

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017

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)

**75 WEST CENTER STREET
PROVO, UTAH 84601**

(Address of principal executive offices, including zip code)

87-0565309

(IRS Employer Identification No.)

(801) 345-1000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 Exchange Act). Yes No

As of October 31, 2017, 52,650,647 shares of the registrant's Class A common stock, \$.001 par value per share, were outstanding.

QUARTERLY REPORT ON FORM 10-Q – THIRD QUARTER 2017

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In this Quarterly Report on Form 10-Q, references to "dollars" and "\$" are to United States ("U.S.") dollars.

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

ITEM 1. FINANCIAL STATEMENTS
NU SKIN ENTERPRISES, INC.
Consolidated Balance Sheets (Unaudited)
(U.S. dollars in thousands)

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 363,769	\$ 357,246
Current investments	7,983	10,880
Accounts receivable	37,725	31,199
Inventories, net	252,470	249,936
Prepaid expenses and other	87,282	65,076
	<u>749,229</u>	<u>714,337</u>
Property and equipment, net	449,555	444,732
Goodwill	114,954	114,954
Other intangible assets, net	68,904	63,553
Other assets	164,689	136,469
Total assets	<u>\$ 1,547,331</u>	<u>\$ 1,474,045</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 41,638	\$ 41,261
Accrued expenses	276,486	275,023
Current portion of long-term debt	101,701	82,727
	<u>419,825</u>	<u>399,011</u>
Long-term debt	316,519	334,165
Other liabilities	93,464	76,799
Total liabilities	<u>829,808</u>	<u>809,975</u>
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Class A common stock – 500 million shares authorized, \$.001 par value, 90.6 million shares issued	91	91
Additional paid-in capital	460,782	439,635
Treasury stock, at cost – 37.8 million and 38.0 million shares	(1,284,043)	(1,250,123)
Accumulated other comprehensive loss	(69,233)	(84,122)
Retained earnings	1,609,926	1,558,589
	<u>717,523</u>	<u>664,070</u>
Total liabilities and stockholders' equity	<u>\$ 1,547,331</u>	<u>\$ 1,474,045</u>

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

NU SKIN ENTERPRISES, INC.

Consolidated Statements of Income (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 563,698	\$ 604,162	\$ 1,612,898	\$ 1,676,468
Cost of sales	<u>120,832</u>	<u>125,863</u>	<u>353,619</u>	<u>391,937</u>
Gross profit	<u>442,866</u>	<u>478,299</u>	<u>1,259,279</u>	<u>1,284,531</u>
Operating expenses:				
Selling expenses	235,285	255,274	672,646	699,196
General and administrative expenses	<u>143,219</u>	<u>140,651</u>	<u>411,270</u>	<u>415,014</u>
Total operating expenses	<u>378,504</u>	<u>395,925</u>	<u>1,083,916</u>	<u>1,114,210</u>
Operating income	64,362	82,374	175,363	170,321
Other income (expense), net	<u>(1,172)</u>	<u>(5,695)</u>	<u>(8,470)</u>	<u>(19,618)</u>
Income before provision for income taxes	63,190	76,679	166,893	150,703
Provision for income taxes	<u>21,518</u>	<u>19,807</u>	<u>55,691</u>	<u>45,802</u>
Net income	<u>\$ 41,672</u>	<u>\$ 56,872</u>	<u>\$ 111,202</u>	<u>\$ 104,901</u>
Net income per share (Note 2):				
Basic	\$ 0.79	\$ 1.02	\$ 2.10	\$ 1.87
Diluted	\$ 0.76	\$ 0.98	\$ 2.04	\$ 1.85
Weighted-average common shares outstanding (000s):				
Basic	52,873	55,983	52,834	55,963
Diluted	54,834	57,852	54,519	56,586

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 41,672	\$ 56,872	\$ 111,202	\$ 104,901
Other comprehensive income, net of tax:				
Foreign currency translation adjustment, net of taxes of \$(3,054) and \$(760) for the three months ended September 30, 2017 and 2016, respectively, and \$(1,376) and \$(2,324) for the nine months ended September 30, 2017 and 2016, respectively	5,497	2,463	15,273	4,413
Net unrealized gains/(losses) on foreign currency cash flow hedges, net of taxes of \$15 and \$147 for the three months ended September 30, 2017 and 2016, respectively, and \$114 and \$1,722 for the nine months ended September 30, 2017 and 2016, respectively	(27)	(266)	(207)	(3,126)
Reclassification adjustment for realized losses/(gains) in current earnings, net of taxes of \$(22) and \$(409) for the three months ended September 30, 2017 and 2016, respectively, and \$97 and \$(803) for the nine months ended September 30, 2017 and 2016, respectively	40	743	(177)	1,459
	<u>5,510</u>	<u>2,940</u>	<u>14,889</u>	<u>2,746</u>
Comprehensive income	<u>\$ 47,182</u>	<u>\$ 59,812</u>	<u>\$ 126,091</u>	<u>\$ 107,647</u>

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

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

	Nine Months Ended	
	September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 111,202	\$ 104,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,525	53,402
Equity method earnings	(655)	--
Japan customs expense	--	31,355
Foreign currency losses	(2,381)	14,749
Stock-based compensation	14,493	5,163
Deferred taxes	6,711	(5,718)
Changes in operating assets and liabilities:		
Accounts receivable	(5,115)	671
Inventories, net	5,039	14,957
Prepaid expenses and other	(16,455)	(59,230)
Other assets	(3,960)	(3,842)
Accounts payable	(906)	10,927
Accrued expenses	(9,701)	19,635
Other liabilities	5,009	(1,540)
Net cash provided by operating activities	<u>155,806</u>	<u>185,430</u>
Cash flows from investing activities:		
Purchases of property and equipment	(38,965)	(35,019)
Proceeds of investment sales	11,269	14,591
Purchases of investments	(8,244)	(17,024)
Acquisitions and investment in equity investee	<u>(31,745)</u>	<u>(4,400)</u>
Net cash used in investing activities	<u>(67,685)</u>	<u>(41,852)</u>
Cash flows from financing activities:		
Exercises of employee stock options	16,377	6,295
Payments of cash dividends	(57,065)	(59,585)
Payments on long-term debt	(72,260)	(50,452)
Proceeds from long-term debt	67,000	233,721
Payment of debt issuance costs	—	(6,596)
Income tax benefit of options exercised	—	4,186
Repurchases of shares of common stock	<u>(47,835)</u>	<u>(41,693)</u>
Net cash provided by (used in) financing activities	<u>(93,783)</u>	<u>85,876</u>
Effect of exchange rate changes on cash	<u>12,185</u>	<u>(1,814)</u>
Net increase in cash and cash equivalents	6,523	227,640
Cash and cash equivalents, beginning of period	<u>357,246</u>	<u>289,354</u>
Cash and cash equivalents, end of period	<u>\$ 363,769</u>	<u>\$ 516,994</u>

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

1. THE COMPANY

Nu Skin Enterprises, Inc. (the "Company") is a leading, global direct selling company that develops and distributes premium-quality, innovative personal care products and nutritional supplements that are sold worldwide under the Nu Skin and Pharmanex brands and a small number of other products and services. Over the last several years, the Company has introduced new Pharmanex nutritional supplements and Nu Skin personal care products under its *ageLOC* anti-aging brand. The Company reports revenue from seven segments: Mainland China; South Korea; South Asia/Pacific, which consists of Australia, Brunei, French Polynesia, Indonesia, Malaysia, New Caledonia, New Zealand, the Philippines, Singapore, Thailand and Vietnam; Americas, which consists of the United States, Canada and Latin America; Japan; Hong Kong/Taiwan; and Europe, Middle East and Africa ("EMEA"), which consists of several markets in Europe as well as Israel, Russia, Ukraine and South Africa (the Company's subsidiaries operating in these countries in each segment are collectively referred to as the "Subsidiaries").

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited consolidated financial statements include the accounts of the Company and its Subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information as of September 30, 2017, and for the three- and nine-month periods ended September 30, 2017 and 2016. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. The consolidated balance sheet as of December 31, 2016 has been prepared using information from the audited financial statements at that date. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

2. NET INCOME PER SHARE

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented. For the three-month periods ended September 30, 2017 and 2016, stock options of 0.2 million and 0.2 million, respectively, and for the nine-month periods ended September 30, 2017 and 2016, stock options of 0.4 million and 1.2 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

3. DIVIDENDS PER SHARE

In February, May and August 2017, the Company's board of directors declared a quarterly cash dividend of \$0.36 per share. These quarterly cash dividends of \$19.0 million, \$19.1 million and \$19.0 million were paid on March 15, 2017, June 14, 2017 and September 13, 2017 to stockholders of record on February 27, 2017, May 26, 2017 and August 25, 2017. In October 2017, the Company's board of directors declared a quarterly cash dividend of \$0.36 per share to be paid on December 6, 2017 to stockholders of record on November 17, 2017.

4. 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.

As of September 30, 2017, the Company did not hold any non-designated derivative contracts. As of September 30, 2016, the Company held non-designated derivative contracts with notional amounts of 300 million Japanese yen (\$3.0 million), 11.5 billion South Korean won (\$10.4 million). Gains and losses related to non-designated derivative contracts are recorded as part of Other Income (Expense).

The following table summarizes gains (losses) related to derivative instruments not designated as hedging instruments during the three- and nine-month periods ended September 30, 2017 and 2016 (U.S. dollars in thousands):

Derivatives not designated as hedging instruments:	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income			
		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2017	2016	2017	2016
Foreign currency contracts	Other income (expense)	\$ —	\$ (765)	\$ (485)	\$ (1,243)

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 September 30, 2017, the Company held forward contracts designated as foreign currency cash flow hedges with notional amounts totaling 1.4 billion Japanese yen (\$12.4 million) and 2.3 billion Japanese yen and 6.0 million euros (\$22.7 million and \$6.7 million, respectively) as of September 30, 2016 to hedge forecasted foreign-currency-denominated intercompany transactions. The fair value of these hedges were \$0.3 million and (\$2.1 million) as of September 30, 2017 and 2016, respectively. The contracts held at September 30, 2017 have maturities through June 2018, and accordingly, all unrealized gains and losses on foreign currency cash flow hedges included in accumulated other comprehensive loss will be recognized in current earnings over the next 9 months.

The following table summarizes gains (losses) related to derivative instruments recorded in other comprehensive income (loss) during the three- and nine-month periods ended September 30, 2017 and 2016 (U.S. dollars in thousands):

	Amount of Gain (Loss) Recognized in Other Comprehensive Loss			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Derivatives designated as hedging instruments:				
Foreign currency forward contracts related to intercompany license fee, product sales, and selling expense hedges	\$ (27)	\$ (266)	\$ (207)	\$ (3,126)

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three- and nine-month periods ended September 30, 2017 and 2016 (U.S. dollars in thousands):

Derivatives designated as hedging instruments:	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2017	2016	2017	2016
Foreign currency forward contracts related to intercompany license fees and product sales hedges	Revenue	\$ (67)	\$ (300)	\$ 42	\$ (609)
Foreign currency forward contracts related to intercompany selling expense hedges	Selling expenses	\$ 5	\$ (443)	\$ 233	\$ (850)

As of September 30, 2017 and December 31, 2016, there were \$0.2 million and \$0.6 million, respectively, of unrealized gains/(losses) included in accumulated other comprehensive loss related to foreign currency cash flow hedges. The remaining \$69.4 million and \$84.7 million as of September 30, 2017 and December 31, 2016, respectively, in accumulated other comprehensive loss are related to cumulative translation adjustments. The Company assesses hedge effectiveness at least quarterly. During the three and nine months ended September 30, 2017 and 2016, all hedges were determined to be effective.

The Company reports its derivatives at fair value as either other current assets or accrued expenses within its consolidated balance sheet. See Note 13 Fair Value.

5. REPURCHASES OF COMMON STOCK

During the three-month periods ended September 30, 2017 and 2016, the Company repurchased 0.4 million and 0.3 million shares of its Class A common stock under its open-market stock repurchase plan for \$25.7 million and \$17.4 million, respectively. During the nine-month periods ended September 30, 2017 and 2016, the Company repurchased 0.8 million and 1.0 million shares of its Class A common stock under its open market repurchase plan for \$47.8 million and \$41.7 million, respectively. As of September 30, 2017, \$151.9 million was available for repurchases under the Company's open market stock repurchase plan.

6. SEGMENT INFORMATION

As a result of the Company's management changes in the first quarter of 2017, the Company concluded that the Chief Operating Decision Maker, as defined in ASC 280, is now comprised of the CEO, President and CFO. This change required the Company to reevaluate its determination of operating segments. The Company's operating segments are based on geographic regions that generate revenue and hold its long-lived assets. The Company sells and distributes its products through a global network of customers and sales leaders in approximately 50 markets. The Company has divided these markets into seven operating segments, which are the Company's reportable segments: Mainland China, Hong Kong/Taiwan, South Korea, Japan, South Asia/Pacific, Americas and EMEA. The seven reportable segments generate revenue from the sale of personal care products and nutritional supplements under the Nu Skin and Pharmanex brands, have similar business characteristics and align with how the CODM function began assessing performance and allocating resources in the first quarter of 2017.

Profitability by segment as reported under US 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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(U.S. dollars in thousands)	2017	2016	2017	2016
Mainland China	\$ 172,556	\$ 168,320	\$ 494,658	\$ 471,319
South Korea	89,238	136,188	258,626	315,342
Americas	79,214	71,250	221,968	204,882
South Asia/Pacific	78,994	70,867	216,727	226,742
Japan	62,513	72,489	188,465	210,429
Hong Kong/Taiwan	41,050	48,140	120,069	140,568
EMEA	40,133	36,908	112,385	107,186
Total	<u>\$ 563,698</u>	<u>\$ 604,162</u>	<u>\$ 1,612,898</u>	<u>\$ 1,676,468</u>

Segment Contribution

(U.S. dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	Mainland China	\$ 42,375	\$ 38,240	\$ 130,085
South Korea	23,713	41,739	70,503	89,991
Americas	12,822	11,637	34,564	34,286
South Asia/Pacific	18,664	16,371	47,083	53,172
Japan	12,786	15,510	36,134	43,490
Hong Kong/Taiwan	8,096	10,401	20,945	25,829
EMEA	2,896	3,258	8,304	6,438
Total segment contribution	121,352	137,156	347,618	366,456
Corporate and other	(56,990)	(54,782)	(172,255)	(196,135)
Operating income	64,362	82,374	175,363	170,321
Other income (expense)	(1,172)	(5,695)	(8,470)	(19,618)
Income before provision for income taxes	<u>\$ 63,190</u>	<u>\$ 76,679</u>	<u>\$ 166,893</u>	<u>\$ 150,703</u>

Depreciation and Amortization

(U.S. dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	Mainland China	\$ 3,550	\$ 4,218	\$ 11,202
South Korea	1,586	1,773	4,872	5,137
Americas	341	672	1,319	2,010
South Asia/Pacific	585	636	1,733	1,796
Japan	898	1,002	2,677	2,848
Hong Kong/Taiwan	353	558	999	1,669
EMEA	226	356	820	1,027
Corporate and other	9,906	9,503	28,903	26,553
Total	<u>\$ 17,445</u>	<u>\$ 18,718</u>	<u>\$ 52,525</u>	<u>\$ 53,402</u>

Capital Expenditures

(U.S. dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	Mainland China	\$ 688	\$ 1,711	\$ 2,351
South Korea	—	141	464	520
Americas	133	96	697	585
South Asia/Pacific	284	235	814	1,978
Japan	109	49	206	916
Hong Kong/Taiwan	2	179	1,119	444
EMEA	571	131	882	798
Corporate and other	9,427	7,763	32,432	21,069
Total	<u>\$ 11,214</u>	<u>\$ 10,305</u>	<u>\$ 38,965</u>	<u>\$ 35,019</u>

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 three major markets: Mainland China, South Korea and Japan. There are approximately 50 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):

Revenue by Product Line

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Nu Skin	\$ 338,305	\$ 343,131	\$ 985,465	\$ 998,386
Pharmanex	224,031	259,896	623,046	674,624
Other	1,362	1,135	4,387	3,458
Totals	<u>\$ 563,698</u>	<u>\$ 604,162</u>	<u>\$ 1,612,898</u>	<u>\$ 1,676,468</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 U.S.). Long-lived assets in Mainland China consist primarily of property, plant and equipment related to manufacturing, distribution facilities and the Mainland China headquarters. Long-lived assets in the U.S. consist primarily of property, plant and equipment, including the Company's corporate offices and distribution facilities. Long-lived assets by major markets are set forth below for the periods ended September 30, 2017 and December 31, 2016 (U.S. dollars in thousands):

	September 30, 2017	December 31, 2016
United States	\$ 294,567	\$ 283,868
Mainland China	93,108	97,867
South Korea	40,446	41,545
Japan	9,447	11,517
All others	11,987	9,935
Total	<u>\$ 449,555</u>	<u>\$ 444,732</u>

7. GOODWILL

During the first quarter of 2017, the Company realigned its operational segments and reporting structure to reflect how the business will be managed going forward. As part of this realignment, the Company divided its single operating segment into seven geographical reporting segments. The Company's reporting units for goodwill are its operating segments, which are also its reportable segments. As a result of the segment changes, the historical goodwill of \$115.0 million was allocated to the seven reportable segments.

The following table presents goodwill allocated to the Company's reportable segments for the periods ended September 30, 2017 and December 31, 2016 (U.S. dollars in thousands):

	September 30, 2017	December 31, 2016⁽¹⁾
Mainland China	\$ 32,179	\$ 32,179
South Korea	29,261	29,261
Americas	9,449	9,449
South Asia/Pacific	18,537	18,537
Japan	16,019	16,019
Hong Kong/Taiwan	6,634	6,634
EMEA	2,875	2,875
Total	<u>\$ 114,954</u>	<u>\$ 114,954</u>

(1) Goodwill was recast to reflect current period presentation by geographic region at December 31, 2016.

8. INVENTORY

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

	September 30, 2017	December 31, 2016
Raw materials	\$ 95,339	\$ 108,276
Finished goods	157,131	141,660
	<u>\$ 252,470</u>	<u>\$ 249,936</u>

9. 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. As of September 30, 2017 and December 31, 2016, the Company had net deferred tax assets of \$29.3 million and \$35.1 million, respectively.

The Company evaluates its indefinite reinvestment assertions with respect to foreign earnings for each quarter. Other than earnings the Company intends to reinvest indefinitely, the Company accrues for the U.S. federal and state income taxes applicable to the earnings. For all foreign earnings, the Company accrues the applicable foreign income taxes. The Company intends to utilize the offshore earnings to fund foreign investments, specifically capital expenditures. Undistributed earnings that the Company has indefinitely reinvested, for which no federal or state income taxes in the U.S. have been provided, aggregate to \$70.0 million as of December 31, 2016. If the amount designated as indefinitely reinvested as of December 31, 2016 was repatriated to the United States, the amount of incremental taxes would be approximately \$7.6 million.

10. 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 2011. With a few exceptions, the Company is no longer subject to state and local income tax examination by tax authorities for the years before 2011. 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 2017 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 2010. However, statutes in certain countries may be as long as ten years for transfer pricing related issues. Along with the IRS examination of 2011, the Company is currently under examination in certain foreign jurisdictions; however, the outcomes of those reviews are not yet determinable.

The Company's unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. There are potential changes in unrecognized tax benefits 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; however, the Company does not anticipate that total unrecognized tax benefits will significantly change over the next 12 months.

11. 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. In the opinion of the Company's management, based upon advice of its counsel handling such litigation, investigations and other proceedings, adverse outcomes, if any, will not likely result in a material effect on the Company's consolidated financial condition, results of operations or cash flows.

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

12. DEBT

Credit Agreement

On October 9, 2014, the Company entered into a Credit Agreement (the "Credit Agreement") with various financial institutions, and Bank of America, N.A. as administrative agent. The Credit Agreement provides 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, and as of September 30, 2017 and December 31, 2016, the Company had an outstanding balance of \$72.5 million and \$47.5 million, respectively, on the revolving credit facility. Any additional amounts drawn under the revolving credit facility will bear interest at rates that will be determined in accordance with the Credit Agreement. The Credit Agreement requires that the Company maintains 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. The Company believes these covenants provide it with greater flexibility to pay dividends and repurchase stock. The Company is in compliance with its debt covenants.

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 are senior unsecured obligations which will rank equal in right of payment to all senior unsecured indebtedness of the Company and will rank senior in right of payment to any indebtedness that is contractually subordinated to the Convertible Notes. Interest on the Convertible Notes is payable semiannually in arrears on June 15 and December 15 of each year at a rate of 4.75% per annum.

The Convertible Notes mature on June 15, 2020, unless repurchased or converted prior to maturity. Prior to the stated maturity date, the Company may, at its option, redeem all or part of the Convertible Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, provided that its common stock share price is equal to or exceeds 180% of the applicable conversion price for 20 or more trading days (including the final three trading days) in the 30 consecutive trading days prior to the Company's exercise of such redemption right. The Holder of the Convertible Notes may, at its option, cause the Company to repurchase all of such Holder's Convertible Notes or any portion thereof that is equal to \$1,000 in principal amount or multiples of \$1,000 upon a change in control or a termination of trading of the Company's common stock, as those terms are defined in the indenture governing the Convertible Notes. In addition, each holder of the Convertible Notes shall have the right, at such holder's option, to convert all or any portion thereof that is equal to \$1,000 in principal amount or multiples of \$1,000 at any time beginning six calendar months following June 16, 2016, at the then-applicable conversion rate. Upon conversion by the Holder, the Convertible Notes will be settled in cash with respect to principal and any accrued and unpaid interest to such date and in the Company's common shares with respect to any additional amounts, based on the applicable conversion rate at such time. The Convertible Notes had an initial conversion rate of 21.5054 common shares per \$1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of approximately \$46.50 per common share). Throughout the term of the Convertible Notes, the conversion rate may be adjusted upon the occurrence of certain specified events.

Of the \$210.0 million in proceeds received from the issuance of the Convertible Notes, \$199.1 million was allocated to long-term debt (the "Liability Component") and \$10.9 million was allocated to additional paid-in capital (the "Equity Component") within the Company's consolidated balance sheet. The Liability Component was calculated by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The amount allocated to the Equity Component, which represents the conversion option, was calculated by deducting the fair value of the Liability Component from the par value of the Convertible Notes. The Company determined that the conversion option does not require separate accounting treatment as a derivative instrument because it is both indexed to the Company's own stock and would be classified in stockholders' equity if freestanding. The Equity Component will not be remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the Liability Component over its carrying amount (the "Debt Discount") will be amortized to interest expense over the term of the Convertible Notes. As a result, the Liability Component will be accreted up to the Convertible Notes' \$210.0 million face value, resulting in additional non-cash interest expense being recognized within the Company's consolidated statement of income. The effective interest rate on the Convertible Notes is approximately 7.1% per annum.

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

The net carrying amount of the Liability Component is as follows (U.S. dollars in thousands):

	September 30, 2017
Principal	\$ 210,000
Unamortized debt discount (conversion option)	(7,731)
Total long-term debt, net	<u>202,269</u>
Unamortized debt discount (issuance costs)	(4,424)
Net carrying amount	<u>\$ 197,845</u>

The net carrying amount of the Liability Component was recorded to long-term debt within the Company's consolidated balance sheet.

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 sheet as a reduction of long-term debt is being amortized over the contractual term of the Convertible Notes using the effective interest method.

During the three months ended September 30, 2017, the Company recognized \$3.5 million in interest expense related to the Convertible Notes, which included \$2.5 million of contractual interest and \$1.0 million in amortization of debt issuance costs and in amortization of the Debt Discount.

The following table summarizes the Company's debt facilities as of September 30, 2017 and December 31, 2016:

Facility or Arrangement	Original Principal Amount	Balance as of September 30, 2017⁽¹⁾⁽²⁾	Balance as of December 31, 2016	Interest Rate	Repayment terms
Credit Agreement term loan facility:					
U.S. dollar denominated:	\$127.5 million	\$98.8 million	\$108.4 million	Variable 30 day: 3.98%	One half of the principal amount payable in increasing quarterly installments over a five-year period beginning on December 31, 2014, with the remainder payable at the end of the five-year term.
Japanese yen denominated:	6.6 billion yen	5.1 billion yen (\$45.4 million as of September 30, 2017)	5.6 billion yen (\$47.9 million as of December 31, 2016)	Variable 30 day: 2.75%	One half of the principal amount payable in increasing quarterly installments over a five-year period beginning on December 31, 2014, with the remainder payable at the end of the five-year term.
Credit Agreement revolving credit facility:					
		\$72.5 million	\$47.5 million	Variable 30 day: 3.98%	Revolving line of credit expires October 2019.
Korea subsidiary loan:	\$20.0 million	—	\$10.0 million	1.12%	Loan paid in full as of March 2017.
Japan subsidiary loan:	2.0 billion yen	0.7 billion yen (\$5.9 million as of September 30, 2017)	1.3 billion yen (\$11.4 million as of December 31, 2016)	0.66%	Payable in semi-annual installments over three years that began on January 31, 2016.
Convertible note:	\$210.0 million	\$210.0 million	\$210.0 million	4.75%	Principal amount payable on June 15, 2020.

(1) As of September 30, 2017, the current portion of the Company's debt (i.e. becoming due in the next 12 months) included \$16.0 million of the balance of its U.S. dollar denominated debt under the Credit Agreement facility, \$7.3 million of the balance of its Japanese yen-denominated debt under the Credit Agreement facility and \$5.9 million of the Japan subsidiary loan. The Company has classified the \$72.5 million borrowed under the revolving line of credit as short term because it is the Company's intention to use the line of credit to borrow and pay back funds over short periods of time.

(2) The carrying value of the debt reflects the amounts stated in the above table less a debt discount of \$10.0 million and debt issuance costs of \$4.4 million (consisting of \$12.1 million related to the Convertible Note and \$2.3 million related to the credit agreement), which is not reflected in this table.

13. 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. The Company's current investments as of September 30, 2017 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. The Company has classified these instruments as Level 2 in the fair value hierarchy. Fair value estimates are made at a specific point in time, based on relevant market information.

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 certain financial instruments and other eligible items at fair value. The Company has elected not to apply the fair value option to existing eligible items beyond what is required by US GAAP.

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

	Fair Value at September 30, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets (liabilities):				
Cash equivalents and current investments	\$ 40,070	\$ —	\$ —	\$ 40,070
Other long-term assets	3,472	—	—	3,472
Forward contracts	—	275	—	275
Life insurance contracts	—	—	36,747	36,747
Total	<u>\$ 43,542</u>	<u>\$ 275</u>	<u>\$ 36,747</u>	<u>\$ 80,564</u>

	Fair Value at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets (liabilities):				
Cash equivalents and current investments	\$ 50,307	\$ —	\$ —	\$ 50,307
Other long-term assets	2,782	—	—	2,782
Forward contracts	—	1,371	—	1,371
Life insurance contracts	—	—	32,286	32,286
Total	<u>\$ 53,089</u>	<u>\$ 1,371</u>	<u>\$ 32,286</u>	<u>\$ 86,746</u>

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

Life Insurance Contracts

Beginning balance at January 1, 2017	\$	32,286
Actual return on plan assets:		
Relating to assets still held at the reporting date		3,835
Purchases and issuances		895
Sales and settlements		(269)
Transfers into Level 3		—
Ending balance at September 30, 2017	\$	<u>36,747</u>

14. ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual periods beginning after December 15, 2017. As the Company evaluates the impact of this ASU, the more significant changes that the Company has identified relate to the current method of accruing its loyalty points program from a cost provision method to a deferred revenue method in accordance with the new guidance. The Company is continuing to evaluate the impact this ASU, and related amendments and interpretive guidance, will have on its consolidated financial statements. The Company plans to adopt this ASU beginning in the first quarter of 2018 with a cumulative adjustment to retained earnings as opposed to retrospectively adjusting prior periods.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This guidance requires an entity to measure inventory at the lower of cost and net realizable value, rather than at the lower of cost or market. This ASU was effective for the Company beginning on January 1, 2017. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Subtopic 842)*. ASU 2016-02 will require companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial position, results of operations, and cash flows.

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The objective of this update was to simplify several aspects of the accounting for employee share-based payment transactions, including accounting for income taxes related to share-based compensation, the related classification in the statement of cash-flows, and accounting for share award forfeitures. This ASU was effective for the Company beginning on January 1, 2017. As required by the adoption of this new guidance, the Company recognized excess tax benefits of \$1.0 million and \$4.0 million in the provision for income taxes as a discrete item for the three- and nine-month periods ended September 30, 2017, respectively. Prior to January 1, 2017, excess tax benefits were recognized in equity. As permitted, the Company elected to classify excess tax benefits as an operating activity in the Statement of Cash Flows instead of as a financing activity on a prospective basis and did not retroactively adjust prior periods. As also permitted by the new guidance, beginning January 1, 2017 the Company has elected to account for share award forfeitures as they occur. Previously, share-based compensation expense was recorded net of estimated forfeitures. A cumulative adjustment of \$2.8 million was recorded to retained earnings and additional paid-in capital as of January 1, 2017. Prior periods were not retroactively adjusted.

In the second half of 2016, the FASB issued ASU Nos. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, and 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The objective of these updates is to reduce the diversity in practice in the classification of certain cash receipts and cash payments, and the presentation of restricted cash within an entity's statement of cash flows, respectively. These ASUs are effective for interim and annual fiscal periods beginning after December 15, 2017. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This guidance revises the definition of a business as it relates to acquisitions, disposals, goodwill impairments and consolidations. This ASU is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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 goodwill 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 adoption of this guidance is not expected to have a 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. Early adoption is permitted in any interim period. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

15. COST OF SALES

In April 2017, the Tokyo High Court issued a ruling on a dispute between the Company and the customs authorities in Japan. The High Court affirmed the Tokyo District Court's February 2016 decision upholding previous customs assessments related to the importation of several of the Company's products into Japan during 2010. The Company filed an appeal with the Japan Supreme Court in May 2017. The High Court's April 2017 ruling applied only to imports that occurred during 2010, but in September 2017, the Tokyo High Court issued its ruling regarding imports that occurred in 2006-2009 and 2011, which are the other time periods in the dispute. For both of these time periods, the High Court affirmed the Tokyo District Court's decisions upholding previous customs assessments. In October 2017, the Company filed an appeal with the Japan Supreme Court regarding the Tokyo High Court's September 2017 ruling.

As previously disclosed, the Company already recorded a charge of \$31.4 million to cost of sales in the first quarter of 2016, when the District Court issued its decision. This charge represents the full amount being disputed. It was a non-cash item because the Company was previously required to pay the assessments.

16. ACQUISITION AND INVESTMENT IN EQUITY INVESTEE

Vertical Eden, LLC

In the first quarter of 2016, the Company purchased 70% of Vertical Eden, LLC, an early-stage company in the warehouse growing market, based in Alpine, Utah, for \$3.3 million in cash and contingent consideration valued at \$1.5 million which resulted in \$2.5 million of goodwill. In the second quarter of 2017, the Company purchased the remaining 30% of Vertical Eden for \$12.5 million in cash. The purchase of Vertical Eden includes specialized technology in remote programming and management of the entire crop growing cycle. As a result of this acquisition, the Company recorded approximately \$4.4 million of intangible assets which are being amortized over the useful lives of 3 to 7 years.

Treviso, LLC

On February 28, 2017, the Company purchased a 35% membership interest in Treviso, LLC, which owns a manufacturing company, for a purchase price of \$21.0 million and a possible earnout of \$1.0 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).

Dr. Dana Beauty, LLC

In the third quarter of 2017, the Company acquired certain assets of Dr. Dana Beauty, LLC for \$7 million in cash. The acquisition, which was accounted for as an asset acquisition, includes contingent consideration of \$4.3 million. The assets acquired include trademarks, product formulas and other intellectual property primarily related to nail treatment.

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

This quarterly report on Form 10-Q (this "Quarterly Report") 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, product introductions and offerings, growth, 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; statements regarding the payment of future dividends and stock repurchases; statements regarding the outcome of litigation, audits or investigations; 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," "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 the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our subsequent reports on Form 10-Q.

The following Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and related notes and Management's Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2016, and our other reports filed with the Securities and Exchange Commission through the date of this report.

Overview

Revenue for the three-month period ended September 30, 2017 was \$563.7 million, a 7% decrease from the prior-year period, and revenue for the nine-month period ended September 30, 2017 was \$1.6 billion, a 4% decrease from the prior-year period. The three- and nine-month periods of the prior year included approximately \$56 million and \$163 million, respectively, in revenue from limited-time offers of *ageLOC Me* and *ageLOC Youth* in connection with the launch of these products, with no similar limited-time offers occurring during the first nine months of 2017. The limited-time offers in the prior year also drove Sales Leader growth in the prior year, impacting the year-over-year comparison. Sales Leaders decreased 5% and Customers increased 7% compared to the third quarter of 2016. In addition, foreign currency fluctuations negatively impacted revenue 1% in both the three- and nine-month periods ended September 30, 2017 compared to the prior-year periods.

Earnings per share for the third quarter of 2017 were \$0.76 compared to \$0.98 in the prior-year period. Earnings per share for the first nine months of 2017 were \$2.04 compared to \$1.85 in the prior-year period, or \$2.21 in the prior-year period excluding a non-cash expense of \$31.4 million in the first quarter of 2016 associated with the Japan customs ruling that is discussed in Note 15 to the consolidated financial statements contained in this report. Earnings per share excluding Japan customs expense is a non-GAAP financial measure. See "Non-GAAP Financial Measures," below. The earnings per share comparisons in both the three- and nine-month periods reflect the decline in revenue and the fixed nature of certain expenses as revenue declined. The negative impact of these items was partially offset by our having fewer shares outstanding in 2017 due to stock repurchases.

In the fourth quarter of 2017, we began the launch process for our *ageLOC LumiSpa* skin treatment and cleansing device by selling a limited quantity at our global Nu Skin LIVE! event in October 2017. We are continuing the launch process for this product across our markets during the fourth quarter of 2017 and into 2018. During November and December 2017, we are doing Sales Leader previews of this product in our markets. These previews are expected to generate lower revenue than the limited-time offers that we have done with certain product launches in the past; we currently anticipate *LumiSpa* sales will generate approximately \$100 million of revenue in the fourth quarter of 2017. Throughout the first half of 2018, we plan to make the product generally available for purchase in our markets.

Segment Results

We report our business in seven segments. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2017 and 2016 for each of our reportable segments (U.S. dollars in thousands):

	<u>Three Months Ended September 30,</u>			<u>Constant Currency</u>	<u>Nine Months Ended September 30,</u>			<u>Constant Currency Change⁽¹⁾</u>
	<u>2017</u>	<u>2016</u>	<u>Change</u>		<u>Change⁽¹⁾</u>	<u>2017</u>	<u>2016</u>	
Mainland China	\$ 172,556	\$ 168,320	3%	3%	\$ 494,658	\$ 471,319	5%	8%
South Korea	89,238	136,188	(34%)	(34%)	258,626	315,342	(18%)	(20%)
Americas	79,214	71,250	11%	12%	221,968	204,882	8%	9%
South Asia/ Pacific	78,994	70,867	11%	13%	216,727	226,742	(4%)	(3%)
Japan	62,513	72,489	(14%)	(7%)	188,465	210,429	(10%)	(7%)
Hong Kong/ Taiwan	41,050	48,140	(15%)	(16%)	120,069	140,568	(15%)	(17%)
EMEA	40,133	36,908	9%	3%	112,385	107,186	5%	4%
Total	<u>\$ 563,698</u>	<u>\$ 604,162</u>	(7%)	(6%)	<u>\$ 1,612,898</u>	<u>\$ 1,676,468</u>	(4%)	(3%)

(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 three- and nine-month periods ended September 30, 2017 and 2016 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 6 to the consolidated financial statements contained in this report.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Mainland China	\$ 42,375	\$ 38,240	\$ 130,085	\$ 113,250
South Korea	23,713	41,739	70,503	89,991
Americas	12,822	11,637	34,564	34,286
South Asia/Pacific	18,664	16,371	47,083	53,172
Japan	12,786	15,510	36,134	43,490
Hong Kong/Taiwan	8,096	10,401	20,945	25,829
EMEA	2,896	3,258	8,304	6,438

The following table provides information concerning the number of Customers and Sales Leaders as of September 30, 2017 and 2016. "Customers" are persons who have purchased products directly from the Company during the three months ended as of the date indicated. "Sales Leaders" are independent distributors, and sales employees and independent marketers in China, who achieve certain qualification requirements.

	As of September 30, 2017		As of September 30, 2016		% Increase (Decrease)	
	Customers	Sales Leaders	Customers	Sales Leaders	Customers	Sales Leaders
Mainland China	190,000	25,600	182,000	25,300	4%	1%
South Korea	185,000	8,400	198,000	11,700	(7%)	(28%)
Americas	215,000	7,200	171,000	6,700	26%	7%
South Asia/Pacific	149,000	7,900	116,000	7,200	28%	10%
Japan	131,000	6,500	136,000	7,000	(4%)	(7%)
Hong Kong/Taiwan	71,000	4,300	75,000	5,300	(5%)	(19%)
EMEA	128,000	4,300	121,000	4,100	6%	5%
Total	1,069,000	64,200	999,000	67,300	7%	(5%)

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

Mainland China. Our business's performance in Mainland China continues to be steady, with revenue, Sales Leaders and Customers each increasing on a year-over-year basis. The momentum in this segment reflects favorable responses to our product and sales compensation initiatives and the launch of *ageLOC Me*, which we sold on a limited basis in the segment during March 2017 and made generally available beginning in April 2017. The year-over-year revenue comparisons also reflect approximately \$58 million generated by a limited-time offer of *ageLOC Me* during the second quarter of 2016 and an additional \$7 million in the third quarter of 2016.

The year-over-year increase in segment contribution for the third quarter of 2017 reflects increased revenue and a 1.7% decrease in selling expenses as a percentage of revenue. The year-over-year increase in segment contribution for the nine-month period ended September 30, 2017 reflects increased revenue and a \$6.9 million decrease in general and administrative expenses driven primarily by reductions in labor and depreciation expenses.

South Korea. The year-over-year decline in revenue in our South Korea segment for the three- and nine-month periods ended September 30, 2017 primarily reflects approximately \$49 million of revenue generated by a limited-time offer of a local variation of our *ageLOC Youth* nutritional supplement during the third quarter of 2016. The limited-time offer also drove an increase in Sales Leaders during that quarter. Although our Sales Leaders number in this segment increased slightly from the second quarter to the third quarter of 2017 due to a product promotion, our business in this segment continues to experience difficulties. We believe that Customer acquisition has been strained due to online competitive pressures. We also believe the political and economic environment in South Korea has negatively impacted our performance in this market.

The year-over-year decline in segment contribution for the three- and nine-month periods ended September 30, 2017 primarily reflects decreased revenue, as well as the fixed nature of certain of our general and administrative expenses as revenue decreased. The comparisons additionally reflect the 2016 limited-time offer, which increased gross margin in 2016 and also increased selling expenses in 2016, as more Sales Leaders qualified for higher sales compensation and promotional incentives in connection with the limited-time offer.

Americas. Our business in this segment continued to improve for both the three- and nine-month periods ended September 30, 2017, largely due to Sales Leader social media sales initiatives. These initiatives drove large year-over-year increases in our revenue, Sales Leaders and Customers in some of our Latin America markets during the third quarter of 2017. These initiatives also drove a large third-quarter year-over-year increase in our Customers in the United States, our largest market in this segment, though this trend may be softening, as our Customer numbers in the United States have begun to flatten on a sequential basis. In addition, revenue in the United States for the third quarter of 2017 grew 3% on a year-over-year basis, compared to 9% year-over-year growth during the second quarter of 2017.

Segment contribution for the third quarter of 2017 increased proportionately with revenue; as a percentage of revenue, segment contribution was 16.3% in the third quarter of 2017 compared to 16.4% in the third quarter of 2016. The dollar amount of segment contribution in the nine-month period ended September 30, 2017 remained even with the prior-year period despite the increase in revenue because general and administrative expenses as a percentage of revenue increased 1.6%. The increase in general and administrative expenses reflects increased labor expenses in the United States, as well as labor, rent and depreciation expenses associated with new facilities that we opened in Argentina and Chile during 2017.

South Asia/Pacific. The increases in revenue, Sales Leaders and Customers in this segment for the third quarter of 2017 were primarily driven by successful Sales Leader social media sales initiatives. The year-over-year decline in revenue for the first nine months of 2017 reflects a limited-time offer of *ageLOC Youth* during the second quarter of 2016, which generated approximately \$35 million in revenue.

The year-over-year increase in segment contribution for the third quarter of 2017 primarily reflects increased revenue, as well as a \$2.4 million decrease in general and administrative expenses due to a 2016 sales force convention in the segment. These improvements were partially offset by a 1.9% decline in gross margin due to product mix and a product promotion in 2017, and increased selling expenses related to incentive trips and other promotional incentives. The year-over-year decrease in segment contribution for the nine-month period ended September 30, 2017 reflects decreased revenue and a 2.6% decline in gross margin due to changes in product mix.

As discussed further in Item 1A. Risk Factors—"Challenges to the form of our network marketing system could harm our business," we are currently in discussions with Vietnam authorities regarding an account transfer fee that may be found to violate Vietnam's anti-pyramid laws. Consequences for violating these laws may include monetary penalties and revocation of our license to do business in Vietnam. Our Vietnam subsidiary's revenue represented 0.5% of our 2016 consolidated revenue and 1.0% of our consolidated revenue in the third quarter of 2017.

Japan. The declines in revenue, Sales Leaders and Customers continued to reflect a soft direct selling market and challenging regulatory environment in Japan. Foreign-currency fluctuations also negatively impacted revenue 7% and 3% for the three- and nine-month periods ended September 30, 2017, respectively, compared to the prior-year periods.

The year-over-year decline in segment contribution for both the three- and nine-month periods ended September 30, 2017 reflects decreased revenue and decreased gross margin.

Hong Kong/Taiwan. The declines in revenue and Customers in this segment were driven by continued year-over-year declines in Sales Leaders as fewer people were selling our products. Our initiatives have not generated the increases in Sales Leaders that we have targeted in this segment. The year-over-year revenue comparison for the nine-month periods also reflects approximately \$14 million generated by a limited-time offer of *ageLOC Me* in the second quarter of 2016 in this segment. On a sequential basis, our business in Hong Kong slightly improved due to a promotion, with revenue, Sales Leaders and Customers each increasing over the second quarter of 2017.

The year-over-year decrease in segment contribution for the third quarter of 2017 primarily reflects decreased revenue. The year-over-year decrease in segment contribution for the nine-month period ended September 30, 2017 reflects decreased revenue and a 2.1% increase in general and administrative expenses as a percentage of revenue due to the fixed nature of certain of our general and administrative expenses as revenue decreased.

EMEA. The year-over-year growth in revenue, Sales Leaders and Customers in this segment reflects continued success of Sales Leader social media sales initiatives in certain markets of the region. Foreign-currency fluctuations also positively impacted revenue 6% in the third quarter of 2017 compared to the prior-year period.

The year-over-year decrease in segment contribution for the third quarter of 2017 primarily reflects increased general and administrative expenses. The year-over-year increase in segment contribution for the nine-month period ended September 30, 2017 reflects increased revenue and a 1.7% improvement in gross margin due to various factors, including foreign currency fluctuations and decreased duties and customs.

Consolidated Results

Revenue

Revenue for the three-month period ended September 30, 2017 decreased 7% to \$563.7 million compared to \$604.2 million in the prior-year period. Revenue for the nine-month period ended September 30, 2017 decreased 4% to \$1.6 billion compared to \$1.7 billion in the prior-year period. For a discussion and analysis of these decreases in revenue, see "Overview" and "Segment Results," above.

Gross profit

Gross profit as a percentage of revenue decreased to 78.6% for the three-month period ended September 30, 2017 compared to 79.2% for the prior-year period. This decrease primarily reflects the decline in revenue and the fixed nature of certain components of cost of sales. Gross profit as a percentage of revenue increased to 78.1% for the nine-month period ended September 30, 2017 compared to 76.6% for prior-year period. This year-over-year increase was primarily driven by the non-cash Japan customs expense of \$31.4 million in the first quarter of 2016 that is discussed in Note 15 to the consolidated financial statements contained in this report. Excluding this expense, gross profit as a percentage of revenue for the first nine months of 2016 was 78.5%, consistent with the current year. Gross profit excluding Japan customs expense is a non-GAAP financial measure. See "Non-GAAP Financial Measures," below.

Selling expenses

Selling expenses as a percentage of revenue decreased to 41.7% for the three-month period ended September 30, 2017 compared to 42.3% for the same period in 2016. Selling expenses as a percentage of revenue remained level at 41.7% for the nine-month period ended September 30, 2017 compared to the same period in 2016.

General and administrative expenses

General and administrative expenses increased to \$143.2 million in the third quarter of 2017 compared to \$140.7 million in the prior-year period. As a percentage of revenue, general and administrative expenses increased to 25.4% for the third quarter of 2017 compared to 23.3% for the prior-year period, as certain of our general and administrative expenses, such as labor, rent and depreciation, remained relatively fixed while revenue decreased. For the nine-month period ended September 30, 2017, general and administrative expenses decreased to \$411.3 compared to \$415.0 million in the prior-year period. As a percentage of revenue, this represents a small increase to 25.5% compared to 24.8% for the prior-year period.

In the fourth quarter of 2017, we anticipate that general and administrative expenses will be approximately \$10 million higher than in the third quarter of 2017 due to our global Nu Skin LIVE! event, which took place in October 2017.

Other income (expense), net

Other income (expense), net for the third quarter of 2017 was \$(1.2 million) of expense compared to \$(5.7 million) of expense for the prior-year period. The lower expense primarily reflected a foreign currency gain associated with our foreign operations that offset a portion of our other expenses.

Other income (expense), net for the first nine months of 2017 was \$(8.5 million) of expense compared to \$(19.6 million) of expense for the prior-year period. The decrease in expense for the nine-month periods reflects a \$17.1 million decrease in foreign currency translation expenses, primarily due to an expense of \$11.1 million in the second quarter of 2016 that resulted primarily from the strengthening of the Japanese yen against the U.S. dollar and its impact on our Japanese yen-denominated debt and liabilities. The decrease in foreign currency translation expenses was partially offset by a \$7.5 million increase in interest expense in 2017 due to the convertible notes that we issued in June 2016.

Provision for income taxes

Provision for income taxes for the three- and nine-month periods ended September 30, 2017 was \$21.5 million and \$55.7 million, compared to \$19.8 million and \$45.8 million for the same periods in 2016. The effective tax rate was 34.1% and 33.4%, of pre-tax income during the three- and nine-month periods ended September 30, 2017, respectively, compared to 25.8% and 30.4%, respectively, in the prior-year periods. The increase in effective tax rate for both the three- and nine-month periods primarily reflects a decreased tax rate in the third quarter of 2016 due to the substantial liquidation of our business operations in Venezuela during that quarter, which resulted in the recognition of a previously unrecognized deferred tax asset. The favorable impact of this matter on our effective tax rate for the first nine months of 2016 was partially offset by the impact of the Japan customs expense that was recognized in the first quarter of 2016, which reduced our income before taxes in that quarter, thereby increasing our effective tax rate for that quarter. The year-over-year comparisons for both the three- and nine-month periods also reflect a benefit in 2017 due to the new accounting standard for stock-based compensation, which was not reflected in our 2016 results.

Net income

As a result of the foregoing factors, net income for the third quarter of 2017 was \$41.7 million compared to \$56.9 million in the prior-year period. Net income for the first nine months of 2017 was \$111.2 million, compared to \$104.9 million for the first nine months of 2016, or \$125.0 million in the first nine months of 2016 excluding Japan customs expense of \$31.4 million (\$20.1 million, net of tax). Net income excluding Japan customs expense is a non-GAAP financial measure. See "Non-GAAP Financial Measures," below.

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 to fund strategic transactions and stock repurchases. We typically generate positive cash flow from operations due to favorable margins and have generally relied on cash from operations to fund operating activities. In the first nine months of 2017, we generated \$155.8 million in cash from operations compared to generating \$185.4 million in cash from operations during the prior-year period. This decrease in cash flow from operations primarily reflects the year-over-year decline in sales, partially offset by the payment in 2016 of a significant amount of items that were accrued as of the end of 2015, particularly commissions based on limited-time offers during December 2015. The Consolidated Statement of Cash Flows for the nine months ended September 30, 2016 contained in this report also includes an adjustment of \$31.4 million because the Japan customs expense that is discussed in Note 15 to the financial statements contained in this report was a non-cash item.

Two line items in the Consolidated Statement of Cash Flows for the nine months ended September 30, 2016 contained in this report include amounts that offset each other. As a result of the previously disclosed February 2016 settlement of our putative securities class action consolidated lawsuit, the Prepaid expenses and other line item includes a negative adjustment of \$47 million due to the recording of a short-term receivable from our insurers, and the Accrued expenses line item includes a positive adjustment of \$47 million due to the recording of a short-term liability representing the agreed-upon settlement amount. For further information, see Note 16 to the consolidated financial statements contained in our Quarterly Report on Form 10-Q for the third quarter of 2016.

As of September 30, 2017, working capital was \$329.4 million, compared to \$315.3 million as of December 31, 2016. Cash and cash equivalents, including current investments, as of September 30, 2017 and December 31, 2016 were \$371.8 million and \$368.1 million, respectively.

Capital expenditures in the first nine months of 2017 were \$39.0 million, and we anticipate additional capital expenditures of approximately \$20 million for the remainder of 2017. Our 2017 capital expenditures are primarily related to:

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

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. Net proceeds on the issuance of the Convertible Notes were \$203 million. We used the proceeds for repurchasing common stock throughout the remainder of 2016. The Convertible Notes are senior unsecured obligations of the Company and rank equal in right of payment to all senior unsecured indebtedness of the Company. Interest on the Convertible Notes is payable semiannually in cash on June 15 and December 15, and the Convertible Notes mature on June 15, 2020, subject to earlier conversion. Although the stated interest rate on the Convertible Notes is 4.75%, interest on this debt is expensed on our income statement at a rate of approximately 7.1%, reflecting the amortization of a debt discount resulting from approximately \$6.3 million in issuance costs and approximately \$10.9 million of the principal amount that is allocated to equity due to the conversion option. As of December 2016, the Convertible Notes became convertible at the holder's discretion at a conversion rate of 21.5054 per \$1,000 principal amount of Convertible Notes (which represents an initial conversion price of \$46.50 per share), in each case subject to customary anti-dilution adjustments. Throughout the term of the Convertible Notes, the conversion rate may be adjusted upon the occurrence of certain specified events. Upon conversion, we intend to settle the Convertible Notes in cash with respect to the principal amount of Convertible Notes converted and any accrued and unpaid interest to such date, and in shares of our common stock with respect to any additional amounts.

Upon a change in control of the Company (as defined in the indenture governing the Convertible Notes) or the failure of our common stock to be listed on certain stock exchanges, the holders of the Convertible Notes may require that we repurchase all or part of the principal amount of the Convertible Notes at a purchase price equal to 108% of the principal amount plus accrued and unpaid interest. In addition, we may redeem all or part of the principal amount of the Convertible Notes, at our option, at a purchase price equal to the principal amount plus accrued and unpaid interest, provided that the closing trading price of our common stock exceeds 180% of the then-current conversion price for 20 or more trading days in the 30 consecutive trading day period preceding our exercise of this redemption right (including the last three such trading days). The Convertible Notes are subject to customary events of default, which may result in the acceleration of the maturity of the Convertible Notes.

Our Credit Agreement (the "Credit Agreement") with various financial institutions, and Bank of America, N.A. as administrative agent, provides 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 ending in October 2019. The Credit Agreement requires that we 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 September 30, 2017, we had debt pursuant to the Credit Agreement of \$216.7 million. See Note 12 to the consolidated financial statements contained in this report for further information regarding the Credit Agreement and other debt.

Our board of directors has approved a stock repurchase plan authorizing us to repurchase up to \$500 million of our outstanding shares of Class A common stock on the open market or in private transactions. The repurchases are used primarily for strategic initiatives and to offset dilution from our equity incentive plans and from conversion of the Convertible Notes. During the first nine months of 2017, we repurchased approximately 0.8 million shares of Class A common stock under this plan for \$47.8 million. At September 30, 2017, \$151.9 million was available for repurchases under the stock repurchase plan.

In February, May and August 2017, our board of directors declared a quarterly cash dividend of \$0.36 per share. These quarterly cash dividends of \$19.0 million, \$19.1 and \$19.0 million were paid March 15, 2017, June 14, 2017 and September 13, 2017 to stockholders of record on February 27, 2017, May 26, 2017 and August 25, 2017. In October 2017, our board of directors declared a quarterly cash dividend of \$0.36 per share to be paid on December 6, 2017 to stockholders of record on November 17, 2017. 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.

As of September 30, 2017 and December 31, 2016, we held \$371.8 million and \$368.1 million, respectively, in cash and cash equivalents, including current investments. These amounts include \$311.2 million and \$283.5 million as of September 30, 2017 and December 31, 2016, respectively, held in our operations outside of the U.S. 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 countries as described below.

We typically fund the cash requirements of our operations in the U.S. through intercompany dividends and intercompany charges for products, use of intangible property, and corporate services. 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 September 30, 2017, we had \$110.8 million 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. However, in recent months, the Chinese government has placed limits on the permitted amount of intercompany lending, which has slowed our ability to access cash in that market. 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. Except for partial indefinite reinvestment in two jurisdictions, we have not designated our investments as indefinitely reinvested, but rather have these funds available for our operations in the U.S. as needed. Any repatriation of non-U.S. earnings requires payment of U.S. taxes in accordance with applicable U.S. tax rules and regulations. Accordingly, we have accrued the necessary U.S. taxes related to the funds that are not indefinitely reinvested.

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.

Contingent Liabilities

Please refer to Note 11 to the consolidated financial statements contained in this report for information regarding our contingent liabilities.

Critical Accounting Policies

There were no significant changes in our critical accounting policies during the quarter ended September 30, 2017.

Seasonality and Cyclicalities

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 product generally available for purchase in a market, we typically do a promotional offering of the product, such as a preview of the product to our key Sales Leaders in the market, a limited-time offer, or other type of promotion. Sales Leader previews, limited-time offers and other 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.

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. All revenue and expenses are translated at weighted-average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Given the large portion of our business derived from outside of the United States, any strengthening of the U.S. dollar negatively impacts reported revenue and profits, whereas a weakening of the U.S. dollar positively impacts our reported revenue and profits. 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. During 2015 and 2016, the strengthening of the U.S. dollar against other currencies significantly impacted our financial results.

Additionally, 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 September 30, 2017, we did not hold any non-designated mark-to-market forward derivative contracts to hedge foreign-currency-denominated intercompany positions or third-party foreign debt. As of September 30, 2016 we held non-designated mark-to-market forward derivative contracts to hedge foreign-currency-denominated intercompany positions or third-party foreign debt with notional amounts of 11.5 billion South Korean won (\$10.4 million), 300 million Japanese yen (\$3.0 million). Gains and losses related to non-designated derivative contracts are recorded as part of Other Income (Expense). In addition, as of September 30, 2017, we held forward contracts designated as foreign currency cash flow hedges with notional amounts totaling approximately 1.4 billion Japanese yen (\$12.4 million) to hedge forecasted foreign-currency-denominated intercompany transactions, compared to 2.3 billion Japanese yen and 6.0 million euros (\$22.7 million and \$6.7 million, respectively) as of September 30, 2016. Because of our foreign exchange contracts at September 30, 2017, the impact of a 10% appreciation or 10% depreciation of the U.S. dollar against the Japanese yen would not represent a material potential loss in fair value, earnings or cash flows against these contracts. This potential loss does not consider the underlying foreign currency transaction or translation exposures to which we are subject.

Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other SEC regulations define and prescribe the conditions for use of certain non-GAAP financial information. Earnings per share, gross margin and net income, each excluding the Japan customs expense, and constant-currency revenue change are non-GAAP financial measures. Management believes that the non-GAAP financial measures assist management and investors in evaluating, and comparing from period to period, results from ongoing operations in a more meaningful and consistent manner while also highlighting more meaningful trends in the results of operations. These measures are used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures.

Constant-currency revenue change 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 this amount to the prior-year period's revenue.

The following is a reconciliation of gross profit, as reported, to gross profit excluding Japan customs expense for the nine months ended September 30, 2017 and 2016 (U.S. dollars in thousands):

	Nine Months Ended September 30,	
	2017	2016
Revenue	\$ 1,612,898	\$ 1,676,468
Gross profit	\$ 1,259,279	\$ 1,284,531
Japan customs expense	—	31,355
Gross profit, excluding Japan customs expense	\$ 1,259,279	\$ 1,315,886
Gross profit as a % of revenue	78.1%	76.6%
Gross profit, excluding Japan customs expense, as a % of revenue	78.1%	78.5%

The following is a reconciliation of net income and diluted earnings per share, as reported, to net income and diluted earnings per share excluding Japan customs expense for the nine months ended September 30, 2017 and 2016 (U.S. dollars in thousands, except per share amounts):

	Nine Months Ended September 30,	
	2017	2016
Net income	\$ 111,202	\$ 104,901
Japan customs expense	—	31,355
Tax effect of Japan customs expense	—	(11,257)
Net income, excluding Japan customs expense	<u>\$ 111,202</u>	<u>\$ 124,999</u>
Diluted earnings per share	\$ 2.04	\$ 1.85
Diluted earnings per share, excluding Japan customs expense	\$ 2.04	\$ 2.21
Diluted weighted-average common shares outstanding (000s)	54,519	56,586

Available Information

Our website address is www.nuskinenterprises.com. We make available free of charge on the Investor Relations portion of our website, 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 the Investor Relations portion of our website, 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), 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")). Based on that evaluation, our CEO and our CFO concluded that our disclosure controls and procedures were effective as of September 30, 2017.

Changes in Internal Controls Over Financial Reporting.

We made no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information supplements and amends our discussions set forth under "Legal Proceedings" in our Annual Report on Form 10-K for the 2016 fiscal year and our Quarterly Report on Form 10-Q for the first and second quarters of 2017. Except as discussed below, there have been no material developments concerning the matters discussed in those reports.

As previously disclosed, in April 2017, the Tokyo High Court issued a ruling in our dispute with the customs authorities in Japan. The High Court affirmed the Tokyo District Court's February 2016 decision upholding previous customs assessments related to the importation of several of our products into Japan during 2010. We filed an appeal with the Japan Supreme Court in May 2017. The High Court's April 2017 ruling applied only to imports that occurred during 2010, but in September 2017, the Tokyo High Court issued its ruling regarding imports that occurred in 2006-2009 and 2011, which are the other time periods in the dispute. For both of these time periods, the High Court affirmed the Tokyo District Court's decisions upholding previous customs assessments. In October 2017, we filed an appeal with the Japan Supreme Court regarding the Tokyo High Court's September 2017 ruling. As previously disclosed, we already recorded a charge of \$31.4 million to cost of sales in the first quarter of 2016, when the District Court issued its decision. This charge represents the full amount being disputed. It was a non-cash item because we were previously required to pay the assessments.

From time to time, we are involved in legal proceedings arising in the ordinary course of business. We believe that the resolution of these matters will not have a negative material effect on our consolidated financial position, results of operations or liquidity.

Please refer to Notes 11 and 15 to the consolidated financial statements contained in this report and to our discussions set forth under "Legal Proceedings" in our Annual Report on Form 10-K for the 2016 fiscal year and our Quarterly Reports on Form 10-Q for the first and second quarters of 2017 for additional information regarding our legal proceedings.

ITEM 1A. RISK FACTORS

The information presented below supplements and should be read in conjunction with the detailed discussion of risks associated with our business in our recent SEC filings, including our Annual Report on Form 10-K for the 2016 fiscal year and our Quarterly Report on Form 10-Q for the first quarter of 2017.

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 comments by FTC officials have addressed inappropriate earnings and lifestyle claims and the importance of focusing on customers. These developments have created a level of 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. We have taken additional steps to educate our distributors on proper earnings 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 2016, the FTC entered into a settlement with another 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, FTC officials have indicated that the industry should look at this settlement, and the principles underlying its specific measures, for guidance. If the requirements in this settlement lead to new industry standards or new rules, 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 and preferred customers, 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 in light of this guidance. 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.

Following an audit of our Vietnam business during 2017, regulators in Vietnam informed us that an account transfer fee that we charge to distributors who transfer their business to a different country may be viewed, with respect to distributors who transfer to Vietnam, as an illegal sign-up fee under Vietnam's anti-pyramid laws. The account transfer fee is approximately \$25. We are currently in discussions with the Vietnam authorities about this matter. Consequences for violating Vietnam's anti-pyramid laws may include monetary penalties and revocation of our license to do business in Vietnam. Our Vietnam subsidiary's revenue represented 0.5% of our 2016 consolidated revenue and 1.0% of our consolidated revenue in the third quarter of 2017.

We could also be subject to challenges by private parties in civil actions. We are aware of recent civil actions against some of our competitors in the United States, which have and may in the future result in significant settlements. Allegations by short sellers directed at us and our competitors regarding the legality of multi-level marketing in various markets 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.

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 plans include some components that differ from market to market. We modify components of our sales compensation plans from time to time to keep our sales compensation plans 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. In October 2017, we announced to our sales force that we plan to implement significant changes to our compensation plans over the next several quarters. 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. For example, certain changes we made to our 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.

In addition, we have been required to modify our sales compensation plan in certain countries, 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.

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

Purchases of Equity Securities by the Issuer

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)⁽¹⁾
July 1 – 31, 2017	63,137	\$ 63.33	63,137	\$ 173.6
August 1 – 31, 2017	187,450	\$ 58.67	187,450	\$ 162.6
September 1 – 30, 2017	173,705	\$ 61.61	173,705	\$ 151.9
Total	424,292	\$ 60.57	424,292	

(1) In October 2015, 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 \$500.0 million of our outstanding Class A common stock on the open market or in privately negotiated transactions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

**Exhibits
Regulation S-K
Number**

Description

31.1	<u>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.</u>
31.2	<u>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.</u>
32.1	<u>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.</u>
32.2	<u>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.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

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

November 1, 2017

NU SKIN ENTERPRISES, INC.

By: /s/ Mark H. Lawrence
Mark H. Lawrence
Chief Financial Officer
(Duly Authorized Officer and Principal Financial and Accounting Officer)

EXHIBIT 31.1
SECTION 302 – CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ritch N. Wood, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 1, 2017

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

EXHIBIT 31.2
SECTION 302 – CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Mark H. Lawrence, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 1, 2017

/s/ Mark H. Lawrence
Mark H. Lawrence
Chief Financial Officer

EXHIBIT 32.1
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 quarterly report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 (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: November 1, 2017

/s/ Ritch N. Wood

Ritch N. Wood

Chief Executive Officer

EXHIBIT 32.2
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 quarterly report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 (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: November 1, 2017

/s/ Mark H. Lawrence
Mark H. Lawrence
Chief Financial Officer