of our U.S. operations for dividends, stock repurchases, capital investments, debt repayment and strategic transactions. Repatriation of non-U.S. earnings is subject to withholding taxes in certain foreign jurisdictions. Accordingly, we have accrued the necessary withholding taxes related to the non-U.S. earnings.

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

### Non-GAAP Financial Measures

Constant-currency revenue change is a non-GAAP financial measure that removes the impact of fluctuations in foreign-currency exchange rates, thereby facilitating period-to-period comparisons of the Company's performance. It is calculated by translating the current period's revenue at the same average exchange rates in effect during the applicable prior-year period and then comparing that amount to the prior-year period's revenue. We believe that constant-currency revenue change is useful to investors, lenders, and analysts because such information enables them to gauge the impact of foreign-currency fluctuations on our revenue from period to period.

### Contractual Obligations and Contingencies

The following table sets forth payments due by period for fixed contractual obligations as of December 31, 2019 (U.S. dollars in thousands):

	<u>Total</u>	<u>2020</u>	<u>2021 - 2022</u>	<u>2023 - 2024</u>	<u>Thereafter</u>
Long-term debt obligations <sup>(1)</sup>	\$ 365,000	\$ 27,500	\$ 67,500	\$ 270,000	—
Interest payable	37,822	12,625	22,032	3,165	—
Operating lease obligations	170,502	45,942	62,367	30,825	31,368
Purchase obligations	289,776	209,222	73,258	7,238	58
Other long-term liabilities reflected on the balance sheet <sup>(2)</sup>	96,795	4,098	7,155	6,573	78,969
Total	<u>\$ 959,895</u>	<u>\$ 299,387</u>	<u>\$ 232,312</u>	<u>\$ 317,801</u>	<u>\$ 110,395</u>

(1) The carrying value of the debt reflects the amounts stated in the above table less a debt discount of \$3 million.

(2) The timing of the commitments in Other long-term liabilities reflected on the balance sheet is uncertain and represents management's best estimate.

### Contingent Liabilities

Please refer to Note 19 to the consolidated financial statements contained in this report for information regarding our contingent liabilities.

### Seasonality and Cyclicity

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

Prior to making a key product generally available for purchase, we often do one or more introductory offerings of the product, such as a preview of the product to our Sales Leaders, a limited-time offer, or other product introduction or promotion. These offerings may generate significant activity and a high level of purchasing, which can result in a higher-than-normal increase in revenue, Sales Leaders and/or Customers during the quarter and can skew year-over-year and sequential comparisons.

## Customers and Sales Leaders

The following table provides information concerning the number of Customers and Sales Leaders as of the dates indicated. “Customers” are persons who have purchased products directly from the Company during the three months ended as of the date indicated. Our Customer numbers do not include consumers who purchase products directly from members of our sales force. “Sales Leaders” are independent distributors, and sales employees and independent marketers in Mainland China, who achieve certain qualification requirements.

	As of December 31, 2019		As of December 31, 2018		As of December 31, 2017	
	Customers	Sales Leaders	Customers	Sales Leaders	Customers	Sales Leaders
Mainland China	292,812	17,987	303,789	33,129	192,604	40,610
Americas/Pacific	220,216	7,607	248,609	8,354	244,467	8,871
South Korea	168,972	7,251	182,026	7,565	172,553	8,431
Southeast Asia	136,349	7,480	153,465	8,933	121,764	8,020
Japan	125,557	5,916	130,181	5,916	132,041	6,592
EMEA	153,330	4,619	149,085	4,791	135,051	4,683
Hong Kong/Taiwan	65,669	3,900	76,891	4,767	71,091	4,671
Total	1,162,905	54,760	1,244,046	73,455	1,069,571	81,878

## Quarterly Results

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

	2019				2018			
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
Revenue	\$ 583.4	\$ 589.9	\$ 623.5	\$ 623.6	\$ 683.3	\$ 675.3	\$ 704.2	\$ 616.2
Gross profit	442.8	449.8	469.5	477.0	521.4	517.9	535.6	469.9
Operating income	54.7	69.9	74.2	68.7	18.4	80.7	82.8	59.0
Net income	40.1	44.1	46.3	43.0	(17.8)	53.1	51.0	35.5
Net income per share:								
Basic	0.72	0.79	0.83	0.78	(0.32)	0.99	0.92	0.66
Diluted	0.72	0.79	0.83	0.77	(0.32)	0.94	0.90	0.64

## Recent Accounting Pronouncements

A description of new accounting pronouncements is contained in Note 2 of the Notes to Consolidated Financial Statements.

## Currency Risk and Exchange Rate Information

A majority of our revenue and many of our expenses are recognized outside of the United States, except for inventory purchases, a significant portion of which are primarily transacted in U.S. dollars from vendors in the United States. The local currency of each of our Subsidiaries’ primary markets is considered the functional currency with the exception of our Asia product-distribution subsidiary in Singapore and, as discussed below, our subsidiary in Argentina. All revenue and expenses are translated at weighted-average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. These impacts may be significant because a large portion of our business is derived from outside of the United States. Given the uncertainty of exchange rate fluctuations, it is difficult to predict the effect of these fluctuations on our future business, product pricing and results of operations or financial condition.

In the second quarter of 2018, published inflation indices indicated that the three-year cumulative inflation in Argentina exceeded 100%, and as of July 1, 2018, we elected to adopt highly inflationary accounting for our subsidiaries in Argentina. Under highly inflationary accounting, Argentina’s functional currency became the U.S. dollar, and its income statement and balance sheet have been measured in U.S. dollars using both current and historical rates of exchange. The effect of changes in exchange rates on peso-denominated monetary assets and liabilities has been reflected in earnings in Other income (expense), net and was not material. As of December 31, 2019, our Argentina subsidiary had a small net peso monetary position. Net sales of Argentina were less than 2% of our consolidated net sales for 2019, 2018 and 2017.

We may seek to reduce our exposure to fluctuations in foreign currency exchange rates through the use of foreign currency exchange contracts and through intercompany loans of foreign currency. We do not use derivative financial instruments for trading or speculative purposes. We regularly monitor our foreign currency risks and periodically take measures to reduce the impact of foreign exchange fluctuations on our operating results. As of December 31, 2019, and 2018, we did not hold non-designated mark-to-market forward derivative contracts to hedge foreign-denominated intercompany positions or third-party foreign debt. As of December 31, 2019 and 2018, we did not hold any forward contracts designated as foreign-currency cash flow hedges. We continue to evaluate our foreign currency hedging policy.

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

	2019				2018			
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
Argentina	59.4	49.6	43.9	38.9	37.1	31.1	23.0	19.7
Australia	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.3
Canada	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Eurozone countries	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8
Hong Kong	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
Indonesia	14,056	14,114	14,263	14,137	14,763	14,620	13,961	13,577
Japan	108.7	107.3	109.9	110.2	112.8	111.5	109.2	108.2
Mainland China	7.0	7.0	6.8	6.7	6.9	6.8	6.4	6.4
Malaysia	4.2	4.2	4.1	4.1	4.2	4.1	4.0	3.9
Philippines	51.0	51.8	52.0	52.4	53.2	53.5	52.5	51.6
Singapore	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3
South Korea	1,175.0	1,194.4	1,165.8	1,125.0	1,128.3	1,121.1	1,080.4	1,072.7
Taiwan	30.4	31.2	31.1	30.8	30.8	30.7	29.7	29.3
Thailand	30.3	30.7	31.6	31.6	32.8	33.0	32.0	31.6
Vietnam	23,191	23,213	23,314	23,201	23,318	23,237	22,808	22,740

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required by Item 7A of Form 10-K is incorporated herein by reference from the information contained in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—“Currency Risk and Exchange Rate Information” and Note 14 to the consolidated financial statements contained in this report.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

	Page
Consolidated Balance Sheets at December 31, 2019 and 2018	52
Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017	53
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017	54
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017	55
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017	56
Notes to Consolidated Financial Statements	57
Report of Independent Registered Public Accounting Firm	81

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

**NU SKIN ENTERPRISES, INC.**

**Consolidated Balance Sheets**

(U.S. dollars in thousands)

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 335,630	\$ 386,911
Current investments	8,413	11,346
Accounts receivable	50,378	53,282
Inventories, net	275,891	295,821
Prepaid expenses and other	69,854	51,877
<b>Total current assets</b>	<b>740,166</b>	<b>799,237</b>
Property and equipment, net	453,604	464,535
Right-of-use assets	144,326	—
Goodwill	196,573	196,573
Other intangible assets, net	80,321	89,989
Other assets	154,016	144,112
<b>Total assets</b>	<b>\$ 1,769,006</b>	<b>\$ 1,694,446</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 38,979	\$ 47,617
Accrued expenses	290,281	322,583
Current portion of long-term debt	27,500	69,455
<b>Total current liabilities</b>	<b>356,760</b>	<b>439,655</b>
Operating lease liabilities	105,701	—
Long-term debt	334,461	361,008
Other liabilities	96,795	111,916
<b>Total liabilities</b>	<b>893,717</b>	<b>912,579</b>
Commitments and contingencies (Notes 7 and 19)		
Stockholders' equity		
Class A common stock – 500 million shares authorized, \$0.001 par value, 90.6 million shares issued	91	91
Additional paid-in capital	557,544	552,564
Treasury stock, at cost – 35.0 million and 35.2 million shares	(1,324,826)	(1,326,605)
Accumulated other comprehensive loss	(85,292)	(79,934)
Retained earnings	1,727,772	1,635,751
<b>Total stockholders' equity</b>	<b>875,289</b>	<b>781,867</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,769,006</b>	<b>\$ 1,694,446</b>

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

**NU SKIN ENTERPRISES, INC.****Consolidated Statements of Income**

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

	Year Ended December 31,		
	2019	2018	2017
Revenue	\$ 2,420,416	\$ 2,679,008	\$ 2,279,099
Cost of sales	581,420	634,140	502,078
Gross profit	<u>1,838,996</u>	<u>2,044,868</u>	<u>1,777,021</u>
Operating expenses:			
Selling expenses	955,600	1,071,020	938,024
General and administrative expenses	615,970	662,302	564,514
Restructuring and impairment expenses	—	70,686	—
Total operating expenses	<u>1,571,570</u>	<u>1,804,008</u>	<u>1,502,538</u>
Operating income	267,426	240,860	274,483
Other income (expense), net (Note 20)	<u>(12,254)</u>	<u>(21,194)</u>	<u>(8,916)</u>
Income before provision for income taxes	255,172	219,666	265,567
Provision for income taxes	<u>81,619</u>	<u>97,779</u>	<u>136,130</u>
Net income	<u>\$ 173,553</u>	<u>\$ 121,887</u>	<u>\$ 129,437</u>
Net income per share:			
Basic	\$ 3.13	\$ 2.21	\$ 2.45
Diluted	\$ 3.10	\$ 2.16	\$ 2.36
Weighted-average common shares outstanding (000s):			
Basic	55,518	55,170	52,806
Diluted	55,927	56,476	54,852

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

**NU SKIN ENTERPRISES, INC.**  
**Consolidated Statements of Comprehensive Income**  
(U.S. dollars in thousands)

	<b>Year Ended December 31,</b>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income	<u>\$ 173,553</u>	<u>\$ 121,887</u>	<u>\$ 129,437</u>
Other comprehensive income:			
Foreign currency translation adjustment, net of taxes of \$(467), \$2,275, and \$(8,056) respectively	(5,358)	(13,474)	18,264
Net unrealized gains/(losses) on foreign currency cash flow hedges, net of taxes of \$—, \$18 and \$84, respectively	—	(160)	(152)
Less: Reclassification adjustment for realized losses/(gains) in current earnings, net of taxes of \$—, \$(2), and \$169, respectively	—	18	(308)
	<u>(5,358)</u>	<u>(13,616)</u>	<u>17,804</u>
Comprehensive income	<u>\$ 168,195</u>	<u>\$ 108,271</u>	<u>\$ 147,241</u>

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

**NU SKIN ENTERPRISES, INC.**  
**Consolidated Statements of Stockholders' Equity**  
(U.S. dollars in thousands)

	Class A Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at January 1, 2017	\$ 91	\$ 439,635	\$ (1,250,123)	\$ (84,122)	\$ 1,558,589	\$ 664,070
Cumulative effect adjustment from adoption of ASU 2016-09	—	2,800	—	—	(2,800)	—
Net income	—	—	—	—	129,437	129,437
Other comprehensive income, net of tax	—	—	—	17,804	—	17,804
Repurchase of Class A common stock (Note 8)	—	—	(71,731)	—	—	(71,731)
Exercise of employee stock options (1.2 million shares)/vesting of stock awards	—	9,479	14,964	—	—	24,443
Stock-based compensation	—	19,314	—	—	—	19,314
Acquisition of noncontrolling interests	—	(11,067)	—	—	—	(11,067)
Acquisition of equity method investment (0.2 million shares)	—	6,188	2,196	—	—	8,384
Cash dividends	—	—	—	—	(76,058)	(76,058)
Balance at December 31, 2017	\$ 91	\$ 466,349	\$ (1,304,694)	\$ (66,318)	\$ 1,609,168	\$ 704,596
Cumulative effect adjustment from adoption of ASC 606	—	—	—	—	(13,042)	(13,042)
Cumulative effect adjustment from adoption of ASU 2018-02	—	—	—	—	(1,681)	(1,681)
Net income	—	—	—	—	121,887	121,887
Other comprehensive income, net of tax	—	—	—	(13,616)	—	(13,616)
Repurchase of Class A common stock (Note 8)	—	—	(69,565)	—	—	(69,565)
Exercise of employee stock options (0.5 million shares)/vesting of stock awards	—	2,804	7,973	—	—	10,777
Stock-based compensation	—	26,609	—	—	—	26,609
Business Acquisitions (1.5 million shares)	—	80,064	19,794	—	—	99,858
Equity component of convertible note settlement (net)	—	(23,262)	19,887	—	—	(3,375)
Cash dividends	—	—	—	—	(80,581)	(80,581)
Balance at December 31, 2018	\$ 91	\$ 552,564	\$ (1,326,605)	\$ (79,934)	\$ 1,635,751	\$ 781,867
Cumulative effect adjustment from adoption of ASC Topic 842	—	—	—	—	657	657
Net income	—	—	—	—	173,553	173,553
Other comprehensive income, net of tax	—	—	—	(5,358)	—	(5,358)
Repurchase of Class A common stock (Note 8)	—	—	(825)	—	—	(825)
Exercise of employee stock options (— million shares)/vesting of stock awards	—	(4,929)	2,604	—	—	(2,325)
Stock-based compensation	—	9,909	—	—	—	9,909
Cash dividends	—	—	—	—	(82,189)	(82,189)
Balance at December 31, 2019	\$ 91	\$ 557,544	\$ (1,324,826)	\$ (85,292)	\$ 1,727,772	\$ 875,289

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

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

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>			
Net income	\$ 173,553	\$ 121,887	\$ 129,437
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	76,650	83,003	71,564
Impairment of fixed assets	—	48,551	—
Equity method earnings	—	(456)	(1,048)
Gain on step acquisition	—	(13,644)	—
Loss on extinguishment of debt	—	7,220	—
Foreign currency (gains)/losses	3,829	16,381	(3,014)
Stock-based compensation	9,909	26,609	19,314
Deferred taxes	1,965	(14,929)	39,213
Non-cash lease expense	44,460	—	—
Changes in operating assets and liabilities:			
Accounts receivable	2,746	(10,453)	(103)
Inventories, net	18,446	(33,371)	7,537
Prepaid expenses and other	(17,435)	(1,536)	14,250
Other assets	(67,109)	887	(11,658)
Accounts payable	(7,184)	(9,164)	6,834
Accrued expenses	(86,997)	(7,433)	22,490
Other liabilities	25,098	(10,814)	7,739
Net cash provided by operating activities	<u>177,931</u>	<u>202,738</u>	<u>302,555</u>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(66,067)	(70,371)	(60,156)
Proceeds on investment sales	11,160	11,536	11,269
Purchases of investments	(8,432)	(11,420)	(11,332)
Acquisitions (net of cash acquired)	(8,073)	(38,506)	(31,745)
Net cash used in investing activities	<u>(71,412)</u>	<u>(108,761)</u>	<u>(91,964)</u>
<b>Cash flows from financing activities:</b>			
Payment of cash dividends	(82,189)	(80,581)	(76,058)
Repurchase of shares of common stock	(825)	(69,565)	(71,731)
Exercise of employee stock options and taxes paid related to the net shares settlement of stock awards	(2,325)	10,777	24,443
Payments on long-term debt	(214,455)	(552,500)	(103,226)
Payment of debt issuance costs	—	(7,243)	—
Proceeds from long-term debt	145,000	582,398	67,000
Net cash used in financing activities	<u>(154,794)</u>	<u>(116,714)</u>	<u>(159,572)</u>
Effect of exchange rate changes on cash	<u>(3,006)</u>	<u>(16,751)</u>	<u>18,134</u>
Net increase (decrease) in cash and cash equivalents	(51,281)	(39,488)	69,153
Cash and cash equivalents, beginning of period	<u>386,911</u>	<u>426,399</u>	<u>357,246</u>
Cash and cash equivalents, end of period	<u>\$ 335,630</u>	<u>\$ 386,911</u>	<u>\$ 426,399</u>

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

**NU SKIN ENTERPRISES, INC.**

## Notes to Consolidated Financial Statements

**1. The Company**

Nu Skin Enterprises, Inc. (the “Company”) is a holding company, with Nu Skin, a leading global direct selling company, being the primary operating unit. Nu Skin develops and distributes premium-quality, innovative personal care products and wellness products that are sold worldwide under the Nu Skin, Pharmanex and ageLOC brands and a small number of other products and services. The Company reports revenue from nine segments, consisting of its seven geographic Nu Skin segments—Mainland China; South Korea; Southeast Asia, which includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam; Americas/Pacific, which includes Australia, Canada, Latin America, New Zealand and the United States; Japan; Hong Kong/Taiwan, which also includes Macau; and Europe, Middle East and Africa (“EMEA”), which includes several markets in Europe as well as Israel, Russia and South Africa—its Manufacturing segment, which includes the manufacturing and packaging subsidiaries it acquired in the first quarter of 2018; and its Grow Tech segment, which focuses on developing controlled-environment agriculture technologies (the Company’s subsidiaries operating within each segment are collectively referred to as the “Subsidiaries”).

**2. Summary of Significant Accounting Policies***Consolidation*

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

*Use of estimates*

The preparation of these financial statements, in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), required management to make estimates and assumptions that affected the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

*Cash and cash equivalents*

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

*Inventories*

Inventories consist primarily of merchandise purchased for resale and are stated at the lower of standard cost or net realizable value, using a standard cost method which approximates the first-in, first-out method. The Company had reserves of its inventory carrying value totaling \$12.3 million and \$14.1 million as of December 31, 2019 and 2018, respectively.

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Raw materials	\$ 87,942	\$ 91,610
Finished goods	187,949	204,211
Total inventory, net	<u>\$ 275,891</u>	<u>\$ 295,821</u>

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

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 14,149	\$ 8,081	\$ 7,995
Additions	14,931	23,940	16,382
Write-offs	(16,785)	(17,872)	(16,296)
Ending balance	<u>\$ 12,295</u>	<u>\$ 14,149</u>	<u>\$ 8,081</u>



*Prepaid expenses and other*

Prepaid expenses and other consist of the following (U.S. dollars in thousands):

	December 31,	
	2019	2018
Deferred charges	\$ 8,142	\$ 6,703
Prepaid income tax	8,905	—
Prepaid inventory and import costs	4,277	2,808
Prepaid rent, insurance and other occupancy costs	12,516	8,799
Prepaid promotion and event cost	7,159	6,013
Prepaid other taxes	7,965	6,268
Prepaid software license	3,317	4,006
Deposits	1,208	1,470
Other	16,365	15,810
Total prepaid expenses and other	<u>\$ 69,854</u>	<u>\$ 51,877</u>

*Property and equipment*

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recorded using the straight-line method over the following estimated useful lives:

Buildings	39 years
Furniture and fixtures	5 - 7 years
Computers and equipment	3 - 5 years
Leasehold improvements	Shorter of estimated useful life or lease term
Scanners	3 years
Vehicles	3 - 5 years

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

*Leases*

The Company determines if an arrangement is or contains a lease at inception or modification of the arrangement. An arrangement is or contains a lease if there is an identified asset and the right to control the use of the identified asset is conveyed for a period in exchange for consideration. Control over the use of an identified asset means the lessee has both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct use of the asset.

The Company recognizes right-of-use (“ROU”) assets and lease liabilities on the balance sheet for leases other than leases with a term of 12 months or less. ROU assets represent the Company’s right to use an underlying asset for the lease term. Lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets and lease liabilities are classified and recognized at the commencement date of the lease. Lease liabilities are measured based on the present value of lease payments over the lease term. ROU assets consist of (i) initial measurement of the lease liability; (ii) lease payments made to the lessor at or before the commencement date less any lease incentives received; and (iii) initial direct costs incurred by the Company. As the Company’s lessee leases do not provide a readily determinable implicit rate, the Company uses its incremental borrowing rate based on information available at the commencement date in determining the present value of lease payments.

Lease payments may vary because of changes in facts or circumstances occurring after the commencement, including changes in inflation indices. Variable lease payments are excluded from the measurement of ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. The Company from time to time may have excess lease space and will sublease accordingly. The Company recognizes sublease income on a straight-line basis. The Company’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company has lease agreements with lease and non-lease components. For all lease agreements, the Company accounts for lease and non-lease components as a single lease component. The Company’s lease agreements do not contain any residual value guarantees.

For income statement purposes, the Company recognizes straight-line lease cost for operating leases. For finance leases, the Company recognizes interest expense associated with the lease liability and depreciation expense associated with the ROU asset.

*Goodwill and other intangible assets*

Goodwill is recorded when the cost of acquired businesses exceeds the fair value of the identifiable net assets acquired. Goodwill and intangible assets with indefinite useful lives are not amortized, but are assessed for impairment annually on June 30. In addition, impairment testing is conducted when events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Goodwill and intangible assets with indefinite useful lives would be written down to fair value if considered impaired. Guidance under Accounting Standards Codification (“ASC”) 350, *Intangibles - Goodwill and Other*, requires an entity to test goodwill for impairment on at least an annual basis. The Company had the option to perform a qualitative assessment to determine whether further impairment testing is necessary or to perform a quantitative assessment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. Under the qualitative assessment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. If under the quantitative assessment the fair value of a reporting unit is less than its carrying amount, then the amount of the impairment loss, if any, must be measured. The Company elected to perform the qualitative assessment during fiscal years 2019 and 2018 and determined that it is not more likely than not the carrying value exceeds the fair value of the reporting units. In fiscal year 2017, a quantitative assessment was performed. Intangible assets with finite useful lives are amortized to their estimated residual values over such finite lives using the straight-line method and reviewed for impairment whenever events or circumstances warrant such a review.

No impairment charges were recorded for goodwill or intangibles during the periods presented.

*Other assets*

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Deferred taxes	\$ 30,780	\$ 37,332
Deposits for noncancelable operating leases	46,894	41,986
Cash surrender value for life insurance policies	41,707	35,590
Other	34,635	29,204
<b>Total other assets</b>	<b>\$ 154,016</b>	<b>\$ 144,112</b>

*Accrued expenses*

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Accrued sales force commissions and other payments	\$ 103,532	\$ 128,022
Accrued income taxes	—	6,674
Accrued other taxes	29,657	38,693
Accrued payroll and other employee expenses	30,610	68,155
Accrued payable to vendors	34,760	34,539
Short-term lease liability	39,349	—
Accrued royalties	514	3,899
Sales return reserve	3,903	3,577
Deferred revenue	20,162	20,104
Other	27,794	18,920
<b>Total accrued expenses</b>	<b>\$ 290,281</b>	<b>\$ 322,583</b>

*Other liabilities*

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Deferred tax liabilities	\$ 10,741	\$ 18,236
Reserve for other tax liabilities	17,121	14,382
Liability for deferred compensation plan	43,238	36,398
Pension plan benefits reserve	3,454	3,023
Build to suit – financing obligation	—	9,332
Deferred rent and deferred tenant incentives	—	5,665
Asset retirement obligation	6,631	6,444
Other	15,610	18,436
<b>Total other liabilities</b>	<b>\$ 96,795</b>	<b>\$ 111,916</b>

### *Revenue recognition*

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

In connection with the adoption of Topic 606, we used the following practical expedients offered as part of the adoption: sales commissions are generally expensed when incurred because the amortization period would have been one year or less, these costs are recorded within selling expenses; and the Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

The Company recorded a net reduction to opening retained earnings of \$13.0 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to our loyalty point program deferrals. The impact to revenues as a result of applying Topic 606 for the years ended December 31, 2019 and 2018 was an increase of \$1.3 million and an increase of \$1.1 million, respectively.

Net sales include products and shipping and handling charges, net of estimates for product returns and any related sales incentives. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. The Company recognizes revenue by transferring the promised products to the customer, with revenue recognized at shipping point, the point in time the customer obtains control of the products. The Company recognizes revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. A reserve for product returns is accrued based on historical experience totaling \$3.9 million and \$3.6 million as of December 31, 2019 and 2018, respectively. During the years ended December 31, 2019, 2018 and 2017, the Company recorded sales returns of \$52.2 million, \$52.0 million and \$53.8 million, respectively. The Company generally requires cash or credit card payment at the point of sale. Accounts receivable generally represents amounts due from credit card companies and are generally collected within a few days of the purchase. As such, the Company has determined that no allowance for doubtful accounts is necessary. The majority of the Company's contracts have a single performance obligation and are short term in nature. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales.

### *Contract Liabilities – Customer Loyalty Programs*

Contract liabilities, recorded as deferred revenue within the accrued expenses line in the Condensed Consolidated Balance Sheets, include loyalty point program deferrals with certain customers which are accounted for as a reduction in the transaction price and are generally recognized as points are redeemed for additional products on an annual basis.

The Company recorded customer loyalty points under the cost provision method prior to the adoption of Topic 606. The loyalty point liability under the cost provision methodology was \$1.9 million as of December 31, 2017. The Company recorded an additional liability of \$13.0 million due to the cumulative impact of adopting Topic 606. The balance of deferred revenue related to contract liabilities was \$12.5 million and \$13.8 million as of December 31, 2019, and 2018, respectively, and \$14.9 million as of the beginning period upon adoption of the Topic 606.

### *Disaggregation of Revenue*

Please refer to Note 18 - Segment Information for revenue by segment and product line.

### *Arrangements with Multiple Performance Obligations*

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenues to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged to customers for individual products sales to customers.

### *Shipping and handling costs*

Shipping and handling costs are recorded as cost of sales and are expensed as incurred.

### *Advertising expenses*

Advertising costs are expensed as incurred. Advertising expense incurred for the years ended December 31, 2019, 2018 and 2017 totaled \$16.3 million, \$19.1 million and \$15.6 million, respectively.

### *Selling expenses*

Selling expenses are the Company's most significant expense and are classified as operating expenses. Selling expenses include distributor commissions as well as salaries, service fees, benefits, bonuses and other labor and unemployment expenses the Company pays to its sales force in Mainland China. In each of the Company's markets, except Mainland China, Sales Leaders can earn "multi-level" compensation under the Company's global sales compensation plan, including commissions for product sales to their consumer groups as well as the product sales made through the sales network they have developed and trained. The Company does not pay commissions on sales materials.

Outside of Mainland China, the Company's distributors may make profits by purchasing the products from the Company at a discount and selling them to consumers with a mark-up. The Company does not account for nor pay additional commissions on these mark-ups received by distributors. In many markets, the Company also allows individuals who are not members of its sales force, referred to as "preferred customers," to buy products directly from the Company at a discount. The Company pays commissions on preferred customer purchases to the referring member of its sales force.

### *Research and development*

Research and development costs are expensed as incurred and are included in general and administrative expenses in the accompanying consolidated statements of income and totaled \$30.1 million, \$23.0 million and \$22.0 million in 2019, 2018 and 2017, respectively.

### *Deferred tax assets and liabilities*

The Company accounts for income taxes in accordance with the Income Taxes Topic of the Financial Accounting Standards Codification. These standards establish financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. The Company takes an asset and liability approach for financial accounting and reporting of income taxes. The Company pays income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between the Company and its foreign affiliates. Deferred tax assets and liabilities are created in this process. The Company has netted these deferred tax assets and deferred tax liabilities by jurisdiction. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized.

### *Uncertain tax positions*

The Company files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Company is no longer subject to tax examinations from the IRS for all years for which tax returns have been filed before 2015. With a few exceptions, the Company is no longer subject to state and local income tax examination by tax authorities for the years before 2015. In 2009, the Company entered into a voluntary program with the IRS called Compliance Assurance Process ("CAP"). The objective of CAP is to contemporaneously work with the IRS to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. The Company has elected to participate in the CAP program for 2020 and may elect to continue participating in CAP for future tax years; the Company may withdraw from the program at any time. In major foreign jurisdictions, the Company is generally no longer subject to income tax examinations for years before 2013. However, statutes in certain markets may be as long as ten years for transfer pricing related issues. The Company is currently under examination in certain foreign jurisdictions; however, the outcomes of those reviews are not yet determinable.

A reconciliation of the beginning and ending amount of unrecognized tax benefits included in other liabilities is as follows (U.S. dollars in thousands):

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Gross balance at January 1	\$ 11,456	\$ 5,514	\$ 5,290
Increases related to prior year tax positions	775	5,161	—
Decreases related to prior year tax positions	—	—	(277)
Increases related to current year tax positions	2,273	3,704	669
Settlements	—	(956)	(159)
Decreases due to lapse of statutes of limitations	(1,051)	(1,483)	(187)
Currency adjustments	54	(484)	178
Gross balance at December 31	<u>\$ 13,507</u>	<u>\$ 11,456</u>	<u>\$ 5,514</u>

At December 31, 2019, the Company had \$13.5 million in unrecognized tax benefits of which \$13.5 million, if recognized, would affect the effective tax rate. In comparison, at December 31, 2018, the Company had \$11.5 million in unrecognized tax benefits of which \$11.4 million, if recognized, would affect the effective tax rate. The Company's unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. Due to potential increases in unrecognized tax benefits from the multiple jurisdictions in which the Company operates, as well as the expiration of various statutes of limitation, it is reasonably possible that the Company's gross unrecognized tax benefits, net of foreign currency adjustments, may increase within the next 12 months by a range of approximately \$0.5 to \$2.0 million.

During the years ended December 31, 2019, 2018 and 2017 the Company recognized \$0.7 million, \$1.3 million and \$0.7 million, respectively in interest and penalties expenses/(benefits). The Company had \$3.6 million, \$2.9 million and \$1.6 million of accrued interest and penalties related to uncertain tax positions at December 31, 2019, 2018 and 2017, respectively. Interest and penalties related to uncertain tax positions are recognized as a component of income tax expense.

#### *Net income per share*

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented (Note 8).

#### *Foreign currency translation*

A significant portion of the Company's business operations occur outside of the United States. The local currency of each of the Company's Subsidiaries is considered its functional currency, except for the Company's subsidiaries in Singapore and countries deemed highly inflationary where the U.S. dollar is used. All assets and liabilities are translated into U.S. dollars at exchange rates existing at the balance sheet dates, revenue and expenses are translated at weighted-average exchange rates and stockholders' equity is recorded at historical exchange rates. The resulting foreign currency translation adjustments are recorded as a separate component of stockholders' equity in the consolidated balance sheets and transaction gains and losses are included in other income (expense) in the consolidated financial statements. Net of tax, the accumulated other comprehensive loss related to the foreign currency translation adjustments are \$85.3 million (net of tax of \$7.4 million), \$79.9 million (net of tax of \$7.9 million), and \$66.4 million (net of tax of \$5.8 million), at December 31, 2019, 2018 and 2017, respectively.

#### *Classification of a highly inflationary economy*

A market is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100% or more over a three-year period as well as other qualitative factors including historic inflation rate trends (increasing and decreasing), the capital intensiveness of the operation and other pertinent economic factors. The functional currency in highly inflationary economies is required to be the functional currency of the entity's parent company, and transactions denominated in the local currency are remeasured to the functional currency. The remeasurement of local currency into U.S. dollars creates foreign currency transaction gains or losses, which the Company includes in its consolidated statement of income.

In the second quarter of 2018, published inflation indices indicated that the three-year cumulative inflation in Argentina exceeded 100 percent, and as of July 1, 2018, we elected to adopt highly inflationary accounting for our subsidiary in Argentina. Under highly inflationary accounting, Argentina's functional currency became the U.S. dollar, and its income statement and balance sheet have been measured in U.S. dollars using both current and historical rates of exchange. The effect of changes in exchange rates on peso-denominated monetary assets and liabilities has been reflected in earnings in Other income (expense), net and was not material. As of December 31, 2019, and 2018, Argentina had a small net peso monetary position. Net sales of Argentina were less than 2 percent of our consolidated net sales for the year ended December 31, 2019, 2018 and 2017.

#### *Fair value of financial instruments*

The carrying value of financial instruments including cash and cash equivalents, accounts receivable and accounts payable approximate fair values due to the short-term nature of these instruments. The Company's current investments as of December 31, 2019 include certificates of deposits and pre-refunded municipal bonds that are classified by management as held-to-maturity as the Company had the positive intent and ability to hold to maturity. The carrying value of these current investments approximate fair values due to the short-term nature of these instruments. As of December 31, 2019 and 2018, the fair value of debt was \$365.0 million and \$434.5 million, respectively. The estimated fair value of the Company's debt is based on interest rates available for debt with similar terms and remaining maturities.

The FASB Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. On a quarterly basis, the Company measures at fair value certain financial assets, including cash equivalents. Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;
- Level 3 – unobservable inputs based on the Company's own assumptions.

Accounting standards permit companies, at their option, to measure many financial instruments and certain other items at fair value. The Company has elected not to apply the fair value option to existing eligible items.

#### *Stock-based compensation*

All share-based payments, including grants of stock options and restricted stock units, are required to be recognized in the Company's financial statements based upon their respective grant date fair values. The Black-Scholes option-pricing model is used to estimate the fair value of stock options. The determination of the fair value of stock options is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The Company uses historical volatility as the expected volatility assumption required in the Black-Scholes model. The expected life of the stock options is based on historical data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of the Company's stock options. The fair value of the Company's restricted stock units is based on the closing market price of its stock on the date of grant less the Company's expected dividend yield. The Company recognizes stock-based compensation net of actual forfeitures over the requisite service period of the award.

The total compensation expense related to equity compensation plans was \$9.9 million, \$26.6 million and \$19.3 million for the years ended December 31, 2019, 2018 and 2017, respectively. In 2019, 2018 and 2017, these amounts reflect the reversal of \$4.3, none, and none, respectively, for certain performance-based awards that were no longer expected to vest. For the years ended December 31, 2019, 2018 and 2017, all stock-based compensation expense was recorded within general and administrative expenses.

#### *Reporting comprehensive income*

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

#### *Accounting for derivative instruments and hedging activities*

The Company recognizes all derivatives as either assets or liabilities, with the instruments measured at fair value.

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

Hedge effectiveness is assessed at inception and throughout the life of the hedge to ensure the hedge qualifies for hedge accounting treatment. Changes in fair value associated with hedge ineffectiveness, if any, are recorded in the results of operations currently. In the event that an anticipated transaction is no longer likely to occur, the Company recognizes the change in fair value of the derivative in its results of operations currently.

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

#### *Recent accounting pronouncements*

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-02, *Leases* (Topic 842). ASU 2016-02 requires companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The Company adopted the new standard effective January 1, 2019, using the modified retrospective transition method. The Company elected the package of practical expedients available under the transition provisions of the new lease standard, including: not reassessing whether expired or existing contracts are or contain leases; not reassessing the classification of expired or existing leases; not reassessing the initial direct cost for any existing leases; and using hindsight in determining the lease term. As a result of adopting this new accounting guidance, the Company derecognized the build-to-suit assets and financing liabilities that remained on the balance sheet following the construction period, and re-evaluated the classification of the associated lease under ASC 842, concluding the lease should be an operating lease. The Company also recognized right-of-use assets and lease liabilities for operating leases. The cumulative impact of adoption was a \$0.7 million increase to beginning retained earnings. See Note 7 - Leases.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This guidance simplifies the required test of goodwill for impairment by eliminating Step 2 from the goodwill impairment test. If a company determines in Step 1 of the goodwill impairment test that the carrying value of a reporting unit is less than the fair value, an impairment in that amount should be recorded to the income statement, rather than proceeding to Step 2. This ASU is effective for interim and annual impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company has elected to early adopt the new standard effective January 1, 2019. The adoption of this guidance did not have material impact on the Company’s consolidated financial statements.

In December 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new standard makes more financial and non-financial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. For public companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The adoption of this guidance did not have material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance modifies, removes, and adds certain disclosure requirements on fair value measurements. This ASU is effective for annual periods beginning after December 15, 2019, including interim periods therein. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Topic 350): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance is effective for interim and annual reporting periods beginning after December 15, 2019 and should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

### 3. Property and Equipment

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

	December 31,	
	2019	2018
Land	\$ 44,532	\$ 35,709
Buildings	273,264	295,748
Construction in progress <sup>(1)</sup>	17,707	18,153
Furniture and fixtures	130,591	118,149
Computers and equipment	147,806	160,873
Leasehold improvements	160,623	147,604
Scanners	8,040	8,986
Vehicles	2,081	2,312
	<u>784,644</u>	<u>787,534</u>
Less: accumulated depreciation	<u>(331,040)</u>	<u>(322,999)</u>
	<u>\$ 453,604</u>	<u>\$ 464,535</u>

(1) Construction in progress includes \$10.8 million and \$8.7 million as of December 31, 2019 and 2018, respectively, of eligible capitalized internal-use software development costs which will be reclassified to computers and equipment when placed into service.

Depreciation of property and equipment totaled \$61.7 million, \$56.4 million and \$58.3 million for the years ended December 31, 2019, 2018 and 2017, respectively. The Company recorded an impairment of \$48.6 million for the year ended December 31, 2018 in connection with our fiscal year 2018 restructuring plan, see Note 17 – Restructuring and Severance Charges.



#### 4. Goodwill

The following table presents goodwill allocated to the Company's reportable segments for the periods ended December 31, 2019 and 2018 (U.S. dollars in thousands):

	<u>December 31, 2019</u>	<u>December 31, 2018</u> <sup>(1)</sup>
<i>Nu Skin</i>		
Mainland China	\$ 32,179	\$ 32,179
Americas/Pacific	9,449	9,449
South Korea	29,261	29,261
Southeast Asia	18,537	18,537
Japan	16,019	16,019
EMEA	2,875	2,875
Hong Kong/Taiwan	6,634	6,634
<i>Manufacturing</i>	72,469	72,469
<i>Grow Tech</i>	9,150	9,150
Total	<u>\$ 196,573</u>	<u>\$ 196,573</u>

(1) Goodwill for December 31, 2018 has been recast to reflect the separate disclosure of Manufacturing and Grow Tech.

All of the Company's goodwill is recorded in U.S. dollar functional currency and allocated to the respective segments. Goodwill is not amortized, rather it is subject to annual impairment tests. Annual impairment tests were completed resulting in no impairment charges for any of the periods shown.

#### 5. Other Intangible Assets

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

	<u>Carrying Amount at December 31,</u>	
	<u>2019</u>	<u>2018</u>
Indefinite life intangible assets:		
Trademarks and trade names	\$ 24,599	\$ 24,599
Other indefinite lived intangibles	3,763	3,763
	<u>\$ 28,362</u>	<u>\$ 28,362</u>

	<u>December 31, 2019</u>		<u>December 31, 2018</u>		<u>Weighted-average Amortization Period</u>
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	
Finite life intangible assets:					
Scanner technology	\$ 46,482	\$ 45,724	\$ 46,482	\$ 42,690	18 years
Developed technology	22,500	20,856	22,500	20,032	20 years
Distributor network	11,598	11,598	11,598	11,598	15 years
Trademarks	5,938	2,462	5,823	1,812	11 years
Other	92,331	46,250	95,150	43,794	10 years
	<u>\$ 178,849</u>	<u>\$ 126,890</u>	<u>\$ 181,553</u>	<u>\$ 119,926</u>	14 years

Amortization of finite-life intangible assets totaled \$13.4 million, \$18.3 million and \$8.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The estimated annual amortization expense for each of the five succeeding fiscal years are as follows (U.S. dollars in thousands):

<u>Year Ending December 31,</u>	
2020	\$ 9,445
2021	7,945
2022	6,899
2023	6,759
2024	6,268

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

## 6. Long-Term Debt

### Previous Credit Agreement

On October 9, 2014, the Company entered into a Credit Agreement (the “Previous Credit Agreement”) with various financial institutions as lenders, and Bank of America, N.A., as administrative agent. The Previous Credit Agreement provided for a \$127.5 million term loan facility, a 6.6 billion Japanese yen term loan facility and a \$187.5 million revolving credit facility, each with a term of five years. On October 10, 2014, the Company drew the full amount of the term loan facilities. On April 18, 2018, the Company repaid the full balance that was outstanding under the Previous Credit Agreement.

### Credit Agreement

On April 18, 2018, the Company entered into a Credit Agreement (the “Credit Agreement”) with several financial institutions as lenders and Bank of America, N.A., as administrative agent. The Credit Agreement provides for a \$400 million term loan facility and a \$350 million revolving credit facility, each with a term of five years. Concurrently with the closing of the Credit Agreement, the Company drew the full amount of the term loan facility and \$78.5 million of the revolving facility, each of which initially bear interest at the London Interbank Offered Rate (“LIBOR”), plus 2.25%. The interest rate applicable to the facilities is subject to adjustment based on the Company’s consolidated leverage ratio. The term loan facility amortizes in quarterly installments in amounts resulting in an annual amortization of 5.0% during the first and second years, 7.5% during the third and fourth years and 10.0% during the fifth year after the closing date of the Credit Agreement, with the remainder payable at final maturity. The Credit Agreement requires the Company to maintain a consolidated leverage ratio not exceeding 2.25 to 1.00 and a consolidated interest coverage ratio of no less than 3.00 to 1.00. As of December 31, 2019, the Company was in compliance with all covenants under the Credit Agreement.

### Convertible Note

On June 16, 2016, the Company issued \$210.0 million of convertible senior notes (the “Convertible Notes”) in a private offering to a Chinese investor (the “Holder”). The Convertible Notes were senior unsecured obligations which ranked equal in right of payment to all senior unsecured indebtedness of the Company, and ranked senior in right of payment to any indebtedness that was contractually subordinated to the Convertible Notes. Interest on the Convertible Notes was payable semiannually in arrears on June 15 and December 15 of each year, at a rate of 4.75% per annum.

The Company incurred approximately \$6.6 million of issuance costs related to the issuance of the Convertible Notes. Of the \$6.6 million in issuance costs incurred, \$6.3 million and \$0.3 million were recorded to deferred financing cost and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the Convertible Notes. The \$6.3 million recorded to deferred financing cost on the Company’s consolidated balance sheets as a reduction of long-term debt was amortized over the contractual term of the Convertible Notes using the effective interest method. During the first quarter of 2018, the issuance costs were expensed due to the conversion of the Notes.

During the first quarter of 2018, the Holder elected to convert the Convertible Notes pursuant to their terms in the indenture. The Company satisfied the equity portion of its conversion obligation on February 28, 2018 by issuing 1,535,652 shares of the Company’s Class A common stock to the Holder and, on April 18, 2018, satisfied and discharged its obligations under the Convertible Notes and the indenture governing the Convertible Notes by paying the Holder \$213.4 million which included \$3.4 million of accrued interest from December 15, 2017 through April 17, 2018. The early conversion of the Convertible Notes resulted in a \$7.2 million charge to other income (expense) during the first quarter of 2018 for a loss on extinguishment of debt.

The following table summarizes the Company’s debt facilities as of December 31, 2019 and 2018:

Facility or Arrangement	Original Principal Amount	Balance as of December 31, 2019 <sup>(1)(2)</sup>	Balance as of December 31, 2018 <sup>(2)</sup>	Interest Rate	Repayment Terms
Credit Agreement term loan facility	\$400.0 million	\$365.0 million	\$385.0 million	Variable 30 day: 3.55%	35% of the principal amount is payable in increasing quarterly installments over a five-year period that began on June 30, 2018, with the remainder payable at the end of the five-year term.
Credit Agreement revolving credit facility	—	—	\$49.5 million	—	Revolving line of credit expires April 18, 2023.

(1) As of December 31, 2019, the current portion of the Company’s debt (i.e. becoming due in the next 12 months) included \$27.5 million of the balance of its term loan under the Credit Agreement.

(2) The carrying value of the debt reflects the amounts stated in the above table, less debt issuance costs of \$3.0 million and \$4.0 million as of December 31, 2019 and 2018, respectively, related to the Credit Agreement, which are not reflected in this table.

Maturities of all long-term debt at December 31, 2019, based on the year-end exchange rate, are as follows (U.S. dollars in thousands):

<b>Year Ending December 31,</b>	
2020	\$ 27,500
2021	30,000
2022	37,500
2023	270,000
2024	—
Thereafter	—
<b>Total<sup>(1)</sup></b>	<b>\$ 365,000</b>

(1) The carrying value of the debt reflects the amounts stated in the above table less a debt discount of \$3.0 million, which is not reflected in this table.

## 7. Leases

The Company has operating and finance leases for regional offices, manufacturing facilities, retail centers, distribution centers and certain equipment. The Company's leases have remaining lease terms of 1 to 25 years, some of which include options to extend leases for up to 20 years, and some of which include options to terminate leases within 1 year. The Company has not separately disclosed finance leases, as they are not material, either individually or in the aggregate, to the Company's consolidated financial statements.

As of December 31, 2019, the Company had \$144.3 million of operating lease ROU assets on the balance sheet in "Right-of-use assets", along with \$39.3 million and \$105.7 million of operating lease liabilities in "Accrued expenses" and "Long-term operating lease liabilities", respectively. Additionally, as of December 31, 2019, the weighted average remaining lease term and weighted average discount rate for operating leases was 6.0 years and 5.0%, respectively.

The components of lease expense were as follows (U.S. dollars in thousands):

	<b>Year Ended December 31, 2019</b>
Operating lease cost	\$ 51,072
Variable lease cost	3,387
Short-term lease cost	169
Sublease income	(5,743)
<b>Total lease expense</b>	<b>\$ 48,885</b>

Supplemental cash flow information related to leases was as follows (U.S. dollars in thousands):

	<b>Year Ended December 31, 2019</b>
Operating cash outflow	\$ 54,993
ROU assets obtained in exchange for lease liabilities	\$ 184,502

Maturities of lease liabilities were as follows (U.S. dollars in thousands):

<b>Year Ending December 31,</b>	<b>Operating Leases</b>
2020	\$ 45,942
2021	38,545
2022	23,822
2023	17,949
2024	12,876
Thereafter	31,368
<b>Total</b>	<b>170,502</b>
Less: Imputed interest	25,452
<b>Total lease liability</b>	<b>\$ 145,050</b>

The Company has additional lease liabilities of \$8.9 million which had not yet commenced as of December 31, 2019, and as such, have not been recognized on the consolidated balance sheets.

In connection with the adoption of ASC 842, the Company derecognized the build-to-suit assets and liabilities that remained on the balance sheet following the construction period, which was completed prior to the adoption of ASC 842. Under ASC 842, the lease was determined to be an operating lease, and is included in ROU assets disclosed above. As of December 31, 2018, the Company had recognized \$19.4 million as an asset related to the build-to-suit building and a financing obligation of \$9.9 million, net of a \$9.9 million deposit paid directly to the landlord, as part of other liabilities in its consolidated balance sheet. As of December 31, 2018, the tenant incentive asset and deferred tenant incentive liability associated with the financing obligation totaled \$4.0 million and \$3.7 million, respectively.

Under ASC Topic 840, minimum future operating leases and financing obligations at December 31, 2018 are as follows (U.S. dollars in thousands):

Year Ending December 31,	Operating Leases	Financing Obligations
2019	\$ 39,358	\$ 726
2020	27,553	748
2021	20,266	757
2022	11,723	770
2023	9,950	794
Thereafter	7,628	1,148
<b>Total minimum lease payments</b>	<b>\$ 116,478</b>	<b>\$ 4,943</b>

Rent expense for operating leases totaled \$50.4 million, \$50.7 million for the years ended December 31, 2018, and 2017, respectively. Interest expense associated with the financing obligations was \$0.2 million for the years ended December 31, 2018 and 2017.

## 8. Capital Stock

The Company's authorized capital stock consists of 25 million shares of preferred stock, par value \$0.001 per share, 500 million shares of Class A common stock, par value \$0.001 per share, and 100 million shares of Class B common stock, par value \$0.001 per share. The shares of Class A common stock and Class B common stock are identical in all respects, except for voting rights and certain conversion rights and transfer restrictions, as follows: (1) each share of Class A common stock entitles the holder to one vote on matters submitted to a vote of the Company's stockholders and each share of Class B common stock entitles the holder to ten votes on each such matter; (2) stock dividends of Class A common stock may be paid only to holders of Class A common stock and stock dividends of Class B common stock may be paid only to holders of Class B common stock; (3) if a holder of Class B common stock transfers such shares to a person other than a permitted transferee, as defined in the Company's Certificate of Incorporation, such shares will be converted automatically into shares of Class A common stock; and (4) Class A common stock has no conversion rights; however, each share of Class B common stock is convertible into one share of Class A common stock, in whole or in part, at any time at the option of the holder. All outstanding Class B shares have been converted to Class A shares. As of December 31, 2019 and 2018, there were no preferred or Class B common shares outstanding.

### *Weighted-average common shares outstanding*

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

	Year Ended December 31,		
	2019	2018	2017
Basic weighted-average common shares outstanding	55,518	55,170	52,806
Effect of dilutive securities:			
Stock awards and options	409	1,061	1,110
Convertible note	—	245	936
Diluted weighted-average common shares outstanding	55,927	56,476	54,852

For the years ended December 31, 2019, 2018 and 2017, other stock options totaling 1.4 million, 0.9 million and 0.4 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive. The convertible notes have a dilutive impact on EPS when the average market price of the Company's common stock for a given period exceeds the initial conversion price. See Note 6 for discussion of initial conversion price and conversion rate.

### *Dividends*

Quarterly cash dividends for the years ended December 31, 2019 and 2018 totaled \$82.2 million and \$80.6 million or \$0.37 per share in all quarters of 2019 and \$0.365 for all quarters of 2018. The board of directors has declared a quarterly cash dividend of \$0.375 per share of Class A common stock to be paid on March 11, 2020 to stockholders of record on February 28, 2020.

### *Repurchases of common stock*

In 1998, the Company's board of directors approved a stock repurchase plan authorizing the Company to repurchase \$10.0 million of its outstanding shares of Class A common stock on the open market or in private transactions. The Company's board from time to time increased the amount authorized under the 1998 stock repurchase plan, including an increase of \$400.0 million announced in August 2013. In October 2015, the Company's board terminated the 1998 stock repurchase plan and approved a new repurchase plan with an initial authorization amount of \$500.0 million. In July 2018, the Company's board of directors terminated the 2015 stock repurchase plan and approved a new repurchase plan with an initial authorization amount of \$500 million. The repurchases are used primarily for strategic initiatives and to offset dilution from the Company's equity incentive plans and from conversion of the Convertible Notes. During the years ended December 31, 2018 and 2017, the Company repurchased 0.5 million and 1.2 million shares of Class A common stock under the 2015 plan for an aggregate price of \$40.6 million and \$71.7 million, respectively. During the years ended December 31, 2019 and 2018, the Company purchased 14,000 and 0.4 million shares under the 2018 plan for \$0.8 million and \$29.0 million, respectively. At December 31, 2019, \$470.2 million was available for repurchases under the 2018 stock repurchase plan.

## 9. Stock-Based Compensation

At December 31, 2019, the Company had the following stock-based employee compensation plans:

### Equity Incentive Plans

In April 2010, the Company’s Board of Directors approved the Nu Skin Enterprises, Inc. 2010 Omnibus Incentive Plan (the “2010 Omnibus Incentive Plan”). This plan was approved by the Company’s stockholders at the Company’s 2010 Annual Meeting of Stockholders held in May 2010. The 2010 Omnibus Incentive Plan provides for granting of a variety of equity-based awards including stock options, stock appreciation rights, restricted stock, restricted stock units, other share-based awards, performance cash, performance shares and performance units to executives, other employees, independent consultants and directors of the Company and its subsidiaries. Options granted under the 2010 Omnibus Incentive Plan are generally non-qualified stock options, but the 2010 Omnibus Incentive Plan permits some stock options granted to qualify as “incentive stock options” under the U.S. Internal Revenue Code. The exercise price of a stock option generally is equal to the fair market value of the Company’s common stock on the stock option grant date. The contractual term of a stock option granted under the 2010 Omnibus Incentive Plan is seven years. Currently, all shares issued upon the exercise of stock options are from the Company’s treasury shares. Subject to certain adjustments, 7.0 million shares were authorized for issuance under the 2010 Omnibus Incentive Plan. On June 3, 2013, the Company’s stockholders approved an Amended and Restated 2010 Omnibus Incentive Plan, which among other things increased the number of shares available for awards by 3.2 million shares. On May 24, 2016, the Company’s stockholders approved a Second Amended and Restated 2010 Omnibus Incentive Plan, which among other things increased the number of shares available for awards by 3.8 million shares.

In July 2013, the compensation committee of the board of directors approved the grant of performance stock options to certain key employees under the Amended and Restated 2010 Omnibus Incentive Plan. Vesting for the options is performance based, with the options vesting in four installments if the Company’s earnings per share equal or exceed the four established performance levels, measured in terms of diluted earnings per share. One fourth of the options will vest upon earnings per share meeting or exceeding the first performance level, one fourth of the options will vest upon earnings per share meeting or exceeding the second performance level, one fourth of the options will vest upon earnings per share meeting or exceeding the third performance level and one fourth of the options will vest upon earnings per share meeting or exceeding the fourth performance level. The unvested options will terminate upon the Company’s failure to meet certain performance thresholds for each of years 2013 through 2019. In addition, all unvested options will terminate on March 30, 2020. The Company has also issued other performance-based awards to a limited number of participants that similarly vest, or become eligible for vesting, upon achievement of various performance targets.

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

Stock Options:	December 31,		
	2019	2018	2017
Weighted-average grant date fair value of grants	\$ 19.72	\$ 24.72	\$ 18.84
Risk-free interest rate <sup>(1)</sup>	2.5%	2.6%	2.1%
Dividend yield <sup>(2)</sup>	2.7%	2.6%	2.5%
Expected volatility <sup>(3)</sup>	42.4%	45.6%	48.2%
Expected life in months <sup>(4)</sup>	60 months	66 months	68 months

(1) The risk-free interest rate is based upon the rate on a zero-coupon U.S. Treasury bill, for periods within the contractual life of the option, in effect at the time of the grant.

(2) The dividend yield is based on the average of historical stock prices and actual dividends paid.

(3) Expected volatility is based on the historical volatility of the Company’s stock price, over a period similar to the expected life of the option.

(4) The expected term of the option is based on the historical employee exercise behavior, the vesting terms of the respective option, and a contractual life of either seven or ten years.

Options under the plans as of December 31, 2019 and changes during the year ended December 31, 2019 were as follows:

	<u>Shares</u> (in thousands)	<u>Weighted- average Exercise Price</u>	<u>Weighted- average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value</u> (in thousands)
<b>Options activity – service based</b>				
Outstanding at December 31, 2018	1,046.5	\$ 40.53		
Granted	—	—		
Exercised	(70.2)	32.38		
Forfeited/cancelled/expired	(13.8)	41.49		
Outstanding at December 31, 2019	<u>962.5</u>	41.11	2.87	\$ 5,234
Exercisable at December 31, 2019	<u>775.4</u>	42.59	2.77	4,000
<b>Options activity – performance based</b>				
Outstanding at December 31, 2018	2,370.8	\$ 64.00		
Granted	496.6	63.09		
Exercised	(46.0)	50.79		
Forfeited/cancelled/expired	(663.0)	71.73		
Outstanding at December 31, 2019	<u>2,158.4</u>	61.75	4.16	\$ 2,997
Exercisable at December 31, 2019	<u>698.1</u>	46.06	3.82	2,997
<b>Options activity – all options</b>				
Outstanding at December 31, 2018	3,417.3	\$ 56.81		
Granted	496.6	63.09		
Exercised	(116.2)	39.67		
Forfeited/cancelled/expired	(676.8)	71.11		
Outstanding at December 31, 2019	<u>3,120.9</u>	55.38	3.76	\$ 8,231
Exercisable at December 31, 2019	<u>1,473.4</u>	44.23	3.26	6,997

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the respective years and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2019. This amount varies based on the fair market value of the Company's stock.

Cash proceeds, tax benefits and intrinsic value related to total stock options exercised during 2019, 2018 and 2017, were as follows (U.S. dollars in thousands):

	<u>December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash proceeds from stock options exercised	\$ 368	\$ 13,908	\$ 26,980
Tax benefit realized for stock options exercised	430	3,217	6,457
Intrinsic value of stock options exercised	934	11,855	42,749

Nonvested restricted stock awards as of December 31, 2019 and changes during the year ended December 31, 2019 were as follows:

	<u>Number of Shares</u> (in thousands)	<u>Weighted- average Grant Date Fair Value</u>
Nonvested at December 31, 2018	467.5	\$ 57.61
Granted	341.9	59.59
Vested	(196.6)	56.72
Forfeited	<u>(39.7)</u>	59.17
Nonvested at December 31, 2019	<u>573.1</u>	\$ 58.99

Stock-based compensation expense is recognized on a straight-line basis, except for performance-based awards for which expense is recognized using a graded-attribution method if the results are materially different than the straight-line method. The Company recognized \$2.6 million, \$3.1 million and \$4.0 million of expense related to service condition stock options in 2019, 2018 and 2017, respectively; and \$11.5 million, \$11.2 million and \$11.3 million of expense related to service condition restricted stock units in 2019, 2018 and 2017, respectively. For performance stock options and performance stock units, an expense is recorded each period for the estimated expense associated with the projected achievement of the performance-based targets. The Company recognized \$4.1 million of income, \$12.2 million of expense and \$3.9 million of income related to performance stock options in 2019, 2018 and 2017, respectively; and \$0.1 million of expense related to performance stock units in 2019, 2018 and 2017. The amount in 2019 reflects the reversal of stock compensation for awards no longer expected to vest.

As of December 31, 2019, there was \$0.3 million of unrecognized stock-based compensation expense related to nonvested stock option awards. That cost is expected to be recognized over a weighted-average period of 0.1 years. As of December 31, 2019, there was \$21.8 million of unrecognized stock-based compensation expense related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted-average period of 2.6 years.

## 10. Fair Value

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

The following tables present the fair value hierarchy for those assets measured at fair value on a recurring basis (U.S. dollars in thousands):

	Fair Value at December 31, 2019			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Cash equivalents and current investments	\$ 54,642	\$ —	\$ —	\$ 54,642
Other long-term assets	3,216	—	—	3,216
Life insurance contracts	—	—	41,707	41,707
Total	<u>\$ 57,858</u>	<u>\$ —</u>	<u>\$ 41,707</u>	<u>\$ 99,565</u>
	Fair Value at December 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Cash equivalents and current investments	\$ 35,260	\$ —	\$ —	\$ 35,260
Other long-term assets	3,568	—	—	3,568
Life insurance contracts	—	—	35,590	35,590
Total	<u>\$ 38,828</u>	<u>\$ —</u>	<u>\$ 35,590</u>	<u>\$ 74,418</u>

The following methods and assumptions were used to determine the fair value of each class of assets recorded at fair value in the consolidated balance sheets:

*Cash equivalents and current investments:* Cash equivalents and current investments primarily consist of highly rated money market funds with maturities of three months or less, and are purchased daily at par value with specified yield rates. Due to the high ratings and short-term nature of the funds, the Company considers all cash equivalents and current investments as Level 1. Current investments include \$8.4 million and \$11.3 million as of December 31, 2019 and 2018, respectively, that is restricted for the Company’s voluntary participation in a consumer protection cooperative in South Korea.

*Life insurance contracts:* ASC 820 preserves practicability exceptions to fair value measurements provided by other applicable GAAP. The guidance in ASC 715-30-35-60 allows a reporting entity, as a practical expedient, to use cash surrender value or conversion value as an expedient for fair value when it is present. Accordingly, the Company determines the fair value of its life insurance contracts as the cash-surrender value of life insurance policies held in its Rabbi Trust as disclosed in Note 13, “Executive Deferred Compensation Plan.”



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

	<b>Life Insurance Contracts</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance at January 1	\$ 35,590	\$ 37,737
Actual return on plan assets	5,688	(1,788)
Purchases and issuances	2,003	—
Sales and settlements	(1,574)	(359)
Transfers into Level 3	—	—
Ending balance at December 31	<u>\$ 41,707</u>	<u>\$ 35,590</u>

## 11. Income Taxes

Consolidated income before provision for income taxes consists of the following for the years ended December 31, 2019, 2018 and 2017 (U.S. dollars in thousands):

	<b>2019</b>	<b>2018</b>	<b>2017</b>
U.S.	\$ 24,211	\$ (67,087)	\$ 1,135
Foreign	230,961	286,753	264,432
Total	<u>\$ 255,172</u>	<u>\$ 219,666</u>	<u>\$ 265,567</u>

The provision for current and deferred taxes for the years ended December 31, 2019, 2018 and 2017 consists of the following (U.S. dollars in thousands):

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Current			
Federal	\$ —	\$ —	\$ (14,358)
State	2,213	652	1,814
Foreign	79,694	116,303	104,688
	<u>81,907</u>	<u>116,955</u>	<u>92,144</u>
Deferred			
Federal	(8,878)	(17,836)	45,593
State	(473)	(1,974)	(2,273)
Foreign	9,063	634	666
	<u>(288)</u>	<u>(19,176)</u>	<u>43,986</u>
Provision for income taxes	<u>\$ 81,619</u>	<u>\$ 97,779</u>	<u>\$ 136,130</u>

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

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Deferred tax assets:		
Inventory differences	\$ 5,040	\$ 4,257
Foreign tax credit and other foreign benefits	69,820	62,521
Stock-based compensation	7,441	7,893
Accrued expenses not deductible until paid	35,374	40,509
Foreign currency exchange	163	1,023
Net operating losses	6,341	4,522
Capitalized research and development	18,716	11,988
Interest expense limitation – 163(j)	—	847
R&D credit carryforward	881	807
Other	37	339
Gross deferred tax assets	<u>143,813</u>	<u>134,706</u>
Deferred tax liabilities:		
Foreign currency exchange	721	124
Foreign withholding taxes	20,986	21,524
Intangibles step-up	4,958	5,763
Overhead allocation to inventory	3,611	2,857
Amortization of intangibles	15,393	15,812
Other	1,063	833
Gross deferred tax liabilities	<u>46,732</u>	<u>46,913</u>
Valuation allowance	(77,042)	(68,697)
Deferred taxes, net	<u>\$ 20,039</u>	<u>\$ 19,096</u>

At December 31, 2019, the Company had foreign operating loss carryforwards of \$18.2 million for tax purposes, which will be available to offset future taxable income. If not used, \$6.3 million of carryforwards will expire between 2020 and 2029, while \$11.9 million do not expire. A valuation allowance has been placed on foreign operating loss carryforwards of \$18.2 million, tax effected the valuation on the net operating loss is \$6.3 million. In addition, a valuation allowance has been recorded on the foreign tax credit carryforward, and the R&D credit carryforward of \$70.7 million which will expire between 2026 and 2029.

The Company uses the tax law ordering approach when determining when excess tax benefits have been realized.

The valuation allowances have been recognized for the foreign tax credit, the foreign net operating loss carryforwards, and the R&D credit carryforward. The valuation allowances were recognized for assets which it is more likely than not some portion or all of the deferred tax asset will not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary difference, projected future taxable income, tax planning strategies and recent financial operations. When the Company determines that there is sufficient positive evidence to utilize the foreign tax credits, the foreign net operating losses, or the R&D credit carryforward, the valuation will be released which would reduce the provision for income taxes.

The deferred tax asset valuation adjustments for the years ended December 31, 2019, 2018 and 2017 are as follows (U.S. dollars in thousands):

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Balance at the beginning of period	\$ 68,697	\$ 56,906	\$ 9,137
Additions charged to cost and expenses	10,913 <sup>(1)</sup>	27,902 <sup>(4)</sup>	53,983 <sup>(6)</sup>
Decreases	(3,343) <sup>(2)</sup>	(16,215) <sup>(5)</sup>	(6,400) <sup>(7)</sup>
Adjustments	775 <sup>(3)</sup>	104 <sup>(3)</sup>	186 <sup>(3)</sup>
Balance at the end of the period	<u>\$ 77,042</u>	<u>\$ 68,697</u>	<u>\$ 56,906</u>

(1) Increase in valuation is due primarily to \$9.8 million that was recorded on the foreign tax credit carryforward. The additional amount is due to net operating losses in foreign markets.

(2) The decrease was due primarily to the utilization of foreign tax credits, and expiration of foreign net operating losses.

(3) Represents the net currency effects of translating valuation allowances at current rates of exchange.

(4) Increase in valuation is due primarily to the \$27.2 million that was recorded on the foreign tax credit carryforward. The additional amount is due to net operating losses in foreign markets

(5) The decrease was due primarily to the utilization of foreign tax credits. Decrease is due primarily to the write-off of Brazil deferred tax assets, which had no impact to the income statement, as a valuation allowance had been previously recorded against the asset.

(6) Increase in valuation allowance is due primarily to the \$52.0 million that was recorded on the foreign tax credit carryforward. The additional amount is due to net operating losses in foreign markets.

(7) Decrease is due primarily to the write-off of Brazil deferred tax assets, which had no impact to the income statement, as a valuation allowance had been previously recorded against the asset.

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

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net noncurrent deferred tax assets	\$ 30,780	\$ 37,332
Net noncurrent deferred tax liabilities	10,741	18,236
Deferred taxes, net	<u>\$ 20,039</u>	<u>\$ 19,096</u>

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

The actual tax rate for the years ended December 31, 2019, 2018 and 2017 compared to the statutory U.S. Federal tax rate is as follows:

	Year Ended December 31,		
	2019	2018	2017
Income taxes at statutory rate	21.00%	21.00%	35.00%
Indefinite reinvestment	—	(2.73)%	2.75%
Excess tax benefit from equity award	0.02%	(1.41)%	(2.38)%
Non-U.S. income taxed at different rates	3.09%	7.37%	—
Foreign withholding taxes	4.10%	7.68%	—
Change in reserve for uncertain tax positions	1.07%	3.68%	—
Non-deductible expenses	—	—	0.17%
Controlled foreign corporation losses	—	—	(0.13)%
Valuation allowance recognized foreign tax credit & others	2.56%	5.54%	19.59%
Write-off outside basis DTL	—	—	(2.89)%
Revaluation of deferred taxes	—	1.61%	(1.28)%
Foreign-Derived Intangible Income (FDII)	(0.70)%	—	—
Other	0.85%	1.77%	0.43%
	31.99%	44.51%	51.26%

The effective rate for 2018 was significantly impacted by the restructuring and impairment expenses incurred in Q4 of 2018, as well as additional valuation allowances related to foreign tax credits. The effective tax rate for 2017 was impacted largely due to the Tax Reform Act.

The cumulative amount of undistributed earnings of the Company's non-U.S. Subsidiaries held for indefinite reinvestment is approximately \$60.0 million, at December 31, 2019. If this amount were repatriated to the United States, the amount of incremental taxes would be approximately \$6.0 million.

## 12. Employee Benefit Plan

The Company has a 401(k) defined-contribution plan which permits participating employees to defer up to a maximum of 100% of their compensation, subject to limitations established by the IRS. Employees age 18 and older are eligible to contribute to the plan starting the first day of employment. After completing at least one day of service, employees are eligible to receive matching contributions from the Company. In 2019, 2018, and 2017 the Company matched employees' base pay up to 4% each year. The Company's matching contributions cliff vest after two years of service. The Company recorded compensation expense of \$3.7 million, \$3.6 million and \$3.2 million for the years ended December 31, 2019, 2018 and 2017, respectively, related to its contributions to the plan. The Company may make additional discretionary contributions to the plan of up to 10% of employees' base pay. The Company's discretionary contributions vest 20% per year for an employee's first five years of service. For the years ended December 31, 2019, 2018 and 2017 the Company did not make any additional discretionary contributions.

The Company has a defined benefit pension plan for its employees in Japan. All employees of Nu Skin Japan, after certain years of service, are entitled to pension plan benefits when they terminate employment with Nu Skin Japan. The accrued pension liability was \$3.5 million, \$3.0 million and \$6.1 million as of December 31, 2019, 2018 and 2017, respectively. Although Nu Skin Japan has not specifically funded this obligation, as it is not required to do so, Nu Skin Japan believes it maintains adequate cash balances for this defined benefit pension plan. The Company recorded pension expense of \$0.8 million, \$0.8 million and \$0.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

## 13. Executive Deferred Compensation Plan

The Company has an executive deferred compensation plan for select management personnel. Under this plan, the Company may make a contribution of up to 10% of a participant's salary. In addition, each participant has the option to defer a portion of their compensation up to a maximum of 80% of their base salary and 100% of their bonuses. Participant contributions are immediately vested. Company contributions vest 50% after ten years of service and 5% each year of service thereafter. In addition, any unvested company contributions will fully vest on the earlier of: (a) the participant attaining 60 years of age; and (b) death or disability.

The Company recorded compensation expense of \$1.8 million, \$1.1 million and \$1.5 million for the years ended December 31, 2019, 2018 and 2017, respectively, related to its contributions to the plan. The total long-term deferred compensation liability under the deferred compensation plan was \$43.2 million and \$36.4 million for the years ended December 31, 2019 and 2018, respectively, related to its contributions to the plan and is included in other long-term liabilities.

All benefits under the deferred compensation plan are unsecured obligations of the Company. The Company has contributed assets to a "rabbi trust" for the payment of benefits under the deferred compensation plan. As the assets of the trust are available to satisfy the claims of general creditors if the Company becomes insolvent, the amounts held in the trust are accounted for as an investment on the Company's consolidated balance sheet of \$41.7 million and \$35.6 million for the years ended December 31, 2019 and 2018, respectively.

## 14. Derivative Financial Instruments

The Company enters into non-designated foreign currency derivatives, primarily comprised of foreign currency forward contracts, for which hedge accounting does not apply. The changes in the fair market value of these non-designated derivatives are included in other income/expense in the Company's consolidated statements of income. The Company uses non-designated foreign currency derivatives to hedge foreign-currency-denominated intercompany transactions and to partially mitigate the impact of foreign-currency fluctuations. The fair value of the non-designated foreign currency derivatives is based on third-party quotes that management considered when determining the fair value.

As of December 31, 2019, and 2018, the Company did not hold any non-designated derivative contracts.

During the years ended December 31, 2019, 2018 and 2017, the Company had gains (losses) related to derivative instruments not designated as hedging instruments of zero, zero and \$(0.5) million, respectively.

The Company designates as cash-flow hedges those foreign currency forward contracts it enters to hedge forecasted intercompany transactions that are subject to foreign currency exposures. Changes in the fair value of these forward contracts designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity (deficit), and are recognized in the consolidated statement of income during the period which approximates the time the hedged transaction is settled.

As of December 31, 2019, and 2018, the Company held no forward contracts.

During the years ended December 31, 2019, 2018 and 2017, the Company had gains (losses) related to derivative instruments recorded in other comprehensive income (loss) of zero, \$(0.2) million and \$(0.2) million, respectively.

During the years ended December 31, 2019, 2018 and 2018, the Company had gains (losses) related to foreign currency forward contracts related to intercompany license fees and product sales hedges reclassified from accumulated other comprehensive loss to revenue of zero, \$18 thousand and \$0.1 million, respectively.

During the years ended December 31, 2019, 2018 and 2018, the Company had gains (losses) related to foreign currency forward contracts related to intercompany selling expense hedges reclassified from accumulated other comprehensive loss to selling expenses of zero, zero and \$0.4 million, respectively.

As of December 31, 2019 and 2018, there were no unrealized gains/(losses) included in accumulated other comprehensive loss related to foreign currency cash flow hedges. The remaining \$85.3 million and \$79.9 million as of December 31, 2019 and 2018, respectively, in accumulated other comprehensive loss are related to cumulative translation adjustments. The Company assesses hedge effectiveness at least quarterly. During the years ended December 31, 2019 and 2018, all hedges were determined to be effective.

## 15. Supplemental Cash Flow Information

Cash paid for interest totaled \$17.9 million, \$20.9 million and \$18.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. Cash paid for income taxes totaled \$97.9 million, \$123.2 million and \$78.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

## 16. Acquisitions

On January 22, 2018, the Company acquired the remaining 73% ownership in Innuvate Health Sciences, LLC ("Innuvate"), which owns a 92% interest in a nutritional product manufacturer. Prior to this acquisition, the Company owned 27% of Innuvate and accounted for it using the equity method. The remaining 8% ownership in the manufacturer will continue to be held by an unrelated third party. Under the terms of the agreement, the Company paid \$23.5 million in cash and shares of the Company in exchange for the 73% ownership in Innuvate, subject to adjustment for certain closing items. Innuvate is a contract manufacturer that specializes in softgel and hardshell capsule manufacturing.

On February 12, 2018, the Company acquired the remaining 65% ownership in Treviso, LLC ("Treviso"), making Treviso a wholly owned subsidiary of the Company. Treviso is a personal care product manufacturer. Under the terms of the purchase agreement, the Company has paid \$83.9 million in cash and shares of the Company in exchange for the remaining 65% ownership in Treviso, subject to adjustment for certain closing items. On February 28, 2017, the Company initially purchased a 35% membership interest in Treviso, for a purchase price of \$21.0 million. The purchase price included \$12.6 million in cash and \$8.4 million in the Company's stock (169,560 shares based on the closing stock price of \$49.54 per share on February 28, 2017). Treviso is a liquid contract manufacturing laboratory for premium personal care products.

On February 12, 2018, the Company acquired 100% ownership in L&W Holdings, Inc. (“L&W”) making L&W a wholly owned subsidiary of the Company. L&W is a packaging supplier company. Under the terms of the purchase agreement, the Company paid \$25.0 million in shares of the Company in exchange for 100% ownership in L&W, subject to adjustment for certain closing items. L&W specializes in the distribution and packaging of products in the cosmetic and nutritional industries.

The following table summarizes the fair value of consideration transferred for the acquisitions disclosed above (in thousands):

	<u>Innuvate</u>	<u>Treviso</u>	<u>L&amp;W Holdings</u>	<u>Total</u>
Total cash consideration	\$ 17,587	\$ 14,648	\$ —	\$ 32,235
Shares issued in conjunction with acquisition	5,863	69,252	25,000	100,115
Total consideration	\$ 23,450	\$ 83,900	\$ 25,000	132,350
Previously held equity interest in equity method Investments <sup>(1)</sup>	8,748	30,281	—	39,029
Total	<u>\$ 32,198</u>	<u>\$ 114,181</u>	<u>\$ 25,000</u>	<u>\$ 171,379</u>

(1) The acquisitions of Innuvate and Treviso are considered step acquisitions, and accordingly, the Company remeasured its pre-existing 27% equity interest in Innuvate and 35% of Treviso immediately prior to completion of the acquisition to its estimated fair value of approximately \$39.0 million. As a result of the remeasurement, the Company recorded a gain of approximately \$13.6 million within other income (expense), during the first quarter of 2018, representing the excess of the approximate \$39.0 million estimated fair value of its pre-existing 27% equity interest in Innuvate and 35% equity interest of Treviso over its transaction date carrying value of approximately \$25.4 million.

The following table summarizes the fair value of the assets acquired for the acquisitions disclosed above (in thousands):

<b>Net assets acquired:</b>	<u>Innuvate</u>		<u>Treviso</u>		<u>L&amp;W Holdings</u>	
	Life	Amount	Life	Amount	Life	Amount
Total current assets		\$ 6,219		\$ 19,659		\$ 7,353
Fixed assets		9,291		33,282		114
Customer list	9 years	5,100	9 years	16,500	7 years	6,500
Order backlog	5 months	200	10 months	4,700	4 months	900
Trademarks	7 years	900	6 years	1,300	5 years	600
Total current liabilities		(3,942)		(3,740)		(1,495)
Other non-current liabilities		—		—		(1,731)
Total identifiable net assets acquired		17,768		71,701		12,241
Goodwill		17,230		42,480		12,759
Fair value of noncontrolling interest		(2,800)		—		—
Total consideration and value to be allocated to net assets		<u>\$ 32,198</u>		<u>\$ 114,181</u>		<u>\$ 25,000</u>

Pro forma and historical results of operations for the acquired companies have not been presented because they are not material, either individually or in the aggregate, to the Company’s consolidated financial statements.

## 17. Restructuring and Severance Charges

In 2018, the Company began a strategic plan to align its resources and capabilities to support its vision of being a world-leading business platform. This program primarily impacted the Company’s information technology infrastructure and organization and other departments within its corporate and Americas offices. As a result of the restructuring program, the Company recorded a non-cash charge of \$48.6 million for impairment of information technology assets, including internally developed software for social sharing and digital initiatives, and \$22.1 million of cash charges, including \$20.1 million for employee severance and \$2.0 million for other related cash charges with our restructuring. The restructuring charges were predominately recorded in the Corporate and Other category. As of December 31, 2019, and 2018 the Company had a liability of zero and \$15.5 million in accrued payroll and other employee expenses, respectively.

Restructuring, severance and impairment charges incurred	\$ 70,686
Non-cash impairment charges	(48,551)
Amounts paid	(6,673)
Adjustments	—
Balance December 31, 2018	<u>\$ 15,462</u>
Amounts Paid	(15,046)
Adjustments	(416)
Balance December 31, 2019	<u>\$ —</u>

## 18. Segment Information

The Company reports revenue from nine segments, consisting of its seven geographic Nu Skin segments—Mainland China, South Korea, Southeast Asia, Americas/Pacific, Japan, Hong Kong/Taiwan, and EMEA—and its Manufacturing and Grow Tech segments, which the Company decided to disclose separately beginning in the first quarter of 2019. Previously, these latter two segments were included in the Other category. The Other category includes miscellaneous corporate revenue and related adjustments. These segments reflect the way the chief operating decision maker (“CODM”) evaluates the Company’s business performance and allocates resources. Reported revenue for these segments includes only the revenue generated by sales to external customers. The seven geographic Nu Skin segments generate revenue from the sale of personal care products and wellness products under the Nu Skin, Pharmanex and ageLOC brands, all of which have similar business characteristics and align with how the CODM function assesses performance and allocates resources.

Segment information for 2018 has been recast to reflect the separate disclosure of the Manufacturing and Grow Tech segments, both of which were previously included in the Other category. Consolidated financial information is not affected.

Profitability by segment as reported under U.S. GAAP is driven primarily by the Company’s international taxation policies. Segment contribution, which is the Company’s segment profitability metric presented in the table below, excludes certain intercompany charges, specifically royalties, license fees, transfer pricing, discrete charges and other miscellaneous items. These charges have been included in Corporate and other expenses. Corporate and other expenses also include costs related to the Company’s executive and administrative offices, information technology, research and development, marketing and supply chain functions not recorded at the segment level.

The accounting policies of the segments are the same as those described in Note 1, “The Company.” The Company evaluates the performance of its segments based on revenue and segment contribution. Each segment records direct expenses related to its employees and its operations.

Summarized financial information for the Company’s reportable segments is shown in the following tables. Asset information is not reviewed or included with the Company’s internal management reporting. Therefore, the Company has not disclosed asset information for each reportable segment.

### Revenue by Segment

(U.S. dollars in thousands)	<b>Year Ended December 31,</b>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Nu Skin</i>			
Mainland China	\$ 722,526	\$ 886,472	\$ 716,991
Americas/Pacific	349,078	385,034	342,429
South Korea	329,978	373,357	361,692
Southeast Asia	301,620	316,890	268,631
Japan	260,039	254,939	256,085
EMEA	167,165	182,394	160,275
Hong Kong/Taiwan	166,335	185,893	166,696
Other	1,621	3,423	6,300
<b>Total Nu Skin</b>	<u>2,298,362</u>	<u>2,588,402</u>	<u>2,279,099</u>
<i>Manufacturing</i> <sup>(1)</sup>	121,917	90,606	—
<i>Grow Tech</i>	137	—	—
<b>Total</b>	<u>\$ 2,420,416</u>	<u>\$ 2,679,008</u>	<u>\$ 2,279,099</u>

(1) The Manufacturing segment had \$25.7 million, \$23.5 million and zero of intersegment revenue for the years ended December 31, 2019, 2018 and 2017, respectively. Intersegment revenue is eliminated in the consolidated financial statements, as well as the reported segment revenue in the table above.

### Segment Contribution

(U.S. dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
<i>Nu Skin</i>			
Mainland China	\$ 191,570	\$ 253,598	\$ 211,625
Americas/Pacific	57,090	52,433	51,885
South Korea	99,892	107,215	100,964
Southeast Asia	82,455	78,598	63,296
Japan	61,081	56,676	51,372
EMEA	10,195	14,773	11,749
Hong Kong/Taiwan	33,569	33,392	27,958
<i>Nu Skin contribution</i>	535,852	596,685	518,849
<i>Manufacturing</i>	15,693	7,754	—
<i>Grow Tech</i>	(19,509)	(9,228)	—
Total segment contribution	532,036	595,211	518,849
Corporate and other	(264,610)	(354,351)	(244,366)
Operating income	267,426	240,860	274,483
Other income (expense)	(12,254)	(21,194)	(8,916)
Income before provision for income taxes	\$ 255,172	\$ 219,666	\$ 265,567

### Depreciation and Amortization

(U.S. dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
<i>Nu Skin</i>			
Mainland China	\$ 10,496	\$ 13,036	\$ 15,122
Americas/Pacific	864	988	1,746
South Korea	5,093	6,266	6,499
Southeast Asia	1,915	2,123	2,234
Japan	3,866	3,604	3,554
EMEA	1,260	847	985
Hong Kong/Taiwan	2,310	1,316	1,395
<i>Total Nu Skin</i>	25,804	28,180	31,535
<i>Manufacturing</i>	6,689	11,281	—
<i>Grow Tech</i>	4,008	1,885	—
Corporate and other	40,149	41,657	40,029
Total	\$ 76,650	\$ 83,003	\$ 71,564

### Capital Expenditures

(U.S. dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
<i>Nu Skin</i>			
Mainland China	\$ 14,814	\$ 11,658	\$ 4,539
Americas/Pacific	1,340	974	800
South Korea	1,223	285	469
Southeast Asia	759	1,120	1,753
Japan	1,528	788	994
EMEA	364	734	1,168
Hong Kong/Taiwan	3,203	4,113	1,350
<i>Total Nu Skin</i>	23,231	19,672	11,073
<i>Manufacturing</i>	6,595	5,486	—
<i>Grow Tech</i>	6,938	14,591	—
Corporate and other	29,303	30,622	49,083
Total	\$ 66,067	\$ 70,371	\$ 60,156



### Revenue by Major Market

A major market is defined as one with total revenue greater than 10% of consolidated total revenue. Based on this criteria, the Company has identified four major markets: Mainland China, South Korea, Japan and the United States, the country of domicile. There are approximately 45 other markets, each of which individually is less than 10%. No single customer accounted for 10% or more of net sales for the periods presented. Sales are recorded in the jurisdiction in which the transactions occurred:

(U.S. dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
Mainland China	\$ 722,526	\$ 886,472	\$ 716,991
South Korea	329,978	373,357	361,692
Japan	260,039	254,939	256,085
United States	324,727	311,436	218,734
All others	783,146	852,804	725,597
Total	<u>\$ 2,420,416</u>	<u>\$ 2,679,008</u>	<u>\$ 2,279,099</u>

### Revenue by Product Line

(U.S. dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
Personal Care	\$ 1,423,485	\$ 1,659,737	\$ 1,456,386
Wellness	863,125	921,328	817,230
Other	133,806	97,943	5,483
Total	<u>\$ 2,420,416</u>	<u>\$ 2,679,008</u>	<u>\$ 2,279,099</u>

### Long-Lived Assets by Major Market

A major market is defined as a market with long-lived assets greater than 10% of consolidated long-lived assets and also includes the Company's country of domicile (the United States). Long-lived assets in Mainland China consist primarily of property, plant and equipment and related to manufacturing, distribution facilities and the Mainland China headquarters. Long-lived assets in the United States consist primarily of property, plant and equipment, including the Company's corporate offices and distribution facilities. As a result of adoption of ASC 842, long-lived assets for 2019 include our ROU assets. Long-lived assets by major market are set forth below for the periods ended December 31, 2019, 2018 and 2017:

(U.S. dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
United States	\$ 354,410	\$ 317,516	\$ 302,884
Mainland China	136,845	89,447	97,046
South Korea	35,286	36,325	42,211
Japan	12,015	6,864	9,342
All others	59,374	14,383	13,104
Total	<u>\$ 597,930</u>	<u>\$ 464,535</u>	<u>\$ 464,587</u>

## 19. Commitments and Contingencies

The Company is subject to government regulations pertaining to product formulation, labeling and packaging, product claims and advertising, and the Company's direct selling system. The Company is also subject to the jurisdiction of numerous foreign tax and customs authorities. Any assertions or determination that either the Company or the Company's sales force is not in compliance with existing statutes, laws, rules or regulations could have a material adverse effect on the Company's operations. In addition, in any country or jurisdiction, the adoption of new statutes, laws, rules or regulations or changes in the interpretation of existing statutes, laws, rules or regulations could have a material adverse effect on the Company and its operations. No assurance can be given that the Company's compliance with applicable statutes, laws, rules and regulations will not be challenged by foreign authorities or that such challenges will not have a material adverse effect on the Company's financial position, results of operations or cash flows. The Company and its Subsidiaries are defendants in litigation, investigations and other proceedings involving various matters. The Company is subject to loss contingencies, including various legal and regulatory proceedings, asserted and potential claims that arise in the ordinary course of business. An estimated loss from such contingencies is recognized as a charge to income if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

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

## **20. Other Income (Expense), Net**

Other income (expense), net was \$12.3 million, \$21.2 million and \$8.9 million of expense in 2019, 2018 and 2017, respectively. Other income (expense), net also includes \$19.2 million, \$21.8 million and \$22.2 million in interest expense during 2019, 2018 and 2017, respectively. The Company cannot estimate the degree to which its operations will be impacted in the future, but it remains subject to these currency risks.

## **21. Subsequent Events**

In January 2020, the Company has placed a temporary hold on all in-person meetings with its sales force and customers in Mainland China in response to the outbreak of the coronavirus. Given the dynamic nature of these circumstances and business disruption, the company anticipates a significant short-term impact as public gatherings and travel remain restricted. The related financial impact cannot be reasonably estimated at this time but is expected to materially affect our Mainland China segment and consolidated results for the first and second quarter and full year of fiscal 2020.

## Report of Independent Registered Public Accounting Firm

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

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Nu Skin Enterprises, Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, of stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Change in Accounting Principle***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

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

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

## **Critical Audit Matters**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Income Taxes*

As described in Notes 2 and 11 to the consolidated financial statements, the Company recorded a provision for income taxes of \$82 million for the year ended December 31, 2019 and reported \$20 million in deferred tax assets net of a valuation allowance of \$77 million, \$47 million in deferred tax liabilities, and uncertain tax positions of \$14 million as of December 31, 2019. The Company pays income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between the Company and its foreign affiliates. The Company takes an asset and liability approach for financial accounting and reporting of income taxes. Deferred tax assets and liabilities are created in this process and are calculated using anticipated tax rates and are then netted by jurisdiction. Management establishes valuation allowances when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized. The Company has recorded unrecognized tax benefits related to multiple foreign and domestic jurisdictions. As disclosed by management, potential changes in unrecognized tax benefits can arise from the multiple jurisdictions in which the Company operates, as well as the expiration of various statutes of limitation and possible completion of tax examinations.

The principal considerations for our determination that performing procedures relating to income taxes is a critical audit matter are that (i) there was significant judgment by management when developing the provision for income taxes, deferred tax assets and the liability for unrecognized tax benefits, which in turn, led to significant auditor judgment, subjectivity and effort in performing audit procedures and evaluating audit evidence relating to these account balances and tax positions; and (ii) the audit effort included the involvement of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to income taxes. These procedures also included, among others, (i) testing the accuracy of the global income tax provision, including the rate reconciliation, return to provision adjustments, and permanent and temporary differences; (ii) evaluating management's assessment of the realizability of deferred tax assets on a jurisdictional basis; and (iii) evaluating the identification of reserves for uncertain tax positions and the reasonableness of the "more likely than not determination" in consideration of the expiration of various statutes of limitations, changes in tax law and regulations, issuance of tax rulings and settlements with tax authorities. Professionals with specialized skill and knowledge were used to assist in the evaluation of the reasonableness of management's estimates and application of local and international income tax law.

/s/ PricewaterhouseCoopers LLP  
Salt Lake City, Utah  
February 12, 2020

We have served as the Company's auditor since 1994.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

***Evaluation of Disclosure Controls and Procedures.*** Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission under the Exchange Act, and they include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019.

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

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed, as of December 31, 2019, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in the framework *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of our internal control over financial reporting as of December 31, 2019, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

***Changes in Internal Control over Financial Reporting.*** There was no change during the fiscal quarter ended December 31, 2019 in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

### PART III

The information required by Items 10, 11, 12, 13 and 14 of Part III will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference to our Definitive Proxy Statement for our 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after our fiscal year end, except for certain information required by Item 10 with respect to our executive officers which is set forth under Item 1. Business of this Annual Report on Form 10-K.

### PART IV

#### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Form 10-K:

1. Financial Statements. See Index to Consolidated Financial Statements under Item 8 of Part II.
2. Financial Statement Schedules. N/A
3. Exhibits. References to the “Company” shall mean Nu Skin Enterprises, Inc. Unless otherwise noted, the SEC file number for exhibits incorporated by reference is 001-12421.

3.1 [Amended and Restated Certificate of Incorporation of the Company \(incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-1 filed September 16, 1996, file no. 333-12073\).](#)

3.2 [Certificate of Amendment to the Amended and Restated Certificate of Incorporation \(incorporated by reference to Exhibit 3.2 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2009, filed March 1, 2010\).](#)

3.3 [Certificate of Designation, Preferences and Relative Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof \(incorporated by reference to Exhibit 3.3 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2004, filed March 15, 2005\).](#)

3.4 [Fourth Amended and Restated Bylaws of Nu Skin Enterprises, Inc. \(incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed March 10, 2017\).](#)

4.1 [Specimen Form of Stock Certificate for Class A Common Stock \(incorporated by reference to Exhibit 4.1 to the Company’s Amendment No. 1 to Registration Statement on Form S-3 filed July 8, 2002, file no. 333-90716\).](#)

\*4.2 [Description of the Registrant’s Securities Registered Under Section 12 of the Securities Exchange Act of 1934.](#)

10.1 [Credit Agreement among the Company, various financial institutions, and Bank of America, N.A. as administrative agent, dated as of April 18, 2018 \(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed April 23, 2018\).](#)

#10.2 [Amended and Restated Nu Skin Enterprises, Inc. Deferred Compensation Plan, effective as of January 1, 2015 \(incorporated by reference to Exhibit 10.4 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, filed February 27, 2017\).](#)

#10.3 [Nu Skin Enterprises, Inc. 2010 Omnibus Incentive Plan \(“2010 Plan”\).\(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on June 2, 2010\).](#)

#10.4 [Form of 2010 Plan U.S. Stock Option Master Agreement and Grant Notice \(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on July 2, 2010\).](#)

#10.5 [Form of 2010 Plan U.S. Performance Stock Option Master Agreement and Grant Notice \(incorporated by reference to Exhibit 10.54 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2010, filed February 23, 2011\).](#)

#10.6 [Amended and Restated Nu Skin Enterprises, Inc. 2010 Omnibus Incentive Plan \(“Amended & Restated 2010 Plan”\).\(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on June 7, 2013\).](#)

#10.7 [Form of Amended and Restated 2010 Plan Stock Option Grant Agreement \(incorporated by reference to Exhibit 10.25 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, filed March 2, 2015\).](#)

#10.8	<a href="#">Form of Amended and Restated 2010 Plan Performance Stock Option Grant Agreement (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed February 27, 2017).</a>
#10.9	<a href="#">Form of Amended and Restated 2010 Plan Director Stock Option Grant Agreement (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed March 2, 2015).</a>
#10.10	<a href="#">Second Amended and Restated Nu Skin Enterprises, Inc. 2010 Omnibus Incentive Plan ("Second Amended and Restated 2010 Plan") (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 24, 2016).</a>
#10.11	<a href="#">Form of Second Amended and Restated 2010 Plan Stock Option Grant Agreement (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed February 27, 2017).</a>
*#10.12	<a href="#">Form of Second or Third Amended and Restated 2010 Plan Restricted Stock Unit Grant Agreement.</a>
*#10.13	<a href="#">Form of Second Amended and Restated 2010 Plan Performance Stock Option Grant Agreement.</a>
#10.14	<a href="#">Form of Second Amended and Restated 2010 Plan Director Stock Option Grant Agreement (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed February 27, 2017).</a>
*#10.15	<a href="#">Form of Second Amended and Restated 2010 Plan Director Restricted Stock Unit Grant Agreement.</a>
#10.16	<a href="#">Form of Second Amended and Restated 2010 Plan Non-U.S. Director Stock Option Grant Agreement (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed February 27, 2017).</a>
#10.17	<a href="#">Nu Skin Enterprises, Inc. 2009 Key Employee Death Benefit Plan (incorporated by reference to Exhibit 10.58 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed February 23, 2011).</a>
#10.18	<a href="#">Form of Indemnification Agreement between the Company and its Executive Officers and Directors (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, filed November 4, 2016).</a>
#10.19	<a href="#">Nu Skin Enterprises, Inc. Executive Severance Policy (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 14, 2018).</a>
#10.20	<a href="#">Employment Agreement, effective as of April 16, 2015, between the Company and Joseph Y. Chang (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 20, 2015).</a>
#10.21	<a href="#">Amendment to Employment Agreement between the Company and Joseph Y. Chang dated March 8, 2018 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed March 14, 2018).</a>
*21.1	<a href="#">Subsidiaries of the Company.</a>
*23.1	<a href="#">Consent of PricewaterhouseCoopers LLP.</a>
*31.1	<a href="#">Certification by Ritch N. Wood, Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
*31.2	<a href="#">Certification by Mark H. Lawrence, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>



*32.1	<a href="#">Certification by Ritch N. Wood, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
*32.2	<a href="#">Certification by Mark H. Lawrence, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
*101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
*101.SCH	Inline XBRL Taxonomy Extension Schema Document.
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
*101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
*104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

\* Filed or furnished herewith.

# Management contract or compensatory plan or arrangement.

**ITEM 16. FORM 10-K SUMMARY**

None.

## 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 February 12, 2020.

### NU SKIN ENTERPRISES, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 12, 2020.

<u>Signatures</u>	<u>Capacity in Which Signed</u>
<u>/s/ Steven J. Lund</u> Steven J. Lund	Executive Chairman of the Board
<u>/s/ Ritch N. Wood</u> Ritch N. Wood	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Mark H. Lawrence</u> Mark H. Lawrence	Chief Financial Officer (Principal Financial Officer)
<u>/s/ James D. Thomas</u> James D. Thomas	Chief Accounting Officer (Principal Accounting Officer)
<u>/s/ Daniel W. Campbell</u> Daniel W. Campbell	Director
<u>/s/ Andrew D. Lipman</u> Andrew D. Lipman	Director
<u>/s/ Laura Nathanson</u> Laura Nathanson	Director
<u>/s/ Thomas R. Pisano</u> Thomas R. Pisano	Director
<u>/s/ Zheqing Shen</u> Zheqing Shen	Director
<u>/s/ Edwina D. Woodbury</u> Edwina D. Woodbury	Director

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED UNDER SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2019, Nu Skin Enterprises, Inc. (the "Company") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): Class A Common Stock. This class of securities has a par value of \$0.001 per share. The Company's certificate of incorporation authorizes 500 million shares of this class, and as of January 31, 2020, 55,547,214 shares were outstanding, held by a total of approximately 251 holders of record.

The Company's certificate of incorporation also authorizes 25 million shares of preferred stock and 100 million shares of Class B common stock, both with a par value of \$0.001 per share, but these classes of securities are not registered under Section 12 of the Exchange Act, nor were any shares of these classes outstanding as of January 31, 2020. As used in this Exhibit 4.2, the term "common stock" refers, collectively, to our Class A Common Stock and our Class B Common Stock.

The description below does not purport to be complete and is qualified in its entirety by reference to the terms of our certificate of incorporation and our bylaws, each of which is incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.2 is a part. We encourage you to read our certificate of incorporation, our bylaws and the applicable provisions of the Delaware General Corporation Law for additional information.

**Common Stock**

**Voting Rights**

Each share of our Class A Common Stock entitles the holder to one vote on each matter submitted to a vote of our stockholders, including the election of directors. Each share of our Class B Common Stock entitles the holder to ten votes on each matter submitted to a vote of our stockholders, including the election of directors. There is no cumulative voting. With respect to corporate changes, including liquidations, reorganizations, recapitalizations, mergers, consolidations and sales of substantially all of our assets, the approval of 66 2/3% of the outstanding voting power is required to authorize or approve the transactions.

**Dividends**

The holders of our common stock are entitled to receive dividends if, as and when the dividends are declared by our board of directors out of assets legally available for the dividends after payment of dividends required to be paid on shares of preferred stock, if any.

**Liquidation Preference**

In the event of liquidation, after payment of the debts and other liabilities of our Company and after making provision for the holders of our preferred stock, if any, our remaining assets will be distributable ratably among holders of our common stock.

---

## **Mergers and Other Business Combinations**

Upon the merger or consolidation of our Company, holders of our common stock are entitled to receive equal per-share payments or distributions. We may not dispose of all or any substantial part of our assets to, or merge or consolidate with, any person, entity or group (as the term “group” is defined in Rule 13d-5 of the Exchange Act) that beneficially owns, in the aggregate, 10% or more of our outstanding common stock without the affirmative vote of the holders, other than a related person, of not less than 66 2/3% of the voting power. For the sole purpose of determining the 66 2/3% vote, a related person will also include the seller or sellers from whom the related person acquired, during the preceding six months, at least 5% of the outstanding shares of common stock pursuant to one or more agreements or other arrangements and not through a brokers’ transaction, but only if the seller or sellers have beneficial ownership of shares of common stock having a fair market value in excess of \$10 million in the aggregate at the time of the proposed disposition, merger, or consolidation. Notwithstanding the foregoing, neither our Company nor any of our subsidiaries shall be a related person. This 66 2/3% voting requirement is not applicable, however, if:

- the proposed transaction is approved by a vote of not less than a majority of our directors who are neither affiliated nor associated with the related person or the seller of shares to the related person as described above; or
- in the case of a transaction pursuant to which the holders of common stock are entitled to receive cash, property, securities or other consideration, the cash or fair market value of the property, securities or other consideration to be received per share in the transaction is not less than the higher of:
- the highest price per share paid by the related person for any of its holdings of common stock within the two-year period immediately prior to the announcement of the proposed transaction; or
- the highest closing sale price during the 30-day period immediately preceding that date or during the 30-day period immediately preceding the date on which the related person became a related person, whichever is higher.

## **Transfer Agent and Registrar**

The transfer agent and registrar for our Class A Common Stock is American Stock Transfer & Trust Co. LLC.

## **Listing**

Our Class A Common Stock is traded on the New York Stock Exchange under the trading symbol “NUS.”

## **Preferred Stock**

Our board of directors is authorized, subject to the limitations prescribed by the Delaware General Corporation Law or the rules of the New York Stock Exchange or other organizations on whose systems our stock may be quoted or listed, to:

- provide for the issuance of shares of preferred stock in one or more series;
- establish from time to time the number of shares to be included in each series;
- fix the rights, powers, preferences and privileges of the shares of each wholly unissued series and any qualifications, limitations or restrictions on such shares; and
- increase or decrease the number of shares of each series, without any further vote or action by the stockholders.

The approval of the holders of at least 66 2/3% of the combined voting power of the outstanding shares of common stock, however, is required for the issuance of shares of preferred stock that have the right to vote for the election of directors under ordinary circumstances or to elect 50% or more of the directors under any circumstances.

Depending upon the terms of the preferred stock established by our board of directors, any or all series of preferred stock could have preference over the common stock with respect to dividends and other distributions and upon liquidation of our Company or could have voting or conversion rights that could adversely affect the holders of the outstanding common stock. In addition, the preferred stock could delay, defer or prevent a change of control of our Company. We have no present plans to issue any shares of preferred stock.

### **Anti-Takeover Provisions**

#### **Special Stockholder Meetings**

Special meetings of stockholders may be called only by the board of directors pursuant to a resolution adopted by the affirmative vote of a majority of the board, the chairman of the board of directors, the president, or at least a majority of the stockholders of our Company. Except as otherwise required by law, stockholders are not entitled to request or call a special meeting of the stockholders.

#### **Director Nominations and Business Proposals**

Our stockholders are required to provide advance notice of nominations of directors to be made at, and of business proposed to be brought before, a meeting of the stockholders. The failure to deliver proper notice within the periods specified in our bylaws will result in the denial of the stockholder of the right to make any nominations or propose any action at the meeting.

#### **Section 203 of the Delaware General Corporation Law**

We are a Delaware corporation and are subject to the provisions of Section 203 of the Delaware General Corporation Law. This law prevents many Delaware corporations, including those whose securities are listed on the New York Stock Exchange, from engaging, under specific circumstances, in a business combination with an interested stockholder for three years following the date that the stockholder became an interested stockholder, unless the business combination or interested stockholder is approved in a prescribed manner. An interested stockholder is a stockholder who, together with affiliates and associates, within the prior three years did own 15% or more of the corporation's outstanding voting stock.

A Delaware corporation may opt out of the provisions of Section 203 of the Delaware General Corporation Law with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. We have not opted out of the provisions of Section 203.

**NU SKIN ENTERPRISES, INC.**  
**SECOND OR THIRD AMENDED AND RESTATED**  
**2010 OMNIBUS INCENTIVE PLAN**  
**RESTRICTED STOCK UNIT AGREEMENT**

This Restricted Stock Unit Agreement, Participant's award information (the "Award Summary"), which can be accessed on the Morgan Stanley stock plan website (currently [www.stockplanconnect.com](http://www.stockplanconnect.com)) or the website of any other stock plan administrator selected by the Company in the future, and the Appendix for Participant's country contained in this agreement, if any, (collectively, this "Agreement") sets forth the terms and conditions of the Restricted Stock Units granted to Participant under the Second or Third Amended and Restated Nu Skin Enterprises, Inc. 2010 Omnibus Incentive Plan, as applicable (the "Plan"). In the event of a conflict between (i) the terms and conditions of the Plan; and (ii) the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail. Unless otherwise defined herein, the capitalized terms in this Agreement shall have the same defined meaning assigned to them in the Plan.

**1. Grant of Restricted Stock Units.**

**1.1 Grant of Restricted Stock Units.** Effective as of the date of grant specified in the Award Summary (the "Grant Date"), the Company grants to Participant an award of the number of Restricted Stock Units as set forth in the Award Summary. Each Restricted Stock Unit is a bookkeeping entry representing the Company's unfunded promise to deliver one Share on the terms provided herein and in the Plan.

**1.2 Vesting of Restricted Stock Units.** The Restricted Stock Units shall vest on the dates (the "Vesting Dates") and in the amounts determined by the Committee and set forth in the Award Summary, except as otherwise provided in this Agreement, including pursuant to Sections 1.3 and 4.

**1.3 Termination of Continuous Service.** In the event Participant's Continuous Service (as defined below) is terminated for any reason prior to the full vesting of the Restricted Stock Units, the Restricted Stock Units granted hereunder shall terminate to the extent they are not vested as of the termination of Participant's Continuous Service, as determined in accordance with Section 9(h) below, and Participant shall not have any right to receive any Shares subject to such unvested Restricted Stock Units.

For purposes of this Agreement:

"Continuous Service" means that Participant's service with the Company or a Subsidiary, whether as an Employee, Director, or Consultant, is not interrupted or terminated. Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which Participant renders service to the Company or a Subsidiary as an Employee, Consultant, or Director, or a change in the entity for which Participant renders such service, provided that there is no interruption or termination of Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of a Subsidiary or a Director will not constitute an interruption of Continuous Service. Subject to the requirements of applicable law, the Committee, in its sole discretion, shall determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by the Company or a Subsidiary, including sick leave, military leave or any other personal leave.

---

**1.4 Settlement of Restricted Stock Units.** Subject to the terms of the Plan and this Agreement, Restricted Stock Units shall be settled in Shares, provided that Participant has satisfied any Tax-Related Items pursuant to Section 8 below. Shares will be issued to Participant within 70 days following the applicable Vesting Date unless subject to the terms of the Company's deferred compensation plan; provided, however, that if the Participant is subject to taxation in the U.S. (a "U.S. Taxpayer"), the Restricted Stock Units vest pursuant to Section 1.6 below and the Restricted Stock Units are considered "non-qualified deferred compensation" subject to Section 409A of the Code ("Code Section 409A," and such compensation, "Deferred Compensation"), the Shares will be issued in accordance with the following schedule: (i) if the termination event giving rise to the vesting acceleration occurs prior to the Change in Control and the Change in Control constitutes a "change in control event" (within the meaning of U.S. Treasury Regulation 1.409A-3(i)(5)(i)) (a "409A CIC"), the Shares will be issued on the date of the Change in Control, and if the Change in Control does not constitute a 409A CIC, the Shares will be issued on the date that is six months following the Participant's "separation from service" (within the meaning of Code Section 409A) (a "Separation from Service"); (ii) if the termination event giving rise to the vesting acceleration occurs on or following the Change in Control and the Change in Control constitutes a 409A CIC, then the Shares will be issued within 30 days following the Participant's Separation from Service, and if the Change in Control is not a 409A CIC, then the Shares will be issued on the date that is six months following the Participant's Separation from Service.

Notwithstanding the foregoing, for purposes of complying with Code Section 409A, if the Participant is a U.S. Taxpayer, the Restricted Stock Units are considered Deferred Compensation and the Restricted Stock Units are to be settled in connection with a termination contemplated under Section 1.6 below, the Company and the Participant shall take all steps necessary (including with regard to any post-termination services by the Participant) to ensure that a termination contemplated under Section 1.6 constitutes a Separation from Service. In addition, if the Restricted Stock Units are Deferred Compensation, the Restricted Stock Units are settled upon the Participant's Separation from Service and the Participant is a "specified employee," within the meaning of Code Section 409A, on the date the Participant experiences a Separation from Service, then the Shares will be issued on the first business day of the seventh month following the Participant's Separation from Service, or, if earlier, on the date of the Participant's death, to the extent such delayed payment is required in order to avoid a prohibited distribution under Code Section 409A.

**1.5 Stockholder Rights.** Unless and until Shares are issued by the Company after the Vesting Date, Participant shall have none of the rights or privileges of a shareholder of the Company (including voting, dividend and liquidation rights) with respect to the Shares covered by the Restricted Stock Units.

**1.6 Change in Control.** Notwithstanding any provision in this Agreement to the contrary, if, within six months prior to and in connection with a Change in Control or within two years following such Change in Control, Participant's employment is terminated (i) by the Company and its Subsidiaries without Cause, or (ii) by Participant for Good Reason, the vesting of the Restricted Stock Units governed by this Agreement shall be accelerated such that all such Restricted Stock Units shall be deemed to be vested in full immediately prior to the termination of Participant's employment.



For purposes of this Agreement:

“Cause” shall mean that Participant has engaged in any one of the following:

- (a) a material breach by Participant of the Company’s Key Employee Covenants, other employee covenants or any employment agreement, which breach is not cured within any applicable cure period set forth the respective document
- (b) any willful violation by Participant of any material law or regulation applicable to the business of the Company or any of its Subsidiaries;
- (c) Participant’s conviction of, or a plea of guilty or nolo contendere to, a felony or any willful perpetration of common law fraud (or analogous violation of law in a jurisdiction outside the United States); or
- (d) any other willful misconduct by Participant that is materially injurious to the financial condition or business reputation of, or is otherwise materially injurious to, the Company or any of its Subsidiaries.

For purposes of the foregoing, in determining whether a “material breach” has occurred, or whether there has been a willful violation of a “material” law or regulation, the standard shall be a breach or violation that is, or will reasonably likely be, materially injurious to the financial condition or business reputation of, or is, or will reasonably likely be, otherwise materially injurious to, the Company or any of its Subsidiaries.

“Good Reason” shall mean the occurrence any of the following events that result in a material negative change to Participant:

- (a) without Participant’s consent, a material reduction in the scope of Participant’s duties and responsibilities or the level of management to which Participant reports;
- (b) without Participant’s consent, a reduction in base salary (other than an across-the-board reduction of not more than 10% applicable to all similarly situated employees);
- (c) without Participant’s consent, a material reduction in Participant’s benefits in the aggregate (in terms of benefit levels) from those provided to Participant under any employee benefit plan, program and practice in which Participant participates;
- (d) without Participant’s consent, a relocation of Participant’s principal place of employment of more than 50 miles from Participant’s primary residence;
- (e) the failure of the Company to have a successor entity specifically assume this Agreement or any employment agreement within 10 business days after a Change in Control; or

- (f) a material breach by the Company a successor entity of this Agreement or any employment agreement.

Notwithstanding the foregoing, Good Reason shall only be found to exist if Participant, not later than 90 days after the initial occurrence of an event deemed to give rise to a right to terminate for Good Reason, has provided 30 days written notice to the Company prior to Participant's resignation indicating and describing the event resulting in such Good Reason, and the Company does not cure such event (other than the event in clause vi), which shall not be subject to cure) within 90 days following the receipt of such notice from Participant.

**2. Securities Law Compliance.** Participant represents that Participant has received and carefully read a copy of the Prospectus for the Plan, together with the Company's most recent Annual Report to Stockholders. Participant hereby acknowledges that Participant is aware of the risks associated with the Shares and that there can be no assurance the price of the Shares will not decrease in the future. Participant hereby acknowledges no representations or statements have been made to Participant concerning the value or potential value of the Shares. Participant acknowledges that Participant has relied only on information contained in the Prospectus and has received no representations, written or oral, from the Company or its employees, attorneys or agents, other than those contained in the Prospectus or this Agreement. Participant acknowledges that the Company has made no representations or recommendations, and is not providing any tax, legal or financial advice, regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

**3. Transfer Restrictions.** Participant shall not transfer, assign, sell, encumber, pledge, grant a security interest in or otherwise dispose of the Restricted Stock Units subject to this Agreement in any manner other than by the laws of descent or distribution. Any such transfer, assignment, sale, encumbrance, pledge, security interest or disposition shall be void.

**4. Forfeiture.** If, at any time during Participant's Continuous Service or at any time during the 12-month period following termination of Participant's Continuous Service, Participant engages in conduct that constitutes Cause (as defined above), then at the election of the Committee, (a) this Agreement and all unvested Restricted Stock Units granted hereunder shall terminate, and (b) Participant shall return to the Company for cancellation all Shares held by Participant plus pay the Company the amount of any proceeds received from the sale of any Shares, to the extent such Shares were issued pursuant to Restricted Stock Units granted under this Agreement that vested (i) during the 12-month period immediately preceding the Cause, or (ii) on the date of or at any time after such Cause.

The forfeiture provisions of this Section 4 shall be applied by the Committee, at its discretion, to the maximum extent permitted under applicable laws. Further, these provisions are in addition to, and not in lieu of, any recoupment requirements under the Sarbanes-Oxley Act or under other applicable laws, rules, regulations or stock exchange listing standards, including, without limitation, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or Section 10D of the U.S. Securities Exchange Act of 1934, as amended, and shall apply notwithstanding anything to the contrary in this Agreement or in the Plan.

5. **Governing Plan Document.** This Agreement incorporates by reference all of the terms and conditions of the Plan, as presently existing and as hereafter amended. Participant expressly acknowledges and agrees that the terms and provisions of this Agreement are subject in all respects to the provisions of the Plan. Participant also expressly:

- (a) Acknowledges receipt of the Plan and represents that Participant is familiar with the provisions of the Plan, and that Participant enters into this Agreement subject to all of the provisions of the Plan;
- (b) Recognizes that the Committee has been granted complete authority to administer the Plan in its sole discretion, and agrees to accept all decisions related to the Plan and all interpretations of the Plan made by the Committee as final and conclusive upon Participant and upon all persons at any time claiming any interest through Participant in the Restricted Stock Units or the Shares subject to this Agreement; and
- (c) Acknowledges and understands that the establishment of the Plan and the existence of this Agreement are not sufficient, in and of themselves, to exempt Participant from the requirements of Section 16(b) of the Exchange Act and any rules or regulations promulgated thereunder, and that Participant (to the extent Section 16(b) applies to Participant) shall not be exempt from such requirements pursuant to Rule 16b-3 unless and until Participant shall comply with all applicable requirements of Rule 16b-3, including without limitation, the possible requirement that Participant must not sell or otherwise dispose of any Shares acquired pursuant to Restricted Stock Units unless and until a period of at least six months shall have elapsed between the Grant Date and the date upon which Participant desires to sell or otherwise dispose of such Shares.

6. **Representations and Warranties.** As a condition to the receipt of any Shares upon vesting of the Restricted Stock Units, the Company may require Participant to make any representations and warranties to the Company that legal counsel to the Company may determine to be required or advisable under any applicable law or regulation, including without limitation, representations and warranties that the Shares are being acquired only for investment and without any present intention or view to sell or distribute any such Shares.

7. **Compliance With Law and Regulations.** Notwithstanding any other provision of the Plan or this Agreement, unless there is an available exemption from any registration, qualification or other legal requirement applicable to the Shares, the Company shall not be required to deliver any Shares issuable upon settlement of the Restricted Stock Units prior to the completion of any registration or qualification of the Shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the U.S. Securities and Exchange Commission ("SEC") or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval the Company shall, in its absolute discretion, deem necessary or advisable. Participant understands that the Company is under no obligation to register or qualify the Shares with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. Further, Participant agrees that the Company shall have unilateral authority to amend the Plan and this Agreement without Participant's consent to the extent necessary to comply with securities or other laws applicable to issuance of Shares.

**8. Responsibility for Taxes.** Participant acknowledges that, regardless of any action taken by the Company or, if different, Participant's employer (the "Employer"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to Participant's participation in the Plan and legally applicable to Participant or deemed by the Company or the Employer in its discretion to be an appropriate charge to Participant even if legally applicable to the Company or the Employer ("Tax-Related Items"), is and remains Participant's responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. Participant further acknowledges that the Company and the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of any Shares acquired at settlement and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if Participant is subject to Tax-Related Items in more than one jurisdiction, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, Participant agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items.

Full payment of the Tax-Related Items shall be made by any of the following, or a combination thereof, subject to the Committee's or Company's right to eliminate, prior to vesting, any of the following as permissible payment methods: (i) in cash or cash equivalents (including certified check, bank check or wire transfer of immediately available funds); (ii) by tendering previously acquired Shares (either actually or by attestation) valued at their then-Fair Market Value; (iii) by withholding Shares otherwise issuable in connection with the vesting of the RSUs; (iv) through same-day voluntary or involuntary (on Participant's behalf pursuant to this authorization) sales through a broker if permitted by the Company's Securities Trading Policy; (v) withholding from Participant's wages or other cash compensation paid to Participant by the Company and/or the Employer; or (vi) any combination of any of the foregoing. In the absence of Participant's timely election or in the event Section 16(b) applies to Participant, the Company will withhold in Shares upon the relevant taxable or tax withholding event, as applicable. In the event that such withholding in Shares is problematic under applicable tax or securities law or has materially adverse accounting consequences, the Participant authorizes and directs the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any applicable withholding obligation with regard to all Tax-Related Items by one or a combination of the methods above.

Depending on the withholding method, the Company and/or the Employer may withhold or account for Tax-Related Items by considering applicable withholding rates (up to the rate that will not cause an adverse accounting consequence or cost, including pursuant to ASC Topic 718, as applicable) in which case Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, Participant is deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

Participant agrees to pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Participant's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if Participant fails to comply with Participant's obligations in connection with the Tax-Related Items.

**9. Nature of Grant.** In accepting the Restricted Stock Units, Participant acknowledges, understands and agrees that:

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
- (b) the grant of Restricted Stock Units is exceptional, voluntary and occasional and does not create any contractual or other right to receive future awards of Restricted Stock Units, or benefits in lieu of Restricted Stock Units even if Restricted Stock Units have been awarded in the past;
- (c) nothing in this Agreement or in the Plan shall confer upon Participant any right to continue in the employment or service of the Employer, the Company or any Subsidiary or be interpreted as forming or amending an employment or services contract with the Employer, the Company or any Subsidiary and shall not interfere with or restrict any way the ability of the Employer, the Company or any Subsidiary, as applicable, to terminate Participant's employment or service relationship, if any;
- (d) all decisions with respect to future grants of Restricted Stock Units or other grants, if any, will be at the sole discretion of the Committee and/or Company;
- (e) Participant's participation in the Plan is voluntary;
- (f) the future value of the underlying Shares is unknown, indeterminable and unpredictable;
- (g) unless otherwise agreed with the Company, the Restricted Stock Units and the Shares subject to the Restricted Stock Units, and the income and value of same, are not granted as consideration for, or in connection with, the service Participant may provide as a director of any entity of the Company;
- (h) in the event of the termination of Participant's Continuous Service (as defined above) (for any reason whatsoever, whether or not later to be found invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any), unless otherwise determined by the Company, Participant's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of the date Participant is no longer actively rendering services and will not be extended by any notice period (*e.g.*, Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any); the Committee shall have the exclusive discretion to determine when Participant is no longer providing Continuous Service for purposes of this Agreement, including whether Participant may still be considered to be providing active service while on a leave of absence; and

(i) if Participant is providing services outside the United States, the following additional provisions shall apply:

(1) Restricted Stock Units and the Shares subject to Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculation of any severance, resignation, termination, redundancy, dismissal, end-of-service payments, holiday pay, bonuses, long-service awards, leave-related pay, pension or retirement or welfare benefits or similar mandatory payments;

(2) Restricted Stock Units and the Shares subject to Restricted Stock Units, and the income and value of same, are not intended to replace any pension rights or compensation;

(3) Restricted Stock Units are an extraordinary item that does not constitute compensation of any kind for service of any kind rendered to the Company or to the Employer, and Restricted Stock Units are outside of the scope of Participant's employment agreement, if any;

(4) no claim or entitlement to compensation or damages shall arise from forfeiture of Restricted Stock Units resulting from termination of Participant's Continuous Service (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any); and

(5) neither the Company, the Employer nor any Subsidiary of the Company shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of Restricted Stock Units or of any amounts due to Participant pursuant to the settlement of the Restricted Stock Units or the subsequent sale of any Shares acquired upon settlement.

**10. Data Privacy Notice and Consent.** *Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data, as described in this Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Employer, the Company and Subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

**Participant understands that the Employer, the Company and Subsidiaries may hold certain personal information about Participant, including, but not limited to, Participant's name, home address, email address, telephone number, date of birth, social security number, passport information, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares or other equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.**

**Participant understands that Data will be transferred to Morgan Stanley, or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. Participant authorizes the Company, Morgan Stanley and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing Participant's participation in the Plan, including any transfer of such Data as may be required to a broker, escrow agent or other third party with whom the Shares received upon vesting of Restricted Stock Units may be deposited. Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing Participant's consent is that the Company may not be able to grant Restricted Stock Units or other equity awards to Participant or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of his or her refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.**

**Further, upon request of the Company or the Employer, Participant agrees to provide an executed data privacy form (or any other agreements or consents) that the Company and/or the Employer may deem necessary to obtain from Participant for the purpose of administering Participant's participation in the Plan in compliance with the data privacy laws in Participant's country, either now or in the future. Participant understands and agrees that he or she will not be able to participate in the Plan if Participant fails to provide any such consent or agreement as requested by the Company and/or the Employer.**

## **11. Miscellaneous Provisions.**

**11.1 Notices.** Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the sender's local mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the latest address on file or at such other address as such party may designate by ten days advance written notice under this Section to all other parties to this Agreement.

**11.2 Waiver.** The failure of the Company in any instance to exercise any rights under this Agreement, including the forfeiture rights under Section 4, shall not constitute a waiver of any other rights that may subsequently arise under the provisions of this Agreement or any other agreement between the Company and Participant. Participant acknowledges that no waiver by the Company of any breach of any provision of this Agreement shall operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant, whether of like or different nature.

**11.3 Imposition of Other Requirements & Participant Undertaking.** The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable in order to carry out the foregoing or one or more of the obligations or restrictions imposed on either Participant or the Shares pursuant to the provisions of this Agreement.

**11.4 Entire Contract.** This Agreement and the Plan constitute the entire understanding and agreement of the parties with respect to the subject matter contained herein. This Agreement is made pursuant to, and incorporates by reference, the provisions of the Plan and shall in all respects be construed in conformity with the terms of the Plan.

**11.5 Language.** Participant acknowledges that he or she is sufficiently proficient in English, or, alternatively, Participant acknowledges that he or she will seek appropriate assistance to understand the terms and conditions in this Agreement. Furthermore, if Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

**11.6 Electronic Delivery and Acceptance.** The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

**11.7 Successors and Assigns.** The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon Participant, Participant's permitted assigns and the legal representatives, heirs and legatees of Participant's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof. Participant may not assign this Agreement other than by the laws of descent and distribution.



**11.8 Severability.** In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

**11.9 Governing Law and Choice of Venue.** The Restricted Stock Units and the provisions of this Agreement shall be governed by, and subject to, the laws of the State of Utah, United States, without regard to the conflict of law provisions, as provided in the Plan. For purposes of litigating any dispute that arises under this Agreement or this grant of Restricted Stock Units, the parties hereby submit to and consent to the jurisdiction of the State of Utah, agree that such litigation shall be conducted in the courts of Utah County, Utah, or the federal courts of the United States for the District of Utah, where this grant is made and/or to be performed.

**11.10 Appendix.** Notwithstanding any provisions in this Agreement, the Restricted Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Appendix, the terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Agreement.

**11.11 Insider Trading Restrictions/Market Abuse Laws.** Participant acknowledges that, depending on Participant's country, broker's country, or where Shares are listed, Participant may be subject to insider trading and/or market abuse laws which may affect Participant's ability to accept, acquire, sell or otherwise dispose of Shares, rights to such shares (e.g., Restricted Stock Units) or rights linked to the value of Shares under the Plan during such times as Participant is considered to have "material nonpublic information" or "inside information" regarding the Company (as defined by the laws or regulations in the relevant jurisdiction). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders Participant places before Participant possessed inside information. Furthermore, Participant could be prohibited from (i) disclosing inside information to any third party (other than on a "need to know" basis) and (ii) "tipping" third parties or causing them otherwise to buy or sell securities. Third parties include fellow employees. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under the Company's insider trading policy, and the requirements of applicable laws may or may not be consistent with the terms of the Company's insider trading policy. Participant acknowledges that it is his or her responsibility to comply with any applicable restrictions, and that Participant should speak to his or her personal advisor on this matter.

**11.12 Exchange Control Tax and Foreign Asset/Account Reporting Requirements.** Participant acknowledges that there may be exchange control, tax, foreign asset and/or account reporting requirements which may affect Participant's ability to acquire or hold Shares acquired under the Plan or cash received from participating in the Plan (including from any dividends paid on Shares acquired under the Plan) in a brokerage, bank account or legal entity outside Participant's country. Participant may be required to report such accounts, balances, assets and/or the related transactions to the tax or other authorities in his or her country. Participant also may be required to repatriate sale proceeds or other funds received as a result of Participant's participation in the Plan to his or her country through a designated bank or broker within a certain time after receipt. Participant acknowledges that it is Participant's responsibility to be compliant with such regulations, and Participant should consult his or her personal legal advisor for any details.

**11.13 Section 409A.** The Restricted Stock Units and issuance of Shares thereunder are intended to comply with Code Section 409A and the U.S. Treasury Regulations relating thereto so as not to subject the Participant to the payment of additional taxes and interest under Code Section 409A or other adverse tax consequences. In furtherance of this intent, the provisions of this Agreement will be interpreted, operated, and administered in a manner consistent with these intentions. The Committee may modify the terms of this Agreement, the Plan or both, without the consent of the Participant, in the manner that the Committee may determine to be necessary or advisable in order to comply with Code Section 409A or to mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Code Section 409A if compliance is not practical. This Section 11.12 does not create an obligation on the part of the Company to modify the terms of this Agreement or the Plan and does not guarantee that the Restricted Stock Units or the delivery of Shares upon vesting/settlement of the Restricted Stock Units will not be subject to taxes, interest and penalties or any other adverse tax consequences under Code Section 409A. Nothing in this Agreement shall provide a basis for any person to take any action against the Company or any of its Subsidiaries based on matters covered by Code Section 409A, including the tax treatment of any amounts paid under this Agreement, and neither the Company nor any of its Subsidiaries will have any liability under any circumstances to the Participant or any other party if the Restricted Stock Units, the delivery of Shares upon vesting/settlement of the Restricted Stock Units or other payment or tax event hereunder that is intended to be exempt from, or compliant with, Code Section 409A, is not so exempt or compliant or for any action taken by the Committee with respect thereto. Further, settlement of any portion of the Restricted Stock Units that is Deferred Compensation may not be accelerated or postponed except to the extent permitted by Code Section 409A.

**By electronically accepting this Agreement and participating in the Plan, Participant agrees to be bound by the terms and conditions in the Plan and this Agreement, including the Appendix. Within six months of the Grant Date, if Participant has not electronically accepted this Agreement on Morgan Stanley's website, or the website of any other stock plan service provider appointed by the Company, and has not otherwise rejected the grant, then this award shall automatically be deemed accepted, and Participant shall be bound by the terms and conditions in the Plan and this Agreement, including the Appendix.**

## APPENDIX

### FOR PARTICIPANTS OUTSIDE THE U.S.

**NU SKIN ENTERPRISES, INC.  
SECOND OR THIRD AMENDED AND RESTATED  
2010 OMNIBUS INCENTIVE PLAN  
RESTRICTED STOCK UNIT AGREEMENT**

Unless otherwise defined herein, the capitalized terms in this Appendix shall have the same defined meaning assigned to them in the Plan and the Agreement.

This Appendix includes special country-specific terms and conditions that apply to Participants in the countries listed below. This Appendix is part of the Agreement. This Appendix also includes information of which Participant should be aware with respect to his or her participation in the Plan. For example, certain individual exchange control reporting requirements may apply upon vesting of the Restricted Stock Units and/or sale of Shares. The information is based on the securities, exchange control and other laws in effect in the respective countries as of August 2019 and is provided for informational purposes. Such laws are often complex and change frequently, and results may be different based on the particular facts and circumstances. As a result, the Company strongly recommends that Participant does not rely on the information noted herein as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date at the time the Restricted Stock Units vest or are settled, or Participant sells Shares acquired under the Plan.

In addition, the information is general in nature and may not apply to Participant's particular situation, and the Company is not in a position to assure Participant of any particular result. Accordingly, Participant should seek appropriate professional advice as to how the relevant laws in Participant's country may apply to his or her situation.

Finally, if Participant is a citizen or resident of a country other than the one in which he or she currently is residing and/or working, transfers employment after the Restricted Stock Units are granted to him or her, or is considered a resident of another country for local law purposes, the terms and conditions and/or notifications contained herein may not be applicable to him or her, and the Company shall, in its discretion, determine to what extent such terms and conditions contained herein shall apply to him or her.

#### **DATA PRIVACY PROVISIONS APPLICABLE TO GRANTEES IN THE EUROPEAN UNION/EUROPEAN ECONOMIC AREA**

The following provision replaces Section 10 of the Agreement:

**Data Collection and Usage.** Pursuant to applicable data protection laws, Participant is hereby notified that the Company collects, processes, uses and transfers certain personally-identifiable information about Participant for the exclusive legitimate purpose of granting Restricted Stock Units and implementing, administering and managing Participant's participation in the Plan. Specifics of the data processing are described below.

**Controller, EU Representative and DPO.** The Company is the controller responsible for the processing of Participant's personal data in connection with the Plan. The Company's representative in the European Union is NSE Products Europe BVBA, Da Vincilaan 9, 1935 Zaventem, Belgium, telephone number +32 2 722 70 00. Participant can reach the data protection officer ("DPO") of the Company at +1 (801) 345-1505, 75 West Center Street, Provo, Utah 84601.

**Personal Data Subject to Processing.** The Company collects, processes and uses the following types of personal data about Participant: Participant's name, home address and telephone number, email address, date of birth, social insurance, passport number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, settled, vested, unvested or outstanding in Participant's favor, which the Company receives from Participant or the Employer, as well as Participant's hire date, term date, term reason code, status, and Company's Division ("Personal Data").

**Purposes and Legal Bases of Processing.** The Company processes the Personal Data for the purpose of granting Restricted Stock Units, implementing, administering and managing Participant's participation in the Plan. The legal basis for the processing of the Personal Data by the Company and the third-party service providers described below is the necessity of the data processing for the Company to perform its contractual obligations under the Agreement and generally administering employee equity awards.

**Stock Plan Administration Service Providers.** The Company transfers Personal Data to Morgan Stanley Smith Barney LLC and its affiliated companies (collectively, "Morgan Stanley"), an independent stock plan administrator with operations, relevant to the Company, in the United States, which assists the Company with the implementation, administration and management of the Plan. In the future, the Company may select different service providers and may share Personal Data with such service providers. As a data controller, the Company's stock plan administrator will open an account for Participant to receive and trade Shares. Participant will be asked to agree on separate terms and data processing practices with the service provider, which is a condition of Participant's ability to participate in the Plan. Participant's Personal Data will only be accessible by those individuals requiring access to it for purposes of implementing, administering and operating Participant's participation in the Plan. Participant understands that Participant may request a list with the names and addresses of any potential recipients of Personal Data by contacting Participant's local human resources representative.

**International Data Transfers.** The Company and its service providers, including, without limitation, Morgan Stanley, operate, relevant to the Company, in the United States, which means that it will be necessary for Personal Data to be transferred to, and processed in, the United States. Participant understands and acknowledges that the United States is not subject to an unlimited adequacy finding by the European Commission and that Participant's Personal Data may not have an equivalent level of protection as compared to Participant's country of residence.

The legal basis for the processing of the Personal Data by the Company and the third-party service providers is the necessity of the data processing for the Company to perform its contractual obligations under the Agreement and generally administering employee equity awards.

**Data Retention.** The Company will use the Personal Data only as long as necessary to implement, administer and manage Participant's participation in the Plan, or as required to comply with legal or regulatory obligations, including tax and securities laws. When the Company no longer needs the Personal Data, the Company will remove it from its systems. If the Company keeps data longer, it would be to satisfy legal or regulatory obligations and the Company's legal basis would be relevant laws or regulations.

**Data Subject Rights.** To the extent provided by law, Participant has the right to (i) inquire whether and what kind of Personal Data the Company holds about Participant and how it is processed, and to access or request copies of such Personal Data, (ii) request the correction or supplementation of Personal Data that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, or (iii) obtain the erasure of Personal Data no longer necessary for the purposes underlying the processing or processed in non-compliance with applicable legal requirements. In addition, Participant has, to the extent provided by law, the right to (iv) request the Company to restrict the processing of Personal Data in certain situations where Participant feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Personal Data for legitimate interests, and to (vi) request portability of Personal Data that Participant has actively or passively provided to the Company, where the processing of such Personal Data is based on consent or a contractual agreement with Participant and is carried out by automated means. In case of concerns, Participant also has the right to (vii) lodge a complaint with the competent local data protection authority. To receive additional information regarding Participant's rights, raise any other questions regarding the practices described in this Agreement or to exercise his or her rights, Participant should contact his or her local human resources representative.

**Contractual Requirement.** Participant's provision of Personal Data and its processing as described above is required for the performance of the Company's obligations pursuant to the Plan and a condition to Participant's ability to participate in the Plan. Participant understands that, as a consequence of Participant's refusing to provide Personal Data, the Company may not be able to allow Participant to participate in the Plan, grant Restricted Stock Units to Participant or administer or maintain such Restricted Stock Units. However, Participant's participation in the Plan and his or her acceptance of this Agreement are purely voluntary. While Participant will not receive Restricted Stock Units if he or she decides against participating in the Plan or providing Personal Data as described above, Participant's career and salary will not be affected in any way. For more information on the consequences of the refusal to provide Personal Data, Participant may contact his or her local human resources representative.

## **AUSTRALIA**

**Nature of Plan.** The Plan and the Agreement is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) (the "Act") applies (subject to the conditions in the Act).

**Securities Law Information.** The offer of Restricted Stock Units is intended to comply with the provisions of the Corporations Act 2001, Australian Securities & Investments Commission ("ASIC") Regulatory Guide 49 and ASIC Class Order CO 14/1000. Additional details are set forth in the Offer Document for the offer of Restricted Stock Units to Australian Resident Participants, which will be provided to Participant with this Agreement.

**Exchange Control Information.** Exchange control reporting is required for cash transactions exceeding AUD10,000 and for international fund transfers. If an Australian bank is assisting with the transaction, the bank will file the report on the Participant's behalf.

## **BELGIUM**

**Foreign Asset/Account Reporting Information.** Participant is required to report any securities (e.g., Shares acquired under the Plan) or bank accounts established outside of Belgium on his or her annual tax return. In a separate report, Belgium residents are also required to provide the National Bank of Belgium with the account details of any such foreign accounts (including the account number, bank name and country in which any such account was opened). This report, as well as additional information on how to complete it, can be found on the website of the National Bank of Belgium, [www.nbb.be](http://www.nbb.be), under Kredietcentrales / Centrales des crédits caption. Participant should consult a personal tax advisor with respect to the applicable reporting obligations.

**Stock Exchange Tax.** A stock exchange tax applies to transactions executed by a Belgian resident through a non-Belgian financial intermediary, such as a U.S. broker. The stock exchange tax may apply to transactions under the Plan, such as the vesting of Restricted Stock Units and the sale of Shares. Participant should consult his or her personal tax advisor for details regarding Participant's obligations with respect to the stock exchange tax.

**Asset Tax Information.** Belgian resident individuals may be subject to tax on security accounts if the total average annual value of securities (e.g., Shares) held exceeds EUR 500,000.

## **CANADA**

**Restricted Stock Units Only Payable in Shares.** Notwithstanding any discretion in the Plan, the Restricted Stock Units will be settled in Shares only. The grant of Restricted Stock Units does not provide any right for Participant to receive a cash payment.

**Securities Law Information.** Participant acknowledges and agrees that he or she will sell Shares acquired through participation in the Plan only outside of Canada through the facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the New York Stock Exchange in the United States.

**Foreign Asset/Account Reporting Information.** Participant is required to report any specified foreign property (including Shares) annually on Form T1135 (Foreign Income Verification Statement) if the total cost of Participant's specified foreign property exceeds C\$100,000 at any time during the year. The form must be filed by April 30th of the following year. Specified foreign property includes Shares acquired under the Plan and may include Restricted Stock Units. The Restricted Stock Units must be reported—generally at a nil cost—if the C\$100,000 cost threshold is exceeded because of other foreign property Participant holds. If Shares are acquired, their cost generally is the adjusted cost base (“ACB”) of the Shares. The ACB would normally equal the fair market value of the Shares at vesting for Restricted Stock Units, but if Participant owns other Shares, this ACB may have to be averaged with the ACB of the other Shares. It is Participant's responsibility to comply with applicable reporting obligations.

### ***The following provisions apply if Participant is resident in Quebec:***

**Data Privacy.** Participant hereby authorizes the Company, the Employer and their representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. Participant further authorizes the Company and its Subsidiaries to disclose and discuss the Plan with their advisors. Participant further authorizes the Company and its Subsidiaries to record such information and to keep such information in the his or her employee file.

Language Consent. The parties acknowledge that it is their express wish that the Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

*Les parties reconnaissent avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à ou suite à la présente convention.*

## CHINA

The following provisions apply only to Participants who are subject to exchange control restrictions imposed by the State Administration of Foreign Exchange ("SAFE"), as determined by the Company in its sole discretion:

Settlement of Restricted Stock Units. This provision supplements Section 1.4 of the Agreement:

The Restricted Stock Units will only vest if and when the Company has completed the registration of the Plan with SAFE and provided such registration remains effective. If the Company is unable to complete the registration or maintain the registration, the settlement of the Restricted Stock Units may be delayed. Shares issued to Participant under the Plan must be maintained in an account with Morgan Stanley or such other broker as may be designated by the Company until the Shares are sold through that broker.

Furthermore, due to regulatory requirements, Participant acknowledges and agrees that Participant must sell any Shares issued to Participant upon vesting of the Restricted Stock Units as soon as practicable following the termination of Participant's Continuous Service and in no event later than six months following the termination of Participant's Continuous Service, or within any other such time frame as may be required by SAFE. Participant agrees that if Participant continues to hold any of such Shares after this time, the Shares will be sold by the Company's designated broker on Participant's behalf at the instruction of the Company. Therefore, by accepting the Restricted Stock Units, Participant understands and agrees that the Company is authorized to, and may in its sole discretion, instruct its designated broker to assist with the mandatory sale of Shares (on Participant's behalf pursuant to this authorization) and that Participant expressly authorizes the Company's designated broker to complete the sale of such Shares. Participant acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Shares at any particular price. Upon the sale of the Shares, the proceeds, less any Tax-Related Items and brokerage fees or commissions will be remitted to Participant pursuant to the procedures described in the "Exchange Control Information" section below.

Exchange Control Information. Participant understands and agrees that, to facilitate compliance with exchange control requirements, Participant will be required to immediately repatriate to China the cash proceeds from the sale of the Shares issued upon the vesting of the Restricted Stock Units. Participant further understands that, under local law, such repatriation of the cash proceeds will be effectuated through a special exchange control account established by the Company or its Subsidiary in China, and Participant hereby consents and agrees that the proceeds from the sale of Shares acquired under the Plan may be transferred to such special account prior to being delivered to Participant. The Company may deliver the proceeds to Participant in U.S. dollars or local currency at the Company's discretion. If the proceeds are paid in U.S. dollars, Participant understands that he or she will be required to set up a U.S. dollar bank account in China so that the proceeds may be deposited into this account. If the proceeds are converted to local currency, there may be delays in delivering the proceeds to Participant. Participant agrees to bear the risk of any currency fluctuation between the time the Shares are sold, either through voluntary sale or through a mandatory sale arranged by the Company, or proceeds are otherwise realized under the Plan and the time such proceeds are distributed to Participant through the special exchange control account.

Participant further agrees to comply with any other requirements that may be imposed by the Company in the future to facilitate compliance with exchange control requirements in China.

## **DENMARK**

**Stock Option Act.** Participant acknowledges that they have received an Employer Statement in Danish which sets forth additional terms of the Restricted Stock Units, to the extent that the Danish Stock Option Act applies to the Restricted Stock Units.

**Foreign Asset/Account Reporting Information.** If Participant establishes an account holding Shares or an account holding cash outside Denmark, he or she must report the account to the Danish Tax Administration. The form may be obtained from a local bank. Please note that these obligations are separate from and in addition to the obligations described above.

## **GERMANY**

**Exchange Control Information.** Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank. In case of payments in connection with securities (including payment of the Grant Price and the proceeds realized upon the sale of Shares), the report must be made by the 5th day of the month following the month in which the payment was made/received. The report must be filed electronically. The form of report (“*Allgemeine Meldeportal Statistik*”) can be accessed via the *Bundesbank’s* website ([www.bundesbank.de](http://www.bundesbank.de)) and is available in both German and English. Participant is responsible for satisfying the reporting obligation.

## **HONG KONG**

**Restricted Stock Units Only Payable in Shares.** Notwithstanding any discretion in the Plan, the Restricted Stock Units will be settled in Shares only. The grant of Restricted Stock Units does not provide any right for Participant to receive a cash payment.

**Restriction on Sale of Shares.** Should any portion of the Restricted Stock Units vest within six months of the Grant Date, Participant agrees that Participant will not dispose of the Shares acquired at vesting prior to the six-month anniversary of the Grant Date.

**Securities Law Information.** *Warning: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Participant is advised to exercise caution in relation to the offer. If Participant is in any doubt about any of the contents of the Agreement, including this Appendix, or the Plan, Participant should obtain independent professional advice. The Restricted Stock Units and any Shares issued pursuant to the grant do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company. The Agreement, including this Appendix, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable securities legislation in Hong Kong. The Restricted Stock Units and any related documentation are intended only for the personal use of each eligible employee of the Company and may not be distributed to any other person.*



## **HUNGARY**

There are no country-specific provisions.

## **INDIA**

**Exchange Control Information.** Due to exchange control restrictions in India, Participant may be required to repatriate any proceeds from the sale of Shares acquired under the Plan to India and proceeds from the receipt of any cash dividends within such time as prescribed under applicable Indian exchange control laws. Participant must obtain a foreign inward remittance certificate (“FIRC”) from the bank where Participant deposits the funds and must maintain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Employer requests proof of repatriation.

**Foreign Asset/Account Reporting Information.** Participant is required to declare foreign bank accounts and any foreign financial assets (including Shares held outside India) in his or her annual tax return. It is Participant's responsibility to comply with this reporting obligation and Participant should consult with his or her personal tax advisor in this regard.

## **INDONESIA**

**Exchange Control Information.** If Participant remits proceeds from the sale of Shares or the receipt of any dividends paid on such Shares into Indonesia, the Indonesian Bank through which the transaction is made will submit a report on the transaction to the Bank of Indonesia for statistical reporting purposes. For transactions of US\$10,000 or more, a description of the transaction must be included in the report. Although the bank through which the transaction is made is required to make the report, Participant must complete a “Transfer Report Form.” The Transfer Report Form should be provided to Participant by the bank through which the transaction is made.

## **JAPAN**

**Foreign Asset/Account Reporting Information.** Participant will be required to report details of any assets (including any Shares acquired under the Plan) held outside of Japan as of December 31<sup>st</sup> of each year, to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report will be due by March 15<sup>th</sup> of the following year. Participant should consult with his or her personal tax advisor as to whether the reporting obligation applies to Participant and whether Participant will be required to report details of any outstanding Restricted Stock Units or Shares held by Participant in the report.

## **KOREA**

**Foreign Asset/Account Reporting Information.** Korean residents must declare all foreign financial accounts (e.g., non-Korean bank accounts, brokerage accounts, etc.) to the Korean tax authority and file a report with respect to such accounts if the value of such accounts exceeds KRW 500,000,000 (or an equivalent amount in foreign currency). Participant should consult with his or her personal tax advisor to determine how to value Participant's foreign accounts for purposes of this reporting requirement and whether Participant is required to file a report with respect to such accounts.

## **MALAYSIA**

**Director Notification Information.** If Participant is a director of a Malaysian Subsidiary, Participant is subject to certain notification requirements under the Malaysian Companies Act, 1965. Among these requirements is an obligation to notify the Malaysian Subsidiary in writing when Participant receives an interest (e.g., Restricted Stock Units) in the Company or any related companies. In addition, Participant must notify the Malaysian Subsidiary when Participant sells Shares of the Company or any related company (including when Participant sells Shares acquired under the Plan). These notifications must be made within fourteen days of acquiring or disposing of any interest in the Company or any related company.

**Data Privacy Notice and Consent.** This provision replaces in its entirety Section 10 of the Agreement:

*Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data, as described in this Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Employer, the Company and Subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

*Participant understands that the Employer, the Company and Subsidiaries may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data"). The Data is supplied by the Employer and also by me through information collected in connection with the Agreement and the Plan.*

*Peserta dengan ini secara eksplisit dan tanpa sebarang keraguan mengizinkan pengumpulan, penggunaan dan pemindahan, dalam bentuk elektronik atau lain-lain, data peribadi Peserta seperti yang diterangkan dalam Perjanjian dan bahan-bahan geran Unit Saham Terbatas yang lain oleh dan di antara, seperti yang berkenaan, Majikan, Syarikat dan Anak-anak Syarikat untuk tujuan yang eksklusif bagi melaksanakan, mentadbir dan menguruskan penyertaan Peserta di dalam Pelan.*

*Peserta memahami bahawa Majikan, Syarikat and Anak-anak Syarikat mungkin memegang maklumat peribadi tertentu tentang Peserta, termasuk, tetapi tidak terhad kepada, nama Peserta, alamat rumah dan nombor telefon, tarikh lahir, nombor insurans sosial atau nombor pengenalan lain, gaji, kewarganegaraan, jawatan, apa-apa Syer atau jawatan pengarah yang dipegang dalam Syarikat, butir-butir semua Unit Saham Terbatas, atau apa-apa hak lain atas Syer yang dianugerahkan, dibatalkan, dilaksanakan, terletak hak, tidak diletak hak ataupun yang belum dijelaskan bagi faedah Peserta, untuk tujuan eksklusif bagi melaksanakan, mentadbir dan menguruskan Pelan tersebut ("Data"). Data tersebut dibekalkan oleh Majikan dan juga oleh saya berkenaan dengan Perjanjian dan Pelan.*

Participant understands that Data will be transferred to Morgan Stanley, or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative at +60-03-2170-7700. Participant authorizes the Company, Morgan Stanley and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing Participant's participation in the Plan, including any transfer of such Data as may be required to a broker, escrow agent or other third party with whom the Shares received upon vesting of Restricted Stock Units may be deposited. Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing Participant's consent is that the Company may not be able to grant Participant Restricted Stock Units or other equity awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of his or her refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

Peserta memahami bahawa Data ini akan dipindahkan kepada Morgan Stanley, atau mana-mana pembekal perkhidmatan pelan saham lain sebagaimana yang dipilih oleh Syarikat pada masa depan, yang membantu Syarikat dengan pelaksanaan, pentadbiran dan pengurusan Pelan. Peserta memahami bahawa penerima-penerima Data mungkin berada di Amerika Syarikat atau mana-mana tempat lain, dan bahawa negara penerima-penerima (contohnya, Amerika Syarikat) mungkin mempunyai undang-undang privasi data dan perlindungan yang berbeza daripada negara Peserta. Peserta memahami bahawa sekiranya Peserta menetap di luar Amerika Syarikat, Peserta boleh meminta satu senarai yang mengandungi nama-nama dan alamat-alamat penerima-penerima Data yang berpotensi dengan menghubungi wakil sumber manusia tempatan peserta di +60-03-2170-7700. Peserta memberi kuasa kepada Syarikat, Morgan Stanley dan mana-mana penerima-penerima kemungkinan lain yang mungkin akan membantu Syarikat (pada masa sekarang atau pada masa depan) dengan melaksanakan, mentadbir dan menguruskan Pelan untuk menerima, memiliki, menggunakan, mengekalkan dan memindahkan Data, dalam bentuk elektronik atau lain-lain, bagi tujuan-tujuan untuk melaksanakan, mentadbir dan menguruskan penyertaan Peserta di dalam Pelan, termasuk segala pemindahan Data tersebut sebagaimana yang dikehendaki kepada broker, agen eskrow atau pihak ketiga dengan siapa Saham diterima semasa peletakkan Unit Saham Terbatas mungkin didepositkan. Peserta memahami bahawa Data hanya akan disimpan selagi ia adalah diperlukan untuk melaksanakan, mentadbir, dan menguruskan penyertaan peserta dalam Pelan. Peserta memahami bahawa sekiranya peserta menetap di luar Amerika Syarikat, peserta boleh, pada bila-bila masa, melihat Data, meminta maklumat tambahan mengenai penyimpanan dan pemprosesan Data, meminta bahawa pindaan-pindaan dilaksanakan ke atas Data atau menolak atau menarik balik persetujuan dalam ini, dalam mana-mana kes, tanpa kos, dengan menghubungi secara bertulis wakil sumber manusia tempatan. Selanjutnya, Peserta memahami bahawa peserta memberikan persetujuan di sini secara sukarela semata-mata. Sekiranya Peserta tidak bersetuju, atau sekiranya Peserta kemudian membatalkan persetujuannya, status pekerjaan atau perkhidmatan dan kerjaya Peserta dengan Majikan tidak akan terjejas; satu-satunya akibat buruk sekiranya Peserta tidak bersetuju atau menarik balik persetujuan Peserta adalah bahawa Syarikat tidak akan dapat memberikan Unit Saham Terbatas atau anugerah ekuiti lain atau mentadbir atau mengekalkan anugerah-anugerah tersebut kepada Peserta. Oleh itu, Peserta memahami bahawa keengganan atau penarikan balik persetujuan peserta boleh menjejaskan keupayaan Peserta untuk mengambil bahagian dalam Pelan. Untuk maklumat lebih lanjut mengenai akibat-akibat keengganan Peserta untuk memberikan keizinan atau penarikan balik keizinan, Peserta memahami bahawa Peserta boleh menghubungi wakil sumber manusia tempatan.

## NETHERLANDS

There are no country-specific provisions.

## **NEW ZEALAND**

**Securities Law Information.** Participant is being offered Restricted Stock Units which, if vested, allows Participant to purchase Shares in accordance with the terms of this Agreement and the Plan. The Shares, if issued, will give Participant a stake in the ownership of the Company. Participant may receive a return if dividends are paid.

If the Company runs into financial difficulties and is wound up, Participant will be paid only after all creditors have been paid. Participant may lose some or all of Participant's investment, if any.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors to make an informed decision. The usual rules do not apply to this offer because it is made under an employee share scheme. As a result, Participant may not be given all the information usually required. Participant will also have fewer other legal protections for this investment. Participant should ask questions, read all documents carefully, and seek independent financial advice before committing.

The Shares are quoted on the New York Stock Exchange ("NYSE"). This means that if Participant acquires Shares under the Plan, Participant may be able to sell the Shares on the NYSE if there are interested buyers. Participant may get less than Participant invested. The price will depend on the demand for the Shares.

For information on risk factors impacting the Company's business that may affect the value of the Shares, Participant should refer to the risk factors discussion on the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at [www.sec.gov](http://www.sec.gov), as well as on the Company's "Investor Relations" website at <http://ir.nuskin.com>.

## **NETHERLANDS**

There are no country-specific provisions.

## **PHILIPPINES**

**Securities Law Information.** This offering is subject to exemption from the requirements of securities registration with the Philippines Securities and Exchange Commission, under Section 10.1(k) of the Philippine Securities Regulation Code.

THE SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FURTHER OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

For further information on risk factors impacting the Company's business that may affect the value of the Shares, Participant may refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at [www.sec.gov](http://www.sec.gov), as well as on the Company's website at <http://ir.nuskin.com>. In addition, Participant may receive, free of charge, a copy of the Company's Annual Report, Quarterly Reports or any other reports, proxy statements or communications distributed to the Company's stockholders by contacting Investor Relations Department at 75 W. Center Street, Provo, Utah 84601.

Participant acknowledges he or she is permitted to dispose or sell Shares acquired under the Plan provided the offer and resale of such shares takes place outside the Philippines through the facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the New York Stock Exchange in the United States of America.

## **RUSSIA**

**Exchange Control Information.** Participant acknowledges that he or she must repatriate the proceeds from the sale of Shares and any dividends received in relation to the Restricted Stock Units within a reasonably short time of receipt. Such amounts must be initially credited to Participant through a foreign currency account opened in his or her name at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks, provided certain requirements are satisfied. Participant must notify the Russian tax authorities about the opening/closing of each foreign account within one month of the account opening/closing and provide account balances in each foreign account as of the beginning of each calendar year. ***Participant is encouraged to contact his or her personal advisor with respect to satisfying the above-described currency rules, as significant penalties may apply in the case of non-compliance with exchange control requirements and because such exchange control requirements may change.***

**U.S. Transaction.** Participant understands that acceptance of the grant of the Restricted Stock Units results in a contract between Participant and the Company completed in the United States and that the Agreement is governed by the laws of the State of Utah, without regard to choice of law principles thereof. Any Shares to be issued upon vesting of the Restricted Stock Units shall be delivered to Participant through a brokerage account in the U.S. Participant may hold the Shares in his or her brokerage account in the U.S.; however, in no event will Shares issued to Participant under the Plan be delivered to Participant in Russia. Participant is not permitted to sell the Shares directly to other Russian legal entities or individuals.

**Securities Law Information.** These materials do not constitute advertising or an offering of securities in Russia nor do they constitute placement of Shares in Russia. The issuance of Shares pursuant to the Restricted Stock Units described herein has not and will not be registered in Russia and hence, the Shares described herein may not be admitted or used for offering, placement or public circulation in Russia. Participant acknowledges and agrees that he or she will sell Shares acquired through participation in the Plan only outside of Russia through the facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the New York Stock Exchange in the United States.

**Data Privacy Notice and Consent.** Participant hereby acknowledges that he or she has read and understood the terms regarding collection, processing and transfer of Data contained in Section 10 of the Agreement and, by accepting the Restricted Stock Units, Participant agrees to such terms. In this regard, upon request of the Company or the Employer, Participant agrees to provide an executed data privacy consent form to the Employer or the Company, or any other agreements or consents that the Company and/or the Employer may deem necessary to obtain Participant's consent to collect, process or transfer Participant's Data for purposes of administering his or her participation in the Plan under the data privacy laws in Russia, either now or in the future. Participant understands that he or she will not be able to participate in the Plan if he or she fails to execute any such consent or agreement.

**Foreign Asset/Account Reporting.** Russian residents will be required to notify the Russian tax authorities within one month of opening or closing a foreign bank account or of changing any account details. Russian residents are also required to file with the Russian tax authorities reports of the transactions in their foreign bank accounts. Russian residents should consult with their personal tax advisor for additional information about these reporting obligations.

**Labor Law Information.** If Participant continues to hold Shares acquired under the Plan after an involuntary termination of employment, the Participant will not be eligible to receive unemployment benefits in Russia.

**Anti-Corruption Information.** Anti-corruption laws prohibit certain public servants, their spouses, and their dependent children from owning any foreign source financial instruments (*e.g.*, shares of foreign companies such as the Company).

## **SINGAPORE**

**Sale Restriction.** Participant agrees that any Shares acquired pursuant to the Restricted Stock Units will not be offered for sale in Singapore prior to the six-month anniversary of the Grant Date, unless such sale or offer is made pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the Securities and Futures Act (Chapter 289, 2006 Ed.) (“SFA”).

**Securities Law Information.** The grant of the Restricted Stock Units is made pursuant to the “Qualifying Person” exemption under section 273(1)(f) of the SFA and is not made to Participant with a view of the Restricted Stock Units being subsequently offered for sale to any other party. The Plan has not been lodged or registered as a prospectus with the Monetary Authority of Singapore.

**Chief Executive Officer and Director Notification Requirement.** The chief executive officer (“CEO”), directors, associate directors and shadow directors of a Singapore subsidiary or affiliate are subject to certain notification requirements under the Singapore Companies Act. The CEO, directors, associate directors and shadow directors must notify the Singapore subsidiary or affiliate in writing of an interest (*e.g.*, Restricted Stock Units, Shares, etc.) in the Company or any related companies within two business days of (i) its acquisition or disposal, (ii) any change in a previously disclosed interest (*e.g.*, when the Shares are sold), or (iii) becoming the CEO or a director, associate director or shadow director.

## **SWEDEN**

There are no country-specific provisions.

## **TAIWAN**

**Data Privacy Consent.** Participant hereby acknowledges that he or she has read and understood the terms regarding collection, processing and transfer of Data contained in Section 10 of the Agreement and by participating in the Plan, Participant agrees to such terms. In this regard, upon request of the Company or the Employer, Participant agrees to provide an executed data privacy consent form to the Employer or the Company (or any other agreements or consents that may be required by the Employer or the Company) that the Company and/or the Employer may deem necessary to obtain under the data privacy laws in Participant’s country, either now or in the future. Participant understands he or she will not be able to participate in the Plan if Participant fails to execute any such consent or agreement.

Securities Law Information. The Restricted Stock Units and the Shares to be issued pursuant to the Plan are available only to employees of the Company. The grant of the Restricted Stock Units does not constitute a public offer of securities.

Exchange Control Information. Participant may remit foreign currency (including proceeds from the sale of Shares or the receipt of any dividends paid on such Shares) into or out of Taiwan up to US\$5,000,000 per year without special permission. If the transaction amount is TWD500,000 or more in a single transaction, Participant must submit a Foreign Exchange Transaction Form to the remitting bank and provide supporting documentation to the satisfaction of the remitting bank.

## **THAILAND**

Exchange Control Information. If the proceeds from the sale of Shares or the receipt of any dividends paid on such Shares are equal to or greater than US\$50,000 or more in a single transaction, Participant must repatriate the proceeds to Thailand immediately upon receipt and convert the funds to Thai Baht or deposit the proceeds in a foreign currency deposit account maintained by a bank in Thailand within 360 day of remitting the proceeds to Thailand. In addition Participant must report the inward remittance to the Bank of Thailand on a foreign exchange transaction form. If Participant fails to comply with these obligations, Participant may be subject to penalties assessed by the Bank of Thailand. Because exchange control regulations change frequently and without notice, Participant should consult his or her personal advisor before selling Shares to ensure compliance with current regulations. Participant is responsible for ensuring compliance with all exchange control laws in Thailand, and neither the Company nor any of its Subsidiaries will be liable for any fines or penalties resulting from his or her failure to comply with applicable laws.

**NU SKIN ENTERPRISES, INC.**  
**SECOND AMENDED AND RESTATED 2010 OMNIBUS INCENTIVE PLAN**  
**PERFORMANCE STOCK OPTION AGREEMENT**

This Performance Stock Option Agreement, Participant's award information (the "Award Summary"), which can be accessed on the Morgan Stanley stock plan website (currently [www.stockplanconnect.com](http://www.stockplanconnect.com)) or the website of any other stock plan administrator selected by the Company in the future, and the Appendix for Participant's country contained in this agreement, if any, (collectively, this "Agreement") set forth the terms and conditions of the Performance Stock Options granted to Participant under the Second Amended and Restated Nu Skin Enterprises, Inc. 2010 Omnibus Incentive Plan (the "Plan"). In the event of a conflict between (i) the terms and conditions of the Plan; and (ii) the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail. Unless otherwise defined herein, the capitalized terms in this Agreement shall have the same defined meaning assigned to them in the Plan.

**1. Grant of Performance Stock Options.**

**1.1 Grant of Performance Stock Options.** Effective as of the date of grant specified in the Award Summary (the "Grant Date"), the Company grants to Participant Performance Stock Options to purchase up to [%] of the number of Shares specified in the Award Summary (i.e., [%] of the number of Performance Stock Options that would vest upon achievement of [Performance Vesting Provisions], as set forth in Section 1.2). The Performance Stock Options are Nonqualified Stock Options. Performance Stock Options granted under this Agreement may not be exercised at any time until such Performance Stock Options are vested, as provided in Section 1.2.

**1.2 Vesting of Performance Stock Options.** The Performance Stock Options shall vest and become exercisable as follows, except as otherwise provided in this Agreement, including pursuant to Sections 1.3 and 5:

(a) The Performance Stock Options shall be divided into three equal tranches. The percentage of each respective tranche that shall vest shall be determined in accordance with paragraph (b) below. Such percentage of each tranche shall vest on the later of a) [Performance Vesting Provisions] and b) one year following the Grant Date;

(b) The percentage of each respective tranche that shall vest shall be based on [Performance Vesting Provisions], and shall be in accordance with Schedule A below.

**1.3 Term of Performance Stock Options.**

(a) In the event Participant's Continuous Service (as defined below) is terminated for any reason prior to the full vesting of the Performance Stock Options, the Performance Stock Options granted hereunder shall terminate to the extent they are not vested as of the termination of Participant's Continuous Service, as determined in accordance with Section 10(j) below, and Participant shall not have any right to exercise such unvested Performance Stock Options.

---



(b) Subject to the provisions of the Plan and this Agreement, including Section 5 hereof, all Performance Stock Options granted hereunder that are vested but unexercised shall terminate on the earliest to occur of:

- (1) the date on which Participant's Continuous Service is terminated for Cause (as defined in Section 1.6);
- (2) 12 months after the termination of Participant's Continuous Service due to Participant's death or Disability (as defined below);
- (3) 3 months after the termination of Participant's Continuous Service for any other reason; or
- (4) the seventh anniversary of the Grant Date.

(c) Notwithstanding the foregoing, any portion of a tranche of Performance Stock Options that does not vest shall immediately terminate following the later of a) [Termination Provisions], as provided in Section 1.2, and b) one year following the Grant Date.

Notwithstanding the foregoing, if the exercise of the Performance Stock Options is prevented by the Company within the applicable time periods set forth in Section 1.3(b)(2) and (3) for any reason, the Performance Stock Options shall not expire before the date that is 30 days after the date that Participant is notified by the Company that the Performance Stock Options are again exercisable, but in any event no later than the seventh anniversary of the Grant Date.

For purposes of this Agreement:

"Continuous Service" means that Participant's service with the Company or a Subsidiary, whether as an Employee, Director, or Consultant, is not interrupted or terminated. Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which Participant renders service to the Company or a Subsidiary as an Employee, Consultant, or Director, or a change in the entity for which Participant renders such service, provided that there is no interruption or termination of Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of a Subsidiary or a Director will not constitute an interruption of Continuous Service. Subject to the requirements of applicable law, the Committee, in its sole discretion, shall determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by the Company or a Subsidiary, including sick leave, military leave or any other personal leave.

"Disability" means Participant (a) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months or (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death, or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of Participant's employer. Any question as to the existence of that Participant's physical or mental impairment as to which Participant or Participant's representative and the Company cannot agree shall be determined in writing by a qualified independent physician mutually acceptable to Participant and the Company (or its Subsidiary, as applicable). If Participant and the Company (or its Subsidiary, as applicable) cannot agree as to a qualified independent physician, each shall appoint such a physician and those two physicians shall select a third who shall make such determination in writing. The determination of Disability made in writing to the Company or a Subsidiary and Participant shall be final and conclusive for all purposes of the Performance Stock Options.

**1.4 Exercise of Performance Stock Options.** Exercisable Performance Stock Options may be exercised as provided on the Morgan Stanley stock plan website (or the website of any other stock plan administrator selected by the Company in the future) or by written notice of such exercise, in the form prescribed by the Committee or Company, to the person designated by the Committee at the corporate offices of the Company. The notice shall specify the number of Performance Stock Options that are being exercised. Full payment of the Performance Stock Option Price as specified in the Award Summary under “Grant Price” shall be made at the time of exercise in a manner set forth in the Plan, Section 2 below, or in such other manner as may be approved by the Committee, consistent with the terms of the Plan, as it may be amended from time to time.

**1.5 Stockholder Rights.** Unless and until Shares are issued by the Company upon exercise of the Performance Stock Options, Participant shall have none of the rights or privileges of a shareholder of the Company (including voting, dividend and liquidation rights) with respect to the Shares covered by the Performance Stock Options.

**1.6 Change in Control.** Notwithstanding any provision in this Agreement to the contrary, if, within six months prior to and in connection with a Change in Control or within two years following such Change in Control, Participant’s employment is terminated (i) by the Company and its Subsidiaries without Cause, or (ii) by Participant for Good Reason, the vesting of outstanding Performance Stock Options governed by this Agreement shall be accelerated such that the number of Performance Stock Options specified in the Award Summary (i.e., the number of Performance Stock Options that would vest upon achievement of [Performance Vesting Provisions], as set forth in Section 1.2) shall be deemed to be vested in full immediately prior to the termination of Participant’s employment.

For purposes of this Agreement:

“Cause” shall mean that Participant has engaged in any one of the following:

- (a) a material breach by Participant of the Company’s Key Employee Covenants, other employee covenants or any employment agreement, which breach is not cured within any applicable cure period set forth the respective document;
- (b) any willful violation by Participant of any material law or regulation applicable to the business of the Company or any of its Subsidiaries;
- (c) Participant’s conviction of, or a plea of guilty or nolo contendere to, a felony or any willful perpetration of common law fraud (or analogous violation of law in a jurisdiction outside the United States); or
- (d) any other willful misconduct by Participant that is materially injurious to the financial condition or business reputation of, or is otherwise materially injurious to, the Company or any of its Subsidiaries.

For purposes of the foregoing, in determining whether a “material breach” has occurred, or whether there has been a willful violation of a “material” law or regulation, the standard shall be a breach or violation that is, or will reasonably likely be, materially injurious to the financial condition or business reputation of, or is, or will reasonably likely be, otherwise materially injurious to, the Company or any of its Subsidiaries.

“Good Reason” shall mean the occurrence any of the following events that result in a material negative change to Participant:

- (a) without Participant’s consent, a material reduction in the scope of Participant’s duties and responsibilities or the level of management to which Participant reports;
- (b) without Participant’s consent, a reduction in base salary (other than an across-the-board reduction of not more than 10% applicable to all similarly situated employees);
- (c) without Participant’s consent, a material reduction in Participant’s benefits in the aggregate (in terms of benefit levels) from those provided to Participant under any employee benefit plan, program and practice in which Participant participates;
- (d) without Participant’s consent, a relocation of Participant’s principal place of employment of more than 50 miles from Participant’s primary residence;
- (e) the failure of the Company to have a successor entity specifically assume this Agreement or any employment agreement within 10 business days after a Change in Control; or
- (f) a material breach by the Company a successor entity of this Agreement or any employment agreement.

Notwithstanding the foregoing, Good Reason shall only be found to exist if Participant, not later than 90 days after the initial occurrence of an event deemed to give rise to a right to terminate for Good Reason, has provided 30 days written notice to the Company prior to Participant’s resignation indicating and describing the event resulting in such Good Reason, and the Company does not cure such event (other than the event in clause vi), which shall not be subject to cure) within 90 days following the receipt of such notice from Participant.

**2. Payment of Exercise Price.** Full payment of the Performance Stock Option’s Grant Price shall be made by any of the methods listed in Section 9 for payment of Tax-Related Items, at Participant’s election, subject to the Committee’s or Company’s right to eliminate, prior to exercise, any of such payment methods.

**3. Securities Law Compliance.** Participant represents that Participant has received and carefully read a copy of the Prospectus for the Plan, together with the Company’s most recent Annual Report to Stockholders. Participant hereby acknowledges that Participant is aware of the risks associated with the Shares and that there can be no assurance the price of the Shares will not decrease in the future. Participant hereby acknowledges no representations or statements have been made to Participant concerning the value or potential value of the Shares. Participant acknowledges that Participant has relied only on information contained in the Prospectus and has received no representations, written or oral, from the Company or its employees, attorneys or agents, other than those contained in the Prospectus or this Agreement. Participant acknowledges that the Company has made no representations or recommendations, and is not providing any tax, legal or financial advice, regarding Participant’s participation in the Plan, or Participant’s acquisition or sale of the underlying Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

**4. Transfer Restrictions.** Participant shall not transfer, assign, sell, encumber, pledge, grant a security interest in or otherwise dispose of the Performance Stock Options subject to this Agreement in any manner other than by the laws of descent or distribution, and shall be exercised, during the lifetime of Participant, only by Participant. Any such transfer, assignment, sale, encumbrance, pledge, security interest or disposition shall be void.

**5. Forfeiture.** If, at any time during Participant's Continuous Service or at any time during the 12-month period following termination of Participant's Continuous Service, Participant engages in conduct that constitutes Cause (as defined above), then at the election of the Committee, (a) this Agreement and all Performance Stock Options granted hereunder shall terminate, and (b) Participant shall return to the Company for cancellation all Shares held by Participant plus pay the Company the amount of any proceeds received from the sale of any Shares, to the extent such Shares were issued pursuant to Performance Stock Options granted under this Agreement that were exercised (i) during the 12-month period immediately preceding the Cause, or (ii) on the date of or at any time after such Cause.

If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, the Committee may terminate any Performance Stock Options granted hereunder or require Participant to reimburse the Company the amount of any payment or benefit received with respect to any Performance Stock Options granted hereunder to the extent the Performance Stock Options would not have been earned or accrued after giving effect to the accounting restatement.

The forfeiture and recoupment provisions of this Section 5 shall be applied by the Committee, at its discretion, to the maximum extent permitted under applicable laws. Further, these provisions are in addition to, and not in lieu of, any recoupment requirements under the Sarbanes-Oxley Act or under other applicable laws, rules, regulations or stock exchange listing standards, including, without limitation, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or Section 10D of the U.S. Securities Exchange Act of 1934, as amended, and shall apply notwithstanding anything to the contrary in this Agreement or in the Plan.

**6. Governing Plan Document.** This Agreement incorporates by reference all of the terms and conditions of the Plan, as presently existing and as hereafter amended. Participant expressly acknowledges and agrees that the terms and provisions of this Agreement are subject in all respects to the provisions of the Plan. Participant also expressly:

(a) Acknowledges receipt of the Plan and represents that Participant is familiar with the provisions of the Plan, and that Participant enters into this Agreement subject to all of the provisions of the Plan;

(b) Recognizes that the Committee has been granted complete authority to administer the Plan in its sole discretion, and agrees to accept all decisions related to the Plan and all interpretations of the Plan made by the Committee as final and conclusive upon Participant and upon all persons at any time claiming any interest through Participant in the Performance Stock Options or the Shares subject to this Agreement; and

(c) Acknowledges and understands that the establishment of the Plan and the existence of this Agreement are not sufficient, in and of themselves, to exempt Participant from the requirements of Section 16(b) of the Exchange Act and any rules or regulations promulgated thereunder, and that Participant (to the extent Section 16(b) applies to Participant) shall not be exempt from such requirements pursuant to Rule 16b-3 unless and until Participant shall comply with all applicable requirements of Rule 16b-3, including without limitation, the possible requirement that Participant must not sell or otherwise dispose of any Shares acquired pursuant to Performance Stock Options unless and until a period of at least six months shall have elapsed between the date upon which such Performance Stock Options were granted to Participant and the date upon which Participant desires to sell or otherwise dispose of such Shares.

7. **Representations and Warranties.** As a condition to the receipt of any Shares upon exercise of the Performance Stock Options, the Company may require Participant to make any representations and warranties to the Company that legal counsel to the Company may determine to be required or advisable under any applicable law or regulation, including without limitation, representations and warranties that the Shares are being acquired only for investment and without any present intention or view to sell or distribute any such Shares.

8. **Compliance With Law and Regulations.** Notwithstanding any other provision of the Plan or this Agreement, unless there is an available exemption from any registration, qualification or other legal requirement applicable to the Shares, the Company shall not be required to deliver any Shares issuable upon exercise of the Performance Stock Options prior to the completion of any registration or qualification of the Shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the U.S. Securities and Exchange Commission ("SEC") or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval the Company shall, in its absolute discretion, deem necessary or advisable. Participant understands that the Company is under no obligation to register or qualify the Shares with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. Further, Participant agrees that the Company shall have unilateral authority to amend the Plan and this Agreement without Participant's consent to the extent necessary to comply with securities or other laws applicable to issuance of Shares.

**9. Responsibility for Taxes.** Participant acknowledges that, regardless of any action taken by the Company or, if different, Participant's employer (the "Employer"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to Participant's participation in the Plan and legally applicable to Participant or deemed by the Company or the Employer in its discretion to be an appropriate charge to Participant even if legally applicable to the Company or the Employer ("Tax-Related Items"), is and remains Participant's responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. Participant further acknowledges that the Company and the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Stock Options, including, but not limited to, the grant, vesting or exercise of the Performance Stock Options, the subsequent sale of any Shares acquired at exercise and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Performance Stock Options to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if Participant is subject to Tax-Related Items in more than one jurisdiction, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, Participant agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items.

Full payment of the Tax-Related Items shall be made by any of the following, or a combination thereof, subject to the Company's right to eliminate, prior to exercise, any of the following as permissible payment methods: (i) in cash or cash equivalents (including certified check, bank check or wire transfer of immediately available funds); (ii) by tendering previously acquired Shares (either actually or by attestation) valued at their then-Fair Market Value; (iii) by withholding Shares otherwise issuable in connection with the exercise of the Performance Stock Option; (iv) through same-day voluntary or involuntary (on Participant's behalf pursuant to this authorization) sales through a broker if permitted by the Company's Securities Trading Policy; (v) withholding from Participant's wages or other cash compensation paid to Participant by the Company and/or the Employer; or (vi) any combination of any of the foregoing. In the absence of Participant's timely election or in the event Section 16(b) applies to Participant, the Company will withhold in Shares upon the relevant taxable or tax withholding event, as applicable. In the event that such withholding in Shares is problematic under applicable tax or securities law or has materially adverse accounting consequences, the Participant authorizes and directs the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any applicable withholding obligation with regard to all Tax-Related Items by one or a combination of the methods above.

Depending on the withholding method, the Company and/or the Employer may withhold or account for Tax-Related Items by considering applicable withholding rates (up to the rate that will not cause an adverse accounting consequence or cost, including pursuant to ASC Topic 718, as applicable) in which case Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, Participant is deemed to have been issued the full number of Shares subject to the vested Performance Stock Options, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

Participant agrees to pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Participant's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if Participant fails to comply with Participant's obligations in connection with the Tax-Related Items.

**10. Nature of Grant.** In accepting the Performance Stock Options, Participant acknowledges, understands and agrees that:

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
- (b) the grant of Performance Stock Options is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of Performance Stock Options, or benefits in lieu of Performance Stock Options even if Performance Stock Options have been granted in the past;
- (c) nothing in this Agreement or in the Plan shall confer upon Participant any right to continue in the employment or service of the Employer, the Company or any Subsidiary or be interpreted as forming or amending an employment or services contract with the Employer, the Company or any Subsidiary and shall not interfere with or restrict any way the ability of the Employer, the Company or any Subsidiary, as applicable, to terminate Participant's employment or service relationship, if any;
- (d) all decisions with respect to future grants of Performance Stock Options or other grants, if any, will be at the sole discretion of the Company;
- (e) Participant's participation in the Plan is voluntary;
- (f) the future value of the underlying Shares is unknown, indeterminable and unpredictable;
- (g) if the underlying Shares do not increase in value, the Performance Stock Options will have no value;
- (h) if Participant exercises the Performance Stock Options and obtains Shares, the value of those Shares acquired upon exercise may increase or decrease in value, even below the exercise price;
- (i) unless otherwise agreed with the Company, the Performance Stock Options and the Shares subject to the Performance Stock Options, and the income and value of same, are not granted as consideration for, or in connection with, the service Participant may provide as a director of any entity of the Company;
- (j) in the event of the termination of Participant's Continuous Service (as defined above) (for any reason whatsoever, whether or not later to be found invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any), unless otherwise determined by the Company, Participant's right to vest in the Performance Stock Options under the Plan, if any, will terminate as of the date Participant is no longer actively rendering services and will not be extended by any notice period (*e.g.*, Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any); similarly, any right to exercise Performance Stock Options after termination of Participant's Continuous Service will be measured from the date Participant is no longer actively rendering services and will not be extended by any notice period; the Committee shall have the exclusive discretion to determine when Participant is no longer providing Continuous Service for purposes of this Agreement, including whether Participant may still be considered to be providing active service while on a leave of absence; and

(k) if Participant is providing services outside the United States, the following additional provisions shall apply:

(1) Performance Stock Options and the Shares subject to Performance Stock Options, and the income and value of same, are not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculation of any severance, resignation, termination, redundancy, dismissal, end-of-service payments, holiday pay, bonuses, long-service awards, leave-related pay, pension or retirement or welfare benefits or similar mandatory payments;

(2) Performance Stock Options and the Shares subject to Performance Stock Options, and the income and value of same, are not intended to replace any pension rights or compensation;

(3) Performance Stock Options are an extraordinary item that does not constitute compensation of any kind for service of any kind rendered to the Company or to the Employer, and Performance Stock Options are outside of the scope of Participant's employment agreement, if any;

(4) no claim or entitlement to compensation or damages shall arise from forfeiture of Performance Stock Options resulting from termination of Participant's Continuous Service (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any; and

(5) neither the Company, the Employer nor any Subsidiary shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of Performance Stock Options or of any amounts due to Participant pursuant to the exercise of Performance Stock Options or the subsequent sale of any Shares acquired upon exercise.

**11. Data Privacy Notice and Consent. Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data, as described in this Agreement and any other Performance Stock Option grant materials by and among, as applicable, the Employer, the Company and Subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.**



**Participant understands that the Employer, the Company and Subsidiaries may hold certain personal information about Participant, including, but not limited to, Participant's name, home address, email address and telephone number, date of birth, social security, passport, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Performance Stock Options or any other entitlement to Shares or other equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.**

**Participant understands that Data will be transferred to Morgan Stanley, or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. Participant authorizes the Company, Morgan Stanley and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing Participant's participation in the Plan, including any transfer of such Data as may be required to a broker, escrow agent or other third party with whom the Shares received upon exercise of Performance Stock Options may be deposited. Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing Participant's consent is that the Company may not be able to grant Performance Stock Options or other equity awards to Participant or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of his or her refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.**

**Further, upon request of the Company or the Employer, Participant agrees to provide an executed data privacy form (or any other agreements or consents) that the Company and/or the Employer may deem necessary to obtain from Participant for the purpose of administering Participant's participation in the Plan in compliance with the data privacy laws in Participant's country, either now or in the future. Participant understands and agrees that he or she will not be able to participate in the Plan if Participant's fails to provide any such consent or agreement as requested by the Company and/or the Employer.**

## **12. Miscellaneous Provisions.**

**12.1 Notices.** Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the sender's local mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the latest address on file or at such other address as such party may designate by ten days advance written notice under this Section to all other parties to this Agreement.

**12.2 Waiver.** The failure of the Company in any instance to exercise any rights under this Agreement, including the forfeiture rights under Section 4, shall not constitute a waiver of any other rights that may subsequently arise under the provisions of this Agreement or any other agreement between the Company and Participant. Participant acknowledges that no waiver by the Company of any breach of any provision of this Agreement shall operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant, whether of like or different nature.

**12.3 Imposition of Other Requirements & Participant Undertaking.** The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Performance Stock Options and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable in order to carry out the foregoing or one or more of the obligations or restrictions imposed on either Participant or the Shares pursuant to the provisions of this Agreement.

**12.4 Entire Contract.** This Agreement and the Plan constitute the entire understanding and agreement of the parties with respect to the subject matter contained herein. This Agreement is made pursuant to, and incorporates by reference, the provisions of the Plan and shall in all respects be construed in conformity with the terms of the Plan.

**12.5 Language.** Participant acknowledges that he or she is sufficiently proficient in English, or, alternatively, Participant acknowledges that he or she will seek appropriate assistance to understand the terms and conditions in this Agreement. Furthermore, if Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

**12.6 Electronic Delivery and Acceptance.** The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

**12.7 Successors and Assigns.** The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon Participant, Participant's permitted assigns and the legal representatives, heirs and legatees of Participant's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof. Participant may not assign this Agreement other than by the laws of descent and distribution.

**12.8 Severability.** In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

**12.9 Governing Law and Choice of Venue.** The Performance Stock Options and the provisions of this Agreement shall be governed by, and subject to, the laws of the State of Utah, United States, without regard to the conflict of law provisions, as provided in the Plan. For purposes of litigating any dispute that arises under this Agreement or this grant of Performance Stock Options, the parties hereby submit to and consent to the jurisdiction of the State of Utah, agree that such litigation shall be conducted in the courts of Utah County, Utah, or the federal courts of the United States for the District of Utah, where this grant is made and/or to be performed.

**12.10 Appendix.** Notwithstanding any provisions in this Agreement, the Performance Stock Options shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Appendix, the terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Agreement.

**12.11 Insider Trading Restrictions/Market Abuse Laws.** Participant acknowledges that, depending on Participant's country, broker's country, or where Shares are listed, Participant may be subject to insider trading and/or market abuse laws which may affect Participant's ability to accept, acquire, sell or otherwise dispose of Shares, rights to such shares (*e.g.*, Performance Stock Options) or rights linked to the value of Shares under the Plan during such times as Participant is considered to have "material nonpublic information" or "insider information" regarding the Company (as defined by the laws or regulations in the relevant jurisdiction). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders Participant places before Participant possessed inside information. Furthermore, Participant could be prohibited from (i) disclosing inside information to any third party (other than on a "need to know" basis) and (ii) "tipping" third parties or causing them otherwise to buy or sell securities. Third parties include fellow employees. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under the Company's insider trading policy, and the requirements of applicable laws may or may not be consistent with the terms of the Company's insider trading policy. Participant acknowledges that it is his or her responsibility to comply with any applicable restrictions, and that Participant should speak to his or her personal advisor on this matter.

**12.12 Exchange Control Tax and Foreign Asset/Account Reporting Requirements.** Participant acknowledges that there may be exchange control, tax, foreign asset and/or account reporting requirements which may affect Participant's ability to acquire or hold Shares acquired under the Plan or cash received from participating in the Plan (including from any dividends paid on Shares acquired under the Plan) in a brokerage, bank account or legal entity outside Participant's country. Participant may be required to report such accounts, balances, assets and/or the related transactions to the tax or other authorities in his or her country. Participant also may be required to repatriate sale proceeds or other funds received as a result of Participant's participation in the Plan to his or her country through a designated bank or broker within a certain time after receipt. Participant acknowledges that it is Participant's responsibility to be compliant with such regulations, and Participant should consult his or her personal legal advisor for any details.

**By electronically accepting this Agreement and participating in the Plan, Participant agrees to be bound by the terms and conditions in the Plan and this Agreement, including the Appendix. Within six months of the Grant Date, if Participant has not electronically accepted this Agreement on Morgan Stanley's website, or the website of any other stock plan service provider appointed by the Company, and has not otherwise rejected the grant, then this grant shall automatically be deemed accepted, and Participant shall be bound by the terms and conditions in the Plan and this Agreement, including the Appendix.**

## APPENDIX

### FOR PARTICIPANTS OUTSIDE THE U.S.

#### NU SKIN ENTERPRISES, INC. SECOND AMENDED AND RESTATED 2010 OMNIBUS INCENTIVE PLAN PERFORMANCE STOCK OPTION AGREEMENT

Unless otherwise defined herein, the capitalized terms in this Appendix shall have the same defined meaning assigned to them in the Plan and the Agreement.

This Appendix includes special country-specific terms and conditions that apply to Participants in the countries listed below. This Appendix is part of the Agreement. This Appendix also includes information of which Participant should be aware with respect to his or her participation in the Plan. For example, certain individual exchange control reporting requirements may apply upon exercise of the Performance Stock Options and/or sale of Shares. The information is based on the securities, exchange control and other laws in effect in the respective countries as of August 2019 and is provided for informational purposes. Such laws are often complex and change frequently, and results may be different based on the particular facts and circumstances. As a result, the Company strongly recommends that Participant does not rely on the information noted herein as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date at the time the Performance Stock Options vest or are exercised, or Participant sells Shares acquired under the Plan.

In addition, the information is general in nature and may not apply to Participant's particular situation, and the Company is not in a position to assure Participant of any particular result. Accordingly, Participant should seek appropriate professional advice as to how the relevant laws in Participant's country may apply to his or her situation.

Finally, if Participant is a citizen or resident of a country other than the one in which he or she currently is residing and/or working, transfers employment after the Performance Stock Options are granted to him or her, or is considered a resident of another country for local law purposes, the terms and conditions and/or notifications contained herein may not be applicable to him or her, and the Company shall, in its discretion, determine to what extent such terms and conditions contained herein shall apply to him or her.

#### **DATA PRIVACY PROVISIONS APPLICABLE TO GRANTEES IN THE EUROPEAN UNION/EUROPEAN ECONOMIC AREA**

The following provision replaces Section 11 of the Agreement:

**Data Collection and Usage.** Pursuant to applicable data protection laws, Participant is hereby notified that the Company collects, processes, uses and transfers certain personally-identifiable information about Participant for the exclusive legitimate purpose of granting Performance Stock Options and implementing, administering and managing Participant's participation in the Plan. Specifics of the data processing are described below.

**Controller, EU Representative and DPO.** The Company is the controller responsible for the processing of Participant's personal data in connection with the Plan. The Company's representative in the European Union is NSE Products Europe BVBA, Da Vincilaan 9, 1935 Zaventem, Belgium, telephone number +32 2 722 70 00. Participant can reach the data protection officer ("DPO") of the Company at +1 (801) 345-1505, 75 West Center Street, Provo, Utah 84601.

**Personal Data Subject to Processing.** The Company collects, processes and uses the following types of personal data about Participant: Participant's name, home address and telephone number, email address, date of birth, social insurance, passport number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Performance Stock Options or any other entitlement to Shares awarded, canceled, settled, vested, unvested or outstanding in Participant's favor, which the Company receives from Participant or the Employer, as well as Participant's hire date, term date, term reason code, status, and Company's Division ("Personal Data").

**Purposes and Legal Bases of Processing.** The Company processes the Personal Data for the purpose of granting Performance Stock Options, implementing, administering and managing Participant's participation in the Plan. The legal basis for the processing of the Personal Data by the Company and the third-party service providers described below is the necessity of the data processing for the Company to perform its contractual obligations under the Agreement and generally administering employee equity awards.

**Stock Plan Administration Service Providers.** The Company transfers Personal Data to Morgan Stanley Smith Barney LLC and its affiliated companies (collectively, "Morgan Stanley"), an independent stock plan administrator with operations, relevant to the Company, in the United States, which assists the Company with the implementation, administration and management of the Plan. In the future, the Company may select different service providers and may share Personal Data with such service providers. As a data controller, the Company's stock plan administrator will open an account for Participant to receive and trade Shares. Participant will be asked to agree on separate terms and data processing practices with the service provider, which is a condition of Participant's ability to participate in the Plan. Participant's Personal Data will only be accessible by those individuals requiring access to it for purposes of implementing, administering and operating Participant's participation in the Plan. Participant understands that Participant may request a list with the names and addresses of any potential recipients of Personal Data by contacting Participant's local human resources representative.

**International Data Transfers.** The Company and its service providers, including, without limitation, Morgan Stanley, operate, relevant to the Company, in the United States, which means that it will be necessary for Personal Data to be transferred to, and processed in, the United States. Participant understands and acknowledges that the United States is not subject to an unlimited adequacy finding by the European Commission and that Participant's Personal Data may not have an equivalent level of protection as compared to Participant's country of residence.

The legal basis for the processing of the Personal Data by the Company and the third-party service providers is the necessity of the data processing for the Company to perform its contractual obligations under the Agreement and generally administering employee equity awards.

**Data Retention.** The Company will use the Personal Data only as long as necessary to implement, administer and manage Participant’s participation in the Plan, or as required to comply with legal or regulatory obligations, including tax and securities laws. When the Company no longer needs the Personal Data, the Company will remove it from its systems. If the Company keeps data longer, it would be to satisfy legal or regulatory obligations and the Company’s legal basis would be relevant laws or regulations.

**Data Subject Rights.** To the extent provided by law, Participant has the right to (i) inquire whether and what kind of Personal Data the Company holds about Participant and how it is processed, and to access or request copies of such Personal Data, (ii) request the correction or supplementation of Personal Data that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, or (iii) obtain the erasure of Personal Data no longer necessary for the purposes underlying the processing or processed in non-compliance with applicable legal requirements. In addition, Participant has, to the extent provided by law, the right to (iv) request the Company to restrict the processing of Personal Data in certain situations where Participant feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Personal Data for legitimate interests, and to (vi) request portability of Personal Data that Participant has actively or passively provided to the Company, where the processing of such Personal Data is based on consent or a contractual agreement with Participant and is carried out by automated means. In case of concerns, Participant also has the right to (vii) lodge a complaint with the competent local data protection authority. To receive additional information regarding Participant’s rights, raise any other questions regarding the practices described in this Agreement or to exercise his or her rights, Participant should contact his or her local human resources representative.

**Contractual Requirement.** Participant’s provision of Personal Data and its processing as described above is required for the performance of the Company’s obligations pursuant to the Plan and a condition to Participant’s ability to participate in the Plan. Participant understands that, as a consequence of Participant’s refusing to provide Personal Data, the Company may not be able to allow Participant to participate in the Plan, grant Performance Stock Options to Participant or administer or maintain such Performance Stock Options. However, Participant’s participation in the Plan and his or her acceptance of this Agreement are purely voluntary. While Participant will not receive Performance Stock Options if he or she decides against participating in the Plan or providing Personal Data as described above, Participant’s career and salary will not be affected in any way. For more information on the consequences of the refusal to provide Personal Data, Participant may contact his or her local human resources representative.

## **AUSTRALIA**

**Nature of Plan.** The Plan and the Agreement is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) (the “Act”) applies (subject to the conditions in the Act).

**Exchange Control Information.** Exchange control reporting is required for cash transactions exceeding AUD10,000 and for international fund transfers. If an Australian bank is assisting with the transaction, the bank will file the report on the Participant’s behalf.

## **BELGIUM**

Accepting Performance Stock Options. The Performance Stock Options must be accepted in writing either (a) within 60 days of the offer (for tax at offer), or (b) more than 60 days after the offer (for tax at exercise). Participant will receive a separate offer letter, acceptance form and undertaking form in addition to the Agreement. Participant should refer to the offer letter for a more detailed description of tax consequences related to the timing of accepting Performance Stock Options. Participant should consult his or her personal tax advisor with respect to completion of the additional forms.

Foreign Asset/Account Reporting Information. Participant is required to report any securities (e.g., Shares acquired under the Plan) or bank accounts established outside of Belgium on his or her annual tax return. In a separate report, Belgium residents are also required to provide the National Bank of Belgium with the account details of any such foreign accounts (including the account number, bank name and country in which any such account was opened). This report, as well as additional information on how to complete it, can be found on the website of the National Bank of Belgium, [www.nbb.be](http://www.nbb.be), under Kredietcentrales / Centrales des crédits caption. Participant should consult a personal tax advisor with respect to the applicable reporting obligations.

Stock Exchange Tax Information. A stock exchange tax applies to transactions executed by a Belgian resident through a non-Belgian financial intermediary, such as a U.S. broker. The stock exchange tax likely will not apply when the Performance Stock Options are exercised, but likely will apply when Shares are sold. Participant should consult his or her personal tax advisor for details regarding Participant's obligations with respect to the stock exchange tax.

Asset Tax Information. Belgian resident individuals may be subject to tax on security accounts if the total average annual value of securities (e.g., Shares) held exceeds EUR 500,000.

## **CANADA**

Securities Law Information. Participant acknowledges and agrees that he or she will sell Shares acquired through participation in the Plan only outside of Canada through the facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the New York Stock Exchange in the United States.

Foreign Asset/Account Reporting Information. Participant is required to report any specified foreign property (including Shares) annually on Form T1135 (Foreign Income Verification Statement) if the total cost of Participant's specified foreign property exceeds C\$100,000 at any time during the year. The form must be filed by April 30th of the following year. Specified foreign property includes Shares acquired under the Plan and may include Performance Stock Options. The Performance Stock Options must be reported—generally at a nil cost—if the C\$100,000 cost threshold is exceeded because of other foreign property Participant holds. If Shares are acquired, their cost generally is the adjusted cost base (“ACB”) of the Shares. The ACB would normally equal the fair market value of the Shares at exercise for Performance Stock Options, but if Participant owns other Shares, this ACB may have to be averaged with the ACB of the other Shares. It is Participant's responsibility to comply with applicable reporting obligations.

**Method of Payment.** Due to regulatory considerations in Canada, Participant is prohibited from surrendering Shares that Participant already owns or attesting to the ownership of Shares to pay the Performance Stock Option Grant Price or any Tax-Related Items in connection with the Performance Stock Options.

***The following provisions apply if Participant is resident in Quebec:***

**Data Privacy.** Participant hereby authorizes the Company, the Employer and their representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. Participant further authorizes the Company and its Subsidiaries to disclose and discuss the Plan with their advisors. Participant further authorizes the Company and its Subsidiaries to record such information and to keep such information in the his or her employee file.

**Language Consent.** The parties acknowledge that it is their express wish that the Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à ou suite à la présente convention.

## **CHINA**

**The following provisions apply only to Participants who are subject to exchange control restrictions imposed by the State Administration of Foreign Exchange ("SAFE"), as determined by the Company in its sole discretion:**

**Term of Performance Stock Options.** This provision supplements Section 1.3 of the Agreement:

Notwithstanding anything to the contrary in Section 1.3 of the Agreement, in the event of Participant's termination of Continuous Service, Participant shall be permitted to exercise the Performance Stock Option for the shorter of (a) the post-termination exercise period set forth in the Agreement and (b) six months (or such other period as may be required by SAFE) after the termination of Participant's Continuous Service. At the end of the post-termination exercise period specified by SAFE, any unexercised portion of the Performance Stock Options shall immediately expire.

**Exercise of Performance Stock Options.** This provision supplements Section 1.4 of the Agreement:

The Performance Stock Options may be exercised only if and when the Company has completed the registration of the Plan with SAFE and provided such registration remains effective. If the Company is unable to complete the registration or maintain the registration, Participant will not be permitted to exercise any Performance Stock Options.



Notwithstanding anything in Section 1.4 of the Agreement to the contrary, Participant agrees to pay the Performance Stock Option Price and any Tax-Related Items solely by means of a cashless sell-to-cover or cashless sell-all method of exercise. To complete a cashless sell-to-cover or cashless sell-all exercise, Participant must provide irrevocable instructions to the broker to: (i) sell a portion or all of the Shares to be issued upon exercise; (ii) use the proceeds to pay the exercise price, brokerage fees and any applicable Tax-Related Items; and (iii) remit the balance (if any) in cash to Participant pursuant to the procedures described in the “Exchange Control Information” section below. Participant acknowledges that Morgan Stanley or such other broker as may be selected by the Company in the future is under no obligation to arrange for the sale of the Shares at any particular price. Shares issued to Participant upon exercise must be maintained in an account with Morgan Stanley or such other broker as may be designated by the Company until the Shares are sold through that broker. Due to local regulatory requirements, Participant agrees that the Company may force the sale of any Shares obtained at exercise. The sale may occur immediately upon exercise or within any other time frame as the Company determines to be necessary or advisable for legal or administrative reasons.

Exchange Control Information. Participant understands and agrees that, to facilitate compliance with exchange control requirements, Participant will be required to immediately repatriate to China the cash proceeds from the sale of the Shares acquired upon the exercise of the Performance Stock Options. Participant further understands that, under local law, such repatriation of the cash proceeds will be effectuated through a special exchange control account established by the Company or its Subsidiary in China, and Participant hereby consents and agrees that the proceeds from the sale of Shares acquired under the Plan may be transferred to such special account prior to being delivered to Participant. The Company may deliver the proceeds to Participant in U.S. dollars or local currency at the Company’s discretion. If the proceeds are paid in U.S. dollars, Participant understands that he or she will be required to set up a U.S. dollar bank account in China so that the proceeds may be deposited into this account. If the proceeds are converted to local currency, there may be delays in delivering the proceeds to Participant. Participant agrees to bear the risk of any currency fluctuation between the time the Shares are sold, either through voluntary sale or through a mandatory sale arranged by the Company, or proceeds are otherwise realized under the Plan and the time such proceeds are distributed to Participant through the special exchange control account.

Participant further agrees to comply with any other requirements that may be imposed by the Company in the future to facilitate compliance with exchange control requirements in China.

## **DENMARK**

Stock Option Act. Participant acknowledges that they have received an Employer Statement in Danish which sets forth additional terms of the Performance Stock Options, to the extent that the Danish Stock Option Act applies to the Performance Stock Options.

Foreign Asset/Account Reporting Information. If Participant establishes an account holding Shares or an account holding cash outside Denmark, he or she must report the account to the Danish Tax Administration. The form may be obtained from a local bank. Please note that these obligations are separate from and in addition to the obligations described above.

## **GERMANY**

Exchange Control Information. Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank. In case of payments in connection with securities (including payment of the Grant Price and the proceeds realized upon the sale of Shares), the report must be made by the 5th day of the month following the month in which the payment was made/received. The report must be filed electronically. The form of report (“Allgemeine Meldeportal Statistik”) can be accessed via the Bundesbank’s website (www.bundesbank.de) and is available in both German and English. Participant is responsible for satisfying the reporting obligation.

## **HONG KONG**

Restriction on Sale of Shares. Should any portion of the Performance Stock Options vest within six months of the Grant Date, Participant agrees that Participant will not dispose of the Shares acquired at exercise prior to the six-month anniversary of the Grant Date.

Securities Law Information. Warning: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Participant is advised to exercise caution in relation to the offer. If Participant is in any doubt about any of the contents of the Agreement, including this Appendix, or the Plan, Participant should obtain independent professional advice. The Performance Stock Options and any Shares issued pursuant to the grant do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company. The Agreement, including this Appendix, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable securities legislation in Hong Kong. The Performance Stock Options and any related documentation are intended only for the personal use of each eligible employee of the Company and may not be distributed to any other person.

## **HUNGARY**

There are no country-specific provisions.

## **INDIA**

Form of Exercise. The following provision supplements Section 2 of the Agreement:

Notwithstanding any provision of the Agreement or the Plan to the contrary, due to exchange control restrictions in India, Participant must exercise Performance Stock Options using the cashless sell-all method of exercise. Participant may not exercise Performance Stock Options using a cashless sell-to-cover exercise, whereby Participant directs the Designated Broker to sell some (but not all) of the Shares subject to the Performance Stock Option and deliver to the Company the amount of the sale proceeds to pay the Grant Price and any Tax-Related Items.

Exchange Control Information. Due to exchange control restrictions in India, Participant may be required to repatriate any proceeds from the sale of Shares acquired under the Plan to India and proceeds from the receipt of any cash dividends within such time as prescribed under applicable Indian exchange control laws. Participant must obtain a foreign inward remittance certificate (“FIRC”) from the bank where Participant deposits the funds and must maintain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Employer requests proof of repatriation.

**Foreign Asset/Account Reporting Information.** Participant is required to declare foreign bank accounts and any foreign financial assets (including Shares held outside India) in his or her annual tax return. It is Participant's responsibility to comply with this reporting obligation and Participant should consult with his or her personal tax advisor in this regard.

## **INDONESIA**

**Exchange Control Information.** If Participant remits proceeds from the sale of Shares or the receipt of any dividends paid on such Shares into Indonesia, the Indonesian Bank through which the transaction is made will submit a report on the transaction to the Bank of Indonesia for statistical reporting purposes. For transactions of US\$10,000 or more, a description of the transaction must be included in the report. Although the bank through which the transaction is made is required to make the report, Participant must complete a "Transfer Report Form." The Transfer Report Form should be provided to Participant by the bank through which the transaction is made.

## **JAPAN**

**Exchange Control Information.** If Participant acquires Shares valued at more than ¥100,000,000 in a single transaction, Participant must file a Securities Acquisition Report with the Ministry of Finance through the Bank of Japan within 20 days of the purchase of the Shares. In addition, if Participant pays more than ¥30,000,000 in a single transaction for the purchase of Shares when Participant exercises the Performance Stock Options, Participant must file a Payment Report with the Ministry of Finance through the Bank of Japan by the 20th day of the month following the month in which the payment was made. The precise reporting requirements vary depending on whether or not the relevant payment is made through a bank in Japan.

A Payment Report is required independently from a Securities Acquisition Report. Therefore, if the total amount that Participant pays upon a one-time transaction for exercising this Performance Stock Option and purchasing shares of common stock exceeds ¥100,000,000, then Participant must file both a Payment Report and a Securities Acquisition Report.

**Foreign Asset/Account Reporting Information.** Participant will be required to report details of any assets (including any Shares or the receipt of any dividends paid on such Shares acquired under the Plan) held outside of Japan as of December 31<sup>st</sup> of each year, to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report will be due by March 15<sup>th</sup> of the following year. Participant should consult with his or her personal tax advisor as to whether the reporting obligation applies to Participant and whether Participant will be required to report details of any outstanding Performance Stock Options or Shares held by Participant in the report.

## **KOREA**

**Foreign Asset/Account Reporting Information.** Korean residents must declare all foreign financial accounts (*e.g.*, non-Korean bank accounts, brokerage accounts, etc.) to the Korean tax authority and file a report with respect to such accounts if the value of such accounts exceeds KRW 500 million (or an equivalent amount in foreign currency). Participant should consult with his or her personal tax advisor to determine how to value Participant's foreign accounts for purposes of this reporting requirement and whether Participant is required to file a report with respect to such accounts.

**Director Notification Information.** If Participant is a director of a Malaysian Subsidiary, Participant is subject to certain notification requirements under the Malaysian Companies Act, 2016. Among these requirements is an obligation to notify the Malaysian Subsidiary in writing when Participant receives an interest (e.g., Performance Stock Options) in the Company or any related companies. In addition, Participant must notify the Malaysian Subsidiary when Participant sells Shares of the Company or any related company (including when Participant sells Shares acquired under the Plan). These notifications must be made within fourteen days of acquiring or disposing of any interest in the Company or any related company.

**Data Privacy Notice and Consent.** This provision replaces in its entirety Section 10 of the Agreement:

<p><i>Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data, as described in this Agreement and any other Performance Stock Option grant materials by and among, as applicable, the Employer, the Company and Subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.</i></p> <p><i>Participant understands that the Employer, the Company and Subsidiaries may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Performance Stock Options or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data"). The Data is supplied by the Employer and also by me through information collected in connection with the Agreement and the Plan.</i></p>	<p>Peserta dengan ini secara eksplisit dan tanpa sebarang keraguan mengizinkan pengumpulan, penggunaan dan pemindahan, dalam bentuk elektronik atau lain-lain, data peribadi Peserta seperti yang diterangkan dalam Perjanjian dan apa-apa bahan Opsyen yang lain oleh dan di antara, seperti yang berkenaan, Majikan, Syarikat dan Anak-anak Syarikat untuk tujuan yang eksklusif bagi melaksanakan, mentadbir dan menguruskan penyertaan Peserta di dalam Pelan.</p> <p>Peserta memahami bahawa Majikan, Syarikat and Anak-anak Syarikat mungkin memegang maklumat peribadi tertentu tentang Peserta, termasuk, tetapi tidak terhad kepada, nama Peserta, alamat rumah dan nombor telefon, tarikh lahir, nombor insurans sosial atau nombor pengenalan lain, gaji, kewarganegaraan, jawatan, apa-apa Syer atau jawatan pengarah yang dipegang dalam Syarikat, butir-butir semua Opsyen, atau apa-apa hak lain atas Syer yang dianugerahkan, dibatalkan, dilaksanakan, terletak hak, tidak diletak hak ataupun yang belum dijelaskan bagi faedah Peserta, untuk tujuan eksklusif bagi melaksanakan, mentadbir dan menguruskan Pelan tersebut ("Data"). Data tersebut dibekalkan oleh Majikan dan juga oleh saya berkenaan dengan Perjanjian dan Pelan.</p>
--	---

*Participant understands that Data will be transferred to Morgan Stanley, or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative at +60-03-2170-7700. Participant authorizes the Company, Morgan Stanley and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing Participant's participation in the Plan, including any transfer of such Data as may be required to a broker, escrow agent or other third party with whom the Shares received upon exercise of Performance Stock Options may be deposited. Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing Participant's consent is that the Company may not be able to grant Participant Performance Stock Options or other equity awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of his or her refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.*

Peserta memahami bahawa Data ini akan dipindahkan kepada Morgan Stanley, atau mana-mana pembekal perkhidmatan pelan saham lain sebagaimana yang dipilih oleh Syarikat pada masa depan, yang membantu Syarikat dengan pelaksanaan, pentadbiran dan pengurusan Pelan. Peserta memahami bahawa penerima-penerima Data mungkin berada di Amerika Syarikat atau mana-mana tempat lain, dan bahawa negara penerima-penerima (contohnya, Amerika Syarikat) mungkin mempunyai undang-undang privasi data dan perlindungan yang berbeza daripada negara Peserta. Peserta memahami bahawa sekiranya Peserta menetap di luar Amerika Syarikat, Peserta boleh meminta satu senarai yang mengandungi nama-nama dan alamat-alamat penerima-penerima Data yang berpotensi dengan menghubungi wakil sumber manusia tempatan peserta di +60-03-2170-7700. Peserta memberi kuasa kepada Syarikat, Morgan Stanley dan mana-mana penerima-penerima kemungkinan lain yang mungkin akan membantu Syarikat (pada masa sekarang atau pada masa depan) dengan melaksanakan, mentadbir dan menguruskan Pelan untuk menerima, memiliki, menggunakan, mengekalkan dan memindahkan Data, dalam bentuk elektronik atau lain-lain, bagi tujuan melaksanakan, mentadbir dan menguruskan penyertaan Peserta di dalam Pelan, termasuk segala pemindahan Data tersebut sebagaimana yang dikehendaki kepada broker, ejen eskrow atau pihak ketiga dengan siapa Saham diterima semasa peletakhakan Opsyen mungkin didepositkan. Peserta memahami bahawa Data hanya akan disimpan selagi ia adalah diperlukan untuk melaksanakan, mentadbir, dan menguruskan penyertaan peserta dalam Pelan. Peserta memahami bahawa sekiranya peserta menetap di luar Amerika Syarikat, peserta boleh, pada bila-bila masa, melihat Data, meminta maklumat tambahan mengenai penyimpanan dan pemprosesan Data, meminta bahawa pindaan-pindaan dilaksanakan ke atas Data atau menolak atau menarik balik persetujuan dalam ini, dalam mana-mana kes, tanpa kos, dengan menghubungi secara bertulis wakil sumber manusia tempatan. Selanjutnya, Peserta memahami bahawa peserta memberikan persetujuan di sini secara sukarela semata-mata. Sekiranya Peserta tidak bersetuju, atau sekiranya Peserta kemudian membatalkan persetujuannya, status pekerjaan atau perkhidmatan dan kerjaya Peserta dengan Majikan tidak akan terjejas; satu-satunya akibat buruk sekiranya Peserta tidak bersetuju atau menarik balik persetujuan Peserta adalah bahawa Syarikat tidak akan dapat memberikan Opsyen atau anugerah ekuiti lain atau mentadbir atau mengekalkan anugerah-anugerah tersebut kepada Peserta. Oleh itu, Peserta memahami bahawa keengganan atau penarikan balik persetujuan peserta boleh menjejaskan keupayaan Peserta untuk mengambil bahagian dalam Pelan. Untuk maklumat lebih lanjut mengenai akibat-akibat keengganan Peserta untuk memberikan keizinan atau penarikan balik keizinan, Peserta memahami bahawa Peserta boleh menghubungi wakil sumber manusia tempatan.

## **NETHERLANDS**

There are no country-specific provisions.

## **NEW ZEALAND**

Securities Law Information. Participant is being offered Performance Stock Options which, if vested, allows Participant to purchase Shares in accordance with the terms of this Agreement and the Plan. The Shares, if purchased, will give Participant a stake in the ownership of the Company. Participant may receive a return if dividends are paid.

If the Company runs into financial difficulties and is wound up, Participant will be paid only after all creditors have been paid. Participant may lose some or all of Participant's investment, if any. New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors to make an informed decision. The usual rules do not apply to this offer because it is made under an employee share scheme. As a result, Participant may not be given all the information usually required. Participant will also have fewer other legal protections for this investment. Participant should ask questions, read all documents carefully, and seek independent financial advice before committing.

The Shares are quoted on the New York Stock Exchange (“NYSE”). This means that if Participant acquires Shares under the Plan, Participant may be able to sell the Shares on the NYSE if there are interested buyers. Participant may get less than Participant invested. The price will depend on the demand for the Shares.

For information on risk factors impacting the Company’s business that may affect the value of the Shares, Participant should refer to the risk factors discussion on the Company’s Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at [www.sec.gov](http://www.sec.gov), as well as on the Company’s “Investor Relations” website at <http://ir.nuskin.com>

## PHILIPPINES

**Securities Law Information.** This offering is subject to exemption from the requirements of securities registration with the Philippines Securities and Exchange Commission, under Section 10.1(k) of the Philippine Securities Regulation Code.

THE SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FURTHER OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

For further information on risk factors impacting the Company’s business that may affect the value of the Shares, Participant may refer to the risk factors discussion in the Company’s Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are filed with the U.S. Securities and Exchange Commission and are available online at [www.sec.gov](http://www.sec.gov), as well as on the Company’s website at <http://ir.nuskin.com>. In addition, Optionee may receive, free of charge, a copy of the Company’s Annual Report, Quarterly Reports or any other reports, proxy statements or communications distributed to the Company’s stockholders by contacting Investor Relations Department at 75 W. Center Street, Provo, Utah 84601.

Participant acknowledges he or she is permitted to dispose or sell Shares acquired under the Plan provided the offer and resale of such shares takes place outside the Philippines through the facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the New York Stock Exchange in the United States of America.

## RUSSIA

**Exchange Control Information.** Participant acknowledges that he or she must repatriate the proceeds from the sale of Shares and any dividends received in relation to the Performance Stock Options within a reasonably short time of receipt. Such amounts must be initially credited to Participant through a foreign currency account opened in his or her name at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks, provided certain requirements are satisfied. Participant must notify the Russian tax authorities about the opening/closing of each foreign account within one month of the account opening/closing and provide account balances in each foreign account as of the beginning of each calendar year. ***Participant is encouraged to contact his or her personal advisor with respect to satisfying the above-described currency rules, as significant penalties may apply in the case of non-compliance with exchange control requirements and because such exchange control requirements may change.***

U.S. Transaction. Participant understands that acceptance of the grant of the Performance Stock Options results in a contract between Participant and the Company completed in the United States and that the Agreement is governed by the laws of the State of Utah, without regard to choice of law principles thereof. Any Shares to be issued upon exercise of the Performance Stock Options shall be delivered to Participant through a brokerage account in the U.S. Participant may hold the Shares in his or her brokerage account in the U.S.; however, in no event will Shares issued to Participant under the Plan be delivered to Participant in Russia. Participant is not permitted to sell the Shares directly to other Russian legal entities or individuals.

Securities Law Information. These materials do not constitute advertising or an offering of securities in Russia nor do they constitute placement of Shares in Russia. The issuance of Shares pursuant to the Performance Stock Options described herein has not and will not be registered in Russia and hence, the Shares described herein may not be admitted or used for offering, placement or public circulation in Russia. Participant acknowledges and agrees that he or she will sell Shares acquired through participation in the Plan only outside of Russia through the facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the New York Stock Exchange in the United States.

Data Privacy Notice and Consent. Participant hereby acknowledges that he or she has read and understood the terms regarding collection, processing and transfer of Data contained in Section 10 of the Agreement and, by accepting the Performance Stock Option, Participant agrees to such terms. In this regard, upon request of the Company or the Employer, Participant agrees to provide an executed data privacy consent form to the Employer or the Company, or any other agreements or consents that the Company and/or the Employer may deem necessary to obtain Participant's consent to collect, process or transfer Participant's Data for purposes of administering his or her participation in the Plan under the data privacy laws in Russia, either now or in the future. Participant understands that he or she will not be able to participate in the Plan if he or she fails to execute any such consent or agreement.

Foreign Asset/Account Reporting. Russian residents will be required to notify the Russian tax authorities within one month of opening or closing a foreign bank account or of changing any account details. Russian residents are also required to file with the Russian tax authorities reports of the transactions in their foreign bank accounts. Russian residents should consult with their personal tax advisor for additional information about these reporting obligations.

Labor Law Information. If Participant continues to hold Shares acquired under the Plan after an involuntary termination of employment, Participant will not be eligible to receive unemployment benefits in Russia.



**Anti-Corruption Information.** Anti-corruption laws prohibit certain public servants, their spouses, and their dependent children from owning any foreign source financial instruments (*e.g.*, shares of foreign companies such as the Company).

## **SINGAPORE**

**Sale Restriction.** The Participant agrees that any Shares acquired pursuant to the Performance Stock Options will not be offered for sale in Singapore prior to the six-month anniversary of the Grant Date, unless such sale or offer is made pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the Securities and Futures Act (Chapter 289, 2006 Ed.) (“SFA”).

**Securities Law Information.** The grant of the Performance Stock Options is made pursuant to the “Qualifying Person” exemption under section 273(1)(f) of the SFA and is not made to Participant with a view of the Performance Stock Options being subsequently offered for sale to any other party. The Plan has not been lodged or registered as a prospectus with the Monetary Authority of Singapore.

**Chief Executive Officer and Director Notification Requirement.** The chief executive officer (“CEO”), directors, associate directors and shadow directors of a Singapore subsidiary or affiliate are subject to certain notification requirements under the Singapore Companies Act. The CEO, directors, associate directors and shadow directors must notify the Singapore subsidiary or affiliate in writing of an interest (*e.g.*, Performance Stock Options, Shares, etc.) in the Company or any related companies within two business days of (i) its acquisition or disposal, (ii) any change in a previously disclosed interest (*e.g.*, when the Shares are sold), or (iii) becoming the CEO or a director, associate director or shadow director.

## **SWEDEN**

There are no country-specific provisions.

## **TAIWAN**

**Data Privacy Consent.** Participant hereby acknowledges that he or she has read and understood the terms regarding collection, processing and transfer of Data contained in Section 10 of the Agreement and by participating in the Plan, Participant agrees to such terms. In this regard, upon request of the Company or the Employer, Participant agrees to provide an executed data privacy consent form to the Employer or the Company (or any other agreements or consents that may be required by the Employer or the Company) that the Company and/or the Employer may deem necessary to obtain under the data privacy laws in Participant’s country, either now or in the future. Participant understands he or she will not be able to participate in the Plan if Participant fails to execute any such consent or agreement.

**Securities Law Information.** The Performance Stock Options and the Shares to be issued pursuant to the Plan are available only to employees of the Company. The grant of the Performance Stock Options does not constitute a public offer of securities.

Exchange Control Information. Participant may remit foreign currency (including proceeds from the sale of Shares or the receipt of any dividends paid on such Shares) into or out of Taiwan up to US\$5,000,000 per year without special permission. If the transaction amount is TWD500,000 or more in a single transaction, Participant must submit a Foreign Exchange Transaction Form to the remitting bank and provide supporting documentation to the satisfaction of the remitting bank.

## **THAILAND**

Exchange Control Information. If the proceeds from the sale of Shares or the receipt of any dividends paid on such Shares are equal to or greater than US\$50,000 or more in a single transaction, Participant must repatriate the proceeds to Thailand immediately upon receipt and convert the funds to Thai Baht or deposit the proceeds in a foreign currency deposit account maintained by a bank in Thailand within 360 days of remitting the proceeds to Thailand. In addition, Participant must report the inward remittance to the Bank of Thailand on a foreign exchange transaction form. If Participant fails to comply with these obligations, Participant may be subject to penalties assessed by the Bank of Thailand. Because exchange control regulations change frequently and without notice, Participant should consult his or her personal advisor before selling Shares to ensure compliance with current regulations. Participant is responsible for ensuring compliance with all exchange control laws in Thailand, and neither the Company nor any of its Subsidiaries will be liable for any fines or penalties resulting from his or her failure to comply with applicable laws.

## SCHEDULE A

[Performance Vesting Schedule]

**NU SKIN ENTERPRISES, INC.**  
**SECOND AMENDED AND RESTATED 2010 OMNIBUS INCENTIVE PLAN**  
**RESTRICTED STOCK UNIT AGREEMENT**

This Restricted Stock Unit Agreement, Participant's award information (the "Award Summary"), which can be accessed on the Morgan Stanley stock plan website (currently [www.stockplanconnect.com](http://www.stockplanconnect.com)) or the website of any other stock plan administrator selected by the Company in the future, and the Appendix for Participant's country contained in this agreement, if any, (collectively, this "Agreement") set forth the terms and conditions of the Restricted Stock Units granted to Participant under the Second Amended and Restated Nu Skin Enterprises, Inc. 2010 Omnibus Incentive Plan (the "Plan"). In the event of a conflict between (i) the terms and conditions of the Plan; and (ii) the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail. Unless otherwise defined herein, the capitalized terms in this Agreement shall have the same defined meaning assigned to them in the Plan.

**1. Grant of Restricted Stock Units.**

**1.1 Grant of Restricted Stock Units.** Effective as of the date of grant specified in the Award Summary (the "Grant Date"), the Company grants to Participant an award of the number of Restricted Stock Units as set forth in the Award Summary. Each Restricted Stock Unit is a bookkeeping entry representing the Company's unfunded promise to deliver one Share on the terms provided herein and in the Plan.

**1.2 Vesting of Restricted Stock Units.** The Restricted Stock Units shall vest in full on the earlier of April 30 of the calendar year following the Grant Date or one day prior to the annual stockholder meeting in the calendar year following the Grant Date (the "Vesting Date"), except as otherwise provided in this Agreement, including pursuant to Sections 1.3 and 4.

**1.3 Termination of Continuous Service.** In the event Participant's Continuous Service (as defined below) is terminated for any reason prior to the full vesting of the Restricted Stock Units, the Restricted Stock Units granted hereunder shall terminate to the extent they are not vested as of the termination of Participant's Continuous Service, as determined in accordance with Section 9(g) below, and Participant shall not have any right to receive any Shares subject to such unvested Restricted Stock Units.

For purposes of this Agreement:

"Continuous Service" means that Participant's service with the Company or a Subsidiary, whether as an Employee, Director, or Consultant, is not interrupted or terminated. Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which Participant renders service to the Company or a Subsidiary as an Employee, Consultant, or Director, or a change in the entity for which Participant renders such service, provided that there is no interruption or termination of Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of a Subsidiary or a Director will not constitute an interruption of Continuous Service. Subject to the requirements of applicable law, the Committee, in its sole discretion, shall determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by the Company or a Subsidiary, including sick leave, military leave or any other personal leave.

**1.4 Settlement of Restricted Stock Units.** Subject to the terms of the Plan and this Agreement, Restricted Stock Units shall be settled in Shares, provided that Participant has satisfied any Tax-Related Items pursuant to Section 8 below. Shares will be issued to Participant within a reasonable time following each Vesting Date, but in no event shall the Shares be issued more than 70 days from the end of the calendar year that includes the applicable Vesting Date unless subject to the terms of the Company's deferred compensation plan.

---

**1.5 Stockholder Rights.** Unless and until Shares are issued by the Company after the Vesting Date, Participant shall have none of the rights or privileges of a shareholder of the Company (including voting, dividend and liquidation rights) with respect to the Shares covered by the Restricted Stock Units.

**2. Securities Law Compliance.** Participant represents that Participant has received and carefully read a copy of the Prospectus for the Plan, together with the Company's most recent Annual Report to Stockholders. Participant hereby acknowledges that Participant is aware of the risks associated with the Shares and that there can be no assurance the price of the Shares will not decrease in the future. Participant hereby acknowledges that no representations or statements have been made to Participant concerning the value or potential value of the Shares. Participant acknowledges that Participant has relied only on information contained in the Prospectus and has received no representations, written or oral, from the Company or its employees, attorneys or agents, other than those contained in the Prospectus or this Agreement. Participant acknowledges that the Company has made no representations or recommendations, and is not providing any tax, legal or financial advice, regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

**3. Transfer Restrictions.** Participant shall not transfer, assign, sell, encumber, pledge, grant a security interest in or otherwise dispose of the Restricted Stock Units subject to this Agreement in any manner other than by the laws of descent or distribution. Any such transfer, assignment, sale, encumbrance, pledge, security interest or disposition shall be void.

**4. Forfeiture.** If, at any time during Participant's Continuous Service or at any time during the 12-month period following termination of Participant's Continuous Service, a Forfeiture Event (as defined below) occurs, then at the election of the Committee, (a) this Agreement and all unvested Restricted Stock Units granted hereunder shall terminate, and (b) Participant shall return to the Company for cancellation all Shares held by Participant plus pay the Company the amount of any proceeds received from the sale of any Shares to the extent such Shares were issued pursuant to Restricted Stock Units granted under this Agreement that vested (i) during the 12-month period immediately preceding the Forfeiture Event, or (ii) on the date of or at any time after such Forfeiture Event.

"Forfeiture Event" means the following:

- (a) an act of fraud or intentional misrepresentation related to Participant's services;
- (b) disclosure or use of confidential information in a manner detrimental to the Company;
- (c) competing with the Company; or
- (d) any other willful misconduct by Participant that is materially injurious to the financial condition or business reputation of, or is otherwise materially injurious to, the Company. The Committee, in its sole discretion, may waive at any time in writing this forfeiture provision and release Participant from liability hereunder.

5. **Governing Plan Document.** This Agreement incorporates by reference all of the terms and conditions of the Plan, as presently existing and as hereafter amended. Participant expressly acknowledges and agrees that the terms and provisions of this Agreement are subject in all respects to the provisions of the Plan. Participant also expressly:

- (a) Acknowledges receipt of the Plan and represents that Participant is familiar with the provisions of the Plan, and that Participant enters into this Agreement subject to all of the provisions of the Plan;
- (b) Recognizes that the Committee has been granted complete authority to administer the Plan in its sole discretion, and agrees to accept all decisions related to the Plan and all interpretations of the Plan made by the Committee as final and conclusive upon Participant and upon all persons at any time claiming any interest through Participant in the Restricted Stock Units or the Shares subject to this Agreement; and
- (c) Acknowledges and understands that the establishment of the Plan and the existence of this Agreement are not sufficient, in and of themselves, to exempt Participant from the requirements of Section 16(b) of the Exchange Act and any rules or regulations promulgated thereunder, and that Participant (to the extent Section 16(b) applies to Participant) shall not be exempt from such requirements pursuant to Rule 16b-3 unless and until Participant shall comply with all applicable requirements of Rule 16b-3, including without limitation, the possible requirement that Participant must not sell or otherwise dispose of any Shares acquired pursuant to Restricted Stock Units unless and until a period of at least six months shall have elapsed between the date upon which such Restricted Stock Units were granted to Participant and the date upon which Participant desires to sell or otherwise dispose of such Shares.

6. **Representations and Warranties.** As a condition to the receipt of any Shares upon vesting of the Restricted Stock Units, the Company may require Participant to make any representations and warranties to the Company that legal counsel to the Company may determine to be required or advisable under any applicable law or regulation, including without limitation, representations and warranties that the Shares are being acquired only for investment and without any present intention or view to sell or distribute any such Shares.

7. **Compliance With Law and Regulations.** Notwithstanding any other provision of the Plan or this Agreement, unless there is an available exemption from any registration, qualification or other legal requirement applicable to the Shares, the Company shall not be required to deliver any Shares issuable upon settlement of the Restricted Stock Units prior to the completion of any registration or qualification of the Shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the U.S. Securities and Exchange Commission ("SEC") or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval the Company shall, in its absolute discretion, deem necessary or advisable. Participant understands that the Company is under no obligation to register or qualify the Shares with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. Further, Participant agrees that the Company shall have unilateral authority to amend the Plan and this Agreement without Participant's consent to the extent necessary to comply with securities or other laws applicable to issuance of Shares.

**8. Responsibility for Taxes.** Participant acknowledges that, regardless of any action taken by the Company, the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to Participant's participation in the Plan and legally applicable to Participant or deemed by the Company in its discretion to be an appropriate charge to Participant even if legally applicable to the Company ("Tax-Related Items"), is and remains Participant's responsibility and may exceed the amount, if any, actually withheld by the Company. Participant further acknowledges that the Company (a) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of any Shares acquired at settlement and the receipt of any dividends; and (b) does not commit to and is under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if Participant is subject to Tax-Related Items in more than one jurisdiction, Participant acknowledges that the Company may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, Participant agrees to make adequate arrangements satisfactory to the Company to satisfy all Tax-Related Items.

Full payment of the Tax-Related Items shall be made by any of the following, or a combination thereof, subject to the Committee's or Company's right to eliminate, prior to vesting, any of the following as permissible payment methods: (i) in cash or cash equivalents (including certified check, bank check or wire transfer of immediately available funds); (ii) by tendering previously acquired Shares (either actually or by attestation) valued at their then Fair Market Value; (iii) by withholding Shares otherwise issuable in connection with the vesting of the RSUs; (iv) through same-day voluntary or involuntary (on Participant's behalf pursuant to this authorization) sales through a broker if permitted by the Company's Securities Trading Policy; (v) withholding from Participant's wages or other cash compensation paid to Participant by the Company; or (vi) any combination of any of the foregoing. In the absence of Participant's timely election or in the event Section 16(b) applies to Participant and withholding of Tax-Related items is necessary, the Company will withhold in Shares upon the relevant taxable or tax withholding event, as applicable, or the Company may determine that a particular method be used to satisfy any obligations for Tax-Related Items.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable withholding rates (up to the rate that will not cause an adverse accounting consequence or cost, including pursuant to ASC Topic 718, as applicable), in which case Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, Participant is deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

Participant agrees to pay to the Company any amount of Tax-Related Items that the Company may be required to withhold or account for as a result of Participant's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if Participant fails to comply with Participant's obligations in connection with the Tax-Related Items.

**9. Nature of Grant.** In accepting the Restricted Stock Units, Participant acknowledges, understands and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

- (b) the grant of Restricted Stock Units is exceptional, voluntary and occasional and does not create any contractual or other right to receive future awards of Restricted Stock Units, or benefits in lieu of Restricted Stock Units even if Restricted Stock Units have been awarded in the past;
- (c) nothing in this Agreement or in the Plan shall confer upon Participant any right to continue in the service of the Company as a member of the Board of Directors of the Company or in any other capacity;
- (d) all decisions with respect to future grants of Restricted Stock Units or other grants, if any, will be at the sole discretion of the Committee and/or Company;
- (e) Participant's participation in the Plan is voluntary;
- (f) the future value of the underlying Shares is unknown, indeterminable and unpredictable;
- (g) in the event of the termination of Participant's Continuous Service (as defined above) (for any reason whatsoever, whether or not later found to be invalid), unless otherwise expressly provided in this Agreement or determined by the Company, Participant's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of the date Participant's Continuous Service terminated, as determined by the Committee in its sole discretion;
- (h) if Participant is providing services outside the United States, the following additional provisions shall apply:
- (1) Restricted Stock Units and the Shares subject to Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation for any purpose, including, but not limited to, calculation of any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar mandatory payments;
  - (2) Restricted Stock Units and the Shares subject to Restricted Stock Units, and the income and value of same, are not intended to replace any pension rights or compensation;
  - (3) Restricted Stock Units are an extraordinary item that does not constitute compensation of any kind for service of any kind rendered to the Company;
  - (4) no claim or entitlement to compensation or damages shall arise from forfeiture of Restricted Stock Units resulting from termination of Participant's Continuous Service (for any reason whatsoever, whether or not later found to be invalid); and
  - (5) neither the Company nor any of its Subsidiaries shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of Restricted Stock Units or of any amounts due to Participant pursuant to the settlement of the Restricted Stock Units or the subsequent sale of any Shares acquired upon settlement.



**10. Section 409A.** The Restricted Stock Units and issuance of Shares thereunder are intended to comply with Code Section 409A and the U.S. Treasury Regulations relating thereto so as not to subject the Participant to the payment of additional taxes and interest under Code Section 409A or other adverse tax consequences. In furtherance of this intent, the provisions of this Agreement will be interpreted, operated, and administered in a manner consistent with these intentions. The Committee may modify the terms of this Agreement, the Plan or both, without the consent of the Participant, in the manner that the Committee may determine to be necessary or advisable in order to comply with Code Section 409A or to mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Code Section 409A if compliance is not practical. This Section 10 does not create an obligation on the part of the Company to modify the terms of this Agreement or the Plan and does not guarantee that the Restricted Stock Units or the delivery of Shares upon vesting/settlement of the Restricted Stock Units will not be subject to taxes, interest and penalties or any other adverse tax consequences under Code Section 409A. Nothing in this Agreement shall provide a basis for any person to take any action against the Company or any of its Subsidiaries based on matters covered by Code Section 409A, including the tax treatment of any amounts paid under this Agreement, and neither the Company nor any of its Subsidiaries will have any liability under any circumstances to the Participant or any other party if the Restricted Stock Units, the delivery of Shares upon vesting/settlement of the Restricted Stock Units or other payment or tax event hereunder that is intended to be exempt from, or compliant with, Code Section 409A, is not so exempt or compliant or for any action taken by the Committee with respect thereto. Further, settlement of any portion of the Restricted Stock Units that is deferred compensation may not be accelerated or postponed except to the extent permitted by Code Section 409A.

**11. Data Privacy Notice and Consent.** *Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data, as described in this Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Company and any Subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

*Participant understands that the Company and any Subsidiaries may hold certain personal information about Participant, including, but not limited to, Participant's name, home address, email address, telephone number, date of birth, social security number, passport information, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares or other equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.*

*Participant understands that Data will be transferred to Morgan Stanley, or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the Company. Participant authorizes the Company, Morgan Stanley and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing Participant's participation in the Plan, including any transfer of such Data as may be required to a broker, escrow agent or other third party with whom the Shares received upon vesting of Restricted Stock Units may be deposited. Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her status will not be affected; the only consequence of refusing or withdrawing Participant's consent is that the Company may not be able to grant Restricted Stock Units or other equity awards to Participant or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of his or her refusal to consent or withdrawal of consent, Participant understands that he or she may contact the Company.*

*Further, upon request of the Company Participant agrees to provide an executed data privacy form (or any other agreements or consents) that the Company may deem necessary to obtain from Participant for the purpose of administering Participant's participation in the Plan in compliance with the data privacy laws in Participant's country, either now or in the future. Participant understands and agrees that he or she will not be able to participate in the Plan if Participant fails to provide any such consent or agreement as requested by the Company.*

## **12. Miscellaneous Provisions.**

**12.1 Notices.** Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the sender's local mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the latest address on file or at such other address as such party may designate by ten days advance written notice under this Section to all other parties to this Agreement.

**12.2 Waiver.** The failure of the Company in any instance to exercise any rights under this Agreement, including the forfeiture rights under Section 4, shall not constitute a waiver of any other rights that may subsequently arise under the provisions of this Agreement or any other agreement between the Company and Participant. Participant acknowledges that no waiver by the Company of any breach of any provision of this Agreement shall operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant, whether of like or different nature.

**12.3 Imposition of Other Requirements & Participant Undertaking.** The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable in order to carry out the foregoing or one or more of the obligations or restrictions imposed on either Participant or the Shares pursuant to the provisions of this Agreement.

**12.4 Entire Contract.** This Agreement and the Plan constitute the entire understanding and agreement of the parties with respect to the subject matter contained herein. This Agreement is made pursuant to, and incorporates by reference, the provisions of the Plan and shall in all respects be construed in conformity with the terms of the Plan.

**12.5 Language.** Participant acknowledges that he or she is sufficiently proficient in English, or, alternatively, Participant acknowledges that he or she will seek appropriate assistance to understand the terms and conditions in this Agreement. Furthermore, if Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

**12.6 Electronic Delivery and Acceptance.** The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

**12.7 Successors and Assigns.** The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon Participant, Participant's permitted assigns and the legal representatives, heirs and legatees of Participant's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof. Participant may not assign this Agreement other than by the laws of descent and distribution.

**12.8 Severability.** In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

**12.9 Governing Law and Choice of Venue.** The Restricted Stock Units and the provisions of this Agreement shall be governed by, and subject to, the laws of the State of Utah, United States, without regard to the conflict of law provisions, as provided in the Plan. For purposes of litigating any dispute that arises under this Agreement or this grant of Restricted Stock Units, the parties hereby submit to and consent to the jurisdiction of the State of Utah, agree that such litigation shall be conducted in the courts of Utah County, Utah, or the federal courts of the United States for the District of Utah, where this grant is made and/or to be performed.

**12.10 Appendix.** Notwithstanding any provisions in this Agreement, the Restricted Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Appendix, the terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Agreement.

**12.11 Insider Trading Restrictions/Market Abuse Laws.** Participant acknowledges that, depending on Participant's country, broker's country, or where Shares are listed, Participant may be subject to insider trading and/or market abuse laws which may affect Participant's ability to accept, acquire, sell or otherwise dispose of Shares, rights to such shares (e.g., Restricted Stock Units) or rights linked to the value of Shares under the Plan during such times as Participant is considered to have "material nonpublic information" or "inside information" regarding the Company (as defined by the laws or regulations in the relevant jurisdiction). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders Participant places before Participant possessed inside information. Furthermore, Participant could be prohibited from (i) disclosing inside information to any third party (other than on a "need to know" basis) and (ii) "tipping" third parties or causing them otherwise to buy or sell securities. Third parties include fellow employees. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under the Company's insider trading policy, and the requirements of applicable laws may or may not be consistent with the terms of the Company's insider trading policy. Participant acknowledges that it is his or her responsibility to comply with any applicable restrictions, and that Participant should speak to his or her personal advisor on this matter.

**12.12 Exchange Control Tax and Foreign Asset/Account Reporting Requirements.** Participant acknowledges that there may be exchange control, tax, foreign asset and/or account reporting requirements which may affect Participant's ability to acquire or hold Shares acquired under the Plan or cash received from participating in the Plan (including from any dividends paid on Shares acquired under the Plan) in a brokerage, bank account or legal entity outside Participant's country. Participant may be required to report such accounts, balances, assets and/or the related transactions to the tax or other authorities in his or her country. Participant also may be required to repatriate sale proceeds or other funds received as a result of Participant's participation in the Plan to his or her country through a designated bank or broker within a certain time after receipt. Participant acknowledges that it is Participant's responsibility to be compliant with such regulations, and Participant should consult his or her personal legal advisor for any details.

**By electronically accepting this Agreement and participating in the Plan, Participant agrees to be bound by the terms and conditions in the Plan and this Agreement, including the Appendix. Within six months of the Grant Date, if Participant has not electronically accepted this Agreement on Morgan Stanley's website, or the website of any other stock plan service provider appointed by the Company, and has not otherwise rejected the grant, then this award shall automatically be deemed accepted, and Participant shall be bound by the terms and conditions in the Plan and this Agreement, including the Appendix.**

## APPENDIX

### FOR PARTICIPANTS OUTSIDE THE U.S.

#### NU SKIN ENTERPRISES, INC. SECOND AMENDED AND RESTATED 2010 OMNIBUS INCENTIVE PLAN RESTRICTED STOCK UNIT AGREEMENT

Unless otherwise defined herein, the capitalized terms in this Appendix shall have the same defined meaning assigned to them in the Plan and the Agreement.

This Appendix includes special country-specific terms and conditions that apply to Participants in the countries listed below. This Appendix is part of the Agreement. This Appendix also includes information of which Participant should be aware with respect to his or her participation in the Plan. For example, certain individual exchange control reporting requirements may apply upon vesting of the Restricted Stock Units and/or sale of Shares. The information is based on the securities, exchange control and other laws in effect in the respective countries as of February 2018 and is provided for informational purposes. Such laws are often complex and change frequently, and results may be different based on the particular facts and circumstances. As a result, the Company strongly recommends that Participant does not rely on the information noted herein as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date at the time the Restricted Stock Units vest or are settled, or Participant sells Shares acquired under the Plan.

In addition, the information is general in nature and may not apply to Participant's particular situation, and the Company is not in a position to assure Participant of any particular result. Accordingly, Participant should seek appropriate professional advice as to how the relevant laws in Participant's country may apply to his or her situation.

Finally, if Participant is a citizen or resident of a country other than the one in which he or she currently is residing and/or providing services, transfers after the Restricted Stock Units are granted to him or her, or is considered a resident of another country for local law purposes, the terms and conditions and/or notifications contained herein may not be applicable to him or her, and the Company shall, in its discretion, determine to what extent such terms and conditions contained herein shall apply to him or her.

#### **DATA PRIVACY PROVISIONS APPLICABLE TO GRANTEES IN THE EUROPEAN UNION/EUROPEAN ECONOMIC AREA**

The following provision replaces Section 11 of the Agreement:

**Data Collection and Usage.** Pursuant to applicable data protection laws, Participant is hereby notified that the Company collects, processes, uses and transfers certain personally-identifiable information about Participant for the exclusive legitimate purpose of granting Restricted Stock Units and implementing, administering and managing Participant's participation in the Plan. Specifics of the data processing are described below.

**Controller, EU Representative and DPO.** The Company is the controller responsible for the processing of Participant's personal data in connection with the Plan. The Company's representative in the European Union is NSE Products Europe BVBA, Da Vincilaan 9, 1935 Zaventem, Belgium, telephone number +32 2 722 70 00. Participant can reach the data protection officer ("DPO") of the Company at +1 (801) 345-1505, 75 West Center Street, Provo, Utah 84601.

**Personal Data Subject to Processing.** The Company collects, processes and uses the following types of personal data about Participant: Participant's name, home address, telephone number, email address, date of birth, social insurance, passport number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, settled, vested, unvested or outstanding in Participant's favor, which the Company receives from Participant or the Employer, as well as Participant's hire date, term date, term reason code, status, and Company's Division ("Personal Data").

**Purposes and Legal Bases of Processing.** The Company processes the Personal Data for the purpose of granting Restricted Stock Units, implementing, administering and managing Participant's participation in the Plan. The legal basis for the processing of the Personal Data by the Company and the third-party service providers described below is the necessity of the data processing for the Company to perform its contractual obligations under the Agreement and generally administering employee equity awards.

**Stock Plan Administration Service Providers.** The Company transfers Personal Data to Morgan Stanley Smith Barney LLC and its affiliated companies (collectively, "Morgan Stanley"), an independent stock plan administrator with operations, relevant to the Company, in the United States, which assists the Company with the implementation, administration and management of the Plan. In the future, the Company may select different service providers and may share Personal Data with such service providers. As a data controller, the Company's stock plan administrator will open an account for Participant to receive and trade Shares. Participant will be asked to agree on separate terms and data processing practices with the service provider, which is a condition of Participant's ability to participate in the Plan. Participant's Personal Data will only be accessible by those individuals requiring access to it for purposes of implementing, administering and operating Participant's participation in the Plan. Participant understands that Participant may request a list with the names and addresses of any potential recipients of Personal Data by contacting Participant's local human resources representative.

**International Data Transfers.** The Company and its service providers, including, without limitation, Morgan Stanley, operate, relevant to the Company, in the United States, which means that it will be necessary for Personal Data to be transferred to, and processed in, the United States. Participant understands and acknowledges that the United States is not subject to an unlimited adequacy finding by the European Commission and that Participant's Personal Data may not have an equivalent level of protection as compared to Participant's country of residence.

The legal basis for the processing of the Personal Data by the Company and the third-party service providers is the necessity of the data processing for the Company to perform its contractual obligations under the Agreement and generally administering employee equity awards.

**Data Retention.** The Company will use the Personal Data only as long as necessary to implement, administer and manage Participant's participation in the Plan, or as required to comply with legal or regulatory obligations, including tax and securities laws. When the Company no longer needs the Personal Data, the Company will remove it from its systems. If the Company keeps data longer, it would be to satisfy legal or regulatory obligations and the Company's legal basis would be relevant laws or regulations.

**Data Subject Rights.** To the extent provided by law, Participant has the right to (i) inquire whether and what kind of Personal Data the Company holds about Participant and how it is processed, and to access or request copies of such Personal Data, (ii) request the correction or supplementation of Personal Data that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, or (iii) obtain the erasure of Personal Data no longer necessary for the purposes underlying the processing or processed in non-compliance with applicable legal requirements. In addition, Participant has, to the extent provided by law, the right to (iv) request the Company to restrict the processing of Personal Data in certain situations where Participant feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Personal Data for legitimate interests, and to (vi) request portability of Personal Data that Participant has actively or passively provided to the Company, where the processing of such Personal Data is based on consent or a contractual agreement with Participant and is carried out by automated means. In case of concerns, Participant also has the right to (vii) lodge a complaint with the competent local data protection authority. To receive additional information regarding Participant's rights, raise any other questions regarding the practices described in this Agreement or to exercise his or her rights, Participant should contact his or her local human resources representative.

**Contractual Requirement.** Participant's provision of Personal Data and its processing as described above is required for the performance of the Company's obligations pursuant to the Plan and a condition to Participant's ability to participate in the Plan. Participant understands that, as a consequence of Participant's refusing to provide Personal Data, the Company may not be able to allow Participant to participate in the Plan, grant Restricted Stock Units to Participant or administer or maintain such Restricted Stock Units. However, Participant's participation in the Plan and his or her acceptance of this Agreement are purely voluntary. While Participant will not receive Restricted Stock Units if he or she decides against participating in the Plan or providing Personal Data as described above, Participant's career and salary will not be affected in any way. For more information on the consequences of the refusal to provide Personal Data, Participant may contact his or her local human resources representative.

## **CHINA**

The following provisions apply only to Participants who are subject to exchange control restrictions imposed by the State Administration of Foreign Exchange ("SAFE"), as determined by the Company in its sole discretion:

Settlement of Restricted Stock Units. This provision supplements Section 1.4 of the Agreement:

The Restricted Stock Units will only vest if and when the Company has completed the registration of the Plan with SAFE and provided such registration remains effective. If the Company is unable to complete the registration or maintain the registration, the settlement of the Restricted Stock Units may be delayed. Shares issued to Participant under the Plan must be maintained in an account with Morgan Stanley or such other broker as may be designated by the Company until the Shares are sold through that broker.

Furthermore, due to regulatory requirements, Participant acknowledges and agrees that Participant must sell any Shares issued to Participant upon vesting of the Restricted Stock Units as soon as practicable following the termination of Participant's Continuous Service and in no event later than six months following the termination of Participant's Continuous Service, or within any other such time frame as may be required by SAFE. Participant agrees that if Participant continues to hold any of such Shares after this time, the Shares will be sold by the Company's designated broker on Participant's behalf at the instruction of the Company. Therefore, by accepting the Restricted Stock Units, Participant understands and agrees that the Company is authorized to, and may in its sole discretion, instruct its designated broker to assist with the mandatory sale of Shares (on Participant's behalf pursuant to this authorization) and that Participant expressly authorizes the Company's designated broker to complete the sale of such Shares. Participant acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Shares at any particular price. Upon the sale of the Shares, the proceeds, less any Tax-Related Items and brokerage fees or commissions will be remitted to Participant pursuant to the procedures described in the "Exchange Control Information" section below.

**Exchange Control Information.** Participant understands and agrees that, to facilitate compliance with exchange control requirements, Participant will be required to immediately repatriate to China the cash proceeds from the sale of the Shares issued upon the vesting of the Restricted Stock Units. Participant further understands that, under local law, such repatriation of the cash proceeds will be effectuated through a special exchange control account established by the Company or its Subsidiary in China, and Participant hereby consents and agrees that the proceeds from the sale of Shares acquired under the Plan may be transferred to such special account prior to being delivered to Participant. The Company may deliver the proceeds to Participant in U.S. dollars or local currency at the Company's discretion. If the proceeds are paid in U.S. dollars, Participant understands that he or she will be required to set up a U.S. dollar bank account in China so that the proceeds may be deposited into this account. If the proceeds are converted to local currency, there may be delays in delivering the proceeds to Participant. Participant agrees to bear the risk of any currency fluctuation between the time the Shares are sold, either through voluntary sale or through a mandatory sale arranged by the Company, or proceeds are otherwise realized under the Plan and the time such proceeds are distributed to Participant through the special exchange control account.

Participant further agrees to comply with any other requirements that may be imposed by the Company in the future to facilitate compliance with exchange control requirements in China.

## **HONG KONG**

**Restricted Stock Units Only Payable in Shares.** Notwithstanding any discretion in the Plan, the Restricted Stock Units will be settled in Shares only. The grant of Restricted Stock Units does not provide any right for Participant to receive a cash payment.

**Restriction on Sale of Shares.** Should any portion of the Restricted Stock Units vest within six months of the Grant Date, Participant agrees that Participant will not dispose of the Shares acquired at vesting prior to the six-month anniversary of the Grant Date.

**Securities Law Information.** *Warning: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Participant is advised to exercise caution in relation to the offer. If Participant is in any doubt about any of the contents of the Agreement, including this Appendix, or the Plan, Participant should obtain independent professional advice. The Restricted Stock Units and any Shares issued pursuant to the grant do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company. The Agreement, including this Appendix, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under the applicable securities legislation in Hong Kong. The Restricted Stock Units and any related documentation are intended only for the personal use of each eligible employee of the Company and may not be distributed to any other person.*



**SUBSIDIARIES OF THE REGISTRANT**

Big Planet, Inc., a Delaware corporation

Corner Canyon Manufacturing, Inc, a Utah corporation

Elevate Nutraceuticals LLC, a Utah limited liability company

Grōv Technologies, LLC, a Utah limited liability company

Grow Solutions Tech LLC, a Utah limited liability company

Guangdong Xingchuang Daily-Use & Health Products Co. Ltd., a Chinese company

Innuvate Health Sciences LLC, a Utah limited liability company

L&W Holdings, Inc., a Utah corporation

NOX Technologies, Inc., a Delaware corporation

NSE Asia Products, Pte. Ltd., a Singapore corporation

NSE Investments, Inc., a Delaware corporation

NSE Korea Ltd., a Korea corporation

NSE Products Europe BVBA, a Belgium company

NSE Products, Inc., a Delaware corporation

NSEMC, Inc., a Delaware corporation

Nu Berry, LLC, a Utah limited liability company

Nu Skin (China) Daily-Use & Health Products Co., Ltd, a Chinese company

Nu Skin (FSC), Inc., a Barbados corporation

Nu Skin (Malaysia) Sdn. Bhd., a Malaysia corporation

Nu Skin Argentina, Inc., a Utah corporation

Nu Skin Asia Holdings, Pte. Ltd., a Singapore corporation

Nu Skin Asia Investment, Inc., a Delaware corporation

Nu Skin Beauty and Wellness Co. Ltd., a Chinese company

Nu Skin Brazil, Ltda., a Brazil limited liability company

Nu Skin Canada, Inc., a Utah corporation

---

Nu Skin Chile Enterprises Ltda., a Chile limited liability company

Nu Skin Colombia, Inc., a Delaware corporation

Nu Skin Czech Republic, s.r.o., a Czech Republic corporation

Nu Skin Eastern Europe Ltd., a Hungary corporation

Nu Skin El Salvador, S.A. de C.V., an El Salvador corporation

Nu Skin Enterprises (Thailand) Limited, a Delaware corporation

Nu Skin Enterprises (Thailand) Limited, a Thailand corporation

Nu Skin Enterprises Australia, Inc., a Utah corporation

Nu Skin Enterprises CR Sociedad Anónima, a Costa Rica corporation

Nu Skin Enterprises de Venezuela, C.A., a Venezuela corporation

Nu Skin Enterprises Hong Kong, LLC, a Delaware limited liability company

Nu Skin Enterprises India Private Limited, an India company

Nu Skin Enterprises New Zealand, Inc., a Utah corporation

Nu Skin Enterprises Philippines, LLC, a Delaware limited liability company

Nu Skin Enterprises Poland Sp. z o.o., a Poland company

Nu Skin Enterprises RS, Ltd., a Russia limited liability company

Nu Skin Enterprises Singapore Pte. Ltd., a Singapore corporation

Nu Skin Enterprises South Africa (Proprietary) Limited, a South Africa corporation

Nu Skin Enterprises SRL, a Romania corporation

Nu Skin Enterprises Ukraine, LLC, a Ukraine limited liability company

Nu Skin Enterprises United States, Inc., a Delaware corporation

Nu Skin Enterprises Vietnam Limited Liability Company, a Vietnam limited liability company

Nu Skin France, SARL, a France limited liability company

Nu Skin Germany, GmbH, a Germany limited liability company

Nu Skin Guatemala, S.A., a Guatemala corporation

Nu Skin Honduras, S.A., a Honduras corporation

---

Nu Skin International Management Group, Inc., a Utah corporation

Nu Skin International, Inc., a Utah Corporation

Nu Skin Islandi ehf., an Iceland private limited liability company

Nu Skin Israel, Inc., a Delaware corporation

Nu Skin Italy, Srl, an Italy corporation

Nu Skin Japan Company, Limited, a Japan corporation

Nu Skin Japan, Ltd., a Japan corporation

Nu Skin Malaysia Holdings Sdn. Bhd., a Malaysia corporation

Nu Skin Mexico, S.A. de C.V., a Mexico corporation

Nu Skin Netherlands, B.V., a Netherlands corporation

Nu Skin New Caledonia EURL, a France corporation

Nu Skin Norway AS, a Norway corporation

Nu Skin Peru S.A.C., a Peru company

Nu Skin Scandinavia A/S, a Denmark corporation

Nu Skin Slovakia s.r.o., a Slovak Republic company

Nu Skin Taiwan, LLC, a Utah limited liability company

Nu Skin Turkey Cilt Bakimi Ve Besleyici Urunleri Ticaret Limited Sirketi, a Turkish limited liability company

Nu Skin United Kingdom Ltd, a United Kingdom private company

NuSkin Belgium, NV, a Belgium corporation

NuSkin Pharmanex (B) Sdn Bhd, a Brunei corporation

Pharmanex (Huzhou) Health Products Co., Ltd., a Chinese company

Pharmanex Electronic-Optical Technology (Shanghai) Co., Ltd., a Chinese company

Pharmanex, LLC, a Delaware limited liability company

PT. Nu Skin Distribution Indonesia, an Indonesia corporation

PT. Nusa Selaras Indonesia, an Indonesia corporation

RHYZ Inc., a Delaware corporation

---

Shanghai Nuskin Chuangxing Daily-Use & Health Product Co. Ltd., a Chinese company

Stellar Smart Energy Solutions, LLC, a Utah limited liability company

Treviso, LLC, a Utah limited liability company

Vertical Eden LLC, a Utah limited liability company

Wasatch Product Development, LLC, a Utah limited liability company

---

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-223343) and Form S-8 (Nos. 333-130304, 333-136464, 333-167690, 333-190508 and 333-211617) of Nu Skin Enterprises, Inc. of our report dated February 12, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Salt Lake City, Utah  
February 12, 2020

---

## SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ritch N. Wood, certify that:

1. I have reviewed this annual report on Form 10-K of Nu Skin Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2020

/s/ Ritch N. Wood

Ritch N. Wood  
Chief Executive Officer

---

## SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Mark H. Lawrence, certify that:

1. I have reviewed this annual report on Form 10-K of Nu Skin Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2020

/s/ Mark H. Lawrence

\_\_\_\_\_  
Mark H. Lawrence  
Chief Financial Officer

---

**SECTION 906 CERTIFICATION OF CHIEF EXECUTIVE OFFICER****CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-K for the period ended December 31, 2019 (the "Report"), I, Ritch N. Wood, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 12, 2020

/s/ Ritch N. Wood

Ritch N. Wood  
Chief Executive Officer

---



**SECTION 906 CERTIFICATION OF CHIEF FINANCIAL OFFICER****CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-K for the period ended December 31, 2019 (the "Report"), I, Mark H. Lawrence, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 12, 2020

/s/ Mark H. Lawrence

Mark H. Lawrence  
Chief Financial Officer

---