UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005 OR**

OR

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

Commission file number: 001-12421

NU SKIN ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

Based on the closing sales price of the Class A common stock on the New York Stock Exchange on June 30, 2005, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $1.3 billion. All executive officers and directors of the Registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the Registrant.

As of February 28, 2006, 70,180,873 shares of the Registrant's Class A common stock, $.001 par value per share, and no shares of the Registrant's Class B common stock, $.001 par value per share, were outstanding.

Documents incorporated by reference. Portions of the Registrant's definitive Proxy Statement for the Registrant's 2006 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the Registrant's fiscal year end are incorporated by reference in Part III of this report.

Explanatory Note

This Amendment No. 1 to Form 10-K (the "Amendment") is being filed to (i) eliminate some outdated forward-looking information in the 2004 to 2003 comparison of operating results in Item 7 that were inadvertently inserted in the conversion to the EDGAR format; (ii) correct typographical errors in Footnote 11 and Footnote 5 to the Consolidated Financial Statements that occured in the conversion of the filing to the EDGAR format, and (iii) correct a reference to voitng power percentage held by the original stockholders in Item 1A and other non-substantive typographical and formatting errors in the report. The Amendment is otherwise identical to the Form 10-K.

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FORWARD-LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K, IN PARTICULAR "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," AND "ITEM 1. BUSINESS," INCLUDE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE STATEMENTS REPRESENT OUR EXPECTATIONS OR BELIEFS CONCERNING, AMONG OTHER THINGS, FUTURE REVENUE, EARNINGS, GROWTH STRATEGIES, NEW PRODUCTS, FUTURE OPERATIONS AND OPERATING RESULTS, AND FUTURE BUSINESS AND MARKET OPPORTUNITIES. WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENT, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE. WE WISH TO CAUTION AND ADVISE READERS THAT THESE STATEMENTS INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE EXPECTATIONS AND BELIEFS CONTAINED HEREIN. FOR A SUMMARY OF CERTAIN RISKS RELATED TO OUR BUSINESS, SEE "ITEM 1A – RISK FACTORS" BEGINNING ON PAGE 23.

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

PART I

ITEM 1. BUSINESS

Overview

Nu Skin Enterprises is a leading, global direct selling company with operations in 41 countries throughout Asia, the Americas and Europe. We develop and distribute premium quality, innovative personal care products and nutritional supplements that are sold worldwide under the Nu Skin and Pharmanex brands. We also market technology-related products and services under the Big Planet brand. We operate through a direct selling model in all of our markets except Mainland

China (hereinafter “China”), where we currently use a retail business model with employed sales representatives because of regulatory restrictions on direct selling activities. We are currently in the process of applying for a direct selling license in China pursuant to recently enacted regulations that will enable us to begin to adapt our current business model there to include a direct selling component, assuming we receive the required license.

We are one of the leading direct selling companies in the world with 2005 revenue of $1.2 billion. As of December 31, 2005, we had a global network of approximately 803,000 active independent distributors, sales representatives, and preferred customers, approximately 30,000 of whom were executive level distributors or full-time sales representatives. Our executive level distributors and full-time sales representatives play an important leadership role in our distribution network and are critical to the growth and profitability of our business.

We recognized approximately 88% of our revenue in markets outside the United States in 2005. Our Japanese operations accounted for approximately 48% of our 2005 revenue, although this market’s contribution to our overall revenue is lower compared to prior years as a result of our expansion into and growth in other markets. Because of the size of our foreign operations, our operating results can be

impacted positively or negatively by economic, political and business conditions around the world as well as by foreign currency fluctuations, particularly in Japan and other Asian markets.

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

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

Our strategy for growing our business over the last few years has focused on three key areas:

- expansion into new markets;
- introduction of unique tools and initiatives to motivate distributors and improve retention; and
- development of compelling and innovative products.

During 2005, we continued our efforts to expand into additional new markets and grow operations in recently opened markets. We commenced operations in Indonesia in August of 2005, and we recently opened business in Romania. We also plan to commence operations in Russia during the first half of 2006. We also further expanded our presence in China by opening stores and operations in many new cities. We currently have stores in 92 cities throughout China. We also introduced certain key Pharmanex products into China in January 2005.

We also remain committed to providing our distributors with unique tools and initiatives that motivate distributors and help them attract and retain customers and other distributors. These tools reflect our focus on delivering a product offering with a “Measurable Difference.” During 2005, we continued to expand the use of the Pharmanex® BioPhotonic Scanner (the “Scanner”) in the United States and key international markets including Japan. The Scanner is based on patented technologies that allow our distributors to non-invasively measure the impact of our nutritional products on overall nutritional status. At our global convention held in the United States in October 2005, we unveiled the second-generation model of the Scanner (called the “S2” or the "Scanner") which is smaller, more portable and faster than its predecessor in terms of scan and calibration time. We also recently announced plans to launch the Nu Skin® ProDerm™ Skin Analyzer, a handheld skin imaging and analysis tool that will enable our distributors to demonstrate the efficacy of our skin care products by providing a visual and quantifiable assessment of important skin characteristics. In addition, we have continued to expand and promote product subscription and loyalty programs in many of our markets that provide incentives for customers to commit to purchase a set amount of products on a monthly basis. We believe these programs have improved customer retention in many of our markets.

Compelling and innovative products and initiatives are vital to our company because they help to motivate our distributors and make them more effective. As a result, we continue to focus on the

development and introduction of innovative products and reformulated products in order to help expand our business in existing markets. Our product development philosophy across all three product categories is to develop products and related initiatives that allow customers to “live better, longer.” Some of the products introduced in the last year include:

- *g3*, a nutrient-rich juice blend containing a highly concentrated mix of carotenoid antioxidants and micronutrients with a natural delivery system called Lipocarotenes;
- *LifePak Nano*, a new formula of LifePak featuring novel, proprietary nano-carotenoid antioxidants delivered through a unique lipid system that maximizes nutrient absorption;
- NanoCoQ10, a supplement using cutting-edge nano technology to deliver highly bioavailable coenzyme Q10;

- a second generation of our top-selling Nu Skin 180º Anti-aging Skin Therapy System;
- *Celltrex CoQ10 Complete*, a topical antioxidant network for the skin that combines coenzyme Q10 with colorless carotenoids and vitamins C and E;
- *Epoch Sole Solution Foot Treatment*, an ethnobotanical cream for dry, cracked skin; and
- *Photomax*, an online digital imaging service that allows consumers to preserve, organize, share and enjoy their photographs.

Our Product Categories

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

Presented below are the U.S. dollar amounts and percentages of revenue from the sale of Nu Skin, Pharmanex and Big Planet products and services for the years ended December 31, 2003, 2004 and 2005. This table should be read in conjunction with the information presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations," which discusses the costs associated with generating the aggregate revenue presented.

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

Product Category	Year Ended December 31, 2003		2004		2005	
Nu Skin	$ 476.2	48.3%	$ 548.1	48.2%	$ 484.3	41.0%
Pharmanex	472.1	47.8	567.2	49.8	667.6	56.5
Big Planet	38.2	3.9	22.6	2.0	29.0	2.5
	$ 986.5	100.0%	$ 1,137.9	100.0%	$ 1,180.9	100.0%

(1) In 2005, 88% of our sales were transacted in foreign currencies that were converted to U.S. dollars for financial reporting purposes at weighted-average exchange rates. Foreign currency fluctuations positively impacted reported revenue by approximately 1% in 2005, compared to 2004, and positively impacted reported revenue by approximately 4% in 2004, compared to 2003.

***Nu Skin*.** Nu Skin is our original product line and offers premium-quality personal care products in the areas of advanced skin treatments, daily skin care, ethnobotanical treatments and other advanced personal care products. Our strategy is to leverage our network marketing distribution model to establish Nu Skin as an innovative leader in the personal care market. We are committed to continuously improving and evolving our product formulations to incorporate innovative and proven ingredients. In 2005, we introduced several new products and tools, including a new version of *Nu Skin 180°*, *Celltrex CoQ10 Complete* and *Epoch Sole Solution Foot Treatment*.

In addition to marketing premium-quality personal care products, we are committed to developing tools to help distributors market our products more effectively. In 2004, for example, we introduced the Nu Skin® Regimen Optimizer, a proprietary software tool that integrates decades of skin care expertise into an easy-to-use, mobile product recommendation tool. We also provided our distributor centers around the world with a third-party skin imaging camera called the VISIA™ Complexion Analysis System, helping distributors tailor product recommendations to their customers' specific needs. By mid-2006, we plan to begin the global launch of a proprietary skin imaging and assessment system, a patent-pending handheld skin analysis tool called the Nu Skin® ProDerm™ Skin Analyzer, which we unveiled at our October 2005 global distributor convention. This tool is designed to provide users with a visual and quantifiable assessment of skin characteristics such as wrinkles, texture, discoloration and pores, enabling distributors to help customers determine their skin care needs and quantifiably measure the effect of their skin care regimens.

Our leading product categories in the Nu Skin division are advanced skin treatments and daily skin care. The following table summarizes the current Nu Skin product line by category:

Category	Description	Selected Products
Advanced Skin Treatments	Our advanced skin treatments are designed to target specific skin care needs with ingredients scientifically proven to provide visible results for concerns ranging from aging to acne.	*Nu Skin 180° Anti-Aging Skin Therapy System* *Tru Face Line Corrector* *Tru Face Essence* *Tru Face Revealing Gel* *Nu Skin Galvanic Spa System II* *Nu Skin Clear Action Acne*

		Medication System *Nu Skin Tri-Phasic White*
Daily Skin Care	Our daily skin care line consists of face and body products, including cleansers, toners, moisturizers, specialty products and body care. *Nutricentials* products, fortified with topically applied nutrients, uniquely position this line.	*Night Supply NourishingCream* *Liquid Body Bar* *Enhancer Skin Conditioning Gel* *Celltrex Ultra Recovery Fluid* *Celltrex CoQ10 Complete* *Perennial Intense Body Moisturizer*

Category	Description	Selected Products
Ethnobotanicals	Our *Epoch* line is distinguished by utilizing the traditions of indigenous cultures. Each *Epoch* product is formulated with botanical ingredients derived from renewable resources found in nature. In addition, we contribute a percentage of our proceeds from *Epoch* sales to charitable causes.	*Epoch Baby* *Calming Touch* *Glacial Marine Mud* *Ava puhi moni Shampoo* *IceDancer Invigorating Leg Gel* *FireWalker Moisturizing Foot Cream* *Sole Solution*
Color Cosmetics	Our *Nu Colour* line complements our skin care offerings through a variety of premium-quality cosmetics.	*Nu Colour Cosmetics* *Skin Beneficial Tinted Moisturizer* *Bronzing Pearls* *Replenishing Lipstick* *Eye Makeup Remover*
Scion	Available in certain markets, *Scion* is a line of personal care products that provides value-oriented solutions to meet basic grooming needs with quality ingredients.	*Scion Toothpaste* *Scion Two-In-One Shampoo* *Scion Hand and Body Wash* *Scion Moisturizing Body Lotion*
Other Products	Our personal care portfolio also includes daily-use products for hair care, scalp treatment and sun protection.	*DailyKind Mild Shampoo* *FreeFall Detangling Spray* *Nutriol Hair Fitness* *Sunright Lip Balm*

***Pharmanex*.** We market a variety of Pharmanex nutritional products comprised of comprehensive micronutrient supplements, targeted nutritional supplements, weight management supplements and certain specialty products. Pharmanex products include our flagship line of *LifePak* micronutrient and phytonutrient supplements, which accounted for 27% of our total revenue and 47% of Pharmanex revenue in 2005.

Direct selling has proven to be an extremely effective method of marketing our high-quality nutritional supplements because our distributors are able to personally educate consumers on the quality and benefits of our products, differentiating them from competitors' offerings. Our strategy for expanding our nutritional supplement business is to introduce innovative, substantiated products based on extensive research and development and quality manufacturing. Our product development efforts are focused in the areas of anti-aging, weight management and other nutrition issues. In 2005, we introduced several new products, including *g3* juice and *LifePak nano.*

In line with our commitment to provide distributors with tools that will help them market our products more effectively, we introduced the Scanner in 2003 and have since supplied it to nearly all of our global markets. At our global convention held in the United States in October 2005, we unveiled the second-generation model of the Scanner which is smaller, more portable and faster than its predecessor in terms of scan and calibration time. We launched the S2 in the United States and China in February 2006 and plan to introduce it in Japan and other markets later this year. Until recently, our license for the Scanner technology did not permit us to use the Scanner in a medical setting. However, as a result of a recent transaction that we completed, we now own the rights to use the Scanner technology within all environments, including in a medical setting. This provides us with an increased marketing opportunity for our sales force to promote and sell our nutritional supplements. It also opens up new clinical research opportunities for us to further evaluate the application of the Scanner technology in nutrition science.

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

Category	Description	Selected Products
Micronutrient Supplements	Our daily supplements are designed to provide a beneficial mix of nutrients including vitamins, minerals and antioxidants.	*LifePak* Family of Products *g3* juice
Targeted Nutritional Solutions	Our self-care dietary supplements contain	*Tegreen 97*

	consistent levels of botanical ingredients that are designed to provide consumers with targeted wellness benefits.	*ReishiMax GLp* *MarineOmega* *Cholestin* *CordyMax Cs-4* *Cortitrol* *BioGingko 27/7* *IgG Boost* *Estera Women*
Weight Management	Our *TRA* ephedra-free line of weight management products was created to capitalize on the growing weight management category. *TRA* supplements complement any diet program that is currently on the market.	*OverDrive* *FibreNet* *TRA*
Other - Specialty Products	Our portfolio of other nutritional products includes healthy drinks and other specialty wellness products, including our VitaMeal dehydrated food product.	*Splash C* *Appeal* *AloeDrink*

Big Planet. We offer high-technology products and services centered around two product categories under the Big Planet brand: digital photography and business tools. We evaluate emerging trends in technology and develop easy-to-use products that are designed to capitalize on these trends. Our strategy is to provide innovative products designed specifically for non-technical people, which we believe is an underserved market due to the usual complexity of high-tech products.

Our current development focus centers around the digital photography market, where the convergence of trends in digital cameras, mass storage and the Internet offers a unique opportunity to provide products and services that make it easy for consumers to preserve, organize, share and enjoy their photographs. In

2005, we introduced a Web-based digital photo service called *Photomax.com*, which makes it easy for consumers to view, organize and share digital pictures online. Other products in this category include *Photo Saver CD*, a service in which we convert traditional photographs and slides to digital format and store them on a CD, and *Movie Magic DVD* and *Picture Show DVD*, services that transform digital photos into personalized movies or slide shows.

Our Big Planet business tools, products and services are designed to help distributors increase their productivity by leveraging technology in the management of their direct selling activities. These products include individual, personalized distributor Web sites hosted by Big Planet that grant customers easy and convenient access to information about our products and services. Distributors can manage content on their individual Web sites, customizing their marketing efforts and conducting e-commerce activities across our product lines.

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

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

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

Sourcing and Production

Nu Skin. In order to maintain high product quality, we acquire our ingredients and contract production of our proprietary products from suppliers that we believe are reliable, reputable, and deliver us high quality materials and service. For more than 10 years, we have acquired ingredients and products from one primary supplier that currently manufactures approximately 31% of our Nu Skin personal care products. Our contract with our supplier is for a one-year term that automatically renews each year for an additional one-year term unless either party terminates the contract. We maintain a good relationship with our supplier and do not anticipate that either party will terminate the contract in the near term. We also have ongoing relationships with secondary and tertiary suppliers who supply almost all of our remaining products and ingredients. In the event we become unable to source any products or ingredients from our major supplier, we believe that we would be able to produce or replace those products or substitute ingredients from our secondary and tertiary suppliers without great difficulty or significant increases to our cost of goods sold. Please refer to "Item 1A - “Risk Factors” for a discussion of risks and uncertainties associated with our supplier relationships and with the sourcing of raw materials and ingredients.

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

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

We also maintain a facility located in Zhejiang Province, China, where we produce herbal extracts for *Tegreen 97*, *ReishiMax GLp* and other products sold globally. In 2005, we completed the build-out of a new manufacturing facility in Zhejiang Province where we produce some of our Pharmanex nutritional supplements for sale through our retail stores in China. Adjacent to this site, we are in the process of building a new herbal extract plant that will replace the existing facility. We are also planning to build a nutritional supplement manufacturing and exporting facility in China that is scheduled to be online by mid-2008.

We initially relied on a third-party manufacturer to produce our Scanner units, but in December 2004 we opened a plant in Shanghai where we now manufacture the Scanners ourselves. This facility will allow us to produce sufficient Scanners to support current and future demands in our markets.

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

Research and Development

We continually invest in our research and development capabilities. Our research and development expenditures were approximately $6 million in 2003, $8 million in 2004 and $8 million in 2005. Because of our commitment to product innovation, we will continue to commit resources to research and development in the future.

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

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

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

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

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

Geographic Sales Regions

We currently sell and distribute our products in 41 markets, employing a direct selling model in each of our markets except China. Our operations are divided into five geographic regions: North Asia, Greater China, North America, South Asia/Pacific and Other Markets. The following table sets forth the revenue for each of the geographic regions for the years ended December 31, 2003, 2004 and 2005:

Revenue by Region

	Year Ended December 31,					
(U.S. dollars in millions)	**2003**		**2004**		**2005**	
North Asia	$ 612.8	62%	$ 640.1	56%	$ 649.4	55%
Greater China	135.5	14	229.8	20	236.7	20
North America	127.6	13	145.7	13	154.1	13
South Asia/Pacific	75.8	8	81.8	7	86.7	7
Other Markets	34.8	3	40.5	4	54.0	5
	$ 986.5	100%	$ 1,137.9	100%	$ 1,180.9	100%

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

North Asia. The following table provides information on each of the markets in the North Asia region, including the year it was opened, 2005 revenue and the percentage of our total 2005 revenue for each market:

(U.S. dollars in millions)	**Year Opened**	**2005 Revenue**	**Percentage of 2005 Revenue**
Japan	1993	$ 562.0	48%
South Korea	1996	$ 87.4	7%

Japan is our largest market and accounted for approximately 48% of total revenue in 2005. We market most of our Nu Skin and Pharmanex products in Japan, along with a limited number of Big Planet offerings. In addition, all three product categories offer a limited number of locally developed products sold exclusively in our Japanese market. In November 2004, we launched the Scanner in Japan, completing that roll-out during 2005, and plan to launch the new S2 Scanner in 2006. We also plan to launch *g3* nutritional juice (subject to regulatory approval) and the Nu Skin® Proderm™ Skin Anlayzer in 2006.

In South Korea, we offer most of our Nu Skin and Pharmanex products, along with a limited number of Big Planet services. During 2005, we made the Scanner available in our walk-in centers and to distributors through the Scanner lease program.

Greater China. The following table provides information on each of the markets in the Greater China region, including the year it was opened, 2005 revenue and the percentage of our total 2005 revenue for each market:

(U.S. dollars in millions)	**Year Opened**	**2005 Revenue**	**Percentage of 2005 Revenue**
China	2003	$ 102.2	9%
Taiwan	1992	$ 92.4	8%
Hong Kong	1991	$ 42.1	4%

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

In China, we sell many of our Nu Skin products and a locally produced value line of personal care products under the *Scion* brand name. During 2005 we began selling several key Pharmanex products, including *LifePak*, and we also placed Scanners in each of our 140 retail stores. Our plans in 2006 include the launch of the S2 Scanner, *g3* nutritional juice, and the Nu Skin® ProDerm™ Skin Analyzer.

We currently do not operate under our global direct selling business model in China as a result of regulatory restrictions on direct selling activities in this market. Consequently, we have developed a retail sales model which utilizes an employed sales force to sell products through fixed retail locations. We rely on this employed sales force to market and sell products at the various retail locations supported by only minimal advertising and traditional promotional efforts. Our retail model in China is largely based upon our ability to attract customers to our retail stores through our employed sales force, to educate them about our products through frequent training meetings, and to obtain repeat purchases from the sales employees and their customers. Our model only allows for product sales to be transacted within our retail stores. We currently have 140 retail locations in operation. The compensation and salary of an employed sales representative is determined based on a variety of factors including the sales productivity of the sales representative and the other representatives he trains and

supervises. While our distributor leaders from other markets are able to introduce customers and sales people to our stores, their promotional efforts are limited due to the restrictions on direct selling in this market.

We employed approximately 3,800 full-time sales representatives in China as of December 31, 2005. Although we enter into labor contracts with all potential new sales representatives, only a small percentage complete the qualification process, become full-time sales representatives and continue as such for an extended period of time. We provide these potential new sales representatives with a minimum base pay and other labor benefits. As of December 31, 2005, we had approximately 6,600 of such sales employees not yet considered full-time sales representatives.

In September of 2005, the Chinese government announced the adoption of new direct selling regulations that allow sales away from a fixed location through independent contractors, subject to various requirements and restrictions, including restrictions on the ability to pay multi-level compensation. These regulations are not clear in many respects and are subject to various interpretations. In accordance with these new regulations, we have applied for a direct selling license. If and when we obtain a required direct selling license, we plan to begin to adapt our current business model to include a direct selling component that will allow us to engage independent contractors who will be able to sell our products away from a fixed location. We currently anticipate that we will be able to conduct direct selling in several leading provinces and municipalities by the end of 2006, and in additional provinces and municipalities in 2007. Since the new regulations prohibit the use of multi-level compensation plans for direct selling, these independent contractors engaged in direct selling will be compensated for their personal selling efforts only. We plan, however, to continue to operate our retail store/employed sales representative model because we believe it provides us with more flexibility in the manner in which we can operate throughout China and compensate our sales representatives given the restrictions in the new direct selling regulations. **For more information concerning the regulatory risks associated with our operations in China, see "Item 1A. Risk Factors — If recently adopted direct selling regulations in China are interpreted or enforced by governmental authorities in a manner that negatively impacts our current business model or our planned dual business model there, or if we are unable to obtain a direct selling license under these regulations, our business in China would be harmed."**

In addition, the new direct selling regulations require us to maintain "service centers" in any area where we desire to conduct direct selling activities. We expect that our retail stores and offices will qualify as service centers, but we plan to add additional small service centers in 2006 and 2007. The number of service centers to be added will depend upon our development strategy as well as governmental guidelines that are still being developed at the local, provincial, city and/or district levels throughout China.

***North America*.** The following table provides information on each of the markets in the North America region, including the year it was opened, 2005 revenue and the percentage of our total 2005 revenue for each market:

(U.S. dollars in millions)	**Year Opened**	**2005 Revenue**	**Percentage of 2005 Revenue**
United States	1984	$ 144.5	12%
Canada	1990	$ 9.6	1%

Substantially all of our Nu Skin and Pharmanex products, as well as our Big Planet products and services, are available for sale in the United States. The Scanner has been a significant focus for us as an important distributor business tool in the United States since its initial introduction in 2003. Coupled with a focus on growing monthly product subscription revenue, the Scanner has been an important factor in the growth of our Pharmanex business in the United States over the last few years. We plan to launch the S2 Scanner and the Nu Skin® ProDerm™ Skin Analyzer during 2006.

***South Asia/Pacific*.** The following table provides information on each of the markets in the South Asia/Pacific region, including the year it was opened, 2005 revenue and the percentage of our total 2005 revenue for each market:

(U.S. dollars in millions)	**Year Opened**	**2005 Revenue**	**Percentage of 2005 Revenue**
Singapore/Malaysia/Brunei	2000/2001/2004	$ 41.4	4%
Thailand	1997	$ 23.7	2%
Australia/New Zealand	1993	$ 13.3	1%
Indonesia	2005	$ 4.2	*
Philippines	1998	$ 4.1	*

* Less than 0.5%

We offer a majority of our Pharmanex and Nu Skin products but very few Big Planet products in South Asia/Pacific. Marketing initiatives in South Asia/Pacific have centered around monthly product subscription orders and the Scanner, which is available in many of our walk-in centers in this region. We commenced operations in Indonesia in August 2005.

***Other Markets*.** The following table provides information on each of the markets in the Other Markets region, including the year it was opened, revenue for 2005 and the percentage of our total 2005 revenue for each market:

(U.S. dollars in millions)	**Year Opened**	**2005 Revenue**	**Percentage of**

				2005 Revenue
Europe[1]	1995	$	46.0	4%
Latin America and Other[2]	1994	$	8.0	1%

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

(2) Latin America and Other includes Brazil, El Salvador, Guatemala, Honduras and Mexico.

We currently operate in 18 countries throughout Western, Southern, and Central Europe and offer a full range of Nu Skin, Pharmanex and Big Planet products.

Over the past year, we continued to invest in our Latin American markets. As a result, we have seen significant growth to our business in Mexico during the past 18 months, due largely to modifications to our compensation model there that have attracted strong distributor leaders. We also continue to invest in our European markets and we recently commenced operations in Hungary and Romania. We plan to commence operations in Russia during the second quarter of 2006 and are looking into other Eastern European markets as well.

Distribution

Overview. The foundation of our sales philosophy and distribution system is network marketing. We sell our products through independent distributors who are not employees, except in China where we sell our products through employed retail sales representatives. Our distributors generally purchase products from us for resale to consumers and for personal consumption. Because of the nature of our Big Planet products and services, distributors buy a limited number of our Big Planet products for resale but primarily act as independent sales representatives for our products and receive a commission on product sales from us.

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

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

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

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

Our revenue is highly dependent upon the number and productivity of our distributors. Growth in sales volume requires an increase in the productivity and/or growth in the total number of distributors. As of December 31, 2005, we had approximately 803,000 active distributors of our products and services. Approximately 30,000 of these distributors were executive-level distributors. As of each of the dates indicated below, we had the following number of executive distributors in the referenced regions:

Total Number of Executive Distributors by Region

Region	2003	2004	2005
North Asia	17,013	16,637	16,129
Greater China	5,991(1)	8,827(1)	7,134(1)
North America	2,861	3,099	3,443
South Asia/Pacific	2,175	2,076	2,043
Other Markets	1,091	1,377	1,722

Total	29,131	32,016	30,471

(1) These numbers include employed, full-time sales representatives in China of 3,100, 5,437 and 3,787 for 2003, 2004 and 2005, respectively.

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

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

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

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

Commissions on the sale of an individual Nu Skin or Pharmanex product can reach approximately 58% of the wholesale price. The actual payout percentage, however, varies depending on a distributor's level within the global compensation plan. On a global basis, the overall payout on these products has typically averaged approximately 41% to 43%. We believe that our commission payout as a percentage of total sales is among the most generous paid by major direct selling companies.

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

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

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

Each of our products carries a specified number of sales volume points. Commissions are based on total personal and group sales volume points per month. Sales volume points are generally based upon a product's wholesale cost, net of any point-of-sale taxes. As a distributor's business expands to successfully sponsoring other distributors into the business—who in turn expand their own businesses—a distributor receives a higher percentage of commissions. An executive's commissions can increase substantially as multiple downline distributors achieve executive status. In determining commissions, the number of levels of downline distributors included in an executive's commissionable group increases as the number of executive distributorships directly below the executive increases.

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

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

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

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

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

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

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

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

Product Returns. We believe we are among the most consumer-protective companies in the direct selling industry. While the regulations and our operations vary somewhat from country to country, we generally follow a similar procedure for product returns. For 30 days from the date of purchase, our product return policy generally allows a retail customer to return any Nu Skin or Pharmanex product to us directly or to the distributor through whom the product was purchased for a full refund. After 30 days from the date of purchase, the end user's return privilege is at the discretion of the distributor. Our distributors can generally return unused products directly to us for a 90% refund for one year. Through 2004, our experience with actual product returns averaged less than 5% of annual revenue.

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

Competition

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

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

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

Intellectual Property

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

Government Regulation

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

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

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

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

Because of the Chinese government's significant concerns about direct selling activities, it scrutinizes very closely activities of direct selling companies. The scrutiny has increased following adoption of the new direct selling and anti-pyramiding regulations and our business continues to be subject to reviews and investigations by municipal and provincial level regulators. At times, investigations and related actions by government regulators have caused an obstruction to our ability to conduct business in certain locations, and have resulted in a few cases in fines being paid by our company. In each of these cases, we have been allowed to recommence operations after the government's investigation, and no material changes to our business model were required in connection with these fines and obstructions. We also expect to receive continued guidance and direction as we work with regulators to address our business model and any changes we make to comply with the new direct selling regulations. **For more information on the regulatory risks associated with our business in China, see the risk factor under "Item 1A. Risk Factors" entitled** "**Our operations in China have been subject to significantly governmental scrutiny, and our operations in China may be harmed by the results of such scrutiny."**

In accordance with the new direct selling regulations, we have applied for a direct selling license. It is not clear when direct selling licenses will be issued and how the government is processing these applications. If and when we receive a direct selling license, we plan to augment our current business model by adding a direct selling component that will allow us to begin to engage independent contractors who will be able to sell our products away from a fixed location. We plan on maintaining our retail store/employed sales representative model because we believe it provides us with more flexibility in the manner in which we can operate throughout China and compensate our sales representatives. **For more information on the risks that these regulations could have on our business, see the risk factor under "Item 1A. Risk Factors" entitled** "**If recently adopted direct selling regulations in China are interpreted or enforced by governmental authorities in a manner that negatively impacts our current business model or our planned dual business model there, or if we are unable to obtain a direct selling license under these regulations, our business in China could be harmed."**

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

Our Pharmanex products are subject to various regulations in the markets in which we operate. In the United States, laboratory analysis by governmental authorities, and the product registration process for these products are regulated by the Food and Drug Administration. Because our products are regulated more like foods under the Dietary Supplement and Health Education Act, we are generally not required to obtain regulatory approval prior to introducing a product into

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

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

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

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

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

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

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

Employees

As of December 31, 2005, we had approximately 9,000 full- and part-time employees, approximately 3,800 of whom are employed as full-time sales representatives in our China operations. We also had labor contracts with approximately 6,600 potential new sales representatives, only a small percentage of whom are expected to complete the qualification process and become full-time sales representatives. None of our employees is represented by a union or other collective bargaining group, with the exception of the limited number of employees involved in our operations in Brazil. We believe that our relationship with our employees is good, and we do not foresee a shortage in qualified personnel necessary to operate our business.

Available Information

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

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

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

- our plans with respect to the launch of the S2 Scanner and the Nu Skin® ProDerm™ Skin Analyzer in various markets;
- the expectation that our relationship with our current primary suppliers will not end in the near term, and the belief that we could produce or source our personal care products from other suppliers and expand manufacturing capabilities in China, and replace our primary suppliers of Pharmanex products without great difficulty or increased cost;
- our plans to build and open a nutritional supplement manufacturing facility in China for export by mid-2008;
- our belief that we can produce sufficient Scanners in our new manufacturing facility in China to support current and future demands in our markets;
- our plans to continue to develop new, innovative products and to improve and evolve our existing product formulations;
- our plans to commit resources to research and development in the future;
- our belief that providing effective distributor support will be important to our success;
- our plans to continue to enter and expand new markets, including Russia and other Eastern European markets;
- our plans to add a direct selling component to our business model in China; and

- our belief that we do not currently foresee a shortage in qualified personnel necessary to operate our business.

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

ITEM 1A. RISK FACTORS

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

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

In 2005, we recognized approximately 88% of our revenue in markets outside of the United States in each market's respective local currency. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenue and expenses in foreign countries from their local currencies into U.S. dollars using weighted-average exchange rates. If the U.S. dollar strengthens relative to local currencies, particularly the Japanese yen

inasmuch as we generated approximately 48% of our 2005 revenue in Japan, our reported revenue, gross profit and net income will likely be reduced. During the latter-half of 2005, we experienced a significant weakening of the Japanese yen, which harmed our results. Given the global, complex political and economic dynamics that affect exchange rate fluctuations, we cannot estimate future fluctuations and the effect these fluctuations may have upon future reported results or our overall financial condition. In the event the Japanese yen or other foreign currencies continue to weaken or do not return to previous levels, our results in 2006 would be negatively impacted. Although we attempt to reduce our exposure to short-term exchange rate fluctuations by using foreign currency exchange rate contracts for the Japanese yen, we cannot be certain these contracts or any other hedging activity will effectively reduce exchange rate exposure. In addition, the Chinese government has recently allowed the yuan to float against the U.S. dollar to a small degree, which will result in exchange rate risk for our Chinese operations as well.

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

Approximately 48% of our 2005 revenue was generated in Japan. We have experienced some softness in our business in this market during the past six months, and many of our competitors have seen their businesses in this market contract in the last few years. We believe our operating results have been negatively impacted by a variety of factors, including the unanticipated impact of compensation plan changes, regulatory issues, as well as economic and political conditions. In addition, we continue to face increasing competition from existing and new competitors in Japan. Our financial results would be harmed if our products, business opportunity or planned growth initiatives do not retain and generate continued interest and enthusiasm among our distributors and consumers in this market. If the BioPhotonic Scanner, the ProDerm™ Skin Analyzer and other planned initiatives are delayed, impacted by regulatory constraints or do not generate distributor excitement or attract new distributors or customers in Japan, it may limit our prospects for growth in that market and harm our financial results.

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

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

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

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

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

Our operating results could be adversely affected if our existing and new business opportunities and incentives, products, business tools and other initiatives do not generate sufficient enthusiasm and economic incentive to retain our existing distributors or to sponsor new distributors on a sustained basis. For example, the introduction of the Scanner, changes in compensation incentives (particularly in the United States) and focus on automatic delivery programs have helped generate growth in many of our markets. There can be no assurance that such initiatives will generate excitement among our distributors in the long-term or that planned initiatives tied to the Scanner in markets like the United States, where the Scanner was introduced more than three years ago, will be successful in maintaining distributor activity and productivity. In addition, some initiatives may have unanticipated negative impacts on our markets. For example, during the past year certain modifications we made to compensation incentives in China, Japan and Singapore were not received or understood well by some distributors, resulting in unanticipated negative impacts on distributor numbers and revenue in these markets. The introduction of a new product or key initiative such as the Scanner can also negatively impact other product lines to the extent our distributor leaders focus their efforts on the new product or initiative.

Our operations in China have been subject to significant governmental scrutiny, and our operations in China may be harmed by the results of such scrutiny.

Because of the government's significant concerns about direct selling activities, government regulators in China scrutinize very closely activities of direct selling companies or activities that resemble direct selling. This scrutiny has increased following adoption of the new direct selling and anti-pyramiding regulations. In the past, the government has taken significant actions against companies that the government found were engaging in direct selling activities in violation of applicable law, including shutting down their businesses and imposing substantial fines. Although China has recently adopted new direct selling regulations, which will allow direct selling activities by companies who have received the appropriate direct selling licenses, we have not received such licenses or authorizations yet. Consequently, we have not implemented our direct sales model in China, but are continuing to use a business model that utilizes retail stores and an employed sales force that we believe complies with applicable regulations. Frequently, individuals, including our competitors, complain to local regulatory agencies that our China business model violates applicable regulations on direct selling. In addition, some of our distributors from outside of China and some of our employed sales representatives have engaged in activities in this market that violated our policies. As a result, we have been subject to, and continue to be subject to, various inquires and investigations by local and provincial regulators regarding our business model and the activities of our sales representatives. These reviews and investigations by government regulators have at times obstructed our ability to conduct business and have resulted in several cases in fines being paid by us, which in the aggregate have been less than 1% of our revenue in China. We may incur similar or more severe sanctions in the future. Occasionally, we have also been asked to cease sales activity in some stores while the regulators review our operations. While, in each of these cases, we have been allowed to recommence operations after the government's review without material changes to our operations, there is no assurance that this will always be the case. Our operations or results of operations also could be harmed if the results of current reviews or investigations of our operations or activities of our sales representatives delay or impact our ability to obtain a direct selling license.

With the adoption of new direct selling and anti-pyramiding regulations, the regulatory environment in China is evolving, and officials in the Chinese government often exercise significant discretion in deciding how to interpret and apply applicable regulations. Although we have worked closely with both national and local governmental agencies in implementing our plans, our efforts to comply with local laws may be harmed by the rapidly evolving regulatory climate, concerns about activities resembling direct selling, and any subjective or restrictive interpretation of applicable laws as discussed below, including the new direct selling regulations. Any determination that our operations or activities, or the activities of our employed sales representatives or distributors living outside of China, are not in compliance with applicable regulations could result in the imposition of substantial fines, extended interruptions of business, restrictions on our ability to obtain a direct selling license, open new stores or obtain approvals for service centers or expand into new locations, changes to our business model, the termination of required licenses to conduct business, limitations on the number of sales persons we can employ, or other actions, all of which would harm our business.

If recently adopted direct selling regulations in China are interpreted or enforced by governmental authorities in a manner that negatively impacts our current business model or our planned dual business model there, or if we are unable to obtain a direct selling license under these regulations, our business in China would be harmed.

Towards the end of 2005, Chinese regulators adopted anti-pyramiding and new direct selling regulations. These regulations contain significant restrictions and limitations, including a restriction on multi-level compensation for independent distributor selling away from a fixed location. Although we have applied for a direct selling license and anticipate that we will be able to obtain a direct selling license under these regulations, there can be no assurance that we will be able to obtain such a license. The timing, the factors taken into consideration and the process that the government will follow in processing applications and granting direct selling licenses are not clear, and our future growth in China could be harmed if we do not receive a direct selling license, or if the direct selling application process is delayed further than anticipated. These new regulations are not yet well understood, and there continues to be some confusion and uncertainty as to the meaning of the new regulations and their scope, and the specific types of restrictions and requirements imposed under them. It is also difficult to predict how regulators will interpret and enforce these new regulations and the impact of these new regulations on pending regulatory reviews and investigations. Our business and our growth prospects would be harmed if Chinese regulators interpret the anti-pyramiding regulations or direct selling regulations as applying to our retail store/employed sales representative business model, or if regulations are interpreted in such a manner that our current method of conducting business through the use of employed sales representatives or our planned implementation of direct selling is found to violate applicable regulations. In particular, our business would be harmed by any determination that our current method of compensating our sales employees, including our use of the sales productivity of a sales employee and the group of sales employees whom he or she trains and supervises as one of the factors in establishing such sales employee's salary and compensation, violates the restriction on multi-level compensation in the new regulations. Our business could also be harmed if regulators inhibit our ability to concurrently operate our retail store/employed sales representative business model and our planned direct selling business. In addition, there can be no assurance that we will be able to successfully grow our business through direct selling activities given the restrictive nature of the new direct selling regulations.

If we are unable to obtain approvals for service centers in China as quickly as we would like, our ability to grow our business there could be negatively impacted.

The new direct selling regulations and supplemental rules recently adopted in China require us to establish a service center in each area where we conduct direct selling activities. We will be required to obtain approval from local governmental authorities for each service center we intend to establish. The local approval processes vary and remain uncertain in some areas. The local governmental officials also have broad discretion in approving these service centers. If regulators fail to approve licenses for service centers at a rate that meets our growth demands, this could limit our ability to obtain direct selling licenses in some provinces and harm our business.

Intellectual property rights are difficult to enforce in China.

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

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

In March 2003, the FDA questioned the status of the BioPhotonic Scanner as a non-medical device. We subsequently filed an application with the FDA to have it classified as a non-medical device. The FDA has not yet acted on our application. There are various factors that could determine whether the BioPhotonic Scanner is a medical device including the claims that we or our distributors make about it. We have faced similar uncertainties and regulatory issues in other markets with respect to the status of the BioPhotonic Scanner as a non-medical device and the claims that can be made in using it. For example, during the past

year we faced regulatory inquiries in Japan, Korea and Singapore regarding distributor claims with respect to the Scanner. A determination in any of these markets that it is a medical device or that distributors are using it to make medical claims or perform medical diagnoses could negatively impact our plans for or use of the BioPhotonic Scanner in such market. Regulatory scrutiny of the Scanner may also dampen distributor enthusiasm and hinder the ability of distributors to effectively utilize the Scanner. In the event medical device clearance is required in any market, obtaining clearance could require us to provide documentation concerning its clinical utility and to make some modifications to its design, specifications and manufacturing process in order to meet stringent standards imposed on medical device companies. There can be no assurance we would be able to provide such documentation and make such changes promptly or in a manner that is satisfactory to regulatory authorities.

Technical and regulatory issues associated with the Nu Skin® ProDerm™ Skin Analyzer could negatively impact the success of this program, which could harm our business.

Our plans to introduce the Nu Skin® ProDerm™ Skin Analyzer in our various markets are subject to risks and uncertainties. We are currently in the process of finalizing the hardware and software design specifications, and if we experience difficulties or delays in completing this process that prevent us from meeting our launch schedules, our business may be harmed. Our plans are also subject to regulatory risks, particularly in Japan, where we are currently working through the regulatory process for the planned introduction of the ProDerm™ Skin Analyzer in that market. It appears that regulatory restrictions in Japan may impose limitations on the use of this tool and on claims that may be made in connection with its use. Such limitations in Japan or any other markets could weaken the ability of our distributors to utilize this tool in building their businesses, and could dampen distributor enthusiasm surrounding it.

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

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

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

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

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

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

There have been some recent injuries and deaths that have been attributed to the use of nutritional supplements that contain ephedra (which we have never sold) and other controversial ingredients that have generated negative publicity. Because of this negative publicity, there has been an increasing movement in the United States and other markets to increase the regulation of dietary supplements which could impose additional restrictions or requirements in the future. Although we are committed to not market nutritional supplements that contain any substances such as ephedra that are controversial and that could pose health risks, our operations could be harmed if governmental laws or regulations are enacted that restrict the ability of companies to market or distribute nutritional supplements or impose additional burdens or requirements on nutritional supplement companies as a result of public reaction to the recent injuries and deaths caused by supplements that do contain such ingredients.

If we are unable to successfully expand operations in any of the new markets we have currently targeted, we may have difficulty achieving our long-term objectives.

A significant percentage of our revenue growth over the past decade has been attributable to our expansion into new markets. For example, the revenue growth we experienced in 2003 and 2004 was due in part to our successful expansion of operations into China. Moreover, our growth over the next several years depends in part on our ability to successfully introduce our products and our distribution system into new markets, including Russia and further development of China and Eastern Europe. In addition to the regulatory difficulties we may face in gaining access into these new markets, we could face difficulties in achieving acceptance of our premium-priced products in developing markets. In the past, we have struggled to operate successfully in developing country markets, such as Latin America. This may also be the case in Eastern Europe and the other new markets into which we currently intend to expand. If we are unable to successfully expand our operations into these new markets, our opportunities to grow our business may be limited, and, as a result, we may not be able to achieve our long-term objectives. In addition, sometimes the opening of a new market or the introduction of a key initiative in a market can have a negative impact on other markets if it attracts the attention and time of key executive distributor leaders from other markets.

Global political issues and conflicts could harm our business.

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

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

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

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

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

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

Distributor activities in our existing markets that violate governmental laws or regulations could result in governmental actions against us in markets where we operate. Except in China, our distributors are not employees and act independently of us. We implement strict policies and procedures to ensure our distributors will comply with legal requirements. However, given the size of our distributor force, we experience problems with distributors from time to time. For example, product claims made by some of our distributors in 1990 and 1991 led to an investigation by the FTC, which resulted in our entering into a consent decree with the FTC as described below.

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

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

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

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

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

In addition, we are susceptible to government-initiated campaigns that do not rise to the level of formal regulations. For example, the South Korean government, several South Korean trade groups and members of the South Korean media initiated campaigns in 1997 and 1998 urging South Korean consumers not to purchase luxury or foreign goods. We believe that these campaigns and the related media attention they received, together with the economic recession that

occurred in the late 1990s in the South Korean economy, significantly harmed our South Korean business. We cannot assure you that similar government, trade group or media actions will not occur again in South Korea or in other countries where we operate or that such events will not similarly harm our operations.

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

As of December 31, 2005, we had approximately 803,000 active independent distributors, sales representatives and preferred customers, including approximately 30,000 executive level distributors or full-time sales representatives. Approximately 446 distributors occupied the highest distributor level under our global compensation plan as of that date. These distributors, together with their extensive networks of downline distributors, account for substantially all of our revenue. As a result, the loss of a high-level distributor or a group of leading distributors in the distributor's network of downline distributors, whether by their own choice or through disciplinary actions by us for violations of our policies and procedures, could negatively impact our distributor growth and our revenue.

Laws and regulations may prohibit or severely restrict our direct sales efforts and cause our revenue and profitability to decline.

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

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

Complying with these widely varying and sometimes inconsistent rules and regulations can be difficult and require the devotion of significant resources on our part. If we are unable to continue business in existing markets or commence operations in new markets because of these laws, our revenue and profitability will decline. Countries where we currently do business could change their laws or regulations to negatively affect or prohibit completely direct sales efforts. In addition, government agencies and courts in the countries where we operate may use their powers and discretion in interpreting and applying laws in a manner that limits our ability to operate or otherwise harms our business. If any governmental authority were to bring a regulatory enforcement action against us that interrupts our business, revenue and earnings would likely suffer.

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

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

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

Historically, we have imported most of our products into the countries in which they are ultimately sold. These countries impose various legal restrictions on imports and typically impose duties on our products. We are subject from time to time to reviews and audits by the foreign taxing authorities of the various jurisdictions in which we conduct business throughout the world. These audits sometimes result in challenges by such taxing authorities as to our methodologies used in determining our income tax, duties, customs, and other amounts owed in connection with the importation and distribution of our products. Currently, customs audits are underway in a number of our markets. We were recently assessed by the Japan customs authorities for additional duties on products imported into Japan, and we are currently contesting this assessment. Audits are also often focused on whether or not certain expenses are deductible for tax purposes in a given country. In Taiwan, we are currently subject to an audit by tax authorities with respect to the deductibility of distributor commission expenses in that market. In order avoid the running of the statute of limitations with respect to the 1999 and 2000 tax years, the Taiwan tax authorities have disallowed our commission expense deductions for those years and assessed us a total of approximately $18.7 million. We are contesting this assessment and are in discussions with the tax authorities in an effort to resolve this matter. To the extent we are unable to successfully defend ourselves against such audits and reviews, we may be required to pay assessments and penalties and increased duties, which may, individually or in the aggregate, negatively impact our gross margins and operating results.

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

As a U.S. company doing business in international markets through subsidiaries, we are subject to foreign tax and intercompany pricing laws, including those relating to the flow of funds between our company and our subsidiaries. Regulators in the United States and in foreign markets closely monitor our corporate structure and how we effect intercompany fund transfers. If regulators challenge our corporate structure, transfer pricing mechanisms or intercompany

transfers, our operations may be harmed, and our effective tax rate may increase. Tax rates vary from country to country, and, if regulators determine that our profits in one jurisdiction may need to be increased, we may not be able to fully utilize all foreign tax credits that are generated, which will increase our effective tax rate. For example, our corporate income tax rate in the United States is 35%. If our profitability in a higher tax jurisdiction, such as Japan where the corporate tax rate is currently set at 46%, increases disproportionately to the rest of our business, our effective tax rate may increase. The various customs, exchange control and transfer pricing laws are continually changing and are subject to the interpretation of governmental agencies. Despite our efforts to be aware of and comply with such laws and changes to and interpretations thereof, there is a risk that we may not continue to operate in compliance with such laws. We may need to adjust our operating procedures in response to such changes, and as a result our business may suffer.

The loss of suppliers could harm our business.

For approximately ten years, we have acquired ingredients and products from a supplier that currently manufactures approximately 31% of our Nu Skin personal care products. In addition, we currently rely on two suppliers for a majority of Pharmanex nutritional supplement products, one of which supplies approximately 35% and the other of which supplies approximately 22%. In the event we were to lose any of these suppliers and experience any difficulties in finding or transitioning to alternative suppliers, this could harm our business. In addition, we obtain some of our products from sole suppliers. We also license the right to distribute some of our products from third parties. Although none of these products individually represent a substantial portion of our revenue, in the event we are unable to renew these contracts, we may need to discontinue some products or develop substitute products, which could harm our revenue. In addition, if we experience supply shortages or regulatory impediments with respect to the raw materials and ingredients we use in our products, we may need to seek alternative supplies or suppliers. If we are unable to successfully respond to such issues our business could be harmed.

Production difficulties and quality control problems could harm our business.

Occasionally, we have experienced production difficulties with respect to our products, including the delivery of products that do not meet our quality control standards. These quality problems have resulted in the past, and could result in the future, in stock outages or shortages in our markets with respect to products, harming our sales and creating inventory write-offs for unusable product. In addition, these issues can negatively impact distributor confidence as well as potentially invite additional governmental scrutiny in our various markets.

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

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

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

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

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

Product liability claims could harm our business.

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

System failures could harm our business.

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

There is uncertainty whether the SARS or other epidemics could return or arise, particularly in those Asian markets most affected by such epidemics in recent years.

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

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

Our Class A common stock closed at $20.15 per share on March 31, 2004 and closed at $18.08 per share on February 28, 2006. During this two-year period, our Class A common stock traded as low as $15.35 per share and as high as $28.15 per share. Many factors could cause the market price of our Class A common stock to fall. Some of these factors include:

- fluctuations in our quarterly operating results;
- the sale of shares of Class A common stock by our original or significant stockholders;
- general trends in the market for our products;
- acquisitions by us or our competitors;
- economic and/or currency exchange issues in those foreign countries in which we operate;

- changes in estimates of our operating performance or changes in recommendations by securities analysts; and
- general business and political conditions.

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

As of February 28, 2006, our original stockholders, together with their family members, estate planning entities and affiliates, controlled approximately 26% of the combined stockholder voting power, and their interests may be different from yours.

The original stockholders of our company, together with their family members and affiliates, have the ability to influence the election and removal of the board of directors and, as a result, future direction and operations of our company. As of February 28, 2006, these stockholders owned approximately 26% of the voting power of the outstanding shares of Class A common stock. Accordingly, they may influence decisions concerning business opportunities, declaring dividends, issuing additional shares of Class A common stock or other securities and the approval of any merger, consolidation or sale of all or substantially all of our assets. They may make decisions that are adverse to your interests.

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

Several of our principal stockholders hold a large number of shares of the outstanding Class A common stock. Any decision by any of our principal stockholders to aggressively sell their shares could depress the market price of our Class A common stock. As of February 28, 2006, we had approximately 70.2 million shares of Class A common stock outstanding. All of these shares are freely tradable, except for approximately 18 million shares held by certain stockholders who participated in our October 2003 recapitalization transaction wherein we repurchased approximately 10.8 million of our shares from our original stockholders and their affiliates and facilitated their resale of approximately 6.2 million additional shares to a group of private equity investors. Under the terms of our repurchase, our original stockholders agreed to a two-year lock-up that expired on October 22, 2005. These stockholders also agreed that, after the expiration of the two-year lock-up agreement in October 2005, they will be subject to certain volume limitations with respect to open market transactions. In the event these lock-up restrictions were removed, the resulting sales could cause the price of our Class A common stock to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal properties consist of the following:

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

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

- our distribution center in Tokyo, Japan.

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

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

Retail Stores. We currently operate 140 stores in 30 provinces throughout China, measuring a total of approximately 296,010 square feet.

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

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

ITEM 3. LEGAL PROCEEDINGS

On October 29, 2004, a motion for preliminary injunction was filed by Caroderm, Inc. ("Caroderm") in the action *Caroderm, Inc. and University of Utah Research Foundation v. Nu Skin Enterprises, Inc., Niksun Acquisition Corporation, et. al.*, Third Judicial District Court, Salt Lake County, State of Utah. The complaint was filed in this action on July 16, 2004 by Caroderm, which is a separate licensee of the technology utilized in the Scanner. The motion and complaint alleged that we are in violation of the terms of our license because of alleged use of the Scanner for medical diagnostic purposes or in medical clinical settings. The complaint and motion sought an order of the court enjoining and restraining us and requiring us to take steps to stop the use of the Scanner by our distributors for medical diagnostic purposes or in a medical clinical setting in excess of our granted field of use. After a five-day bench trial held the week of April 25, 2005, the court denied Caroderm's claim for injunctive relief. Caroderm subsequently appealed this decision. On March 7, 2006, we signed an Agreement and Plan of Merger pursuant to which we acquired Caroderm. As a result, Caroderm's appeal was subsequently dismissed.

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

There were no matters submitted to a vote of the security holders during the fourth quarter of the fiscal year ended December 31, 2005.

PART II

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

Our Class A common stock is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "NUS." The following table is based upon the information available to us and sets forth the range of the high and low sales prices for our Class A common stock for the quarterly periods during 2004 and 2005 based upon quotations on the NYSE.

Quarter Ended	High	Low
March 31, 2004	$ 21.97	$ 16.65
June 30, 2004	25.91	20.55
September 30, 2004	28.15	23.03
December 31, 2004	25.75	16.27

Quarter Ended	High	Low
March 31, 2005	$ 25.55	$ 20.07

June 30, 2005	24.62	20.57
September 30, 2005	25.86	18.95
December 31, 2005	19.29	15.35

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

The closing price of our Class A common stock on February 28, 2006, was $18.08. The approximate number of holders of record of our Class A common stock as of February 28, 2006 was 610. This number of holders of record does not represent the actual number of beneficial owners of shares of our Class A common stock because shares are frequently held in “street name” by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

Dividends

We declared and paid a $0.08 per share dividend for Class A common stock in March, June, September and December of 2004, and a $0.09 per share quarterly dividend for Class A common stock in March, June, September and December of 2005. The board of directors declared a quarterly cash dividend of $0.10 per share of Class A common stock on February 1, 2006. This quarterly cash dividend will be paid on March 22, 2006, to stockholders of record on March 3, 2006. Management believes that cash flows from operations will be sufficient to fund this and future dividend payments, if any.

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

Purchases of Equity Securities by the Issuer

	(a)	(b)	(c)	(d)
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (in millions)[1]
October 1 - 31, 2005	65,000	$ 17.25	65,000	$ 56.6
November 1 - 30, 2005	185,074	$ 17.17	184,000	$ 53.6
December 1 - 31, 2005	70,000	$ 17.59	70,000	$ 52.5
Total	320,074[2]	$ 17.28	319,000	

(1) In August 1998, our board of directors approved a plan to repurchase $10.0 million of our Class A common stock on the open market or in private transactions. Our board has from time to time increased the amount authorized under the plan and a total amount of approximately $160.0 million is currently authorized. As of December 31, 2005, we had repurchased approximately $107.5 million of shares under the plan. There has been no termination or expiration of the plan since the initial date of approval.

(2) We have authorized the repurchase of shares acquired by our employees in certain foreign markets because of regulatory and other issues that make it difficult and costly for these persons to sell such shares in the open market. These shares were awarded or acquired in connection with our initial public offering in 1996. Of the shares listed in this column, 1,074 shares for November relate to repurchases from such employees at an average per share purchase price of $17.25.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 have been derived from the audited consolidated financial statements.

	Year Ended December 31,				
	2001	2002	2003	2004	2005
	(U.S. dollars in thousands, except per share data)				
Income Statement Data:					
Revenue	$ 885,621	$ 964,067	$ 986,457	$ 1,137,864	$ 1,180,930
Cost of sales	178,083	190,868	176,545	191,211	206,163
Gross profit	707,538	773,199	809,912	946,653	974,767
Operating expenses:					

Selling expenses	347,452	382,159	407,088	487,631	497,421
General and administrative expenses	288,605	285,229	289,925	333,263	354,223
Restructuring and other charges	—	—	5,592	—	—
Total operating expenses	636,057	667,388	702,605	820,894	851,644
Operating income	71,481	105,811	107,307	125,759	123,123
Other income (expense), net	8,380	(2,886)	432	(3,618)	(4,172)
Income before provision for income taxes	79,861	102,925	107,739	122,141	118,951
Provision for income taxes	29,548	38,082	39,863	44,467	44,918
Net income[1]	$ 50,313	$ 64,843	$ 67,876	$ 77,674	$ 74,033
Net income per share:					
Basic	$ 0.60	$ 0.79	$ 0.86	$ 1.10	$ 1.06
Diluted	$ 0.60	$ 0.78	$ 0.85	$ 1.07	$ 1.04
Weighted-average common shares outstanding (000s):					
Basic	83,472	81,731	78,637	70,734	70,047
Diluted	83,915	83,128	79,541	72,627	71,356
Balance Sheet Data (at end of period):					
Cash and cash equivalents and current investments	$ 75,923	$ 120,341	$ 122,568	$ 120,095	$ 155,409
Working capital	153,495	181,942	149,324	117,401	149,098
Total assets	546,024	577,794	591,059	609,737	678,866
Current portion of long-term debt	—	—	17,915	18,540	26,757
Long-term debt	73,718	81,732	147,488	132,701	123,483
Stockholders' equity	379,890	386,486	290,248	296,233	354,628
Supplemental Operating Data (at end of period):					
Approximate number of active distributors[2]	558,000	566,000	725,000	820,000	803,000
Number of executive distributors[2]	24,839	27,915	29,131	32,016	30,471

(1) In January 2002, we adopted SFAS 142, “Goodwill and Other Intangible Assets.” Assuming no amortization of goodwill and other indefinite lived intangibles for all periods presented prior to adoption, net income would have been $57.0 million for the year ended December 31, 2001. For 2003, net income includes a pre-tax, non-recurring charge of $5.6 million due to restructuring and other charges incurred during the third quarter.

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

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

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

Overview

We are a leading, global direct selling company with 2005 revenue of $1.18 billion and a global network of over 800,000 active independent product distributors and preferred customers who purchase our products for resale and for personal use. Approximately 30,000 of these distributors are executive level distributors, who play an important leadership role in our distribution network and are critical to the growth of our business. We develop and market premium-quality personal care products under the Nu Skin brand, science-based nutritional supplements under the Pharmanex brand, and technology-related products and services under the Big Planet brand. We currently operate in 41 markets throughout Asia, the Americas and Europe.

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

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

Our distributors market and sell our products based on the distinguishing benefits and innovative characteristics of our products. As a result, it is vital to our business that we continuously leverage our research and development resources to develop and introduce innovative products and provide our distributors with an attractive portfolio of products. We also offer unique initiatives and business tools, such as our technologically-advanced Pharmanex® BioPhotonic Scanner (the “Scanner”), to help distributors effectively differentiate our earnings opportunity and product offering. If we experience delays or difficulties in introducing compelling products or attractive initiatives or tools into a market, this can have a negative impact on revenue.

We have developed a global distributor compensation plan and other incentives designed to motivate our distributors to market and sell our products and to build sales organizations around the world and across product lines. Our global compensation plan helps us to rapidly introduce products and penetrate our

markets with little up-front promotional expense. As a result of the global nature of our distributor incentives, however, the opening of a new market or the introduction of a new product or key initiative such as the Scanner, however, can negatively impact other markets or product lines to the extent our distributor leaders focus their efforts on the new market, product, or initiative. We have also continued to expand and promote product subscription and loyalty programs in many of our markets that provide incentives for customers to commit to purchase a specific amount of products on a monthly basis. We believe these subscription programs have improved customer retention, have had a stabilizing impact on revenue and have helped generate recurring sales for our distributors. Subscription orders represented 42% of our revenue in 2005 compared to 29% in the prior year.

In 2005, we generated approximately 82% of our revenue from our Asian markets, with sales in Japan representing approximately 48% of revenue. Because of the size of our foreign operations, operating results can be impacted negatively or positively by factors such as foreign currency fluctuations, in particular fluctuations between the Japanese yen and the U.S. dollar, and economic, political and business conditions around the world. In addition, our business is subject to various laws and regulations, in particular regulations related to network marketing activities and nutritional supplements that create certain risks for our business, including improper claims or activities by our distributors and potential inability to obtain necessary product registrations. For more information about these risks and challenges we face, please refer to “Note Regarding Forward-Looking Statements.”

Income Statement Presentation

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

	Year Ended December 31,					
Revenue by Region	**2003**		**2004**		**2005**	
	(U.S. dollars in millions)					
North Asia	$ 612.8	62%	$ 640.1	56%	$ 649.4	55%
Greater China	135.5	14	229.8	20	236.7	20
North America	127.6	13	145.7	13	154.1	13
South Asia/Pacific	75.8	8	81.8	7	86.7	7
Other Markets	34.8	3	40.5	4	54.0	5
	$ 986.5	100%	$ 1,137.9	100%	$ 1,180.9	100%

Cost of sales primarily consists of:

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

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

Selling expenses are our most significant expense and are classified as operating expenses. Selling expenses include distributor commissions as well as wages, benefits, bonuses and other labor and unemployment expenses we pay to our employed sales representatives in China. Our global compensation plan, which we employ in all of our markets except China, is an important factor in our ability to attract and retain distributors. We pay monthly commissions to several levels of distributors on each product sale based upon a distributor’s personal and group product volumes, as well as the group product volumes of up to six levels of executive distributors in such distributor’s downline sales organization. We do not pay commissions on sales materials, which are sold to distributors at or near cost. Small fluctuations occur in the amount of commissions paid as the network of distributors actively purchasing products changes from month to month. However, due to the size of our distributor force of over 800,000 active distributors, the fluctuation in the overall payout is relatively small. The overall payout has typically averaged from 41% to 43% of global product sales. From time to time, we make modifications and enhancements to our global compensation plan to help motivate distributors and develop leadership characteristics, which can have an impact on selling expenses.

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

General and administrative expenses include:

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

Labor expenses are the most significant portion of our general and administrative expenses. Promotion and advertising expenses include costs of distributor conventions held in various markets worldwide, which we expense in the period in which they are incurred. Because our various distributor conventions are not always held during each fiscal year, their impact on our general and administrative expenses may vary from year to year. For example, we have typically held our global distributor convention and our Japan distributor convention, our two most expensive conventions, every 18 months. Therefore, we have not incurred expenses for these conventions during every fiscal year or in comparable interim periods and year-over-year comparisons have been impacted accordingly. We held global distributor conventions in February 2004 and October 2005 and Japan distributor conventions in February 2003 and November 2004. We held a Japan distributor convention in March 2006. In the future, we plan to begin holding global conventions every 24 months instead of every 18 months.

Provision for income taxes depends on the statutory tax rates in each of the jurisdictions in which we operate. For example, statutory tax rates in 2005 were approximately 17.5% in Hong Kong, 25% in Taiwan, 27.5% in South Korea, 46% in Japan and 24% in China. In China, we benefited from a tax holiday until the end of 2005. We will be subject to a reduced tax rate of 50% of the statutory rate in China for 2006, 2007 and 2008, after which time we will be subject to the full statutory rate. We are subject to taxation in the United States at the statutory corporate federal tax rate of 35% and we pay taxes in multiple states within the United States at various tax rates.

Critical Accounting Policies

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

Revenue. We recognize revenue when products are shipped, which is when title and risk of loss pass to our independent distributors. With some exceptions in various countries, we offer a return policy whereby distributors can return unopened and unused product for up to 12 months subject to a 10% restocking fee. Reported revenue is net of returns, which have historically been less than 5% of gross sales. A reserve for product returns is accrued based on historical experience. We classify selling discounts as a reduction of revenue. Our global compensation plan for our distributors is focused on remunerating distributors based upon the selling efforts of the distributors and their downlines, and not their personal purchases.

Income Taxes. We account for income taxes in accordance with Statements of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. We pay income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions among our affiliates around the world. Deferred tax assets and liabilities are created in this process. As of December 31, 2005, we had net deferred tax assets of $31.3 million. These net deferred tax assets assume sufficient future earnings will exist for their realization, as well as the continued application of current tax rates. We have considered projected future taxable income and ongoing tax planning strategies in determining the extent of valuation allowances required. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination was made.

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

We are subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. We account for such contingent liabilities in accordance with SFAS No. 5, “Accounting for Contingencies” and believe we have appropriately provided for income taxes for all years. Several factors drive the calculation of our tax reserves. Some of these factors include: (i) the expiration of various statutes of limitations; (ii) changes in tax law and regulations; (iii) issuance of tax rulings; and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to our reserves, which would impact our reported financial results. The Financial Accounting Standards Board is currently considering changes to accounting for uncertain tax positions. Because the nature and extent of these changes are not fully known, we are not able to predict the impact on our tax contingency reserves, if any.

Intangible Assets. Under the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), our goodwill and intangible assets with indefinite useful lives are no longer amortized. Our intangible assets with definite lives are recorded at cost and are amortized over their respective estimated useful lives and are reviewed for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (see Note 5 to the Consolidated Financial Statements).

We are required to make judgments regarding the useful life of our intangible assets. For example, with the recent completion of the earnout payments in connection with the acquisition of Scanner-related technology, we have recorded an intangible asset of approximately $42.0 million, which we are amortizing over the life of the patent related to the technology. With the implementation of SFAS 142, we determined certain intangible assets to have indefinite lives based upon our analysis of the requirements of SFAS No. 141, “Business Combinations” (“SFAS 141”) and SFAS 142. Under the provisions of SFAS 142, we are required to test these assets for impairment at least annually. The annual impairment tests have been completed and did not result in an impairment charge. To the extent an impairment is identified in the future, we will record the amount of the impairment as an operating expense in the period in which it is identified.

Results of Operation

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

	Year Ended December 31,		
	2003	**2004**	**2005**
Revenue	100.0%	100.0%	100.0%
Cost of sales	17.9	16.8	17.5
Gross profit	82.1	83.2	82.5
Operating expenses:			
Selling expenses	41.3	42.9	42.1
General and administrative expenses	29.4	29.3	30.0
Restructuring and other charges	.5	—	—
Total operating expenses	71.2	72.2	72.1
Operating income	10.9	11.0	10.4
Other income (expense), net	—	(.3)	(.3)
Income before provision for income taxes	10.9	10.7	10.1
Provision for income taxes	4.0	3.9	3.8
Net income	6.9%	6.8%	6.3%

2005 Compared to 2004

Overview

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

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

Revenue

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

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

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

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

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

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

In addition to launching the S2 Scanner in Japan in 2006, subject to regulatory approval we plan to launch our *g3* nutritional juice, which contains a highly concentrated mix of several types of antioxidants including carotenoid antioxidants. We anticipate that these initiatives will positively impact our nutritional revenue in this market. We are also planning to launch our Nu Skin® ProDerm™ Skin Analyzer, a handheld skin analysis tool. Based on recent discussions with Japanese regulators, there are indications that certain limitations may be imposed on the use of the ProDerm™ tool. It appears that we will be able to use the ProDerm™ to provide close-up skin images, but we may not be able to use the ProDerm™ to provide a score that quantifies skin condition and attributes as will be the case in other markets.

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

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

	2004	2005	Change
China	$ 105.6	$ 102.2	(3%)
Taiwan	82.8	92.4	12%
Hong Kong	41.4	42.1	2%
Greater China total	$ 229.8	$ 236.7	3%

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

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

With the adoption of the new direct selling regulations, we have applied for a direct selling license with the Chinese government, and the application process is ongoing. While the timing of the application process is uncertain, we plan to begin to adapt our current retail business model to include a direct selling component if and when we are able to obtain a direct selling license. This will allow us to engage independent contractors who will be able to sell products away

from a fixed location. The new regulations prohibit the use of multi-level compensation plans for direct selling, however, so we will compensate the independent contractors based on their personal selling efforts only. We plan, however, to maintain our retail store/employed sales representative model because we believe it provides us with more flexibility in the manner in which we conduct business in China, including the manner in which we compensate our full-time sales representatives. For a discussion of the risks to our business and uncertainties associated with the adoption of the new regulations in China, please refer to the section below entitled "Note Regarding Forward-Looking Statements".

In 2006, we plan to launch the S2 Scanner and *g3* juice. We also plan to launch the Nu Skin® ProDerm™ Skin Analysis tool, which we believe will help reinvigorate enthusiasm for our Nu Skin products following declines in Nu Skin sales during the past year as sales leaders shifted their focus towards Pharmanex products. We also plan to continue to invest resources in continued expansion and build-out of our infrastructure in China.

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

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

	2004	2005	Change
United States	$ 135.7	$ 144.5	6%
Canada	10.0	9.6	(4%)
North America total	$ 145.7	$ 154.1	6%

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

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

In early 2005 we launched *Photomax*, a Big Planet digital imaging service, and during the fourth quarter of 2005 we launched a newly reformulated *LifePak* product. In 2006, we plan to launch the S2 Scanner and the Nu Skin® ProDerm™ skin analysis tool in the United States in order to help drive further revenue growth.

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

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

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

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

	2004	2005	Change
Europe	$ 36.6	$ 46.0	26%
Latin America	3.9	8.0	105%
Other Markets total	$ 40.5	$ 54.0	33%

Revenue growth in Europe was a result of success with the Scanner, our product subscription program, and expansion into Eastern Europe. These initiatives positively impacted distributor leadership, resulting in a 27% growth in our executive distributor count. Following modifications to our business model in Latin America two years ago, we have experienced rapid growth in that region in terms of revenue and distributor numbers, particularly in Mexico. Towards the end of 2005, we began to experience a slowing of growth rates in this region.

Gross profit

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

Selling expenses

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

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

General and administrative expenses

General and administrative expenses as a percentage of revenue increased to 30.0% in 2005 from 29.3% in 2004. General and administrative expenses increased to $354.2 million in 2005 from $333.3 million in 2004. General and administrative expenses in 2005 were impacted by the incremental costs associated with our investment in various growth initiatives, including further development of China, Latin America and Europe, new market openings, and the global expansion of the Scanner program. Beginning in 2006, we will be required to begin expensing stock-based compensation granted to employees as a result of new accounting rules. Had we recognized compensation cost for stock options in 2005 according to the methodology prescribed under the new rules, our general and administrative expenses would have been approximately $9.4 million higher that year.

In addition, we recently announced plans to implement a restructuring initiative during the first half of 2006 designed to (i) eliminate organizational redundancies, (ii) revamp administrative support functions, (iii) prioritize investments to favor profitable initiatives and markets, and (iv) increase efficiencies in the supply chain process. In connection with this initiative, we expect to incur employee severance costs of approximately $10 to $20 million and $5 million related to various other streamlining intitiatves. Additionally, in February 2006, as a result of our launch of and transition to our second-generation BioPhotonic Scanner, we determined it would be necessary to write down the book value of the existing inventory of the prior model of the Scanner of approximately $20 million. As a result of these initiatives, we expect to incur a total cost of $30 to $40 million on a pre-tax basis in the first half of 2006, and we anticipate that approximately $10 to $20 million of the restructuring charges will result in future cash expenditures. We expect that this initiative will result in cost savings that will enable us to improve the profitability of our business and allow us to invest in new growth initiatives.

Other income (expense), net

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

Provision for income taxes

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

Net income

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

2004 Compared to 2003

Overview

Revenue in 2004 increased 15% to $1,137.9 million from $986.5 million in 2003. Excluding the impact of changes in foreign currency exchange rates, we would have experienced a revenue increase of 11% for 2004 compared to 2003. The revenue increase in 2004 was a result of significant revenue growth in China, as well as solid revenue growth in the United States, Taiwan and Hong Kong. During 2004 we continued to see the positive impact of our BioPhotonic Scanner and monthly product subscription programs. We continued to expand our use of the BioPhotonic Scanner in the United States and initiated lease programs in other key markets including Japan in November 2004. Subscription orders represented 29% of our revenue in 2004 compared to 24% in the prior year. Revenue growth in 2004 was negatively impacted by a decline in local currency revenue in Japan.

These factors also contributed to a $0.22 increase in earnings per share in 2004 compared to 2003. Earnings per share for 2003 included the impact of a $0.04 per share, one-time restructuring charge. The growth in earnings per share was also positively impacted by the repurchase of 10.8 million and 3.1 million shares of our Class A common stock in October 2003 and July 2004, respectively.

Revenue

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

	2003	2004	Change
Japan	$ 553.8	$ 574.4	4%
South Korea	59.0	65.7	11%
North Asia total	$ 612.8	$ 640.1	4%

Excluding the impact of changes in foreign currency exchange rates, revenue in North Asia decreased 1% in 2004 compared to 2003. In local currency, revenue in Japan decreased 3%. Revenue in Japan during 2004 was negatively impacted by the absence of a compelling growth driver for our distributors during most of the year as a result of regulatory uncertainty associated with the BioPhotonic Scanner that prevented us from introducing it until November 2004. Revenue was also negatively impacted by:

- key distributor leaders spending time in other markets pending the launch of the BioPhotonic Scanner;
- stock outages resulting from product quality and regulatory challenges we faced during 2004, including BSE (or mad cow disease) issues in the first quarter, which required us to convert many of our dietary supplements for sale in Japan from bovine-based capsules to tablets and non-bovine based capsules; and
- competitive pressures.

In South Korea, our local currency revenue grew 7% in 2004 compared to 2003 primarily as a result of continued growth in our active distributors. We believe that strong initiatives and distributor support contributed to the growth in this market despite the difficult regulatory and economic conditions in South Korea.

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

	2003	2004	Change
China	$ 38.5	$ 105.6	174%
Taiwan	73.1	82.8	13%
Hong Kong	23.9	41.4	73%
Greater China total	$ 135.5	$ 229.8	70%

Revenue growth in Greater China was a result of the continued expansion of operations in China, as well as strong growth in Hong Kong and Taiwan. Currencies in China and Hong Kong are generally pegged to the U.S. dollar, minimizing the impact of foreign currency fluctuations on this region.

China revenue grew by 174% compared to 2003. We continued to successfully grow our business in China as a result of:

- expansion of our sales representatives, based in part upon the attractiveness of the opportunity for employment with us in the market;

- successful product launches and promotions; and
- a robust economy, with a focus on international brands and opportunities.

Following a period of rapid sequential growth in China in 2003 and the first half of 2004, however, revenue declined slightly in the third quarter of 2004 compared to the second quarter, and then stabilized sequentially in the fourth quarter. Also, the number of sales representatives remained essentially level during the second half of the year. This softening in the second half of the year is attributed to a softening of the recruiting environment for new customers and sales representatives after an initial 18 months of rapid sequential growth. This softening was also largely the result of our taking actions against sales representatives who had violated company policies. Due to increased media and government scrutiny of activities related to direct selling and direct selling companies operating in China in advance of new direct selling regulations, we focused more on training our sales representatives and enforcing our sales policies that prohibit improper promotion of our business, and less on implementing aggressive growth initiatives. This emphasis resulted in disciplinary actions against, or termination of employment of, sales representatives who had violated these policies, and contributed to the lack of growth in our revenue, our customers and our sales representative numbers during the second half of 2004. We believe, however, that our long-term growth prospects were enhanced due to these actions. Results in China were also negatively impacted by uncertainties and delays with respect to the new direct selling regulations and related negative and confusing media coverage.

Hong Kong and Taiwan each generated strong growth in revenue and in the number of executive and active distributors in 2004. Modifications we made to our compensation plan in early 2004 in these markets to promote the development of executive distributors, as well as continued growth in monthly product subscription orders, contributed to the growth in revenue in these markets. The revenue increases in these markets were also due in part to continued enthusiasm for business prospects in China and the use of the BioPhotonic Scanner, particularly in Taiwan. In addition, revenue in Hong Kong was positively impacted by

sales of products to sales representatives from China for personal consumption, particularly to those sales representatives attending our third quarter sales convention in Hong Kong.

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

	2003	2004	Change
United States	$ 118.2	$ 135.7	15%
Canada	9.4	10.0	6%
North America total	$ 127.6	$ 145.7	14%

Revenue in the United States grew 15% in 2004 compared to 2003 and was positively impacted by:

- the BioPhotonic Scanner program;
- our monthly product subscription program;
- the launch of a number of new, innovative Pharmanex and Nu Skin products; and
- $5.8 million in sales to international distributors at our global convention held in the U.S. in February 2004, which did not occur in 2003.

These initiatives resulted in a 36% increase in Pharmanex revenue and a 4% increase in Nu Skin revenue in 2004 compared to 2003, excluding sales to international distributors at our global distributor convention. These initiatives also continued to enhance distributor enthusiasm and sponsorship as well as increase retention. The number of executive distributors grew 10% in 2004 compared to 2003. The growth in revenue in Pharmanex and Nu Skin in the United States was partially offset by a decline in Big Planet revenue, primarily as a result of our strategic elimination of low margin products and services that generated approximately $11.0 million in revenue in 2003. Over the last couple of years, Big Planet has focused on eliminating low margin products while developing and introducing new products and services with margins comparable to Nu Skin and Pharmanex products.

In addition, in connection with the global roll-out of the BioPhotonic Scanner program, some of our key U.S. distributor leaders spent time promoting the BioPhotonic Scanner in international markets. This negatively impacted revenue and distributor activity in the United States during the last half of the year as revenue and distributor statistics were relatively flat sequentially.

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

	2003	2004	Change
Singapore/Malaysia/Brunei	$ 36.7	$ 40.0	9%
Thailand	22.7	25.6	13%
Australia/New Zealand	13.5	13.1	(3%)
Philippines	2.9	3.1	7%
South Asia/Pacific total	$ 75.8	$ 81.8	8%

Excluding the impact of changes in foreign currency exchange rates, revenue in South Asia/Pacific increased 4% in 2004 compared to 2003. The increase in local currency revenue in this region was due primarily to revenue growth in Thailand as well as an increase in combined Singapore/Malaysia revenue. We have experienced solid growth in Thailand for the last four years, but revenue was down 13% in local currency in the fourth quarter compared to prior year results. We launched the BioPhotonic Scanner program in Thailand in late 2004 to help improve distributor activity and revenue in this market. Our focus on our monthly product subscription programs, growth in our nutrition business, and the BioPhotonic Scanner contributed to the revenue increases in Malaysia and Singapore. The revenue increases in these markets were slightly offset by a decrease in revenue in combined Australia/New Zealand.

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

	2003	2004	Change
Europe	$ 32.0	$ 36.6	14%
Latin America	2.8	3.9	39%
Other Markets total	$ 34.8	$ 40.5	16%

The 16% increase in Other Markets was primarily due to a 14% increase in revenue in Europe, which was mostly attributed to the favorable impact of foreign currency fluctuations in 2004 compared to 2003. We experienced higher local currency growth in Europe during the second half of 2004, and in 2004 active distributors and executive distributors grew 25% and 17%, respectively over 2003. Although our

Latin America business accounts for a small part of our business, we have made efforts to grow our business there as well as in other developing countries around the world. As a result of these efforts, revenue in Mexico was up 54% in local currency in 2004 compared to 2003, and the executive distributor count grew by

149%.

Gross profit

Gross profit as a percentage of revenue increased to 83.2% in 2004 compared to 82.1% in 2003. Our gross profit was positively impacted by the shift away from low margin Big Planet revenue to higher margin Nu Skin and Pharmanex products, strong gross margins in China resulting from in-house manufacturing in that market, and the positive impact of fluctuations in foreign currency exchange rates in 2004 compared to 2003. During 2004, we continued to expand the BioPhotonic Scanner program in the U.S. and in our international markets. Lease revenue from BioPhotonic Scanners has significantly lower margins than our personal care and nutritional supplement products, as we lease them on essentially a break-even basis.

Selling expenses

Selling expenses as a percentage of revenue increased to 42.9% in 2004 from 41.3% in 2003. Selling expenses increased to $487.6 million in 2004 from $407.1 million in 2003. The increase in selling expenses as a percentage of revenue is due in part to higher costs associated with our employed sales representatives in China. The increase in selling expenses as a percent of revenue was also due to a short-term increase in distributor incentives in Japan in the fourth quarter of 2004. This increase in incentives resulted from the implementation of new components to our compensation plan in this market while certain existing components were transitioned out over several months.

General and administrative expenses

General and administrative expenses as a percentage of revenue decreased slightly to 29.3% in 2004 from 29.4% in 2003. General and administrative expenses increased to $333.3 million in 2004 from $289.9 million in 2003. The U.S. dollar increase during 2004 in general and administrative expenses was primarily due to the incremental costs associated with significantly larger retail operations in China versus the prior year, stronger foreign currencies against the U.S. dollar, and higher distributor convention expenses.

Other income (expense), net

Other income (expense), net was $3.6 million of expense in 2004 compared to $0.4 million of income in 2003. This increase in other income (expense), net of $4.0 million is primarily related to increased interest expenses due to additional debt we entered into during 2003.

Provision for income taxes

Provision for income taxes increased to $44.5 million in 2004 from $39.9 million in 2003. This increase was largely due to the increase in operating income as compared to the prior year. The effective tax rate decreased to 36.4% from 37.0% of pre-tax income in 2004 and 2003, respectively. This decrease in the effective tax rate was largely due to our election in 2004 to permanently reinvest some of our earnings related to our foreign operations. We anticipate the remittance of these earnings to be postponed indefinitely.

Net income

As a result of the foregoing factors, net income increased to $77.7 million in 2004 from $67.9 million in 2003.

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 and dividends, and the development of operations in new markets. We have generally relied on cash flow from operations to fund operating activities, and we have at times incurred long-term debt in order to fund strategic transactions and stock repurchases.

We typically generate positive cash flow from operations due to favorable gross margins and the variable nature of selling expenses, which constitute a significant percentage of operating expenses. We generated $114.1 million in cash from operations in 2005, compared to $130.4 million in 2004. This decrease in cash generated from operations is due to the timing of inventory purchases in 2005 compared to 2004, the timing of payments for income taxes and other liabilities accrued at the end of 2004 and 2005, and lower net income in 2005 compared to 2004.

As of December 31, 2005, working capital was $149.1 million compared to $117.4 million as of December 31, 2004. Our working capital increased primarily due to the increase in cash and cash equivalents. Cash and cash equivalents at December 31, 2005 were $155.4 million compared to $109.9 million at December 31, 2004. Our cash balance was positively impacted by $121.3 million in cash flows from operations during 2005, as well as by $6.2 million from the exercise of employee stock options, $30.0 million of new debt and $10.2 million of net proceeds on investment sales. The additions to our cash balance were offset by the use of approximately $30.9 million for capital expenditures, $24.6 million for repurchase of shares of our common stock, $25.4 million for the payment of dividends and $17.1 million for the repayment of debt.

Capital expenditures in 2005 totaled $30.9 million, and we anticipate capital expenditures of approximately $40 million to $45 million for 2006. These capital expenditures are primarily related to:

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

We currently have long-term debt pursuant to various credit facilities and other borrowings. The following table summarizes these long-term debt arrangements as of December 31, 2005:

Facility or Arrangement[1]	Original Principal Amount	Balance as of December 31, 2005[2]	Interest Rate	Repayment terms
2000 Japanese yen denominated notes	9.7 billion yen	6.9 billion yen ($58.8 million as of December 31, 2005)	3.0%	Notes due October 2010, with annual principal payments that began in October 2004.
2003 $125.0 million multi-currency uncommitted shelf facility:				
U.S. dollar denominated:	$50.0 million	$50.0 million	4.5%	Notes due April 2010 with annual principal payments beginning April 2006.
	$25.0 million	$15.0 million	4.0%	Notes due April 2008 with annual principal payments that began in October 2004.
Japanese yen denominated:	3.1 billion yen	3.1 billion yen ($26.4 million as of December 31, 2005)	1.7%	Notes due April 2014, with annual principal payments beginning April 2008.
2004 $25.0 million revolving credit facility	N/A	$0	N/A	Credit facility expires May 2007

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

(2) The current portion of our long-term debt (i.e. becoming due in the next 12 months) includes $11.9 million of the balance on our 2000 Japanese yen denominated notes and $15.0 million of the balance on our U.S. dollar denominated debt under the 2003 multi-currency uncommitted shelf facility.

Our board of directors has approved a stock repurchase program authorizing us to repurchase our outstanding shares of Class A common stock on the open market or in private transactions. The repurchases are used primarily for our equity incentive plans and strategic initiatives. During the year ended December 31, 2005, we repurchased approximately 1.2 million shares of Class A common stock under this program for an aggregate amount of approximately $24.6 million. Currently, approximately $52.5 million is available under the stock repurchase program for repurchases.

During each quarter of 2005, our board of directors declared cash dividends of $0.09 per share on our Class A common stock. These quarterly cash dividends totaled approximately $25.2 million and were paid during 2005 to stockholders of record in 2005. In February 2006, the board of directors declared a dividend to be paid in March 2006 of $0.10 per share for Class A common stock. Currently, we anticipate that our board of directors will continue to declare quarterly cash dividends and that the cash flows from operations will be sufficient to fund our future dividend payments. However, the declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors.

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

Contractual Obligations and Contingencies

The following table sets forth payments due by period for fixed contractual obligations as of December 31, 2005 (U.S. dollars in thousands):

	Total	2006	2007-2008	2009-2010	Thereafter
Long-term debt obligations[1]	$ 150,240	$ 26,757	$ 57,293	$ 51,072	$ 15,118
Capital lease obligations	—	—	—	—	—
Operating lease obligations[2]	45,667	13,645	19,292	10,845	1,885
Purchase obligations	65,707	43,238	15,663	5,940	866

Other long-term liabilities reflected on the balance sheet[3]	—	—	—	—	—
Total	$ 261,614	$ 83,640	$ 92,248	$ 67,857	$ 17,869

(1) Long-term debt excludes estimated interest payments under these obligations since a significant portion of our long-term debt is Japanese yen denominated. We anticipate interest expense on this long-term debt to be similar to our 2005 interest expense, which was $5.6 million. In February 2005, we made an additional borrowing under our shelf facility in Japanese yen denominated senior notes in the amount of 3.1 billion yen (see Note 8 to the Consolidated Financial Statements).

(2) Operating leases include corporate office and warehouse space with two entities that are owned by certain officers and directors of our company who are also founding shareholders. Total payments under these leases were $3.7 million for the year ended December 31, 2005 with remaining long-term obligations under these leases of $19.8 million.

(3) Other long-term liabilities reflected on the balance sheet do not constitute fixed contractual obligations and primarily consist of long-term tax related balances, which totaled $41.7 million as of December 31, 2005.

In 1999, we implemented a duty valuation methodology with respect to the importation of certain products into Japan. The Valuation Department of the Yokohama customs authority reviewed and approved this methodology at that time, and it has been reviewed on several occasions by the audit division of the Japan customs authority since then. In connection with recent audits, the Yokohama customs authorities have assessed us additional duties and penalties on these products imported into Japan from October 2002 to October 2004, based on a different valuation methodology than that which was previously approved. We have disputed this assessment. We have also disputed the amount of duties we were required to pay on products imported from November of 2004 to June of 2005. The total amount assessed or in dispute is approximately $25.0 million as of December 31, 2005, net of any recovery of consumption taxes. Effective July 1, 2005, we implemented some modifications to our business structure in Japan and in the United States that we believe will eliminate any further customs valuation disputes with respect to product imports in Japan after that time.

Because the valuation methodology we used with respect to the products in dispute was reviewed and approved by the Japan customs authority, we believe the assessments are improper and have filed letters of protest with Yokohama customs authority with respect to this entire amount. The Yokohama customs authority has not accepted our letters of protest to date, and to follow proper administrative procedures, we have filed appeals with the Japan Ministry of Finance. To the extent necessary, we plan to continue to file protests and appeals within the appropriate governmental channels concerning this issue. We may also choose to use the judicial court system in Japan if necessary to bring this issue to a resolution. In order to file our letters of protest, we were required to pay the $25.0 million in customs duties and assessments, the amount of which we recorded in "Other Assets" in our Consolidated Balance Sheet. We have filed requests for refunds for this entire amount along with our letters of protest. To the extent that we are unsuccessful in recovering the amounts assessed and paid, we will be required to take a corresponding charge to our earnings.

Seasonality and Cyclicality

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

We have experienced rapid revenue growth in certain new markets following commencement of operations. This initial rapid growth has often been followed by a short period of stable or declining revenue, then followed by renewed growth fueled by product introductions, an increase in the number of active distributors and increased distributor productivity. The contraction following initial rapid growth has been more pronounced in certain new markets, due to other factors such as business or economic conditions or distributor distractions outside the market.

Distributor Information

The following table provides information concerning the number of active and executive distributors as of the dates indicated. Active distributors are those distributors and preferred customers who were resident in the countries in which we operated and purchased products for resale or personal consumption directly from us during the three months ended as of the date indicated. Executive distributors are active distributors who have achieved required monthly personal and group sales volumes as well as full-time sales representatives in China who have completed a qualification process and receive a salary, labor benefits and bonuses based on their personal sales efforts.

	As of December 31, 2003		As of December 31, 2004		As of December 31, 2005	
	Active	Executive	Active	Executive	Active	Executive
North Asia	322,000	17,013	337,000	16,637	340,000	16,129
Greater China	187,000	5,991	229,000	8,827	191,000	7,134
North America	113,000	2,861	134,000	3,099	136,000	3,443
South Asia/Pacific	69,000	2,175	74,000	2,076	81,000	2,043
Other Markets	34,000	1,091	46,000	1,377	55,000	1,722
Total	725,000	29,131	820,000	32,016	803,000	30,477

Quarterly Results

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

	2004				2005			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	$ 264.0	$ 284.2	$ 283.3	$ 306.4	$ 289.3	$ 310.1	$ 290.8	$ 290.7
Gross profit	220.1	236.7	235.7	254.2	239.7	256.1	239.3	239.7
Operating income	23.8	35.0	33.6	33.4	28.8	37.0	30.0	27.3
Net income	14.5	20.3	20.9	22.0	17.7	22.8	17.7	15.8
Net income per share:								
Basic	0.20	0.28	0.30	0.32	0.25	0.33	0.25	0.22
Diluted	0.20	0.28	0.29	0.31	0.25	0.32	0.25	0.22

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R, Share-Based Payment, which requires the expensing of employee options beginning the first fiscal year that begins after June 15, 2005. Consequently, we will begin expensing employee options during the first quarter of 2006 and anticipate recording an additional stock option expense of approximately $2.0 million per quarter in 2006. Through 2005, we continued to account for stock-based compensation granted to employees according to the provisions of APB Opinion No. 25.

Currency Risk and Exchange Rate Information

A majority of our revenue and many of our expenses are recognized primarily outside of the United States, except for inventory purchases, which are primarily transacted in U.S. dollars from vendors in the United States. The local currency of each of our subsidiaries' primary markets is considered the functional currency. All revenue and expenses are translated at weighted-average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. The Chinese government is beginning to allow the yuan to float more freely against the U.S. dollar and other major currencies. A strengthening of the yuan would benefit our reported revenue and profits and a weakening of the yuan would negatively impact reported revenue and profits. In addition, in recent months we have seen a weakening of the Japanese yen against the U.S. dollar. Any further weakening of the yen would negatively impact reported revenue and profits. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing and results of operations or financial condition.

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

Our foreign currency derivatives are comprised of over-the-counter forward contracts with major international financial institutions. As of December 31, 2005, we had contracts with notional amounts totaling $23.7 million with expiration dates through December 2006. All of these contracts were denominated in Japanese yen. For the year ended December 31, 2005, we recorded losses of $0.3 million in operating income, and gains of $5.3 million, net of tax, in other comprehensive income related to the fair market valuation of our outstanding forward contracts. Because of our foreign exchange contracts at December 31, 2005, the impact of a 10% appreciation or 10% depreciation of the U.S. dollar against the Japanese yen would not represent a material potential loss in fair value, earnings or cash flows against these contracts. This potential loss does not consider the underlying foreign currency transaction or translation exposures to which we are subject.

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

	2004				2005			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Japan[1]	$ 107.3	$ 109.6	$ 109.9	$ 105.6	$ 104.5	$ 107.5	$ 111.3	$ 117.3
Taiwan	33.3	33.3	33.9	32.9	31.5	31.4	32.3	33.4
Hong Kong	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
South Korea	1,171.7	1,162.0	1,154.8	1,091.6	1,022.4	1,008.4	1,029.4	1,036.0
Malaysia	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Thailand	39.2	39.8	41.3	40.2	38.6	40.1	41.3	41.0
China	8.3	8.3	8.3	8.3	8.3	8.3	8.1	8.1

(1) As of March 15, 2006 the exchange rate of U.S. $1 into the Japanese yen was approximately 117.26.

Note Regarding Forward-Looking Statements

With the exception of historical facts, the statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 which reflect our current expectations and beliefs regarding our future results of operations, performance and achievements.

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

- our expectation that the self-manufacture of product will result in reduced cost of goods sold, and our plans to manufacture more products in China for export;
- our plans to launch certain products, tools, initiatives and incentives in our various markets, such as the S2 Scanner and the Nu Skin® ProDerm™ Skin Analyzer, and our belief that these initiatives will positively impact our business in these markets;

- our plans to augment our current business model in China with a direct selling component;
- our plans to continue to invest resources in continued expansion and build-out of our infrasctructure in China;
- our plans to implement certain organizational restructuring initiatives;
- the expectation that we will spend $40 million to $45 million for capital expenditures during 2006;
- the anticipation that we will continue to declare quarterly cash dividends and that cash flows from operations will be sufficient to pay future dividends;
- our belief that we have sufficient liquidity to be able to meet our obligations on both a short-and long-term basis, and that existing cash together with cash flow from operations and existing lines of credit will be adequate to fund cash needs;
- our plans to continue protesting and appealing assessments by the Yokohama customs authority for duties on products imported into Japan; and
- our belief that recent modifications to our business structure in Japan and in the United States should eliminate any further customs valuation disputes with respect to product imports in Japan.

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

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

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

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

- natural disasters or epidemics.

(b) Our operations in China are subject to significant regulatory scrutiny and we have experienced challenges in the past, including interruption of sales activities at certain stores and minor fines being paid in some cases. Because of current restrictions on direct selling activities, we have implemented a modified business model for this market using retail stores and an employed sales force. Our operations in China may be modified or otherwise harmed by regulatory changes, subjective interpretations of laws or an inability to work effectively with national and local

government agencies. In addition, we could face risks that any improper actions by our local sales employees, or any overseas distributors, in violation of local laws or our policies could result in regulatory investigations and penalties that could harm our business.

(c) Towards the end of 2005, Chinese regulators adopted anti-pyramiding and new direct selling regulations. Although we have applied for a direct selling license and anticipate that we will be able to obtain a direct selling license under these regulations, there can be no assurance that we will be able to obtain such a license. Our future growth in China could be harmed if we do not receive a direct selling license or if the direct selling application process is delayed further than anticipated. These new regulations are not yet well understood, and there continues to be some confusion and uncertainty as to the meaning of the new regulations and the specific types of restrictions and requirements imposed under them. It is also difficult to predict how regulators will interpret and enforce these new regulations. We anticipate that regulatory scrutiny of companies engaged in direct selling may increase following the implementation of these new regulations. Our business and our growth prospects may be harmed if Chinese regulators interpret the anti-pyramiding regulations or direct selling regulations in such a manner that our current method of conducting business through the use of employed sales representatives or our planned implementation of direct selling violates these regulations, including the restrictions on the use of multi-level compensation plans for distributors. Our business could also be harmed if regulators inhibit our ability to concurrently operate our retail store/employed sales representative business model and our planned direct selling business.

(d) Our ability to retain key and executive level distributors or to sponsor new executive distributors is critical to our success. Because our products are distributed exclusively through our distributors and we compete with other direct selling companies in attracting distributors, our operating results could be adversely affected if our existing and new business opportunities and incentives, products, business tools and other initiatives do not generate sufficient enthusiasm and economic incentive to retain our existing distributors or to sponsor new distributors on a sustained basis. For example, the introduction of the Scanner, changes in compensation incentives and focus on automatic delivery programs have helped generate growth in many of our markets. There can be no assurance that such initiatives will continue to generate excitement among our distributors in the long-term or that planned initiatives tied to the Scanner in markets like the United States where the Scanner was introduced more than three years ago will be successful in maintaining distributor activity and productivity. In addition, some initiatives may have unanticipated negative impacts on our markets. For example, during the past year certain modifications were made to compensation incentives in China, Japan, and Singapore that appear not to have been as well received by some distributors as expected, contributing to declines in distributor numbers and revenue results.

(e) Our use of the Scanner is subject to regulatory risks and uncertainties in our various markets. For example, in March 2003 the United States Food and Drug Administration (the “FDA”) questioned its status as a non-medical device and we subsequently filed an application with the FDA to have the Scanner classified as a non-medical device. The FDA has not yet acted on our application. There are various factors that could determine whether the Scanner is a medical device, including the claims that we or our distributors make about it. We face similar regulatory issues in other markets with respect to the status of the Scanner as a non-medical device and the claims that can be made in using it. For example, during the past year we faced regulatory inquiries in Singapore, Korea and Japan regarding distributor claims with respect to the Scanner. Although these matters have not resulted in any adverse action against us, our revenue in any market going forward could be negatively impacted if we face similar issues in the future or if such inquiries weaken distributor enthusiasm surrounding the Scanner. A determination in any market that the Scanner is a medical device or that distributors are using it to make medical claims could negatively impact our ability to use the Scanner in such market. In addition, if distributors make claims regarding the Scanner outside of claims approved by us, or use it in a manner not authorized by us, this could result in regulatory actions against our business.

(f) Our plans to introduce the Nu Skin® ProDerm™ skin analysis tool in our various markets are subject to risks and uncertainties. We are currently in the process of finalizing the hardware and software design specifications, and if we experience difficulties or delays in completing this process that prevent us from meeting our launch schedules, our business may be harmed. Our plans are also subject to regulatory risks, particularly in Japan, where we are currently working through the regulatory process for the planned introduction of the ProDerm™ tool in that market. There is a risk that regulatory authorities in Japan may impose limitations on the use of this tool and on claims that may be made in connection with its use. Such limitations in Japan or any other markets could weaken the ability of our distributors to utilize this tool in building their businesses, and could dampen distributor enthusiasm surrounding it.

(g) As we prepare to begin operations in Russia and prepare for the implementation of direct selling regulations in China, we anticipate that some distributor leaders in other markets will shift their focus away from their home markets and towards business prospects in these two markets. This shift of focus of distributor leaders can negatively impact distributor leadership and growth in these other markets and consequently negatively impact revenue. In addition, if Russia and China are not as successful as the distributor leaders from these other markets anticipate, this can also dampen distributor enthusiasm.

(h) The network marketing and nutritional supplement industries are subject to various laws and regulations throughout our markets, many of which involve a high level of subjectivity and are inherently fact-based and subject to interpretation. Recent negative publicity concerning certain supplements with controversial ingredients has spurred efforts to change existing regulations or adopt new regulations in order to impose further restrictions and regulatory control over the nutritional supplement industry. If our existing business practices or products, or any new initiatives or products, are challenged or found to contravene any of these laws by any governmental agency or other third party, or if there are any changes in regulations applicable to our business or any of our nutritional products that limit our ability to market such products, our revenue and profitability may be harmed.

(i) Due to the international nature of our business, we are subject from time to time to reviews and audits by the foreign taxing authorities of the various jurisdictions in which we conduct business throughout the world. These audits sometimes result in challenges by such taxing authorities as to our methodologies used in determining our income tax, duties, customs, and other amounts owed in connection with the importation and

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

(j) Production difficulties and quality control problems could harm our business, in particular our reliance on third party suppliers to deliver quality products in a timely manner.Occasionally, we have experienced production difficulties with respect to our products, including the delivery of products that do not meet our quality control standards. These quality problems have resulted in the past, and could result in the future, in stock outages or shortages in our markets with respect to such products, harming our sales and creating inventory write-offs for unusable products.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

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

	December 31, 2004	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 109,865	$ 155,409
Current investments	10,230	—
Accounts receivable	16,057	16,683
Inventories, net	87,474	99,399
Prepaid expenses and other	44,723	36,663
	268,349	308,154
Property and equipment, net	76,511	84,053
Goodwill	112,446	112,446
Other intangible assets, net	79,005	91,137
Other assts	73,426	83,076
Total assets	$ 609,737	$ 678,866
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 25,182	$ 20,276
Accrued expenses	107,226	112,023
Current portion of long-term debt	18,540	26,757
	150,948	159,056

Long-term debt	132,701	123,483
Other liabilities	29,855	41,699
Total liabilities	313,504	324,238
Commitments and contingencies (Notes 9 and 19)		
Stockholders' equity		
Class A common stock - 500 million shares authorized, $.001 par value, 90.6 million shares issued;	91	91
Additional paid-in capital	165,177	180,839
Treasury stock, at cost - 20.9 million and 20.5 million shares	(273,721)	(284,138)
Accumulated other comprehensive loss	(71,606)	(67,197)
Retained earnings	477,912	526,537
Deferred compensation	(1,620)	(1,504)
	296,233	354,628
Total liabilities and stockholders' equity	$ 609,737	$ 678,866

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

Nu Skin Enterprises, Inc.

Consolidated Statements of Income

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

	Year Ended December 31,		
	2003	**2004**	**2005**
Revenue	$ 986,457	$ 1,137,864	$ 1,180,930
Cost of sales	176,545	191,211	206,163
Gross profit	809,912	946,653	974,767
Operating expenses:			
Selling expenses	407,088	487,631	497,421
General and administrative expenses	289,925	333,263	354,223
Restructuring and other charges	5,592	—	—
Total operating expenses	702,605	820,894	851,644
Operating income	107,307	125,759	123,123
Other income (expense), net	432	(3,618)	(4,172)
Income before provision for income taxes	107,739	122,141	118,951
Provision for income taxes	39,863	44,467	44,918
Net income	$ 67,876	$ 77,674	$ 74,033
Net income per share:			
Basic	$ 0.86	$ 1.10	$ 1.06
Diluted	$ 0.85	$ 1.07	$ 1.04
Weighted-average common shares outstanding (000s):			
Basic	78,637	70,734	70,047
Diluted	79,541	72,627	71,356

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

Nu Skin Enterprises, Inc.
Consolidated Statements of Stockholders' Equity
(U.S. dollars in thousands)

	Class A Common Stock	Class B Common Stock	Additional Paid in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Deferred Compensation	Total
Balance at January 1, 2003	$ 46	$ 45	$ 149,548	$ (79,755)	$ (68,988)	$ 385,590	$ —	$ 386,486
Net income	—	—	—	—	—	67,876	—	67,876
Foreign currency translation adjustment	—	—	—	—	(1,736)	—	—	(1,736)
Net unrealized losses on foreign currency cash flow hedges	—	—	—	—	(3,171)	—	—	(3,171)
Less: Reclassification adjustment for realized losses in current earnings	—	—	—	—	3,046	—	—	3,046
Total comprehensive income								66,015
Repurchase of Class A common stock (Note 10)	—	—	—	(150,009)	—	—	—	(150,009)
Conversion of shares (Note 10)	45	(45)	—	—	—	—	—	—
Issuance of employee stock awards	—	—	3,113	—	—	—	(3,113)	—
Amortization of deferred compensation	—	—	—	—	—	—	715	715
Exercise of distributor and employee stock options (1,258,000 shares)	—	—	(4,025)	12,917	—	—	—	8,892
Cash dividends	—	—	—	—	—	(21,851)	—	(21,851)
Balance at December 31, 2003	91	—	148,636	(216,847)	(70,849)	431,615	(2,398)	290,248
Net income	—	—	—	—	—	77,674	—	77,674
Foreign currency translation adjustment	—	—	—	—	(1,402)	—	—	(1,402)
Net unrealized losses on foreign currency cash flow hedges	—	—	—	—	(2,590)	—	—	(2,590)
Less: Reclassification adjustment for realized losses in current earnings	—	—	—	—	3,235	—	—	3,235
Total comprehensive income								76,917
Repurchase of Class A common stock (Note 10)	—	—	—	(72,311)	—	—	—	(72,311)
Amortization of deferred compensation	—	—	—	—	—	—	778	778
Purchase of long-term assets (Note 20)	—	—	4,279	2,624	—	—	—	6,903
Reduction in carrying value of intangible asset	—	—	—	—	—	(8,750)	—	(8,750)
Exercise of employee stock options (1,834,000 shares)	—	—	3,814	12,813	—	—	—	16,627
Tax benefit of options exercised	—	—	8,448	—	—	—	—	8,448
Cash dividends	—	—	—	—	—	(22,627)	—	(22,627)
Balance at December 31, 2004	91	—	165,177	(273,721)	(71,606)	477,912	(1,620)	296,233
Net income	—	—	—	—	—	74,033	—	74,033
Foreign currency translation adjustment	—	—	—	—	(597)	—	—	(597)
Net unrealized gains on foreign currency cash flow hedges	—	—	—	—	5,278	—	—	5,278
Less: Reclassification adjustment for realized losses in current earnings	—	—	—	—	(272)	—	—	(272)
Total comprehensive income								78,442
Repurchase of Class A common stock (Note 10)	—	—	—	(24,638)	—	—	—	(24,638)
Issuance of employee stock awards	—	—	1,023	—	—	—	1,023)	—
Mark to market stock awards	—	—	(232)	—	—	—	232	
Amortization of deferred compensation	—	—	—	—	—	—	907	907
Purchase of long-term assets (Note 20)	—	—	13,512	7,695	—	—	—	21,207
Exercise of employee stock options (666,000 shares)	—	—	(349)	6,526	—	—	—	6,177
Tax benefit of options exercised	—	—	1,708	—	—	—	—	1,708
Cash dividends	—	—	—	—	—	(25,408)	—	25,408
Balance at December 31, 2005	$ 91	$ —	$ 180,839	$ (284,138)	$ (67,197)	$ 526,537	$ (1,504)	$ 354,628

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

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

	Year Ended December 31,		
	2003	2004	2005
Cash flows from operating activities:			
Net income	$ 67,876	$ 77,674	$ 74,033
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,369	27,883	30,459
Amortization of deferred compensation	715	778	907
Loss on sale of assets	525	—	—
Changes in operating assets and liabilities:			
Accounts receivable	3,860	(1,003)	(626)
Inventories, net	4,968	(4,136)	(11,925)
Prepaid expenses and other	11,714	21,869	15,991
Other assets	(7,965)	(10,372)	(5,048)
Accounts payable	824	6,366	(4,906)
Accrued expenses	1,176	10,910	22,185
Other liabilities	2,964	381	(6,970)

Net cash provided by operating activities	109,026	130,350	114,100
Cash flows from investing activities:			
Purchase of property and equipment	(23,518)	(34,996)	(30,884)
Proceeds on investment sales	70,775	185,015	170,610
Purchases of investments	(52,800)	(195,245)	(160,380)
Purchase of long-term assets	—	(2,953)	(5,548)
Net cash used in investing activities	(5,543)	(48,179)	(26,202)
Cash flows from financing activities:			
Payment of cash dividends	(21,851)	(22,627)	(25,408)
Repurchase of shares of common stock	(150,009)	(72,311)	(24,638)
Exercise of distributor and employee stock options	8,892	16,627	6,177
Payments on long-term debt	—	(16,241)	(17,074)
Proceeds from long-term debt	75,000	—	30,000
Proceeds from revolving credit facility	20,000	—	—
Payments on revolving credit facility	(20,000)	—	—
Net cash used in financing activities	(87,968)	(94,552)	(30,943)
Effect of exchange rate changes on cash	4,687	(322)	(11,411)
Net increase (decrease) in cash and cash equivalents	20,202	(12,703)	45,544
Cash and cash equivalents, beginning of period	102,366	122,568	109,865
Cash and cash equivalents, end of period	$ 122,568	$; 109,865	$ 155,409

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. The Company also markets technology-related products and services under the Big Planet brand. The Company reports revenue from five geographic regions: North Asia, which consists of Japan and South Korea; Greater China, which consists of China, Hong Kong, Macau and Taiwan; North America, which consists of the United States and Canada; South Asia/Pacific, which consists of Australia, Brunei, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand; and Other Markets, which consists of Brazil, Europe, Guatemala/Central America, Israel and Mexico (the Company's subsidiaries operating in these countries are collectively referred to as the "Subsidiaries").

2. Summary of Significant Accounting Policies

Consolidation

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

Use of estimates

The preparation of these financial statements, in conformity with accounting principles generally accepted in the United States, required management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include reserves for product returns, obsolete inventory and taxes. Actual results could differ from these estimates.

Cash and cash equivalents

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

Current investments

Current investments consist entirely of auction rate municipal bonds classified as available-for-sale securities. The Company, through its dealers, purchases and sells these securities at par value and records them at cost, which approximates fair market value due to their variable interest rates, which typically reset

every 7 to 35 days and despite the long-term nature of their stated contractual maturities, along with the Company's investment policy and practice to only invest in high investment grade securities, the Company has the ability to quickly liquidate these securities. As a result, the Company has no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from its current investments. Interest income generated from these current investments is recorded in other income.

Inventories

Inventories consist primarily of merchandise purchased for resale and are stated at the lower of cost or market, using the first-in, first-out method. The Company had reserves for obsolete inventory totaling $5.2 million and $5.8 million as of December 31, 2004 and 2005, respectively.

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

	December 31,	
	2004	2005
Raw materials	$ 16,855	$ 20,941
Finished goods	70,619	78,458
	$; 87,474	$ 99,399

Property and equipment

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

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

Expenditures for maintenance and repairs are charged to expense as incurred.

Goodwill and other intangible assets

Under the provisions of Statements of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), the Company's goodwill and intangible assets with indefinite useful lives are no longer amortized, but instead are tested for impairment at least annually. The Company's intangible assets with finite lives are recorded at cost and are amortized over their respective estimated useful lives to their estimated residual values and are reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Note 5). In addition, the Company is required to make judgments regarding and periodically assesses the useful life of its intangible assets.

Revenue recognition

Revenue is recognized when products are shipped, which is when title and risk of loss pass to independent distributors who are the Company's customers. A reserve for product returns is accrued based on historical experience totaling $2.5 million and $2.1 million as of December 31, 2004 and 2005, respectively. The Company generally requires cash or credit card payment at the point of sale. The Company has determined that no allowance for doubtful accounts is necessary. Amounts received prior to shipment and title passage to distributors are recorded as deferred revenue. The global compensation plan for the Company's distributors generally does not provide rebates or selling discounts to distributors who purchase its products and services. The Company classifies selling discounts, if any, as a reduction of revenue.

Advertising expense

Advertising costs are expensed as incurred. Advertising expense incurred for the years ended December 31, 2003, 2004 and 2005 totaled approximately $1.4 million, $1.3 million and $2.4 million, respectively.

Research and development

The Company's research and development activities are conducted primarily through its Pharmanex division. Research and development costs are expensed as incurred and totaled $6.4 million, $7.7 million and $7.5 million in 2003, 2004 and 2005, respectively.

Income taxes

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

Net income per share

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented (Note 10). Earnings per share in 2004 and 2005 were positively impacted by the repurchase of 10.8 million shares of the Company's Class A common stock in October 2003 and the repurchase of 3.1 million shares of the Company's Class A common stock in July 2004.

Foreign currency translation

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

Fair value of financial instruments

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

Stock-based compensation

SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans based on the fair market value of options granted. The Company has chosen to account for stock-based compensation granted to employees using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, because the grant price equals the market price on the date of grant for options issued by the Company, no compensation expense is recognized for stock options issued to employees. However, stock-based compensation granted to non-employees, such as the Company's independent distributors and consultants, is accounted for in accordance with SFAS 123. SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* ("SFAS 148"), which amended SFAS 123, requires more prominent and frequent disclosures about the effects of stock-based compensation, which have been presented herein.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, *Share-Based Payment*, which requires the expensing of employee options beginning the first fiscal year that begins after June 15, 2005. Consequently, the Company will begin expensing employee options during its first quarter of 2006 and anticipates recording an additional stock option expense of approximately $2.0 million per quarter in 2006. Through 2005, the Company continued to account for its stock-based compensation granted to employees according to the provisions of APB Opinion No. 25. Had compensation cost for the Company's stock options granted to employees been recognized based upon the estimated fair value on the grant date under the fair value methodology prescribed by SFAS 123, as amended by SFAS 148, the Company's net earnings and earnings per share would have been as follows (U.S. dollars in thousands, except per share amounts):

		December 31,		
		2003	**2004**	**2005**
Net income, as reported		$ 67,876	$ 77,674	$ 74,033
Deduct: Total stock-based employee method expense determined under fair value based method	for all awards, net of related tax effect	(5,274)	(6,224)	(5,823)
Pro forma net income		$ 62,602	$ 71,450	$ 68,210
Earnings per share:				
Basic - as reported		$ 0.86	$ 1.10	$ 1.06
Basic - pro forma		$ 0.80	$ 1.01	$ 0.97
Diluted - as reported		$ 0.85	$ 1.07	$ 1.04
Diluted - pro forma		$ 0.79	$ 0.98	$ 0.96

Reporting comprehensive income

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

Accounting for derivative instruments and hedging activities

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

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

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

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

3. Related Party Transactions

The Company leases corporate office and warehouse space from two entities that are owned by certain officers and directors of the Company. Total lease payments to these two affiliated entities were $3.3 million, $3.6 million and $3.7 million for each of the years ended December 31, 2003, 2004 and 2005 with remaining long-term minimum lease payment obligations under these operating leases of $23.5 million and $19.8 million at December 31, 2004 and 2005, respectively.

4. Property and Equipment

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

	December 31,	
	2004	**2005**
Furniture and fixtures	$ 41,121	$ 44,769
Computers and equipment	84,598	88,619
Leasehold improvements	41,121	45,663
Scanners	28,327	37,363
Vehicles	3,021	3,140
	198,188	219,554
Less: accumulated depreciation	(121,677)	(135,501)
	$ 76,511	$ 84,053

Depreciation of property and equipment totaled $18.3 million, $22.5 million and $24.7 million for the years ended December 31, 2003, 2004 and 2005, respectively, which includes amortization expense relating to the Scanners of approximately $1.0 million, $4.9 million and $7.9 million for the years ended December 31, 2003, 2004 and 2005, respectively.

5. Goodwill and Other Intangible Assets

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

	Carrying Amount at December 31,	
Goodwill and indefinite life intangible assets:	2004	2005
Goodwill	$ 112,446	$ 112,446
Trademarks and trade names	24,599	24,599
	$ 137,045	$ 137,045

	December 31, 2004		December 31, 2005		
Finite life intangible assets:	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Weighted-average Amortization Period
Scanner technology	$ 23,840	$ 1,099	$ 42,435	$ 3,304	18 years
Developed technology	22,500	8,490	22,500	9,314	20 years
Distributor network	11,598	5,576	11,598	6,078	15 years
Trademarks	12,203	5,640	12,345	6,255	15 years
Other	20,828	15,758	19,873	17,262	5 years
	$ 90,969	$ 36,563	$ 108,751	$ 42,213	15 years

Amortization of finite-life intangible assets totaled $4.1 million, $5.4 million and $5.7 million for the years ended December 31, 2003, 2004 and 2005, respectively. Annual estimated amortization expense is expected to approximate $7.0 million for each of the five succeeding fiscal years.

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

6. Other Assets

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

	December 31,	
	2004	2005
Deferred taxes	$ 34,856	$ 31,804
Deposits for noncancelable operating leases	11,636	13,397
Deposit for customs assessment (Note 19)	11,820	22,853
Other	15,114	15,022
	$ 73,426	$ 83,076

7. Accrued Expenses

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

	December 31,	
	2004	2005
Accrued commission payments to distributors	$ 43,845	$ 41,820
Income taxes payable	6,612	8,880
Other taxes payable	5,521	15,649
Accrued payroll and payroll taxes	11,435	11,405
Accrued contingent payable (Note 20)	8,217	—
Other accruals	31,596	34,269
	$ 107,226	$ 112,023

8. **Long-Term Debt**

The Company maintains a $25.0 million revolving credit facility that expires in May 2007. Drawings on this revolving credit facility may be used for working capital, capital expenditures and other purposes including repurchases of the Company's outstanding shares of Class A common stock. As of December 31, 2005, there were no outstanding balances under this revolving credit facility.

The Company also has a $125.0 million multi-currency private uncommitted shelf facility with Prudential Investment Management, Inc. As of December 31, 2005, the Company had $91.4 million outstanding under its shelf facility, $15.0 million of which is included in the current portion of long-term debt. $65.0 million of this long-term debt is U.S. dollar denominated, bears interest of approximately 4.5% per annum and is amortized in two tranches over five and seven years. The remaining $26.4 million as of December 31, 2005, is Japanese yen-denominated senior promissory notes in the aggregate principal amount of 3.1 billion Japanese yen, which were issued on February 7, 2005. The notes bear interest of 1.7% per annum, with interest payable semi-annually. The interest payments on the notes began April 30, 2005. The final maturity date of the notes is April 20, 2014 and principal payments are required annually beginning on April 30, 2008 in equal installments of 445.7 million Japanese yen.

The Company's long-term debt also includes the long-term portion of Japanese yen denominated ten-year senior notes issued to the Prudential Insurance Company of America in 2000. The notes bear interest at an effective rate of 3.0% per annum and are due October 2010, with annual principal payments that began in October 2004. As of December 31, 2005, the outstanding balance on the notes was 6.9 billion Japanese yen, or $58.8 million, $11.8 million of which is included in the current portion of long-term debt. The Japanese notes and the revolving and shelf credit facilities are secured by guarantees issued by our material subsidiaries or by pledges of 65% to 100% of the outstanding stock of our material subsidiaries.

Interest expense relating to the long-term debt totaled $3.2 million, $5.9 million and $5.5 million for the years ended December 31, 2003, 2004 and 2005, respectively.

The notes and shelf facility contain other terms and conditions and affirmative and negative financial covenants customary for credit facilities of this type. As of December 31, 2005, the Company is in compliance with all financial covenants under the notes and shelf facility.

Maturities of all long-term debt at December 31, 2005, based on the year-end exchange rate, are as follows (U.S. dollars in thousands):

Year Ending December 31,		
2006	$	26,757
2007		26,757
2008		30,536
2009		25,536
2010		25,536
Thereafter		15,118
Total	$	150,240

9. Lease Obligations

The Company leases office space and computer hardware under noncancelable long-term operating leases including related party leases (see Note 3). Most leases include renewal options of at least three years. Minimum future operating lease obligations at December 31, 2005 are as follows (U.S. dollars in thousands):

Year Ending December 31,		
2006	$	13,645
2007		11,103
2008		8,189
2009		5,537
2010		5,308
Thereafter		1,885
Total	$	45,667

Rental expense for operating leases totaled $24.2 million, $25.9 million and $30.5 million for the years ended December 31, 2003, 2004 and 2005, respectively.

10. Capital Stock

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

Weighted-average common shares outstanding

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

	Year Ended December 31,		
	2003	**2004**	**2005**
Basic weighted-average common shares outstanding	78,637	70,734	70,047
Effect of dilutive securities:			
Stock awards and options	904	1,893	1,309
Diluted weighted-average common shares outstanding	79,541	72,627	71,356

For the years ended December 31, 2003, 2004 and 2005, other stock options totaling 2.9 million, 0.6 million and 2.1 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

Repurchases of common stock

Since August 1998, the board of directors has authorized the Company to repurchase up to $160.0 million of the Company's outstanding shares of Class A common stock on the open market or in private transactions. The repurchases are used primarily for the Company's equity incentive plans and strategic initiatives. During the years ended December 31, 2003, 2004 and 2005, the Company repurchased approximately 0.8 million, 0.1 million and 1.2 million shares of Class A common stock for an aggregate price of approximately $8.4 million, $1.3 million and $24.6 million, respectively, under these repurchase programs. Between August 1998 and December 31, 2005, the Company had repurchased a total of approximately 10.0 million shares of Class A common stock under this repurchase program for an aggregate price of approximately $107.5 million.

Additionally, in October 2003, the Company repurchased approximately 10.8 million shares of Class A common stock from certain members of the Company's original stockholder group for approximately $141.6 million, which included $1.6 million of related expenses. These stockholders also sold approximately 6.2 million additional shares of Class A common stock to third-party investors. The Company financed the repurchase with $45.0 million from existing cash balances, approximately $20.0 million from its revolving credit facility, which was repaid prior to December 31, 2003 and $75.0 million in new long-term debt drawn under the $125.0 million shelf facility.

On July 30, 2004, the Company purchased approximately 3.1 million shares of common stock from members of its original stockholder group for an aggregate purchase price of $71.0 million, or $22.62 per share. These stockholders also sold 1.5 million shares to third-party investors.

Conversion of common stock

During 2003, the holders of the Class B common stock converted approximately 45.4 million shares of Class B common stock to Class A common stock, respectively. The conversion of 45.4 million shares of Class B common stock in 2003 was part of the repurchase transaction described above. As of December 31, 2004, all outstanding Class B common stock had been converted to Class A common stock.

11. Equity Incentive Plans

During the year ended December 31, 1996, the Company's board of directors adopted the Nu Skin Enterprises, Inc., 1996 Stock Incentive Plan (the "1996 Stock Incentive Plan"). The 1996 Stock Incentive Plan provides for granting of stock awards and options to purchase common stock to executives, other employees, independent consultants and directors of the Company and its Subsidiaries. On February 7, 2003, the board of directors authorized and the shareholders approved an amendment to the plan increasing the number of shares available for grant from 8.0 million to 13.0 million. As of December 31, 2005, approximately 11.0 million shares or options have been granted.

The deferred compensation at December 31, 2005 represents the following restricted stock awards:

- A restricted stock award of 250,000 shares of the Company's Class A common stock granted to the Company's Chief Executive Officer and President in 2003, which vests over four years;

- A restricted stock award of up to 25,000 shares of the Company's Class A common stock granted to an employee of the Company in June of 2005 with a 4-year cliff vest and a maximum value limited to $1.0 million. The value of the award fluctuates based on the Company's stock price and as a result the deferred compensation expense is re-measured and adjusted each quarter for this award; and

- A restricted stock award of up to 20,000 shares of the Company's Class A common stock granted to an employee of the Company in June of 2005 with a 4-year cliff vest and a maximum value limited to $0.5 million. The value of the award fluctuates based on the Company's stock price and as a result, the deferred compensation expense is re-measured and adjusted each quarter for this award.

The Company is amortizing the deferred compensation expense ratably over the respective vesting period of each award. The combined compensation expense for all of the foregoing restricted stock awards totaled $0.7 million, $0.8 million and $0.9 million for the years ended December 31, 2003, 2004 and 2005, respectively.

A summary of the Company's stock option plans as of December 31, 2003, 2004 and 2005 and changes during the years then ended, is presented below:

	2003		2004		2005	
	Shares (in 000s)	Weighted-average Exercise Price	Shares (in 000s)	Weighted-average Exercise Price	Shares (in 000s)	Weighted-average Exercise Price
Outstanding - beginning of year	6,994.6	$ 10.41	6,941.9	$ 11.46	6,593.1	$ 14.03
Granted at fair value	1,728.1	10.80	1,355.2	22.15	1,379.8	22.04
Exercised	(1,289.8)	6.82	(1,655.3)	9.97	(666.4)	9.17
Forfeited/canceled	(491.0)	6.34	(48.7)	12.46	(544.3)	18.87
Outstanding - end of year	6,941.9	11.46	6,593.1	14.03	6,762.2	15.99
Options exercisable at year-end	3,292.7	$ 11.37	3,374.0	$ 11.89	3,533.5	$ 13.05

The following table summarizes information concerning outstanding and exercisable options at December 31, 2005:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares (in 000s)	Weighted-average Exercise Price	Weighted-average Years Remaining	Shares (in 000s)	Weighted-average Exercise Price
$0.92 to $5.75	61.3	$ 5.26	2.79	61.3	$ 5.26
$6.50 to $11.00	1,482.2	8.38	5.95	1,180.0	8.15
$11.37 to $16.00	1,924.1	12.30	6.55	1,415.5	12.39
$16.95 to $28.50	3,294.6	21.76	7.99	876.7	21.25
	6,762.2	15.99	7.09	3,533.5	13.05

The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	2003	2004	2005
Risk-free interest rate	2.7%	2.8%	3.9%
Expected life	3.8 years	3.9 years	6.2 years
Expected volatility	54.2%	45.4%	52.6%
Expected dividend yield	2.5%	1.9%	1.6%

The weighted-average grant date fair values of options granted during 2003, 2004 and 2005 were $3.92, $7.27 and $10.43, respectively.

Effective February 1, 2000, the Company's board of directors adopted the Employee Stock Purchase Plan (the "Purchase Plan"), which provides for the issuance of a maximum of 200,000 shares of Class A common stock. Eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of the Company's Class A common stock on every April 30, July 31, October 31 or January 31 (the "Purchase Date"). The price of the Class A common stock purchased under the Purchase Plan will be equal to 85% of the lower of the fair market value of the Class A common stock on the commencement date of each three-month offering period or Purchase Date. During 2005, approximately 36,000 shares were purchased at prices ranging from $14.31 to $18.87 per share. At December 31, 2005, approximately 74,925 shares were available under the Purchase Plan for future issuance.

12. Income Taxes

Consolidated income before provision for income taxes consists of the following for the years ended December 31, 2003, 2004 and 2005 (U.S. dollars in thousands):

	2003	2004	2005
U.S.	$ 102,341	$ 85,013	$ 70,344
Foreign	5,398	37,128	48,607
Total	$ 107,739	$ 122,141	$ 118,951

The provision for current and deferred taxes for the years ended December 31, 2003, 2004 and 2005 consists of the following (U.S. dollars in thousands):

	2003	2004	2005
Current			
Federal	$ 1,709	$ (10,702)	$ 1,572
State	3,029	553	1,880
Foreign	57,573	21,742	21,495
	62,311	11,593	24,947
Deferred			
Federal	16,641	16,805	14,821
State	676	1,256	(278)
Foreign	(39,765)	14,813	5,428
	(22,448)	32,874	19,971
Provision for income taxes	$ 39,863	$ 44,467	$ 44,918

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

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

	Year Ended December 31,	
	2004	2005
Deferred tax assets:		
Inventory differences	$ 2,373	$ 3,303
Foreign tax differential	13,417	—
Accrued expenses not deductible until paid	26,059	17,020
Withholding tax	1,088	1,428
Minimum tax credit	18,228	16,428
Net operating losses	6,448	6,767
Foreign outside basis in controlled foreign corporation	7,664	14,651
Capitalized research and development	10,668	15,087
Other	2,771	3,964
Gross deferred tax assets	87,477	76,434
Deferred tax liabilities:		
Exchange gains and losses	7,210	9,164
Pharmanex intangibles step-up	15,961	15,009
Amortization of intangibles	4,567	3,325
Prepaid expenses	5,153	11,665
Other	5,426	6,003
Gross deferred tax liabilities	38,317	45,166
Valuation allowance	(1,239)	(2,214)
Deferred taxes, net	$ 49,160	$ 31,268

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

	Year Ended December 31,	
	2004	2005
Net current deferred tax assets	$ 22,215	$ 13,987
Net noncurrent deferred tax assets	34,856	31,804
Total net deferred tax assets	57,071	45,791
Net current deferred tax liabilities	8	—
Net noncurrent deferred tax liabilities	7,903	14,523
Total net deferred tax liabilities	7,911	14,523
Deferred taxes, net	$ 49,160	$ 31,268

The Company's deferred tax assets as of December 31, 2005 and 2004 were reduced by a valuation allowance relating to tax benefits of certain foreign subsidiaries with operating losses where it is more likely than not, that the deferred tax assets will not be realized. The Company has available foreign net operating losses that begin expiring in 2006.

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

The actual tax rate for the years ended December 31, 2003, 2004 and 2005 compared to the statutory U.S. Federal tax rate is as follows:

	Year Ended December 31,		
	2003	2004	2005
Income taxes at statutory rate	35.00%	35.00%	35.00%
Foreign tax differential	(1.80)	3.11	—
Non-deductible expenses	.16	.21	.55
Branch remittance gains and losses	(.38)	(.32)	.23
Distributor stock options and employee stock awards	1.94	—	—
Permanently reinvested controlled foreign corporation income	—	(2.89)	—
Other	2.08	1.30	1.98
	37.00%	36.41%	37.76%

The increase in the effective tax rate in 2005 compared to 2004 was due to an increase in the amount of nondeductible executive compensation, reconciliation of U.S. and foreign income tax payable amounts and other nondeductible expenses related to equity compensation. This decrease in the effective tax rate in 2004 compared to 2003 was due to the Company's election to permanently reinvest a portion of the Company's earnings from its foreign operations. The Company anticipates the remittance of these earnings to be postponed indefinitely. Such earnings would be subject to U.S. taxation if repatriated to the U.S.

13. Employee Benefit Plan

The Company has a 401(k) defined contribution plan which permits participating employees to defer up to a maximum of 15% of their compensation, subject to limitations established by the Internal Revenue Code. Employees who work a minimum of 1,000 hours per year, who have completed at least one year of service and who are 21 years of age or older are qualified to participate in the plan. The Company matches 100% of the first 2% and 50% of the next 2% of each participant's contributions to the plan. Participant contributions are immediately vested. Company contributions vest based on the participant's years of service at 25% per year over four years. The Company recorded compensation expense of $1.1 million, $1.3 million and $1.4 million for the years ended December 31, 2003, 2004 and 2005, respectively, related to its contributions to the plan.

The Company has a defined benefit pension plan for its employees in Japan. All employees of Nu Skin Japan, after certain years of service, are entitled to pension plan benefits when they terminate employment with Nu Skin Japan. The accrued pension liability was $3.7 million, $4.4 million and $4.5 million as of December 31, 2003, 2004 and 2005, respectively. Although Nu Skin Japan has not specifically funded this obligation, Nu Skin Japan believes it maintains adequate cash balances for this defined benefit pension plan. The Company recorded pension expense of $0.7 million, $0.8 million and $0.8 million for the years ended December 31, 2003, 2004 and 2005, respectively.

14. Executive Deferred Compensation Plan

The Company has an executive deferred compensation plan for select management personnel. Under this plan, the Company currently makes a contribution of 10% of each participant's salary. In addition, each participant has the option to defer a portion of their compensation up to a maximum of 100% of their compensation. Participant contributions are immediately vested. Company contributions vest based on the earlier of: (a) attaining 60 years of age; (b) continuous employment of 20 years; or (c) death or disability. The Company recorded compensation expense of $0.6 million, $0.7 million and $0.7 million for the years ended December 31, 2003, 2004 and 2005, respectively, related to its contributions to the plan. The Company had accrued $4.5 million and $5.5 million as of December 31, 2004 and 2005, respectively, related to the Executive Deferred Compensation Plan.

15. Derivative Financial Instruments

At December 31, 2004 and 2005, the Company held forward contracts designated as foreign currency cash flow hedges with notional amounts totaling approximately $82.0 million and $23.7 million, respectively, to hedge forecasted foreign-currency-denominated intercompany transactions. All such contracts were denominated in Japanese yen. As of December 31, 2004 and 2005, $3.2 million of net unrealized loss and $1.8 million of net unrealized gain, net of related taxes, respectively, were recorded in accumulated other comprehensive loss. The contracts held at December 31, 2005, have maturities through December 2006, and accordingly, all unrealized gains and losses on foreign currency cash flow hedges included in accumulated other comprehensive loss will be recognized in current earnings over the next 12 months. The pre-tax net losses on foreign currency cash flow hedges recorded in current earnings were $5.3 million, $5.0 million and $0.3 million for the years ended December 31, 2003, 2004 and 2005, respectively.

During 2003, 2004 and 2005, the Company did not have any gains or losses related to hedging ineffectiveness. Additionally, no component of gains and losses was excluded from the assessment of hedging effectiveness. During 2003, 2004 and 2005, the Company did not have any gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges.

16. Supplemental Cash Flow Information

Cash paid for interest totaled $2.7 million, $4.6 million and $5.6 million for the years ended December 31, 2003, 2004 and 2005, respectively. The increase in cash paid for interest in 2004, compared to prior years, was due to the additional debt discussed in Note 8. Cash paid for income taxes totaled $26.6 million, $7.3 million and $15.9 million for the years ended December 31, 2003, 2004 and 2005, respectively. The increase in cash paid for income taxes in 2005, compared to prior years, was due primarily to the timing of tax payments in foreign jurisdictions.

17. Segment Information

The Company operates in a single operating segment by selling products to a global network of independent distributors that operates in a seamless manner from market to market, except for its operations in Mainland China. In Mainland China, the Company utilizes an employed sales force to sell its products through fixed retail locations. Selling expenses are the Company's largest expense comprised of the commissions to its worldwide independent distributors as well as remuneration to its Mainland China sales employees paid on product sales. The Company manages its business primarily by managing its global sales force. The Company does not use profitability reports on a regional or divisional basis for making business decisions. However, the Company does recognize revenue in five geographic regions: North Asia, Greater China, North America, South Asia/Pacific and Other Markets.

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

	Year Ended December 31,		
Revenue:	**2003**	**2004**	**2005**
North Asia	$ 612,840	$ 640,110	$ 649,377
Greater China	135,535	229,802	236,681
North America	127,599	145,714	154,153
South Asia/Pacific	75,816	81,742	86,673
Other Markets	34,667	40,496	54,046
Total	$ 986,457	$ 1,137,864	$ 1,180,930

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

	Year Ended December 31,		
Revenue:	**2003**	**2004**	**2005**
Pharmanex	$ 472,107	$ 567,190	$ 667,671
Nu Skin	476,150	548,052	484,281
Big Planet	38,200	22,622	28,978
Total	$ 986,457	$ 1,137,864	$ 1,180,930

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

	Year Ended December 31,		
Revenue:	**2003**	**2004**	**2005**
Japan	$ 558,654	$ 579,504	$ 562,031
United States	113,340	135,710	144,555
Mainland China	38,470	105,576	102,214

	December 31,	
Long-lived assets:	**2004**	**2005**
Japan	$ 10,556	$ 14,234
United States	50,137	37,235
Mainland China	12,896	15,104

18. Restructuring and Other Charges

In 2003, the Company recorded restructuring and other charges of $5.6 million. These expenses consisted primarily of severance and other compensation charges.

19. Commitments and Contingencies

The Company is subject to governmental regulations pertaining to product formulation, labeling and packaging, product claims and advertising and to the Company's direct selling system. The Company is also subject to the jurisdiction of numerous foreign tax and customs authorities. Any assertions or determination that either the Company or the Company's distributors is not in compliance with existing statutes, laws, rules or regulations could potentially have a material adverse effect on the Company's operations. In addition, in any country or jurisdiction, the adoption of new statutes, laws, rules or regulations or changes in the interpretation of existing statutes, laws, rules or regulations could have a material adverse effect on the Company and its operations. Although management believes that the Company is in compliance, in all material respects, with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with applicable statutes, laws, rules and regulations will not be challenged by foreign authorities or that such challenges will not have a material adverse effect on the Company's financial position or results of operations or cash flows. The Company and its Subsidiaries are defendants in litigation and proceedings involving various matters. In the opinion of the Company's management, based upon advice of its counsel handling such litigation and proceedings, adverse outcomes, if any, will not likely result in a material effect on the Company's consolidated financial condition, results of operations or cash flows.

The Company is subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. The Company accounts for such contingent liabilities in accordance with SFAS No. 5, "Accounting for Contingencies" and believes it has appropriately provided for income taxes for all years. Several factors drive the calculation of our tax reserves. Some of these factors include: (i) the expiration of various statutes of limitations; (ii) changes in tax law and regulations; (iii) issuance of tax rulings; and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to the Company's reserves, which would impact its reported financial results. The Financial Accounting Standards Board is currently considering changes to accounting for uncertain tax positions. Because the nature and extent of these changes are not fully known, the Company is not able to predict the impact on its tax contingency reserves, if any.

In 1999, the Company implemented a duty valuation methodology with respect to the importation of certain products into Japan. The Valuation Department of the Yokohama customs authority reviewed and approved this methodology at that time, and it has been reviewed on several occasions by the audit division of the Japan customs authority since then. In connection with recent audits, the Yokohama customs authorities have assessed the Company additional duties and penalties on these products imported into Japan from October 2002 to October 2004, based on a different valuation methodology than that which was previously approved. The Company has disputed this assessment. The Company has also disputed the amount of duties it was required to pay on products imported from November of 2004 to June of 2005. The total amount assessed or in dispute is approximately $25.0 million as of December 31, 2005, net of any recovery of consumption taxes. Effective July 1, 2005, The Company implemented some modifications to its business structure in Japan and in the United States that it believes will eliminate any further customs valuation disputes with respect to product imports in Japan after that time.

Because the valuation methodology the Company used with respect to the products in dispute was reviewed and approved by the Japan customs authority, the Company believes the assessments are improper and has filed letters of protest with Yokohama customs authority with respect to this entire amount. The Yokohama customs authority has not accepted the Company's letters of protest to date, and to follow proper administrative procedures the Company has filed appeals with the Japan Ministry of Finance. To the extent necessary, the Company plans to continue to file protests and appeals within the appropriate governmental channels concerning this issue. The Company may also choose to use the judicial court system in Japan if necessary to bring this issue to a resolution. In order to file its letters of protest, the Company was required to pay the $25.0 million in customs duties and assessments, the amount of which it recorded in "Other Assets" in its Consolidated Balance Sheet. The Company has filed requests for refunds for this entire amount along with its letters of protest. To the extent that the Company is unsuccessful in recovering the amounts assessed and paid, the Company will be required to take a corresponding charge to its earnings.

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

20. Purchase of Long–Term Assets

In March 2002, the Company acquired the exclusive rights to a new light-source technology related to measuring the level of certain antioxidants. The acquisition consisted of cash payments of $4.8 million (including acquisition costs) and the issuance of 106,667 shares of the Company's Class A common stock valued at approximately $0.9 million. In addition, the acquisition included contingent payments of up to $8.5 million of cash and up to 1.2 million shares of the Company's Class A common stock if certain development and revenue targets are met. In 2004, some of these specific development and revenue targets were met resulting in contingent payments owed of approximately $5.1 million of cash (of which $2.1 million was paid in 2005) and 525,000 shares (of which 262,500 shares were issued in 2005) of the Company's Class A common stock valued at approximately $13 million. During the first half of 2005, all of the remaining specific development and revenue targets were met. As a result, the Company made the final contingent payments of approximately $3.4 million of cash and 675,000 shares of the Company's Class A common stock valued at approximately $15.2 million. The total payments of $8.5 million of cash and the value of the 1.2 million shares of stock have been added to the carrying value of other finite lived intangible assets.

21. Dividends per Share

Quarterly cash dividends for the years ended December 31, 2004 and 2005 totaled $22.6 million and $25.4 million, respectively. In February 2006, the board of directors declared a quarterly cash dividend of $0.10 per share for all classes of common stock to be paid on March 22, 2006 to stockholders of record on March 3, 2006.

22. Subsequent Event

On March 7, 2006, the Company acquired Caroderm Inc. for $4.0 million. As a result of the acquisition, the Company acquired Caroderm's license to use the Scanner technology within the professional medical community. As the sole asset of Caroderm was its license and field of use rights with respect to the Scanner technology, all the consideration paid will be allocated to that asset and amortized over the period of the remaining license agreements related to the Scanner.

In addition, the Company recently announced plans to implement a restructuring initiative during the first half of 2006 designed to (i) eliminate organizational redundancies, (ii) revamp administrative support functions, (iii) prioritize investments to favor profitable initiatives and markets, and (iv) increase efficiencies in the supply chain process. In connection with this initiative, the Company expects to incur employee severance costs of approximately $10 to $20 million and $5 million related to various other streamlining intitiatves. Additionally, in February 2006, as a result of the Company's launch of and transition to its second-generation BioPhotonic Scanner, the Company determined it would be necessary to write down the book value of the existing inventory of the prior model of the Scanner of approximately $20 million. The Company anticipates that approximately $10 to $20 million of the restructuring charges will result in future cash expenditures.

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Nu Skin Enterprises, Inc.‘s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders’ equity and of cash flows present fairly, in all material respects, the financial position of Nu Skin Enterprises, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an

opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting appearing in Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Salt Lake City, Utah
March 16, 2006

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

***Changes in Internal Control over Financial Reporting*.** During the fourth quarter of 2005, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in this United States of America, and that our receipts and expenditures are being made only in accordance with authorization of management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we assessed, as of December 31, 2005, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

Richard King Severance Arrangement

On March 2, 2006, we agreed to a severance arrangement with Richard King, who was serving as our Chief Information Officer, in connection with his anticipated termination of employment. The severance arrangement provides that Mr. King will continue to be employed until June 9, 2006, at which time his employment will terminate and he will be paid a lump sum severance payment of $137,108.

The foregoing does not constitute a complete summary of the terms of the severance arrangement with Mr. King, and reference is made to the complete text of the severance letter, which is attached as Exhibit 10.59 to this report and incorporated by reference in this Item 9B.

Lori Bush Severance Arrangement

On March 10, we entered into a severance arrangement with Lori Bush, who had previously been serving as the President of our Nu Skin division. The severance arrangement provides for the following: (i) termination of employment as of March 31, 2006; (ii) severance payment of $800,000, payable in monthly installments over an 18-month period, during which time Ms. Bush may not work for a competing direct selling company; (iii) a mutual release and waiver of claims related to Ms. Bush's employment; and (iv) the at-will consulting engagement of Ms. Bush as chair of the Nu Skin Personal Care Scientific Advisory Board, with an annual retainer of $25,000 per year.

The foregoing does not constitute a complete summary of the terms of the severance arrangement with Ms. Bush, and reference is made to the complete text of the severance letter, which is attached as Exhibit 10.60 to this report and incorporated by reference in this Item 9B.

Caroderm Acquisition

On March 7, 2006, we entered into an Agreement and Plan of Merger (the "Merger Agreement") through our wholly-owned subsidiary Nu Skin International, Inc. ("NSI"), by and among NSI, Pharmanex License Acquisition Corporation, a wholly-owned subsidiary of NSI, Caroderm Inc. ("Caroderm"), and certain shareholders of Caroderm. Pursuant to the Merger Agreement, Caroderm was merged with and into Pharmanex and the total consideration payable by us in connection with the Merger is $4,000,000. Prior to the merger, Caroderm and we each owned a license to the technology utilized in the Scanner permitting mutually exclusive fields of use. Caroderm's license permitted the use of the Scanner technology within the professional medical community. As a result of the merger, we acquired Caroderm's license and field of use.

It is also contemplated that our existing license with respect to the Scanner technology, which has been filed previously with the Securities Exchange Commission as a material contract, will be amended to include the following field of use:

"FIELD OF USE" shall mean the use of the licensed technology for the non-invasive measurement of carotenoids and similar or related compounds in human skin including related research; however, the above filed of use does not include the use of the technology for identifying, imaging, locating, and/or diagnosing skin lesions or skin malignancies in human patients. The above field of use does not include veterinary applications; however, it is agreed that licensee may use laboratory, in vitro, and in vivo animal model methods to research, develop and validate licensed products and licensed processes. For avoidance of doubt, human skin is defined as the continuous external membrane (integument) enveloping the body and consisting of the epidermis and dermis, hair, nails, sebaceous glands, sweat glands, and mammary glands; the skin does not include mucosal tissue such as the lining of the mouth.

The foregoing does not constitute a complete summary of the terms of the Merger Agreement, and reference is made to the complete text of the Merger Agreement, which is attached as Exhibit 10.58 to this report and incorporated by reference in this Item 9B.

Team Elite Travel Policy

On March 13, 2006, Compensation Committee of our Board of Directors adopted a travel policy with respect to the annual Team Elite distributor trip. It is currently our practice to conduct an annual international trip for those independent distributors that have achieved "Team Elite" status within our distributor compensation plan. Certain members of our senior management accompany Team Elite members on this trip in an effort promote contact and relationship building between senior management and Team Elite members. Members of company management are often accompanied by their spouses in an effort to promote a family atmosphere at these events. In recognition of this, we adopted a policy providing that we will pay for travel, lodging, and certain other costs for the spouses of certain senior managers attending the Team Elite trip.

PART III

The information required by Items 10, 11, 12, 13 and 14 of Part III is hereby incorporated by reference to our Definitive Proxy Statement filed or to be filed with the Securities and Exchange Commission for our 2005 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Form 10-K:

1. Financial Statements. See Index to Consolidated Financial Statements under Item 8 of Part II.

2. Financial Statement Schedules. See Index to Consolidated Financial Statements under Item 8 of Part II.

3. Exhibits: References to the “Company” shall mean Nu Skin Enterprises, Inc. Exhibits preceeded by an asterisk (*) are management contracts or compensatory plans or arrangements.

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

Company of America (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).

Exhibit Number	Exhibit Description
10.5	Pledge Agreement dated October 12, 2000, by and between the Company and State Street Bank and Trust Company of California, N.A., acting in its capacity as collateral agent.
10.6	Pledge Amendments executed by the Company dated December 31, 2003 (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.7	Pledge Agreement dated as of January 31, 2005 by and among Nu Skin Asia Investment, Inc., a wholly-owned subsidiary of the Company, and U.S. Bank National Association, as agent for and on behalf of the Benefited Parties under the Amended and Restated Collateral Agency and Intercreditor Agreement (referred to below) (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K/A filed on March 10, 2005).
10.8	Collateral Agency Agreement dated October 12, 2000, by and between the Company, State Street Bank and Trust Company of California, N.A., as Collateral Agent, and the lenders and noteholders party thereto.
10.9	Amendment to Collateral Agency and Intercreditor Agreement dated May 10, 2000, among State Street Bank and Trust Company of California, N.A., as Collateral Agent, The Prudential Insurance Company of America, as Senior Noteholder and ABN AMRO Bank N.V., as Senior Lender (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.10	Amended and Restated Collateral Agency and Intercreditor Agreement, dated as of August 26, 2003, by and among Nu Skin Enterprises, Inc. and various of its subsidiaries, U.S. Bank National Association, as Collateral Agent, and various lending institutions (incorporated by reference to Exhibit No. 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.11	Credit Agreement dated as of May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.12	First Amendment to the Credit Agreement dated December 14, 2001 dated May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.43 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.13	Second Amendment to Credit Agreement, dated as of October 22, 2003 between the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

Exhibit Number	Exhibit Description
10.14	Third Amendment to the Credit Agreement, dated as of May 10, 2004, among the Company, various financial institutions, and Bank One, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.15	Shareholders Agreement among the Company, Dató Mohd Nadzmi Bin Mohd Sulleh and Kiow Kim Yoon Frankie Kiow dated effective as of September 25, 2001 (incorporated by reference to Exhibit 10.46 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.16	Master Lease Agreement dated January 16th 2003 by and between the Company and Scrub Oak, LLC (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.17	Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Scrub Oak, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.18	Master Lease Agreement dated January 16, 2003 by and between the Company and Aspen Country, LLC (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.19	Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Aspen Country, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).

*10.20	Form of Indemnification Agreement entered into by and among the Company and certain of its officers and directors (incorporated by reference to Exhibit 10.1 to the Company's Form S-1).
*10.21	Form of Indemnification Agreement to be entered into between the Company and certain of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).

Exhibit Number	**Exhibit Description**
*10.22	Amendment in Total and Complete Restatement of Deferred Compensation Plan. (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.23	Form of Deferred Compensation Plan (New Form) with amendment (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.24	Form of Amendment to the Deferred Compensation Plan (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.25	Amendment in Total and Complete Restatement of NSI Compensation Trust (incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.26	Nu Skin Enterprises, Inc. Deferred Compensation Plan dated December 12, 2005 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.27	Nu Skin Enterprises, Inc. Nonqualified Deferred Compensation Trust dated December 12, 2005 (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.28	Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan.
*10.29	Amendment No. 1 to the Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
*10.30	Base Form of Master Stock Option Agreement (incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
*10.31	Form of Stock Option Agreement (Directors) (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
*10.32	Summary Description of Nu Skin Japan Director Retirement Allowance Plan (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
*10.33	Employment Letter with Truman Hunt (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

Exhibit Number	**Exhibit Description**
*10.34	Amendment to Employment Letter with M. Truman Hunt dated September 22, 2005 and Amendment to provisions of the Company's Executive Incentive Plan with respect to Mr. Hunt (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
*10.35	Letter of Understanding with Corey Lindley effective August 8, 2002 (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
*10.36	Letter of Understanding with Corey Lindley effective December 22, 2003 (Supplementing Letter of Understanding effective August 8, 2002) (incorporated by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.37	Amendment to Letter of Understanding with Corey Lindley as of March 25, 2005 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
10.38	Amended and Restated Registration Rights Agreement, dated as of September 18, 2003, by and among Nu Skin Enterprises, Inc., Sandra

N. Tillotson, The Sandra N. Tillotson Family Trust and the Purchasers signatory thereto (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-3 (File No. 333-109836)).

10.39 Private Shelf Agreement, dated as of August 26, 2003, between Nu Skin Enterprises, Inc. and Prudential Investment Management, Inc. (the "Private Shelf Agreement") (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).

10.40 First Amendment to Private Shelf Agreement, dated as of October 31, 2003 between the Company and Prudential Investment Management, Inc. (incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

Exhibit Number	Exhibit Description
10.41	Second Amendment to Private Shelf Agreement, dated as of May 18, 2004, between the Company, Prudential Investment Management, Inc., and the holders of the Series A Senior Notes and Series B Senior Notes issued under the Private Shelf Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.42	Third Amendment to Private Shelf Agreement dated June 13, 2005 between the Company, Prudential Investment Management, Inc. and certain other lenders (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.43	Series A Senior Notes Nos. A-1 to A-5 and Series B Senior Notes B-1 to B-5 issued October 31, 2003 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.44	Series C Senior Notes Nos. C-1 and C-2 issued February 7, 2005 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed February 8, 2005).
10.45	Stock Repurchase Agreement, dated as of October 22, 2003, between the Company and certain of its shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
10.46	Registration Rights Agreement dated as of October 22, 2003, by and among the Company and certain third-party purchasers of the Company's stock shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
10.47	Form of Lock-up Agreement executed by certain of the Company's shareholders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 10, 2003).
10.48	Registration Rights Agreement, dated as of July 26, 2004, by and among the Company and the Purchasers signatory thereto (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-3 filed August 23, 2004 (File No. 333-118495)).

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*10.50	Nu Skin International, Inc. 1997 Key Employee Death Benefit Plan (incorporated by reference to Exhibit 10.59 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.51	Nu Skin Enterprises, Inc. 2005 Executive Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed February 9, 2005).
*10.52	Restricted Stock Purchase Agreement, dated as of January 17, 2003, between the Company and Truman Hunt (incorporated by reference to Exhibit 10.61 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.53	Employment Letter with Robert Conlee effective November 26, 2003 (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.54	Summary of Non-management Director compensation.

*10.55	Form of Contingent Stock Award Agreement (Director Award).
10.56	Amended and Restated Patent License Agreement, dated as of March 7, 2002 by and between the University of Utah Research Foundation and Nutriscan, Inc. and Interpretive Memorandum of Understanding, dated as of November 30, 2001 (incorporated by reference to Exhibit 10.65 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.57	Nu Skin Enterprises, Inc. Senior Executive Benefits Policy (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.58	Agreement and Plan of Merger among Nu Skin International, Inc., Pharmanex License Acquisition Corporation, Caroderm, Inc. and certain shareholders of Caroderm, Inc. dated as of March 7, 2006.
*10.59	Severance letter with Richard King dated March 2, 2006.
*10.60	Severance letter with Lori Bush dated March 10, 2006.
*10.61	Summary of Team Elite Travel Policy.
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP

Exhibit Number	**Exhibit Description**
31.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 17, 2006.

NU SKIN ENTERPRISES, INC.

By: /s/ Ritch N. Wood
Ritch N. Wood, Chief Financial Officer

Exhibit Number	**Exhibit Description**
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-12073) (the "Form S-1")).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

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

Exhibit Number	**Exhibit Description**
10.5	Pledge Agreement dated October 12, 2000, by and between the Company and State Street Bank and Trust Company of California, N.A., acting in its capacity as collateral agent.
10.6	Pledge Amendments executed by the Company dated December 31, 2003 (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.7	Pledge Agreement dated as of January 31, 2005 by and among Nu Skin Asia Investment, Inc., a wholly-owned subsidiary of the Company, and U.S. Bank National Association, as agent for and on behalf of the Benefited Parties under the Amended and Restated Collateral Agency and Intercreditor Agreement (referred to below) (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K/A filed on March 10, 2005).
10.8	Collateral Agency Agreement dated October 12, 2000, by and between the Company, State Street Bank and Trust Company of California, N.A., as Collateral Agent, and the lenders and noteholders party thereto.
10.9	Amendment to Collateral Agency and Intercreditor Agreement dated May 10, 2000, among State Street Bank and Trust Company of California, N.A., as Collateral Agent, The Prudential Insurance Company of America, as Senior Noteholder and ABN AMRO Bank N.V., as Senior Lender (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.10	Amended and Restated Collateral Agency and Intercreditor Agreement, dated as of August 26, 2003, by and among Nu Skin Enterprises, Inc. and various of its subsidiaries, U.S. Bank National Association, as Collateral Agent, and various lending institutions (incorporated by reference to Exhibit No. 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.11	Credit Agreement dated as of May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.12	First Amendment to the Credit Agreement dated December 14, 2001 dated May 10, 2001 among the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.43 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.13	Second Amendment to Credit Agreement, dated as of October 22, 2003 between the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

Exhibit Number	Exhibit Description
10.14	Third Amendment to the Credit Agreement, dated as of May 10, 2004, among the Company, various financial institutions, and Bank One, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.15	Shareholders Agreement among the Company, Dató Mohd Nadzmi Bin Mohd Sulleh and Kiow Kim Yoon Frankie Kiow dated effective as of September 25, 2001 (incorporated by reference to Exhibit 10.46 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.16	Master Lease Agreement dated January 16th 2003 by and between the Company and Scrub Oak, LLC (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.17	Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Scrub Oak, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.18	Master Lease Agreement dated January 16, 2003 by and between the Company and Aspen Country, LLC (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.19	Amendment No. 1 to the Master Lease Agreement, effective as of July 1, 2003, between Nu Skin International Inc. and Aspen Country, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
*10.20	Form of Indemnification Agreement entered into by and among the Company and certain of its officers and directors (incorporated by reference to Exhibit 10.1 to the Company's Form S-1).
*10.21	Form of Indemnification Agreement to be entered into between the Company and certain of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).

Exhibit Number	Exhibit Description
*10.22	Amendment in Total and Complete Restatement of Deferred Compensation Plan. (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.23	Form of Deferred Compensation Plan (New Form) with amendment (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.24	Form of Amendment to the Deferred Compensation Plan (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.25	Amendment in Total and Complete Restatement of NSI Compensation Trust (incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.26	Nu Skin Enterprises, Inc. Deferred Compensation Plan dated December 12, 2005 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.27	Nu Skin Enterprises, Inc. Nonqualified Deferred Compensation Trust dated December 12, 2005 (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed December 19, 2005).
*10.28	Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan.
*10.29	Amendment No. 1 to the Second Amended and Restated Nu Skin Enterprises, Inc. 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
*10.30	Base Form of Master Stock Option Agreement (incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
*10.31	Form of Stock Option Agreement (Directors) (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
*10.32	Summary Description of Nu Skin Japan Director Retirement Allowance Plan (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
*10.33	Employment Letter with Truman Hunt (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

Exhibit Number	Exhibit Description
*10.34	Amendment to Employment Letter with M. Truman Hunt dated September 22, 2005 and Amendment to provisions of the Company's Executive Incentive Plan with respect to Mr. Hunt (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
*10.35	Letter of Understanding with Corey Lindley effective August 8, 2002 (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
*10.36	Letter of Understanding with Corey Lindley effective December 22, 2003 (Supplementing Letter of Understanding effective August 8, 2002) (incorporated by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
*10.37	Amendment to Letter of Understanding with Corey Lindley as of March 25, 2005 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
10.38	Amended and Restated Registration Rights Agreement, dated as of September 18, 2003, by and among Nu Skin Enterprises, Inc., Sandra N. Tillotson, The Sandra N. Tillotson Family Trust and the Purchasers signatory thereto (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-3 (File No. 333-109836)).
10.39	Private Shelf Agreement, dated as of August 26, 2003, between Nu Skin Enterprises, Inc. and Prudential Investment Management, Inc. (the "Private Shelf Agreement") (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.40	First Amendment to Private Shelf Agreement, dated as of October 31, 2003 between the Company and Prudential Investment Management, Inc. (incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

Exhibit Number	Exhibit Description
10.41	Second Amendment to Private Shelf Agreement, dated as of May 18, 2004, between the Company, Prudential Investment Management, Inc., and the holders of the Series A Senior Notes and Series B Senior Notes issued under the Private Shelf Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.42	Third Amendment to Private Shelf Agreement dated June 13, 2005 between the Company, Prudential Investment Management, Inc. and certain other lenders (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.43	Series A Senior Notes Nos. A-1 to A-5 and Series B Senior Notes B-1 to B-5 issued October 31, 2003 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.44	Series C Senior Notes Nos. C-1 and C-2 issued February 7, 2005 by the Company to Prudential Investment Management, Inc. and/or its affiliates pursuant to the Private Shelf Agreement (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed February 8, 2005).
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31.2	Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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NU SKIN ENTERPRISES, INC.

JP¥9,706,500,000

3.03% Senior Notes due October 12, 2010

NOTE PURCHASE AGREEMENT

Dated October 12, 2000

NU SKIN ENTERPRISES, INC.
One Nu Skin Plaza
75 West Center Street
Provo, Utah 84601

3.03% Senior Notes due October 12, 2010

October 12, 2000

TO THE PURCHASER LISTED IN
THE ATTACHED SCHEDULE A:

Ladies and Gentlemen:

Nu Skin Enterprises, Inc., a Delaware corporation (the "**Company**"), agrees with you as follows:

1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of JP¥ 9,706,500,000 aggregate principal amount of its Senior Notes due October 12, 2010 (the "**Notes**", such term to include any such notes issued in substitution therefor pursuant to Section 13 of this Agreement). The Notes shall be substantially in the form set out in Exhibit 1, with such changes therefrom, if any, as may be approved by you and the Company. The Notes shall at all times be guaranteed by all current and future Material Domestic Subsidiaries of the Company (the "**Subsidiary Guarantors**") pursuant to the Subsidiary Guaranty and shall at all times be secured by a pledge of the Pledged Securities of each Material Foreign Subsidiary pursuant to the Pledge Agreement. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

2. SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement and the Collateral Documents, the Company will issue and sell to you and you will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified opposite your name in Schedule A at the purchase price of 100% of the principal amount thereof.

3. CLOSING.

The sale and purchase of the Notes to be purchased by you shall occur at the offices of O'Melveny & Myers LLP, 400 South Hope Street, Los Angeles, California 90071, at 8:00 a.m., Los Angeles time, at a closing (the "**Closing**") on October 12, 2000. At the Closing the Company will deliver to you the Notes to be purchased by you in the form of a single Note (or such greater number of Notes in denominations of at least the Yen-equivalent of $100,000 as you may request) dated the date of the Closing and registered in your name (or in the name of your nominee), against delivery by you to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds as set forth in a funding instruction letter delivered by the Company to you at least two Business Days prior to the Closing. If at the Closing the Company shall fail to tender such Notes to you as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to your satisfaction, you shall, at your election, be relieved of all further obligations under this Agreement, without thereby waiving any rights you may have by reason of such failure or such nonfulfillment.

4. CONDITIONS TO CLOSING.

Your obligation to purchase and pay for the Notes to be sold to you at the Closing is subject to the fulfillment to your satisfaction, prior to or at the Closing, of the following conditions:

4.1 Representations and Warranties.

The representations and warranties of the Company in this Agreement and the Collateral Documents shall be correct in all material respects when made and at the time of the Closing.

4.2 Performance; No Default.

The Company and its Restricted Subsidiaries shall have performed and complied in all material respects with all agreements and conditions contained in this Agreement and the Collateral Documents required to be performed or complied with by them prior to or at the Closing and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Section 5.14) no Default or Event of Default shall have occurred and be continuing. Neither the Company nor any Restricted Subsidiary shall have entered into any transaction since the date of the Memorandum that would have been prohibited by Section 10 hereof had such Section applied since such date.

4.3 Officer's Certificate.

The Company shall have delivered to you an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2, 4.9, 4.13(a) and 4.13(b) have been fulfilled.

4.4 Opinions of Counsel.

You shall have received opinions in form and substance satisfactory to you, dated the date of the Closing (a) from Shearman & Sterling, special New York counsel for the Company and the Subsidiary Guarantors, substantially in the form set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as you or your counsel may reasonably request (and the Company and the Subsidiary Guarantors hereby instruct Shearman & Sterling to deliver such opinion to you), (b) from Tokyo Aoyama Law Office, special Japanese counsel for the Company and Nu Skin Japan Co., Ltd., substantially in the form set forth in Exhibit 4.4(b) and covering such other matters incident to the transactions contemplated hereby as you or your counsel may reasonably request (and the Company and the Subsidiary Guarantors hereby instruct Tokyo Aoyama Law Office to deliver such opinion to you, (c) from the Company's and the Subsidiary Guarantors' in-house counsel, substantially in the form set forth in Exhibit 4.4(c) and covering such other matters incident to the transactions contemplated hereby as you or your counsel may reasonably request (and the Company hereby instructs its in-house counsel to deliver such opinion to you), and (d) from O'Melveny & Myers LLP, your special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(d) and covering such other matters incident to such transactions as you may reasonably request.

4.5 Purchase Permitted By Applicable Law, etc.

On the date of the Closing your purchase of Notes shall (i) be permitted by the laws and regulations of each jurisdiction to which you are subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (ii) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System), and (iii) not subject you to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by you, you shall have received an Officer's Certificate certifying as to such matters of fact as you may reasonably specify to enable you to determine whether such purchase is so permitted.

4.6 [Reserved].

4.7 Payment of Special Counsel Fees.

Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the fees, charges and disbursements of your special counsel referred to in Section 4.4 to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

4.8 Private Placement Number.

A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

4.9 Changes in Corporate Structure.

Except as specified in Schedule 4.9, the Company shall not have changed its jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

4.10 Proceedings and Documents.

All corporate and other proceedings in connection with the transactions contemplated by this Agreement, the Collateral Documents and all documents and instruments incident to such transactions shall be satisfactory to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

4.11 Delivery of Company Documents.

On or before the date of the Closing, the Company shall have delivered to you and your special counsel each, unless otherwise noted, dated the date of the Closing:

(a) Certified copies of the Company's Certificate of Incorporation, together with a good standing certificate from the Secretary of State of the State of Delaware, each to be dated a recent date prior to the date of the Closing;

(b) Copies of the Company's Bylaws, certified as of the date of the Closing by its corporate secretary or an assistant secretary;

(c) Resolutions of the Board of Directors of the Company approving and authorizing the execution, delivery and performance of the Notes, this Agreement, the Collateral Documents to which the Company is a party and any other documents, instruments and certificates required to be executed by the Company in connection therewith, each certified by the Company's corporate secretary or an assistant secretary as being in full force and effect without modification or amendment;

(d) Signature and incumbency certificates of the officers of the Company executing the documents referred to in item (c) above, and any other documents, instruments and certificates required to be executed by the Company in connection herewith or therewith; and

(e) Such other documents as you or your special counsel may reasonably request.

4.12 Delivery of Subsidiary Guarantor Documents.

On or before the date of the Closing, each Subsidiary Guarantor shall have delivered to you and your special counsel each, unless otherwise noted, dated the date of the Closing:

(a) Certified copies of such Subsidiary Guarantor's Articles or Certificate of Incorporation, together with a good standing certificate from the Secretary of State of the State of the jurisdiction of its incorporation, each to be dated as of a recent date prior to the date of Closing;

(b) Copies of such Subsidiary Guarantor's Bylaws, certified as of the date of the Closing by its corporate secretary or an assistant secretary;

(c) Resolutions of the Board of Directors of such Subsidiary Guarantor approving and authorizing the execution, delivery and performance of the Subsidiary Guaranty and any other documents, instruments and certificates required to be executed by such Subsidiary Guarantor in connection therewith, each certified by its corporate secretary or an assistant secretary as being in full force and effect without modification or amendment;

(d) Signature and incumbency certificates of the officers of such Subsidiary Guarantor executing the documents referred to in item (c) above, and any other documents, instruments and certificates required to be executed by such Subsidiary Guarantor in connection therewith; and

(e) Such other documents as you or your special counsel may reasonably request.

4.13 Execution and Delivery of the Subsidiary Guaranty, the Pledge Agreement and the Collateral Agency, Intercreditor Agreement, and the ABN

Amro Release of Guarantors.

(a) On or prior to the date of the Closing, the Subsidiary Guaranty shall have been duly executed and delivered by each Subsidiary Guarantor and shall be in full force and effect and you shall have received an executed copy thereof.

(b) On or prior to the date of the Closing, the Pledge Agreement shall have been duly executed and delivered by the Pledgors and the Collateral Agent and shall be in full force and effect, you shall have received an executed copy thereof, and all actions shall have been taken as may be necessary or desirable to give to the Collateral Agent, for the ratable benefit of the holders of the Notes and the other Senior Secured Creditors, a valid and perfected first priority Lien on and security interest in the Pledged Securities.

(c) On or prior to the date of the Closing, the Collateral Agency and Intercreditor Agreement shall have been duly executed and delivered by the Collateral Agent, you and each of the other Senior Secured Creditors, and shall have been acknowledged by the Company and each of its Restricted Subsidiaries, and such agreement shall be in full force and effect and you shall have received an executed copy thereof.

(d) On or prior to the date of the Closing, the ABN Amro Release of Guarantors shall have been duly executed and delivered by ABN Amro N.V., releasing Nu Skin Korea, Co., Ltd., Nu Skin Korea, Inc. and Nu Skin Japan Co., Ltd. from the ABN Amro Subsidiary Guaranty.

4.14 UCC Searches.

The Company shall have delivered to the Collateral Agent certified copies of UCC Requests for Information or copies (Form UCC-11), or a similar search report certified by a party acceptable to the Collateral Agent, dated a recent date prior to the Closing, listing all effective financing statements which name the Company (under its present name and any previous names) as the debtor and which are filed in any jurisdiction.

4.15 UCC Financing Statements.

The Company shall have delivered to the Collateral Agent UCC financing statements or other similar instruments or documents, duly executed by the Company with respect to the Pledged Securities, in appropriate form for filing under the Uniform Commercial Code as in effect in all jurisdictions as may be necessary or, in the opinion of the Collateral Agent, desirable to perfect the security interests created in the Pledged Securities pursuant to the Pledge Agreement.

5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to you that:

5.1 Organization; Power and Authority.

The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement, the Collateral Documents to which it is a party and the Notes, and to perform the provisions hereof and thereof.

5.2 Authorization, etc.

This Agreement, the Notes and the Collateral Documents to which the Company is a party have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement and each of the Collateral Documents to which it is a party constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally, and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

5.3 Disclosure.

The Company, through its agent, Banc of America Securities LLC, has delivered to you a copy of a Private Placement Memorandum, dated September, 2000 (the "**Memorandum**"), relating to the transactions contemplated hereby. The Memorandum fairly describes, in all material respects, the general nature of the business and principal properties of the Company and the Restricted Subsidiaries. Except as disclosed in Schedule 5.3, this Agreement, the Collateral Documents, the Memorandum, the documents, certificates or other writings delivered to you by or on behalf of the Company in connection with the transactions contemplated hereby and the financial statements listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Memorandum, the Form 10-K filed by the Company with the Securities and Exchange Commission for the period ended December 31, 1999 or in any Form 10-Q, Form 8-K or other report filed by the Company with the Securities and Exchange Commission for any period subsequent to the period ended December 31, 1999 or as expressly described in Schedule 5.3 or in one of the documents, certificates or other writings identified therein, or in the financial statements listed in Schedule 5.5, since December 31, 1999, there has been no change in the financial condition, operations, business, properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the Memorandum or in the other documents, certificates and other writings delivered to you by or on behalf of the Company.

5.4 Organization and Ownership of Shares of Subsidiaries; Affiliates.

(a) Schedule 5.4 contains (except as noted therein) complete and correct lists (i) of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary and whether such Subsidiary is a Restricted Subsidiary or an Unrestricted Subsidiary, and whether such Subsidiary is a Material Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and senior officers.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except for Permitted Liens, directors' qualifying shares, shares required to be owned by Persons pursuant to applicable foreign laws regarding foreign ownership, or as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Material Subsidiary, is a party to, or otherwise subject to any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law statutes) restricting the ability of such Material Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Material Subsidiary.

5.5 Financial Statements.

The Company has delivered to you copies of the financial statements of the Company and the Restricted Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and the Restricted Subsidiaries as of the respective dates specified in such Schedule and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments).

5.6 Compliance with Laws, Other Instruments, etc.

The execution, delivery and performance by the Company of this Agreement, the Collateral Documents to which it is a party and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, note purchase or credit agreement, corporate charter or bylaws, or any other Material agreement, lease or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary, or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

5.7 Governmental Authorizations, etc.

No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company or any of its Restricted Subsidiaries of this Agreement, the Collateral Documents or the Notes.

5.8 Litigation; Observance of Agreements, Statutes and Orders.

(a) Except as disclosed in Schedule 5.8, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Restricted Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.9 Taxes.

The Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction (other than those tax returns which individually or collectively are not Material), and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material, or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate in accordance with GAAP. The Federal income tax liabilities of the Company and its Subsidiaries have been resolved with the Internal Revenue Service and paid for all fiscal years up to and including the fiscal year ending on December 31, 1996.

5.10 Title to Property; Leases.

The Company and the Restricted Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Restricted Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement or the Collateral Documents. All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects.

5.11 Licenses, Permits, etc.

Except as disclosed in Schedule 5.11,

(a) the Company and the Restricted Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material, without any known Material conflict with the rights of others;

(b) to the best knowledge of the Company, no product of the Company infringes in any material respect any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name or other right owned by any other Person; and

(c) to the best knowledge of the Company, there is no Material violation by any Person of any right of the Company or any Restricted Subsidiary with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by the Company or any Restricted Subsidiary.

5.12 Compliance with ERISA.

(a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be, individually or in the aggregate, Material.

(b) Neither the Company nor any ERISA Affiliate maintains a “single employer plan” or a Multiemployer Plan that is subject to Title IV of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company’s most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material or has otherwise been disclosed in the most recent consolidated financial statements of the Company and its Subsidiaries referenced in Section 5.5 of this Agreement.

(e) The execution and delivery of this Agreement and the Collateral Documents and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of your representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by you.

5.13 Private Offering by the Company.

Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than you and not more than 18 other Institutional Investors, each of which has been offered the Notes or any similar securities at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act.

5.14 Use of Proceeds; Margin Regulations.

The Company will apply the proceeds of the sale of the Notes to repay Indebtedness of the Company and its Subsidiaries (including repayment in full and termination of the Existing Credit Facility) and for other general corporate purposes (including repurchases of stock of the Company); provided that no part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, so as to involve the Company or any holder of a Note in a violation of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221) or Regulation X of said Board (12 CFR 224), or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 5% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 5% of the value of such assets. As used in this Section, the term "**margin stock**" shall have the meanings assigned to them in said Regulation U.

5.15 Existing Indebtedness; Future Liens.

(a) Except as described therein, Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness, separately listed for each such item of Indebtedness of $2,000,000 or more, of the Company and the Restricted Subsidiaries as of the date of the Closing.

(b) (i) Neither the Company nor any Restricted Subsidiary is in default in the payment of any principal or interest on any Indebtedness of the Company or such Restricted Subsidiary, and (ii) no event or condition exists with respect to any Indebtedness of the Company or any Restricted Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment, except for Indebtedness described in clauses (i) and (ii) which, in aggregate principal amount, does not exceed $5,000,000.

(c) Neither the Company nor any Restricted Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by Section 10.3.

5.16 Foreign Assets Control Regulations, etc.

Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

5.17 Status under Certain Statutes.

Neither the Company nor any Restricted Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, the Interstate Commerce Act, as amended, or the Federal Power Act, as amended.

5.18 Environmental Matters.

Neither the Company nor any of its Subsidiaries has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to you in writing,

(a) neither the Company nor any of its Subsidiaries has knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by any of them or to other assets or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them in a manner contrary to any Environmental Laws and has not disposed of any Hazardous Materials in a manner contrary to any Environmental Laws, in each case in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with all applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

6. REPRESENTATIONS OF THE PURCHASER.

6.1 Purchase for Investment.

You represent that you are an institutional "accredited investor" within the meaning of subparagraphs (1), (2), (3) or (7) of Rule 501(a) promulgated under the Securities Act. You represent that you are purchasing the Notes for your own account or for one or more separate accounts maintained by you or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of your or their property shall at all times be within your or their control. You understand that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

6.2 Source of Funds.

You represent that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by you to pay the purchase price of the Notes to be purchased by you hereunder:

(a) the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995) and there is no employee benefit plan, treating as a single plan all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceed ten percent (10%) of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement filed with your state of domicile; or

(b) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as you have disclosed to the Company in writing pursuant to this paragraph (b), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(c) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (c); or

(d) the Source is a governmental plan; or

(e) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms **"employee benefit plan"**, **"governmental plan"** and **"separate account"** shall have the respective meanings assigned to such terms in Section 3 of ERISA.

7. INFORMATION AS TO COMPANY.

7.1 Financial and Business Information.

The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements — within 60 days (or if sooner, on the date consolidated statements are required to be delivered to any other creditor of the Company) after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of,

(i) a consolidated and a consolidating balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated and consolidating statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments; provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a) to provide consolidated financial statements so long as such Quarterly Report on Form 10-Q includes the consolidated financial statements identified in clauses (i) and (ii) above; provided further that such consolidating financial statements shall show the elimination of all Unrestricted Subsidiaries and the resultant consolidated financial statements of the Company and its Restricted Subsidiaries;

(b) Annual Statements — within 120 days (or if sooner, on the date consolidated statements are required to be delivered to any other creditor of the Company) after the end of each fiscal year of the Company, duplicate copies of,

(i) a consolidated and a consolidating balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated and consolidating statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, which consolidated financial statements shall be accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and which consolidating financial statements shall be certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments; provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(b) to provide consolidated financial statements so long as such Annual Report on Form 10-K includes the consolidated financial statements identified in clauses (i) and (ii) above; provided

further that such consolidating financial statements shall show the elimination of all Unrestricted Subsidiaries and the resultant consolidated financial statements of the Company and its Restricted Subsidiaries;

(c) SEC and Other Reports — promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and other statements made available generally by the Company or any Material Domestic Subsidiary to the public concerning developments that are Material;

(d) Notice of Default or Event of Default — promptly, and in any event within five days, after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) ERISA Matters — promptly, and in any event within fifteen days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof, which could reasonably be expected to have a Material Adverse Effect; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan, which could reasonably be expected to have a Material Adverse Effect; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(f) Notices from Governmental Authority — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect; and

(g) Requested Information — with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes, including without limitation, such information as is required by Rule 144A promulgated under the Securities Act to be delivered to a prospective transferee of the Notes.

7.2 Officer's Certificate.

Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1 hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance — the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.2 through Section 10.6 hereof, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default — a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

7.3 Inspection.

The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Restricted Subsidiary, all at such reasonable times during business hours and as often as may be reasonably requested in writing; and

(b) Default — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such reasonable times and as often as may be requested.

8. PREPAYMENT OF THE NOTES.

8.1 Required Prepayments.

The Company shall make principal prepayments on the Notes on the dates and in the amounts set forth below:

Prepayment Date	Amount
October 12, 2004	JP¥1,386,642,857
October 12, 2005	JP¥1,386,642,857
October 12, 2006	JP¥1,386,642,857
October 12, 2007	JP¥1,386,642,858
October 12, 2008	JP¥1,386,642,857
October 12, 2009	JP¥1,386,642,857

; provided that upon any partial prepayment of the Notes pursuant to Section 8.2 or purchase of the Notes permitted by Section 8.5, the principal amount of each required prepayment of the Notes becoming due under this Section 8.1 on and after the date of such prepayment or purchase, as well as the payment required at maturity, shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase.

8.2 Optional Prepayments with Make-Whole Amount.

(a) Prepayment Amount. The Company may, at its option, upon notice as provided below, prepay on any Business Day all, or from time to time any part of, the Notes in an amount not less than 5% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, plus accrued interest thereon, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount.

(b) Notice. The Company will give each holder of Notes written notice of each optional prepayment under this Section 8.2 not less than 30 days and not more than 60 days prior to the Business Day fixed for such prepayment. Each such notice shall specify the prepayment date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

8.3 Allocation of Partial Prepayments.

In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

8.4 Maturity; Surrender, etc.

In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

8.5 Purchase of Notes.

The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

8.6 Make-Whole Amount.

The term **"Make-Whole Amount"** means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal; provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, (i) the rate of the benchmark Japanese Government Bond reported, as of 10:00 a.m. (New York time)on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 0#JPBMK=" on the Reuters Screen (or such other display as may replace "Page 0#JPBMK=" on the Reuters Screen) for the benchmark Japanese Government Bond having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such rate is note reported as of such time or the rate reported is not ascertainable, the average of the rates as determined by at least three recognized market makers in the Japanese Government Bond market. Such rate will be determined, if necessary, by interpolating linearly between (1) the benchmark Japanese Government Bond with the maturity closest to and greater than the Remaining Average life, and (2) the benchmark Japanese Government Bond with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

9.1 Compliance with Law.

The Company will and will cause each of its Subsidiaries to comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

9.2 Insurance.

The Company will and will cause each of the Restricted Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

9.3 Maintenance of Properties.

The Company will and will cause each of the Restricted Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Restricted Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

9.4 Payment of Taxes and Claims.

The Company will and will cause each of its Subsidiaries to file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary, provided that neither the Company nor any Subsidiary need pay any such tax or assessment or claims if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or such Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary, or (ii) the nonpayment of all such taxes and assessments and claims in the aggregate could not reasonably be expected to have a Material Adverse Effect.

9.5 Corporate Existence, etc.

The Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Section 10.2, the Company will at all times preserve and keep in full force and effect the corporate existence of each Restricted Subsidiary (unless merged into the Company or a Restricted Subsidiary) and all rights and franchises of the Company and the Restricted Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

9.6 Security; Execution of Pledge Agreement and Subsidiary Guaranty.

(a) The Notes and other Senior Secured Indebtedness will be secured by the Pledged Securities of each Material Foreign Subsidiary. Within 5 days after the Company or any of its Restricted Subsidiaries acquires a Material Foreign Subsidiary or within 5 days after the Company delivers consolidating financial statements pursuant to Section 7.1 showing that any of Company's existing Subsidiaries has become a Material Foreign Subsidiary, the Company shall cause the Pledged Securities of such Material Foreign Subsidiary to be pledged pursuant to a supplement to the Pledge Agreement (unless a pledge of such Pledged Securities (x) is legally unobtainable or (y) the consent of a governmental authority is required in order to obtain such pledge and such consent has not been obtained after the Company's commercially reasonable efforts to obtain such consent, and Company delivers an opinion of outside counsel, in form and substance reasonably satisfactory to the holders of the Notes and their counsel, to the effect that such pledge was not legally obtainable or such consent was not obtained). The Company shall promptly take all actions as may be necessary or desirable to give to the Collateral Agent, for the ratable benefit of the holders of the Notes and the other Senior Secured Creditors, a valid and perfected first priority Lien on and security interest in the Pledged Securities of such Material Foreign

Subsidiary and shall promptly deliver to the holders of the Notes (i) a supplement to the Pledge Agreement executed by each Pledgor of the Pledged Securities of such Material Foreign Subsidiary, (ii) a certificate executed by the secretary or an assistant secretary of each Pledgor as to (a) the incumbency and signatures of the officers of such Pledgor executing the supplement to the Pledge Agreement, and (b) the fact that the attached resolutions of the Board of Directors of such Pledgor authorizing the execution, delivery and performance of the supplement to the Pledge Agreement are in full force and effect and have not been modified or rescinded, (iii) at the request of a holder of any Note, a favorable opinion of counsel, in form and substance reasonably satisfactory to the holders of the Notes and their counsel, as to (a) the due organization and good standing of such Pledgor, (b) the due authorization, execution and delivery by such Pledgor of the supplement to the Pledge Agreement, (c) the enforceability of the supplement to the Pledge Agreement, and (d) such other matters as the Required Holders may reasonably request, all of the foregoing to be satisfactory in form and substance to the holders of the Notes and their counsel; provided that the opinion described in this clause (iii) may be given by the Company's in-house counsel and may contain reasonable assumptions, if necessary, relating to the fact that such counsel may not be admitted to practice law in the applicable jurisdiction, and (iv) such other assurances, certificates, documents, consents or opinions as the Required Holders reasonably may require.

(b) Within 5 days after the Company or any of its Restricted Subsidiaries acquires a Material Domestic Subsidiary or within 5 days after the Company delivers consolidating financial statements pursuant to Section 7.1 showing that any of Company's existing Subsidiaries has become a Material Domestic Subsidiary (but not later than the time when such Material Domestic Subsidiary provides a guaranty or co-obligor agreement to the lenders party to any Significant Credit Facility) the Company will (x) cause such Material Domestic Subsidiary to execute and deliver to the holders of the Notes a counterpart of the Subsidiary Guaranty, and (y) if the lenders party to such Significant Credit Facility are not then party to the Collateral Agency and Intercreditor Agreement (either directly or through their agent) cause such lenders (either directly or through their agent) to become party to the Collateral Agency and Intercreditor Agreement. The Company shall promptly deliver to the holders of the Notes, together with such counterpart of the Subsidiary Guaranty (i) certified copies of such Material Domestic Subsidiary's Articles or Certificate of Incorporation, together with a good standing certificate from the Secretary of State of the jurisdiction of its incorporation, each to be dated a recent date prior to their delivery to the holders of the Notes, (ii) a copy of such Material Domestic Subsidiary's Bylaws, certified by its corporate secretary or an assistant corporate secretary as of a recent date prior to their delivery to the holders of the Notes, (iii) a certificate executed by the secretary or an assistant secretary of such Material Domestic Subsidiary as to (a) the incumbency and signatures of the officers of such Material Domestic Subsidiary executing the counterpart of the Subsidiary Guaranty, and (b) the fact that the attached resolutions of the Board of Directors of such Material Domestic Subsidiary authorizing the execution, delivery and performance of the counterpart of the Subsidiary Guaranty are in full force and effect and have not been modified or rescinded, (iv) at the request of a holder of any Note, a favorable opinion of counsel to the Company and such Material Domestic Subsidiary, in form and substance reasonably satisfactory to the holders of the Notes and their counsel, as to (a) the due organization and good standing of such Material Domestic Subsidiary, (b) the due authorization, execution and delivery by such Material Domestic Subsidiary of the counterpart of the Subsidiary Guaranty, (c) the enforceability of the counterpart of the Material Domestic Subsidiary, and (d) such other matters as the Required Holders may reasonably request, all of the foregoing to be satisfactory in form and substance to the holders of the Notes and their counsel; provided, that the opinion described in clause (iv) above may be given by the Company's in-house counsel and may contain reasonable assumptions, if necessary, relating to the fact that counsel to the Company and such Material Domestic Subsidiary may not be admitted to practice law in the applicable jurisdiction, and (v) such other assurances, certificates, documents, consents or opinions as the Required Holders reasonably may require.

9.7 Termination of the Existing Credit Facility and Related Liens.

Within 5 Business Days of the date of Closing, the Company will provide you with satisfactory evidence that the Company has (i) repaid in full all Indebtedness outstanding under the Existing Credit Facility, (ii) terminated any commitments to lend or make other extensions of credit under the Existing Credit Facility, (iii) delivered to the Collateral Agent all documents or instruments necessary to release all Liens securing Indebtedness or other obligations of the Company under the Existing Credit Facility, and (iv) made arrangements satisfactory to the Collateral Agent with respect to the cancellation of any letters of credit outstanding under the Existing Credit Facility.

10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

10.1 Transactions with Affiliates.

The Company will not and will not permit any Restricted Subsidiary to enter into, directly or indirectly, any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Restricted Subsidiary), except as approved by a majority of the disinterested directors of the Company, and upon fair and reasonable terms no less favorable to the Company or such Restricted Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate; provided that the foregoing restrictions shall not apply to Standard Securitization Undertakings effected as part of a Permitted Securitization Program.

10.2 Merger, Consolidation, Sale of Assets, etc.

(a) The Company will not and will not permit any Restricted Subsidiary to consolidate with or merge with any other Person unless immediately after giving effect to any consolidation or merger no Default or Event of Default would exist and:

(i) in the case of a consolidation or merger of a Restricted Subsidiary, (x) the Company or another Restricted Subsidiary is the surviving or continuing corporation, (y) the surviving or continuing corporation is or immediately becomes a Restricted Subsidiary, or (z) such consolidation or merger, if considered as the sale of the assets of such Restricted Subsidiary to such other Person, would be permitted by Section 10.2(c); and

(ii) in the case of a consolidation or merger of the Company, the successor corporation or surviving corporation which results from such consolidation or merger (the "**surviving corporation**"), if not the Company, (A) is a solvent U.S. corporation, (B) executes and delivers to each holder of the Notes its assumption of (x) the due and punctual payment of the principal of and premium, if any, and interest on all of the Notes, and (y) the due and punctual performance and observation of all of the covenants in this Agreement, the Collateral Documents and the Notes to be performed or observed by the Company, and (C) furnishes to each holder of the Notes an opinion of counsel, reasonably satisfactory to the Required Holders, to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the surviving corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(b) The Company will not sell, lease (as lessor) or otherwise transfer all or substantially all of its assets in a single transaction or series of transactions to any Person unless immediately after giving effect thereto no Default or Event of Default would exist and:

(i) the successor corporation to which all or substantially all of the Company's assets have been sold, leased or transferred (the "**successor corporation**") is a solvent U.S. corporation, and

(ii) the successor corporation executes and delivers to each holder of the Notes its assumption of the due and punctual payment of the principal of and premium, if any, and interest on all of the Notes, and the due and punctual performance and observation of all of the covenants in this Agreement, the Collateral Documents and the Notes to be performed or observed by the Company and shall furnish to such holders an opinion of counsel, reasonably satisfactory to the Required Holders, to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such successor corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

No such conveyance, transfer or lease of all or substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under this Agreement or the Notes.

(c) The Company will not, and will not permit any Restricted Subsidiary to, sell, lease (as lessor), transfer, abandon or otherwise dispose of assets to any Person; provided that the foregoing restrictions do not apply to:

(i) the sale, lease, transfer or other disposition of assets of the Company to a Restricted Subsidiary or of a Restricted Subsidiary to the Company or another Restricted Subsidiary;

(ii) the sale in the ordinary course of business of inventory held for sale, or equipment, fixtures, supplies or materials that are no longer required in the operation of the business of the Company or any Restricted Subsidiary or are obsolete;

(iii) the sale of property of the Company or any Restricted Subsidiary and the Company's or any Restricted Subsidiary's subsequent lease, as lessee, of the same property, within 270 days following the acquisition or construction of such property;

(iv) the sale of assets of the Company or any Restricted Subsidiary for cash or other property to a Person or Persons (other than an Affiliate) if (A) such assets (valued at net book value) do not constitute a "substantial part" of the assets of the Company and the Restricted Subsidiaries, (B) in the opinion of a Responsible Officer of the Company, the sale is for fair value and is in the best interests of the Company, and (C) immediately after giving effect to the transaction, no Default or Event of Default would exist; or

(v) the sale of assets meeting the conditions set forth in clauses (B) and (C) of subparagraph (iv) above, as long as the net proceeds from such sale in excess of a substantial part of the assets of the Company and the Restricted Subsidiaries are (x) applied within 270 days of the date of receipt to the acquisition of productive assets useful and intended to be used in the operation of the business of the Company or the Restricted Subsidiaries, or (y) used to repay any Indebtedness of the Company (which in the case of the Notes shall be with the Make-Whole Amount) or the Restricted Subsidiaries (other than Indebtedness that is in any manner subordinated in right of payment or security in any respect to Indebtedness evidenced by the Notes, Indebtedness owing to the Company, any of its Subsidiaries or any Affiliate and Indebtedness in respect of any revolving credit or similar credit facility providing the Company or any of the Restricted Subsidiaries with the right to obtain loans or other extensions of credit from time to time, except to the extent that in connection with such payment of Indebtedness the availability of credit under such credit facility is permanently reduced not later than 270 days after the date of receipt of such proceeds by an amount not less than the amount of such proceeds applied to the payment of such Indebtedness).

(d) For purposes of Section 10.2(c), a sale of assets will be deemed to involve a **"substantial part"** of the assets of the Company and the Restricted Subsidiaries if the book value of such assets, together with all other assets sold during such fiscal year (except those assets sold pursuant to clauses (i) through (iii) of Section 10.2(c)), exceeds 10% of the Consolidated Total Assets of the Company and the Restricted Subsidiaries determined as of the end of the immediately preceding fiscal year.

(e) The Company will not, and will not permit any Restricted Subsidiary to, issue shares of stock (or any options or warrants to purchase stock or other Securities exchangeable for or convertible into stock) of any Restricted Subsidiary except (i) to the Company, (ii) to a Wholly-Owned Restricted Subsidiary, (iii) to any Restricted Subsidiary that owns equity in the Restricted Subsidiary issuing such equity, or (iv) with respect to a Restricted Subsidiary that is a partnership or joint venture, to any other Person who is a partner or equity owner if such issuance is made pursuant to the terms of the Joint Venture Agreement or Partnership Agreement entered into in connection with the formation of such partnership or joint venture; provided, that Restricted Subsidiaries may issue directors' qualifying shares and shares required to be issued by any applicable foreign law regarding foreign ownership requirements. The Company will not, and will not permit any Restricted Subsidiary to sell, transfer or otherwise dispose of its interest in any stock (or any options or warrants to purchase stock or other Securities exchangeable for or convertible into stock) of any Restricted Subsidiary (except to the Company or a Wholly-Owned Restricted Subsidiary) unless such sale, transfer or disposition would be permitted under Section 10.2(c).

10.3 Liens.

The Company will not and will not permit any of the Restricted Subsidiaries to directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien on or with respect to any property or asset (including, without limitation, any document or instrument in respect of goods or accounts receivable) of the Company or any Restricted Subsidiary, whether now owned or hereafter acquired, or any income or profits therefrom (unless the Company makes, or causes to be made, effective provision whereby the Notes will be equally and ratably secured with any and all other obligations thereby secured, such security to be pursuant to an agreement reasonably satisfactory to the Required Holders and, in any such case, the Notes shall have the benefit, to the fullest extent that, and with such priority as, the holders of the Notes may be entitled under applicable law, of any equitable Lien on such property), except for the following (which are collectively referred to as "**Permitted Liens**"**)**:

(a) Liens for taxes, assessments or other governmental charges which are not yet delinquent or that are being contested in good faith;

(b) Liens incidental to the conduct of business or the ownership of properties and assets (including landlords', carriers', warehousemen's, mechanics' materialmen's, and other similar Liens) and Liens to secure the performance of bids, tenders, leases or trade contracts, or to secure statutory obligations (including obligations under workers compensation, unemployment insurance and other social security legislation), surety or appeal bonds or other Liens incurred in the ordinary course of business and not in connection with the borrowing of money;

(c) Liens resulting from judgments, unless such judgments are not, within 60 days, discharged or stayed pending appeal, or shall not have been discharged within 60 days after the expiration of any such stay;

(d) Liens securing Indebtedness of a Restricted Subsidiary owed to the Company or to a Wholly-Owned Restricted Subsidiary;

(e) Liens in existence at Closing and reflected in Schedule 10.3 hereto;

(f) minor survey exceptions and the like which do not Materially detract from the value of such property;

(g) leases, subleases, easements, rights of way, restrictions and other similar charges or encumbrances incidental to the ownership of property or assets or the ordinary conduct of the Company's or any of the Restricted Subsidiaries' businesses, provided that the aggregate of such Liens do not Materially detract from the value of such property;

(h) Liens (i) existing on property at the time of its acquisition or construction by the Company or a Restricted Subsidiary and not created in contemplation thereof; (ii) on property created contemporaneously with its acquisition or within 180 days of the acquisition or completion of construction or improvement thereof to secure the purchase price or cost of construction or improvement thereof, including such Liens arising under Capital Leases; or (iii) existing on property of a Person at the time such Person is acquired by, consolidated with, or merged into the Company or a Restricted Subsidiary and not created in contemplation thereof; provided that such Liens shall attach solely to the property acquired or constructed and the principal amount of the Indebtedness secured by the Lien shall not exceed the principal amount of such Indebtedness just prior to the time such Person is consolidated with or merged into the Company or a Restricted Subsidiary;

(i) Liens on receivables of the Company or a Restricted Subsidiary and the related assets of the type specified in clauses (A) through (D) in the definition of "Permitted Securitization Program" in connection with any Permitted Securitization Program;

(j) Liens in favor of the holders of the Notes and the other Senior Secured Creditors party to the Collateral Agency and Intercreditor Agreement in connection with the pledge of the Pledged Securities of each Material Foreign Subsidiary;

(k) banker's Liens and similar Liens (including set-off rights) in respect of bank deposits; provided, however, that any such Liens held by parties to the Collateral Agency and Intercreditor Agreement will be governed by and subject to the Collateral Agency and Intercreditor Agreement;

(l) Liens in favor of customs and revenue authorities as a matter of law to secure payment of custom duties and in connection with the importation of goods in the ordinary course of the Company's and its Subsidiaries' business;

(m) any Lien renewing, extending or replacing Liens permitted by Sections 10.3(e), (h), and (i), provided that (i) the principal amount of the Indebtedness secured is neither increased nor the maturity thereof changed to an earlier date, (ii) such Lien is not extended to any other property, and (iii) immediately after such extension, renewal or refunding, no Default or Event of Default would exist; and

(n) other Liens securing Indebtedness not otherwise permitted by paragraphs (a) through (m) of this Section 10.3, provided that Priority Indebtedness shall not, at any time, exceed an amount equal to 13% of Consolidated Net Worth.

Any Lien originally incurred in compliance with paragraph (n) of this Section 10.3 may be renewed, extended or replaced so long as the conditions set forth in subparagraphs (i), (ii) and (iii) of paragraph (m) of this Section 10.3 are satisfied.

10.4 Minimum Consolidated Net Worth.

The Company will not, at any time, permit Consolidated Net Worth to be less than the sum of (i) $271,935,200, (ii) an aggregate amount equal to 60% of Consolidated Net Income (but, in each case, only if a positive number) earned in (a) the six months ended December 31, 2000, and (b) each complete fiscal year thereafter, and (iii) 50% of the net proceeds realized by the Company and its Restricted Subsidiaries from the sale of Equity Securities subsequent to June 30, 2000, excluding issuances of Equity Securities upon exercise of employee stock options or rights under any employee benefit plans (excluding such exercise by any Person who owns greater than 5% of the Equity Securities of the Company), issuances of Equity Securities in connection with acquisitions by the Company and its Restricted Subsidiaries, and reissuances of up to $60,000,000 of treasury securities purchased by the Company after the date of Closing.

10.5 Limitation on Indebtedness.

(a) The Company will not permit at any time (i) the ratio of Total Indebtedness to EBITDA for the four most recently ended fiscal quarters of the Company to be greater than 1.85 to 1.0, or (ii) Priority Indebtedness to exceed 13% of Consolidated Net Worth.

(b) The Company will not, and will not permit any Restricted Subsidiary to, incur, create or assume any Term Debt during the one year period immediately following the Closing unless (i) the aggregate principal amortization of all such Term Debt in any year does not exceed $30,000,000, and (ii) such Term Debt has at the time of issuance a longer average life to maturity than the remaining average life to maturity of the Notes then outstanding.

(c) The Company will not, and will not permit any Restricted Subsidiary to, incur, assume or create any Indebtedness under any Significant Credit Facility unless each of the lenders under such Significant Credit Facility immediately becomes a party to the Collateral Agency and Intercreditor Agreement.

10.6 Minimum Fixed Charges Coverage.

The Company will not permit, as of the end of each fiscal quarter of the Company, the ratio of Consolidated Income Available for Fixed Charges to Fixed Charges, for the period consisting of such fiscal quarter and the preceding three fiscal quarters, to be less than 2.75 to 1.0.

10.7 Nature of the Business.

The Company will not, and will not permit any Restricted Subsidiary, to engage in any business if, as a result, the general nature of the business of the Company and the Restricted Subsidiaries, taken as a whole, which would then be engaged in by the Company and the Restricted Subsidiaries would be substantially

changed from the general nature of the business engaged in by the Company and the Restricted Subsidiaries, taken as a whole, on the date of the Closing.

10.8 Designation of Restricted and Unrestricted Subsidiaries.

The Company may designate in writing to each of the holders of the Notes any Unrestricted Subsidiary as a Restricted Subsidiary and may designate in writing to each of the holders of the Notes any Restricted Subsidiary as an Unrestricted Subsidiary; provided that (i) no such designation of a Restricted Subsidiary as an Unrestricted Subsidiary shall be effective unless (A) such designation is treated as a transfer under Section 10.2 and such designation is permitted by Section 10.2, and (B) such Subsidiary does not own any stock, other equity interest or Indebtedness of the Company or a Restricted Subsidiary; and (ii) no such designation shall be effective unless, immediately after giving effect thereto no Default or Event of Default would exist; provided, further, that any Subsidiary that has been designated as a Restricted Subsidiary or an Unrestricted Subsidiary may not thereafter be redesignated as a Restricted Subsidiary or an Unrestricted Subsidiary, as the case may be, more than once; and provided, further, that no Securitization Entity shall be a Restricted Subsidiary unless designated as such by the Company. Notwithstanding anything to the contrary in this Agreement, upon any Unrestricted Subsidiary becoming a Material Subsidiary, it shall immediately be deemed to be a Restricted Subsidiary.

10.9 Limitation on Swap Agreements.

The Company will not, and will not permit any Restricted Subsidiary to, have any obligations (contingent or otherwise) existing or arising under any Swap Agreement, unless such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of mitigating risks associated with liabilities, commitments or assets held by such Person, and not for purposes of speculation.

10.10 Limitation on Restricted Payments.

The Company will not, and will not permit any Restricted Subsidiary to, do any of the following if a Default or Event of Default exists or would exist immediately after giving effect thereto:

(a) Declare or pay any dividends, either in cash or property, on any shares of capital stock of any class of the Company or any Restricted Subsidiary (except (i) dividends or other distributions payable solely in shares of common stock, and (ii) dividends and distributions paid by a Restricted Subsidiary solely to the Company or a Wholly-Owned Restricted Subsidiary); or

(b) Directly or indirectly, or through any Restricted Subsidiary, purchase, redeem or retire any shares of capital stock of any class of the Company or any Restricted Subsidiary or any warrants, rights or options to purchase or acquire any shares of capital stock of the Company or any Restricted Subsidiary; or

(c) Make any other payment or distribution, either directly or indirectly or through any Restricted Subsidiary, in respect of capital stock of any class of the Company or any Restricted Subsidiary (except payments and distributions made by a Restricted Subsidiary solely to the Company or a Wholly-Owned Restricted Subsidiary).

10.11 Most Favored Lender.

If the Company creates, incurs or assumes any Term Debt within the one year period immediately following the Closing, and any such Term Debt has financial or operational covenants other than as set forth in this Section 10, or more favorable to the lender or creditor thereunder than those set forth in this Section 10, then this Section 10 shall be deemed to be automatically amended to include such other or more favorable covenants, such amendment to be effective as of the date of such incurrence, creation or assumption, and such other or more favorable covenants as incorporated into this Section 10 may not thereafter be modified without the written consent of the Required Holders.

11. EVENTS OF DEFAULT.

An "**Event of Default**" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note or any amount payable under Section 14.4 for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in Section 10; or

(d) the Company or any of its Subsidiaries defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) or in any Collateral Document and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default, and (ii) the Company or such Subsidiary receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or any Subsidiary Guarantor or by any officer of the Company or any Subsidiary Guarantor in this Agreement, the Collateral Documents or in any writing furnished in connection with the transactions contemplated hereby or thereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Restricted Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness beyond any period of grace provided with respect thereto, or (ii) the Company or any Restricted Subsidiary is in default for more than 20 Business Days in the performance of or compliance with any term of any evidence of any Indebtedness or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition (x) such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be) due and payable before its stated maturity or before its regularly scheduled dates of payment, or (y) one or more Persons have the right to require the Company or any Restricted Subsidiary to purchase or repay such Indebtedness, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such

Indebtedness into equity interests), (x) the Company or any Restricted Subsidiary has become obligated to purchase or repay any Indebtedness before its regular maturity or before its regularly scheduled dates of payment, or (y) one or more Persons have exercised any right to require the Company or any Restricted Subsidiary to purchase or repay such Indebtedness, provided that the aggregate amount of all foregoing Indebtedness with respect to which a payment, performance or compliance default shall have occurred or a failure or other event causing or permitting the purchase or repayment by the Company or any Restricted Subsidiary shall have occurred exceeds $7,500,000; or

(g) the Company or any Material Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any Material Subsidiary, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any Material Subsidiary, or any such petition shall be filed against the Company or any Material Subsidiary and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of $10,000,000 are rendered against one or more of the Company and any Restricted Subsidiary and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; or

(j) the Subsidiary Guaranty ceases to be in full force and effect with respect to any Material Domestic Subsidiary, or any Material Domestic Subsidiary contests the validity thereof; or

(k) the Pledge Agreement ceases to be in full force and effect with respect to any Material Foreign Subsidiary, any Pledgor contests the validity of the Pledge Agreement, or the Collateral Agent shall fail to have a valid, perfected and enforceable first priority security interest in the Pledged Securities; or

(l) [Reserved.]

(m) (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed 5% of Consolidated Net Worth as of the end of the most recently ended fiscal quarter of the Company, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any of its Subsidiaries establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any of its Subsidiaries thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in Section 11(m), the terms "**employee benefit plan**" and "**employee welfare benefit plan**" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

12. REMEDIES ON DEFAULT, ETC.

12.1 Acceleration.

(a) If an Event of Default with respect to the Company described in paragraph (g) or (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, any holder or holders of more than 50% in principal amount of the Notes at the time outstanding may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

12.2 Other Remedies.

If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein, in the Collateral Documents or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

12.3 Rescission.

At any time after any Notes have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the Required Holders, by written notice to the Company, may rescind and annul any such declaration and its consequences, and at any time after any Notes have become due and payable pursuant to clause (a) of Section 12.1, the holders of all Notes then outstanding, by written notice to the Company, may rescind acceleration of the Notes resulting from the occurrence of an Event of Default described in paragraph (h) of Section 11, if in each case (i) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (ii) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration or acceleration, have been cured or have been waived pursuant to Section 17, and (iii) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

12.4 No Waivers or Election of Remedies, Expenses, etc.

No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement, the Collateral Documents or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

13.1 Registration of Notes.

The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

13.2 Transfer and Exchange of Notes.

Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or his attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than the Yen-equivalent of $100,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than the Yen-equivalent of $100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representations set forth in Section 6 and to have become a party to the Collateral Agency and Intercreditor Agreement. Each transferee of a Note which was not previously a holder of the Notes under this Agreement and which is not incorporated under the laws of the United States of America or a state thereof shall, within three Business Days of becoming a holder, deliver to the Company such certificate and other evidence as the Company may reasonably request to establish that such holder is entitled to receive payments under the Notes without deduction or withholding of any United States federal income taxes.

13.3 Replacement of Notes.

Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least $100,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

14. PAYMENTS ON NOTES.

14.1 Place of Payment.

Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in Provo, Utah at the principal office of the Company in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

14.2 Home Office Payment.

So long as you or your nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below your name in Schedule A, or by such other method or at such other address as you shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, you shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by you or your nominee you will, at your election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by you under this Agreement and that has made the same agreement relating to such Note as you have made in this Section 14.2.

14.3 Obligation to Make Payments in Yen.

The obligation of the Company to make payments in Yen of the principal, applicable Make-Whole Amount, if any, and interest becoming due and payable on the Notes and any other amounts due hereunder or under the Notes as provided in Section 14.2, (a) shall not be discharged or satisfied by any tender, or any recovery pursuant to any judgment, which is expressed in or converted into any currency other than Yen, except to the extent that such tender or recovery shall result in the actual receipt by the holders of the Notes of the full amount of Yen expressed to be payable in respect of the principal, applicable Make-Whole Amount, if any, in respect of and interest on the Notes and all other amounts due hereunder or under the Notes, (b) shall be enforceable as an alternative or additional cause of action for the purpose of recovering in Yen the amount, if any, by which such actual receipt shall fall short of the full amount of Yen so expressed to be payable, and (c) shall not be affected by judgment being obtained for any other sum due under this Agreement or on any Note.

14.4 Payments Free and Clear of Taxes.

(a) Payments. The Company will pay all amounts of principal of, applicable Make-Whole Amount, if any, and interest on the Notes, and all other amounts payable hereunder or under the Notes, without set-off or counterclaim and free and clear of, and without deduction or withholding for or on account of, all present and future income, stamp, documentary and other taxes and duties, and all other levies, imposts, charges, fees, deductions and withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority (except net income taxes and franchise taxes in lieu of net income taxes imposed on any holder of any Note by its jurisdiction of incorporation or the jurisdiction in which its applicable lending office is located) (all such non-excluded taxes, duties, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter called "**Taxes**"). If any Taxes are required to be withheld from any amounts payable to a holder of any Notes, the amounts so payable to such holder shall be increased to the extent necessary to yield such holder (after payment of all Taxes) interest on any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes. Whenever any Taxes are payable by the Company, as promptly as possible thereafter, the Company shall send to each holder of the Notes, a certified copy of an original official receipt received by the Company showing payment thereof. If the Company fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to each holder of the Notes the required receipts or other required documentary evidence, the Company shall indemnify each holder of the Notes for any taxes (including interest or penalties) that may become payable by such holder as a result of any such failure. The obligations of the Company under this subsection 14.4(a) shall survive the payment and performance of the Notes and the termination of this Agreement.

(b) Withholding Exemption Certificates. On or prior to the Closing Date, each holder of the Notes which is not organized under the laws of the United States of America or a state thereof shall deliver to the Company such certificates and other evidence as the Company may reasonably request to establish that such holder is entitled to receive payments under the Notes without deduction or withholding of any United States federal income taxes. Each such holder further agrees (i) promptly to notify the Company of any change of circumstances (including any change in any treaty, law or regulation) which would prevent such holder from receiving payments under the Notes without any deduction or withholding of such taxes, and (ii) on or before the date that any certificate or other form delivered by such holder under this subsection 14.4(b) expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent such certificate or form previously delivered by such holder, to deliver to the Company a new certificate or form, certifying that such holder is entitled to receive payments under the Notes without deduction or withholding of such taxes. If any holder of the Notes which is not organized under the laws of the United States of America or a state thereof fails to provide to the Company pursuant to this subsection 14.4(b) (or in the case of a transferee of a Note, Section 13.2) any certificates or other evidence required by such provision to establish that such holder is, at the time it becomes a holder, entitled to receive payments under the Notes without deduction or withholding of any United States federal income taxes, such holder shall not be entitled to any indemnification under subsection 14.4(a) for any Taxes imposed on such holder.

15. EXPENSES, ETC.

15.1 Transaction Expenses.

Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of one special counsel and, if reasonably required, local or other counsel) incurred by the Collateral Agent and you in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement, the Collateral Documents or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement, the Collateral Documents or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Collateral Documents or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby, by the Collateral Documents and by the Notes. The Company will pay, and will save you and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those retained by you).

15.2 Survival.

The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement, the Collateral Documents or the Notes, and the termination of this Agreement and the Collateral Documents.

16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein and in the Collateral Documents shall survive the execution and delivery of this Agreement, the Collateral Documents and the Notes, the purchase or transfer by you of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of you or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement or the Collateral Documents shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement, the Collateral Documents and the Notes embody the entire agreement and understanding between you and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

17. AMENDMENT AND WAIVER.

17.1 Requirements.

This Agreement, the Collateral Documents and the Notes may be amended, and the observance of any term hereof or thereof may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to you unless consented to by you in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12, 17 or 20.

17.2 Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently offered, or such security is concurrently offered to be granted, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

17.3 Binding Effect, etc.

Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term **"this Agreement"** and "the Collateral Documents" and references thereto shall mean this Agreement and the Collateral Documents, respectively, as they may from time to time be amended or supplemented.

17.4 Notes held by Company, etc.

Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(a) if to you or your nominee, to you or it at the address specified for such communications in Schedule A, or at such other address as you or it shall have specified to the Company in writing,

(b) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(c) if to the Company, to the Company at One Nu Skin Plaza, 75 West Center Street, Provo, Utah 84601 to the attention of the Chief Financial Officer, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

19. REPRODUCTION OF DOCUMENTS.

This Agreement, the Collateral Documents and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by you at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to you, may be reproduced by you by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and you may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by you in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "Confidential Information" means information delivered to you by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by you as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to you prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by you or any person acting on your behalf, (c) otherwise becomes known to you other than through disclosure (x) by the Company or any Subsidiary, or (y) by another Person known by you to be bound by a confidentiality agreement with the Company, or (d) constitutes financial statements delivered to you under Section 7.1 that are otherwise publicly available. You will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by you in good faith to protect confidential information of third parties delivered to you, provided that you may deliver or disclose Confidential Information to (i) your directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by your Notes), (ii) your financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which you sell or offer to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which you offer to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over you, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about your investment portfolio or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to you, (x) in response to any subpoena or other legal process (provided that you give prompt notice to the Company of such subpoena or legal process to the extent you are legally permitted to do so), (y) in connection with any litigation to which you are a party, or (z) if an Event of Default has occurred and is continuing, to the extent you may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under your Notes, this Agreement and the Collateral Documents. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 20.

21. SUBSTITUTION OF PURCHASER.

You shall have the right to substitute any one of your Affiliates as the purchaser of the Notes that you have agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both you and such Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "you" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of you. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to you all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "you" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to you, and you shall have all the rights of an original holder of the Notes under this Agreement.

22. JUDICIAL PROCEEDINGS.

22.1 Consent to Jurisdiction.

The Company irrevocably submits to the non-exclusive jurisdiction of any New York State or United States federal court sitting in New York City, and irrevocably waives its own forum, over any suit, action or proceeding arising out of or relating to this Agreement or any Note. The Company irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection which it may have or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. The Company agrees, to the fullest extent it may effectively do so under applicable law, that a final judgment in any such suit, action or proceeding brought in such court shall be conclusive and binding upon the Company and may be enforced in the courts of the United States, the State of New York (or any other courts to the jurisdiction of which the Company is or may be subject) by a suit upon such judgment, provided that service of process is effected on the Company in one of the manners specified below or as otherwise permitted by law.

22.2 Service of Process.

The Company hereby consents to process being served in any suit, action or proceeding of the nature referred to in Section 22.1 by the mailing of a copy thereof by registered or certified air mail, postage prepaid, return receipt requested, to the address of the Company set forth in Section 18. The Company irrevocably waives, to the fullest extent it may effectively do so under applicable law, all claim of error by reason of any such service and agrees that such service (a) shall be deemed in every respect effective service of process upon the Company in any such suit, action or proceeding, and (b) shall, to the fullest extent permitted by law, be taken and held to be valid personal service upon the Company.

22.3 No Limitation on Service or Suit.

Nothing in this Section 22 shall affect the right of any holder of the Notes to serve process in any manner permitted by law or limit the right of any holder of the Notes to bring proceedings against the Company in the courts of any jurisdiction or jurisdictions or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

23. MISCELLANEOUS.

23.1 Successors and Assigns.

All covenants and other agreements contained in this Agreement and the Collateral Documents by or on behalf of any of the parties hereto or thereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

23.2 Payments Due on Non-Business Days.

Anything in this Agreement, the Collateral Documents or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

23.3 Severability.

Any provision of this Agreement or the Collateral Documents that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or thereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

23.4 Construction.

Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

23.5 Counterparts.

This Agreement and the Collateral Documents may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

23.6 Governing Law.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State (other than Section 5-1401 of the New York General Obligations Law) that would require the application of the laws of a jurisdiction other than such State.

If you are in agreement with the foregoing, please sign the form of agreement on the accompanying counterpart of this Agreement and return it to the Company, whereupon the foregoing shall become a binding agreement between you and the Company.

Very truly yours,

NU SKIN ENTERPRISES, INC.

By: /s/ Corey B. Lindley
Name: Corey B. Lindley
Title: Executive Vice President and
Chief Financial Officer

The foregoing is hereby agreed to as of the date thereof.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By:
Name:
Title: Vice President

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Principal Amount of

Name and Address of Purchaser Notes to be Purchased

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

¥9,706,500,000

(1) All payments by wire transfer of immediately available funds to:

Bank of New York
Tokyo, Japan
Bank: Account: Bank of New York, NY
Account No.: 4800023950
Sub-Account: Prudential Global Funding Sub-Account No.: 8033804238

Each such wire transfer shall set forth the name of the Company, and a reference to 3.03% Senior Notes due 2010, PPN 67018T A* 6, INV_____, and the due date and application (as among principal, interest and Make-Whole Amount) of the payments being made.

(2) All notices of payments and written confirmations of such wire transfers:

The Prudential Insurance Company of America
c/o Prudential Capital Group
Gateway Center Three
100 Mulberry Street
Newark, New Jersey 07102-4077
Attention: Manager, Investment Operations Group
Telephone: (973) 802-5260
Facsimile: (973) 802-8055

(3) All other communications:

The Prudential Insurance Company of America
c/o Prudential Capital Group – Corporate Finance
Four Embarcadero Center, Suite 2700
San Francisco, California 94111-4180
Attention: Managing Director
Telephone: (415) 291-5058
Facsimile: (415) 421-6233

SCHEDULE B

DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

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

"ABN Amro Release of Guarantors" means the Release of Guarantors executed by ABN Amro Bank N.V.

"ABN Amro Subsidiary Guaranty" means that certain Subsidiary Guaranty, dated as of July 22, 1998, executed by certain subsidiaries of the Company, in favor of ABN Amro Bank N.V. in connection with the ABN Amro Facility.

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

"Business Day" means (a) for the purposes of Section 8.6 only, any day other than a Saturday, a Sunday or a day on which commercial banks in Tokyo, Japan are required or authorized to be closed, and (b) for the purposes of any other provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York are required or authorized to be closed.

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

"Closing" is defined in Section 3.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Collateral Agency and Intercreditor Agreement" means the Collateral Agency and Intercreditor Agreement, substantially in the form of Exhibit 4.13(c) hereto, by and among the Collateral Agent, you and each of the other Senior Secured Creditors, and acknowledged by the Company and the Subsidiary

Guarantors, as such agreement may be amended, supplemented or modified from time to time.

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

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

"Company" means Nu Skin Enterprises, Inc., a Delaware corporation.

"Confidential Information" is defined in Section 20.

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

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

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

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

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

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

"Default Rate" means that rate of interest that is 2% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes.

"**Dollars**" and the symbol "**$**" mean the lawful money of the United States of America.

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

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

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

"Equity Securities" of any Person means (a) all common stock, Preferred Stock, participations, shares, partnership interest, membership interest or other equity interest in and of such Person (regardless of how designated and whether or not voting or non-voting), and (b) all warrants, options and other rights to acquire any of the foregoing.

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

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

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Existing Credit Facility" means the $180,000,000 Credit Agreement dated as of May 8, 1998 by and among the Company, Nu Skin Japan Co., Ltd., the lenders named therein, and ABN Amro Bank N.V., as agent for such lenders, as such agreement may have been amended, supplemented or modified from time to time.

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

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

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

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) Japan or any political subdivision thereof, or

(iii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) Securitization Debt; and

(f) any Guaranty (other than the Subsidiary Guaranty) of such Person with respect to liabilities of a type described in any of clauses (a) through (e) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (f) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Institutional Investor" means (a) any original purchaser of a Note, and (b) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, holding more than the Yen-equivalent of $2,000,000 of the aggregate principal amount of the Notes then outstanding or more than 20% of the aggregate principal amount of the Notes then outstanding.

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

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

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

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

"Make-Whole Amount" is defined in Section 8.6.

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

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

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

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

"Material Subsidiaries" means, at any time, (a) Nu Skin Japan Co., Ltd., a Japanese corporation, Nu Skin International, Inc., a Utah corporation, Nu Skin Hong Kong, Inc., a Utah corporation, Nu Skin Taiwan, Inc., a Utah corporation, and Nu Skin United States, Inc., a Delaware corporation; and (b) each other Subsidiary of the Company which (i) had revenues during the four most recently ended fiscal quarters equal to or greater than 5.0% of the consolidated total revenues of the Company and its Subsidiaries during such period, or (ii) is an obligor under any Guaranty with respect to the Indebtedness of the Company under any Significant Credit Facility.

"Memorandum" is defined in Section 5.3.

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

"New Notes" means the senior notes expected to be issued by the Company in connection with a private placement of an additional $60,000,000 of Term Debt.

"Notes" is defined in Section 1.

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

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

"Permitted Securitization Program" means any transaction or series of transactions that may be entered into by the Company or any Restricted Subsidiary pursuant to which the Company or any Restricted Subsidiary may sell, convey or otherwise transfer to (i) a Securitization Entity (in the case of a transfer by the Company or any Restricted Subsidiary) and (ii) any other Person (in the case of a transfer by a Securitization Entity), or may grant a security interest in, any receivables (whether now existing or arising or acquired in the future) of the Company or any Restricted Subsidiary, and any assets related thereto including (A) all collateral securing such receivables, (B) all contracts and contract rights and all guarantees or other obligations in respect of such receivables, (C) proceeds of such receivables, and (D) other assets (including contract rights) that are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving receivables; provided that the resultant Securitization Debt, together with all other Priority Indebtedness then outstanding, shall not exceed the amount of Priority Indebtedness permitted by Section 10.5(a)(ii).

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

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

"Pledge Agreement" means the Pledge Agreement, in substantially the form of Exhibit 4.13(b) hereto, dated as of the date hereof, executed and delivered by the Pledgors and the Collateral Agent, as amended, supplemented and modified from time to time.

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

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

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

"**Priority Indebtedness"** means (without duplication) the sum of (a) any unsecured Indebtedness of the Restricted Subsidiaries other than (i) guarantees under the Subsidiary Guaranty, (ii) Indebtedness of a Restricted Subsidiary if (x) the Company has guaranteed such Indebtedness or is a primary obligor of such Indebtedness, and (y) the holder of such Indebtedness becomes a party to the Collateral Agency and Intercreditor Agreement (provided that until the holder of such Indebtedness becomes a party to the Collateral Agency and Intercreditor Agreement, such Indebtedness will be considered Priority Indebtedness), and (iii) Indebtedness owed to the Company or any other Restricted Subsidiary, and (b) Indebtedness of the Company and its Restricted Subsidiaries secured by a Lien not permitted by paragraphs (a) through (m) of Section 10.3, and (c) Securitization Debt.

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

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

"Required Holders" means, at any time, the holders of more than 50% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

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

"Restricted Investments" means all Investments except any of the following: (i) property to be used in the ordinary course of business; (ii) assets arising from the sale of goods and services in the ordinary course of business; (iii) Investments in one or more Restricted Subsidiaries or any Person that immediately becomes a Restricted Subsidiary; (iv) Investments existing at the date of Closing; (v) Investments in obligations, maturing within one year, issued by or guaranteed by the United States of America, or an agency thereof, or Canada, or any province thereof; (vi) Investments in tax-exempt obligations, maturing within one year, which are rated in one of the top two rating classifications by at least one national rating agency; (vii) Investments in certificates of deposit or banker's acceptances maturing within one year issued by Bank of America or other commercial banks which are rated in one of the top two rating classifications by at lest one national rating agency; (viii) Investments in commercial paper, maturing within 270 days, rated in one of the top two rating classifications by at least one national rating agency; (ix) Investments in repurchase agreements; (x) treasury stock; (xi) Investments in money market instrument programs which are classified as current assets in accordance with GAAP; (xii) Investments in foreign currency risk hedging contracts used in the ordinary course of business; and (xiii) Investments in Securitization Entities.

"Restricted Subsidiary" means any Subsidiary (a) at least a majority of the voting securities of which are owned by the Company and/or one or more Wholly-Owned Restricted Subsidiaries, and (b) which the Company has not designated as an Unrestricted Subsidiary in accordance with Section 10.8; provided that upon any Unrestricted Subsidiary becoming a Material Subsidiary, it shall immediately be deemed to be a Restricted Subsidiary.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

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

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

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

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

"Senior Secured Creditor" means (a) each holder of a Note, (b) each holder of a New Note, and (c) each lender under a Significant Credit Facility, including the lenders under the ABN Amro Facility.

"Senior Secured Indebtedness" means the Indebtedness of the Company under (a) this Agreement and the Notes, (b) the New Notes, and (c) any Significant Credit Facility (including, without limitation, Indebtedness of the Company under the ABN Amro Facility.

"Significant Credit Facility" means (a) any Credit Facility that has at least $7,500,000 available to be borrowed and/or outstanding at any time, and (b) any Credit Facility if the aggregate amount available to be borrowed and/or outstanding under all of the Credit Facilities exceeds $25,000,000 at any time; provided that the term "Significant Credit Facility" shall not include any Priority Indebtedness to the extent that such Priority Indebtedness is permitted by Section 10.5(a)(ii), any Indebtedness secured by a Lien permitted by Section 10.3(h), or any Indebtedness secured by a Lien renewing, extending or replacing Liens as described in Section 10.3(m).

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

"Subsidiary" means, as to any Person, (a) any corporation of which more than 50% of the issued and outstanding Equity Securities having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its Subsidiaries or by one or more of such Person's other Subsidiaries, (b) any partnership, joint venture, limited liability company or other

association of which more than 50% of the equity interest having the power to vote, direct or control the management of such partnership, joint venture, limited liability company or other association is at the time owned and controlled by such Person, by such Person and one or more of the other Subsidiaries or by one or more of such Person's other Subsidiaries, or (c) any other Person included in the financial statements of such Person on a consolidated basis.. Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

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

"Subsidiary Guaranty" means that certain Subsidiary Guaranty, substantially in the form of Exhibit 4.13(a) hereto, dated as of the date hereof, executed and delivered by the Subsidiary Guarantors, as amended, supplemented and modified from time to time.

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

"Taxes" is defined in Section 14.4(a).

"Term Debt" means any Indebtedness of Company or any Restricted Subsidiary other than (a) Credit Facilities providing for the borrowing of money or the issuance of letters of credit on a revolving basis or for working capital, (b) Priority Indebtedness, and (c) Indebtedness secured by Liens permitted by paragraphs (a) through (m) of Section 10.3.

"Total Indebtedness" means, at any date of determination, the sum of (i) the total of all Indebtedness of the Company and the Restricted Subsidiaries outstanding on such date, after eliminating all offsetting debits and credits between the Company and the Restricted Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and the Restricted Subsidiaries in accordance with GAAP, plus (ii) the aggregate amount of Indebtedness of the Company to any of its Restricted Subsidiaries that is not subordinated to the Notes pursuant to a subordination agreement substantially in the form set forth in Exhibit 2.

"Unrestricted Subsidiary" means any Subsidiary which is designated as an Unrestricted Subsidiary on Schedule 5.4 attached hereto or is designated as such in writing by the Company to each of the holders of the Notes pursuant to Section 10.8; provided that no Material Subsidiary shall be an Unrestricted Subsidiary.

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

"**Yen**" and "**¥**" mean the lawful currency of Japan and, in relation to any payment under this Agreement, same day or immediately available funds.

NU SKIN ENTERPRISES, INC.

PLEDGE AGREEMENT

This PLEDGE AGREEMENT (this "**Agreement**") is dated as of October 12, 2000 and is entered into by and among Nu Skin Enterprises, Inc., a Delaware corporation ("**Company**"), each Additional Pledgor that may become a party hereto after the date hereof in accordance with Section 16 hereof (each of Company and each Additional Pledgor being a "**Pledgor**" and collectively "**Pledgors**"), and State Street Bank and Trust Company of California, N.A. ("**Secured Party**"), as agent for and on behalf of the other Benefitted Parties party to the Collateral Agency and Intercreditor Agreement referred to below.

PRELIMINARY STATEMENTS

A. The Prudential Insurance Company of America ("**Prudential**") is purchasing an aggregate principal amount of JP¥9,706,500,000 of Company's Senior Secured Notes due October 12, 2010 (the "**Notes**") pursuant to that certain Note Purchase Agreement dated as of October 12, 2000 by and between Company and Prudential (such agreement, as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "**Note Purchase Agreement**," the terms defined therein and not otherwise defined herein being used herein as therein defined), and it is desired that the obligations of Company under the Note Purchase Agreement and the Notes be secured hereunder.

B. The Note Purchase Agreement requires Company to (i) pledge, or cause a pledge of, 65% of the Equity Securities of each Material Foreign Subsidiary to Secured Party, for the ratable benefit of the Benefitted Parties (as defined in the Collateral Agency and Intercreditor Agreement), as security for the Notes, and (ii) take all actions as may be necessary or desirable to give to Secured Party, for the ratable benefit of the Benefitted Parties, a valid and perfected first priority Lien on and security interest in the Pledged Collateral.

C. Secured Party, Prudential and each of the other Benefitted Parties have entered into that certain Collateral Agency and Intercreditor Agreement dated as of October 12, 2000 (such agreement, as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "**Collateral Agency and Intercreditor Agreement**").

D. Company is the legal and beneficial owner of all of the Equity Securities of Nu Skin Japan Co., Ltd., a Japanese corporation ("**Nu Skin Japan**").

E. It is a condition precedent to Prudential's obligation to purchase and pay for the Notes that Pledgors shall have granted the security interest and undertaken the obligations contemplated by this Agreement and the Note Purchase Agreement.

F. This Agreement, the Note Purchase Agreement and each of the other documents relating to the Secured Obligations (as defined in Section 2) are hereinafter referred to collectively as the "**Senior Secured Loan Documents**."

NOW, THEREFORE, in consideration of the premises and in order to induce Prudential to purchase and for the Notes under the Note Purchase Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, each Pledgor hereby agrees with Secured Party as follows:

SECTION 1. Pledge of Security. Each Pledgor hereby pledges and assigns to Secured Party, and hereby grants to Secured Party a first priority security interest in, all of such Pledgor's right, title and interest in and to the following (the "**Pledged Collateral**"):

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

(b) to the extent not covered by clause (a) above, all proceeds of any or all of the foregoing Pledged Collateral. For purposes of this Agreement, the term "**proceeds**" includes whatever is receivable or received when Pledged Collateral or proceeds are sold, exchanged, collected or otherwise disposed of, whether such disposition is voluntary or involuntary.

SECTION 2. Security for Obligations. This Agreement secures, and the Pledged Collateral is collateral security for, the prompt payment or performance in full when due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. §362(a) or any similar or comparable laws of jurisdictions outside the United States), of all obligations and liabilities of every nature of Pledgors now or hereafter existing under or arising out of or in connection with the Obligations (as defined in the Collateral Agency and Intercreditor Agreement) and all extensions or renewals thereof, whether for principal, interest (including without limitation interest that, but for the filing of a petition in bankruptcy with respect to any Pledgor, would accrue on such Obligations, whether or not a claim is allowed against

SECTION 2. Security for Obligations. This Agreement secures, and the Pledged Collateral is collateral security for, the prompt payment or performance in full when due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. §362(a) or any similar or comparable laws of jurisdictions outside the United States), of all obligations and liabilities of every nature of Pledgors now or hereafter existing under or arising out of or in connection with the Obligations (as defined in the Collateral Agency and Intercreditor Agreement) and all extensions or renewals thereof, whether for

principal, interest (including without limitation interest that, but for the filing of a petition in bankruptcy with respect to any Pledgor, would accrue on such Obligations, whether or not a claim is allowed against

SECTION 3. Delivery of Pledged Collateral. All certificates or instruments representing or evidencing the Pledged Collateral shall be delivered to and held by or on behalf of Secured Party and shall be in suitable form for transfer by delivery or, as applicable, shall be accompanied by each Pledgor's endorsement, where necessary, or duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Secured Party. Upon the occurrence and during the continuation of a Triggering Event (as defined in the Collateral Agency and Intercreditor Agreement), Secured Party shall have the right, without notice to Pledgors, to transfer to or to register in the name of Secured Party or any of its nominees any or all of the Pledged Collateral; provided that if the Triggering Event is the result of the institution of an involuntary Bankruptcy Proceeding against the Company, any Subsidiary Guarantor or any Material Foreign Subsidiary (an "**Involuntary Proceeding**"), Secured Party shall not have such right until such proceeding continues for at least 60 consecutive days. In addition, Secured Party shall have the right at any time to exchange certificates or instruments representing or evidencing Pledged Collateral for certificates or instruments of smaller or larger denominations.

SECTION 4. Representations and Warranties. Each Pledgor represents and warrants as follows:

(a) Due Authorization, etc. of Pledged Shares. All of the Pledged Shares described on Schedule I for such Pledgor have been duly authorized and validly issued and are fully paid and non-assessable.

(b) Description of Pledged Shares. The Pledged Shares constitute 65% of the voting power of all classes of Equity Securities of each issuer thereof, and there are no outstanding warrants, options or other rights to purchase, or other agreements outstanding with respect to, or property that is now or hereafter convertible into, or that requires the issuance or sale of, any Pledged Shares.

(c) Ownership of Pledged Collateral. Such Pledgor is the legal, record and beneficial owner of the Pledged Collateral free and clear of any Lien except for Permitted Liens.

(d) Governmental Authorizations. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for either (i) the pledge by such Pledgor of the Pledged Collateral pursuant to this Agreement and the grant by such Pledgor of the security interest granted hereby, (ii) the execution, delivery or performance of this Agreement by such Pledgor, or (iii) the exercise by Secured Party of the voting or other rights, or the remedies in respect of the Pledged Collateral, provided for in this Agreement (except as may be required in connection with a disposition of Pledged Collateral by laws affecting the offering and sale of securities generally).

(e) Perfection. The pledge of the Pledged Collateral pursuant to this Agreement creates a valid and perfected first priority security interest in the Pledged Collateral, securing the payment of the Secured Obligations.

(f) Margin Regulations. The pledge of the Pledged Collateral pursuant to this Agreement does not violate Regulation T, U or X of the Board of Governors of the Federal Reserve System.

(g) Other Information. All information heretofore, herein or hereafter supplied to Secured Party by or on behalf of such Pledgor with respect to the Pledged Collateral is accurate and complete in all respects.

SECTION 5. Transfers and Other Liens; Additional Pledged Collateral; etc. Each Pledgor shall:

(a) not, except as expressly permitted by the Senior Secured Loan Documents, (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Pledged Collateral, (ii) create or suffer to exist any Lien upon or with respect to any of the Pledged Collateral, except for Permitted Liens, or (iii) permit any issuer of Pledged Shares to merge or consolidate unless all the outstanding Equity Securities of the surviving or resulting corporation is, upon such merger or consolidation, pledged hereunder and no cash, securities or other property is distributed in respect of the outstanding Equity Securities of any other constituent corporation; provided, if the surviving or resulting corporation is a foreign corporation, then such Pledgor shall only be required to pledge outstanding Equity Securities of such surviving or resulting corporation possessing up to but not exceeding 65% of the voting power of all classes of Equity Securities of such issuer entitled to vote;

(b) (i) cause each issuer of Pledged Shares not to issue any Equity Securities in addition to or in substitution for the Pledged Shares issued by such issuer, except to such Pledgor or as otherwise permitted by the Senior Secured Loan Documents, (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional Equity Securities of each issuer of Pledged Shares, and (iii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all Equity Securities of any Person that, after the date of this Agreement, becomes, as a result of any occurrence, a Material Foreign Subsidiary; provided, notwithstanding anything contained in clause (ii) or this clause (iii) to the contrary, such Pledgor shall only be required to pledge the outstanding Equity Securities up to but not exceeding 65% of the voting power of all classes of Equity Securities of such controlled foreign corporation entitled to vote;

(c) promptly deliver to Secured Party all written notices received by it with respect to the Pledged Collateral (other than customary notices received from a governmental or regulatory body and customary and routine notices received from the issuer of the Pledged Shares in the ordinary course of business); and

(d) pay promptly when due all taxes, assessments and governmental charges or levies imposed upon, and all claims against, the Pledged Collateral, except to the extent the validity thereof is being contested in good faith; provided that such Pledgor shall in any event pay such taxes, assessments, charges, levies or claims not later than five days prior to the date of any proposed sale under any judgment, writ or warrant of attachment entered or filed against such Pledgor or any of the Pledged Collateral as a result of the failure to make such payment.

SECTION 6. Further Assurances; Pledge Amendments.

(a) Each Pledgor agrees that from time to time, at the expense of such Pledgor, such Pledgor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that Secured Party may request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Pledged Collateral. Without limiting the generality of the foregoing, each Pledgor will: (i) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as Secured Party may reasonably request, in order to perfect and preserve the security interests granted or purported to be granted hereby and (ii) at Secured Party's request, appear in and defend any action or proceeding that may affect such Pledgor's title to or Secured Party's security interest in all or any part of the Pledged Collateral. Each Pledgor hereby authorizes Secured Party to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Pledged Collateral without the signature of such Pledgor. Such Pledgor agrees that a carbon, photographic or other reproduction of this Agreement or of a financing statement signed by such Pledgor shall be sufficient as a financing statement and may be filed as a financing statement in any and all jurisdictions.

(b) Each Pledgor further agrees that it will, upon obtaining any additional shares of stock or other Equity Securities required to be pledged hereunder as provided in the Note Purchase Agreement, promptly (and in any event within five Business Days) deliver to Secured Party a Pledge Amendment, duly executed by Pledgor, in substantially the form of Schedule II annexed hereto (a "**Pledge Amendment**"), in respect of the additional Pledged Shares to be pledged pursuant to this Agreement. Upon each delivery of a Pledge Amendment to Secured Party, the representations and warranties contained in Section 4 hereof shall be deemed to have been made by such Pledgor as to the Pledged Collateral described in such Pledge Amendment. Pledgor hereby authorizes Secured Party to attach each Pledge Amendment to this Agreement and agrees that all Pledged Shares listed on any Pledge Amendment delivered to Secured Party shall for all purposes hereunder be considered Pledged Collateral; provided that the failure of such Pledgor to execute a Pledge Amendment with respect to any additional Pledged Shares pledged pursuant to this Agreement shall not impair the security interest of Secured Party therein or otherwise adversely affect the rights and remedies of Secured Party hereunder with respect thereto.

SECTION 7. Voting Rights; Dividends; Etc.

(a) So long as no Triggering Event shall have occurred and be continuing:

(i) each Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Collateral or any part thereof for any purpose not inconsistent with the terms of the Senior Secured Loan Documents; provided, however, that such Pledgor shall not exercise or refrain from exercising any such right if Secured Party or Required Creditors shall have notified such Pledgor that, in Secured Party's or Required Creditors' judgment, such action would have a material adverse effect on the value of the Pledged Collateral or any part thereof; and provided, further, that such Pledgor shall give Secured Party and each Senior Secured Party at least five Business Days' prior written notice of the manner in which it intends to exercise, or the reasons for refraining from exercising, any such right (it being understood, however, that neither (A) the voting by such Pledgor of any Pledged Shares for or such Pledgor's consent to the election of directors at a regularly scheduled annual or other meeting of stockholders or with respect to incidental matters at any such meeting, nor (B) such Pledgor's consent to or approval of any action otherwise not prohibited under this Agreement and each of the other Senior Secured Loan Documents shall be deemed inconsistent with the terms of any Senior Secured Loan Document within the meaning of this Section 7(a)(i), and no notice of any such voting or consent need be given to Secured Party);

(ii) each Pledgor shall be entitled to receive and retain, and to utilize free and clear of the lien of this Agreement, any and all dividends, other distributions and interest paid in respect of the Pledged Collateral; provided, however, that any and all dividends, other distributions and interest paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Pledged Collateral shall be, and shall forthwith be delivered to Secured Party to hold as, Pledged Collateral and shall, if received by such Pledgor, be received in trust for the benefit of Secured Party, be segregated from the other property or funds of such Pledgor and be forthwith delivered to Secured Party as Pledged Collateral in the same form as so received (with all necessary indorsements); and

(iii) Secured Party shall promptly execute and deliver (or cause to be executed and delivered) to each Pledgor all such proxies, dividend payment orders and other instruments as such Pledgor may from time to time reasonably request for the purpose of enabling such Pledgor to exercise the voting and other consensual rights which it is entitled to exercise pursuant to paragraph (i) above and to receive the dividends, other distributions, principal or interest payments which it is authorized to receive and retain pursuant to paragraph (ii) above.

(b) Upon the occurrence and during the continuation of a Triggering Event (other than an Involuntary Proceeding) or upon the occurrence and continuation of an Involuntary Proceeding for at least 60 consecutive days and during the continuation of such Involuntary Proceeding:

(i) upon written notice from Secured Party to Pledgors, all rights of Pledgors to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section 7(a)(i) shall cease, and all such rights shall thereupon become vested in Secured Party who shall thereupon have the sole right to exercise such voting and other consensual rights;

(ii) all rights of Pledgors to receive the dividends and interest payments which it would otherwise be authorized to receive and retain pursuant to Section 7(a)(ii) shall cease, and all such rights shall thereupon become vested in Secured Party who shall thereupon have the sole right to receive and hold as Pledged Collateral such dividends, other distributions and interest payments; and

(iii) all dividends, principal, interest payments and other distributions which are received by Pledgors contrary to the provisions of paragraph (ii) of this Section 7(b) shall be received in trust for the benefit of Secured Party, shall be segregated from other funds of Pledgors and shall forthwith be paid over to Secured Party as Pledged Collateral in the same form as so received (with any necessary indorsements).

(c) In order to permit Secured Party to exercise the voting and other consensual rights which it may be entitled to exercise pursuant to Section 7(b)(i) and to receive all dividends and other distributions which it may be entitled to receive under Section 7(a)(ii) or Section 7(b)(ii), (i) each Pledgor shall promptly execute and deliver (or cause to be executed and delivered) to Secured Party all such proxies, dividend payment orders and other instruments as Secured Party may from time to time reasonably request and (ii) without limiting the effect of the immediately preceding clause (i), each Pledgor hereby grants to Secured Party an irrevocable proxy to vote the Pledged Shares and to exercise all other rights, powers, privileges and remedies to which a holder of the Pledged Shares would be entitled (including, without limitation, giving or withholding written consents of shareholders, calling special meetings of shareholders and voting at such meetings), which proxy shall be effective, automatically and without the necessity of any action (including any transfer of any Pledged Shares on the record books of the issuer thereof) by any other Person (including the issuer of the Pledged Shares or any officer or agent thereof), upon the occurrence of a Triggering Event (other than an Involuntary Proceeding) or the occurrence and continuation of an Involuntary Proceeding for at least 60 consecutive days and which proxy shall only terminate upon the payment in full of the Secured Obligations.

SECTION 8. **Secured Party Appointed Attorney-in-Fact**. Each Pledgor hereby irrevocably appoints Secured Party as such Pledgor's attorney-in-fact, with full authority in the place and stead of such Pledgor and in the name of such Pledgor, Secured Party or otherwise, from time to time in Secured Party's discretion to take any action and to execute any instrument that Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including without limitation:

(a) to file one or more financing or continuation statements, or amendments thereto, relative to all or any part of the Pledged Collateral without the signature of Pledgor;

(b) upon the occurrence and during the continuation of a Triggering Event (other than an Involuntary Proceeding) or upon the occurrence and continuation of an Involuntary Proceeding for at least 60 consecutive days and during the continuation of such Involuntary Proceeding, to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Pledged Collateral;

(c) upon the occurrence and during the continuation of a Triggering Event (other than an Involuntary Proceeding) or upon the occurrence and continuation of an Involuntary Proceeding for at least 60 consecutive days and during the continuation of such Involuntary Proceeding, to receive, endorse and collect any instruments made payable to Pledgor representing any dividend, principal or interest payment or other distribution in respect of the Pledged Collateral or any part thereof and to give full discharge for the same;

(d) upon the occurrence and during the continuation of a Triggering Event (other than an Involuntary Proceeding) or upon the occurrence and continuation of an Involuntary Proceeding for at least 60 consecutive days and during the continuation of such Involuntary Proceeding, to file any claims or take any action or institute any proceedings that Secured Party may deem necessary or desirable for the collection of any of the Pledged Collateral or otherwise to enforce the rights of Secured Party with respect to any of the Pledged Collateral;

(e) to pay or discharge taxes or Liens (other than Permitted Liens) levied or placed upon or threatened against the Pledged Collateral, the legality or validity thereof and the amounts necessary to discharge the same to be determined by Secured Party in its sole discretion, any such payments made by Secured Party to become obligations of such Pledgor to Secured Party, due and payable immediately without demand; and

(f) upon the occurrence and during the continuation of a Triggering Event (other than an Involuntary Proceeding) or upon the occurrence and continuation of an Involuntary Proceeding for at least 60 consecutive days and during the continuation of such Involuntary Proceeding, generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Pledged Collateral as fully and completely as though Secured Party were the absolute owner thereof for all purposes, and to do, at Secured Party's option and such Pledgor's expense, at any time or from time to time, all acts and things that Secured Party deems necessary to protect, preserve or realize upon the Pledged Collateral and Secured Party's security interest therein in order to effect the intent of this Agreement, all as fully and effectively as such Pledgor might do.

SECTION 9. **Secured Party May Perform**. If any Pledgor fails to perform any agreement contained herein, Secured Party may itself perform, or cause performance of, such agreement, and the expenses of Secured Party incurred in connection therewith shall be payable by such Pledgor under Section 13(b).

SECTION 10. **Standard of Care**. The powers conferred on Secured Party hereunder are solely to protect its interest in the Pledged Collateral and shall not impose any duty upon it to exercise any such powers. Except for the exercise of reasonable care in the custody of any Pledged Collateral in the Secured Party's possession and the accounting for moneys actually received by it hereunder, Secured Party shall have no duty as to any Pledged Collateral, it being understood by the parties hereto that Secured Party shall have no responsibility for (a) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relating to any Pledged Collateral, whether or not Secured Party or any Senior Secured Creditor has or is deemed to have knowledge of such matters, (b) taking any necessary steps (other than steps taken in accordance with the standard of care set forth above to maintain possession of the Pledged Collateral) to preserve rights against any prior parties or any other rights pertaining to any Pledged Collateral, (c) taking any necessary steps to collect or realize upon the Secured Obligations or any guarantee therefor, or any part thereof, or any of the Pledged Collateral, or (d) initiating any action to protect the Pledged Collateral against the possibility of a decline in market value. Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of Pledged Collateral in its possession if such Pledged Collateral is accorded

treatment substantially equal to that which Secured Party accords its own property consisting of negotiable securities.

SECTION 11. Remedies.

(a) If any Triggering Event (other than Involuntary Proceeding) shall have occurred and be continuing or any Involuntary Proceeding shall have occurred and be continuing for at least 60 consecutive days, Secured Party may exercise in respect of the Pledged Collateral, in addition to all other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code as in effect in any relevant jurisdiction (the "**UCC**") (whether or not the UCC applies to the affected Pledged Collateral), and Secured Party may also in its sole discretion, without notice except as specified below, sell the Pledged Collateral or any part thereof in one or more parcels at public or private sale, at any exchange or broker's board or at any of Secured Party's offices or elsewhere, for cash, on credit or for future delivery, at such time or times and at such price or prices and upon such other terms as Secured Party may deem commercially reasonable, irrespective of the impact of any such sales on the market price of the Pledged Collateral. Secured Party or any Senior Secured Creditor may be the purchaser of any or all of the Pledged Collateral at any such sale and Secured Party, as agent for and representative of the Benefitted Parties, shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Pledged Collateral sold at any such public sale, to use and apply any of the Secured Obligations as a credit on account of the purchase price for any Pledged Collateral payable by Secured Party or any Senior Secured Creditor at such sale. Each purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of Pledgors, and each Pledgor hereby waives (to the extent permitted by applicable law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. Each Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Secured Party shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Each Pledgor hereby waives any claims against Secured Party arising by reason of the fact that the price at which any Pledged Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if Secured Party accepts the first offer received and does not offer such Pledged Collateral to more than one offeree. If the proceeds of any sale or other disposition of the Pledged Collateral are insufficient to pay all the Secured Obligations, Pledgors shall be jointly and severally liable for the deficiency and the fees of any attorneys employed by Secured Party or any Senior Secured Creditor to collect such deficiency.

(b) Each Pledgor recognizes that, by reason of certain prohibitions contained in the Securities Act of 1933, as from time to time amended (the "**Securities Act**"), and applicable state securities laws, Secured Party may be compelled, with respect to any sale of all or any part of the Pledged Collateral conducted without prior registration or qualification of such Pledged Collateral under the Securities Act and/or such state securities laws, to limit purchasers to those who will agree, among other things, to acquire the Pledged Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Each Pledgor acknowledges that any such private sales may be at prices and on terms less favorable than those obtainable through a public sale without such restrictions (including, without limitation, a public offering made pursuant to a registration statement under the Securities Act) and each Pledgor agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner and that Secured Party shall have no obligation to engage in public sales and no obligation to delay the sale of any Pledged Collateral for the period of time necessary to permit the issuer thereof to register it for a form of public sale requiring registration under the Securities Act or under applicable state securities laws, even if such issuer would, or should, agree to so register it.

(c) If Secured Party determines to exercise its right to sell any or all of the Pledged Collateral, upon written request, each Pledgor shall and shall cause each issuer of any Pledged Shares to be sold hereunder from time to time to furnish to Secured Party all such information as Secured Party may request in order to determine the number of shares and other instruments included in the Pledged Collateral which may be sold by Secured Party in exempt transactions under the Securities Act and the rules and regulations of the Securities and Exchange Commission thereunder, as the same are from time to time in effect.

SECTION 12. Application of Proceeds. Except as expressly provided elsewhere in this Agreement, all proceeds received by Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Pledged Collateral shall be applied as provided in the Collateral Agency and Intercreditor Agreement.

SECTION 13. Indemnity and Expenses.

(a) Pledgors jointly and severally agree to indemnify Secured Party and each Senior Secured Creditor from and against any and all claims, losses and liabilities in any way relating to, growing out of or resulting from this Agreement and the transactions contemplated hereby (including, without limitation, enforcement of this Agreement), except to the extent such claims, losses or liabilities result solely from Secured Party's or such Senior Secured Creditor's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction.

(b) Pledgors jointly and severally agree to pay to Secured Party upon demand the amount of any and all costs and expenses, including the reasonable fees and expenses of counsel and of any experts and agents, that Secured Party may incur in connection with (i) the administration of this Agreement and the Collateral Agency and Intercreditor Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Pledged Collateral, (iii) the exercise or enforcement of any of the rights of Secured

Party hereunder and under the Collateral Agency and Intercreditor Agreement, or (iv) the failure by any Pledgor to perform or observe any of the provisions hereof.

SECTION 14. Continuing Security Interest; Transfer of Loans. This Agreement shall create a continuing security interest in the Pledged Collateral and shall (a) remain in full force and effect until the payment in full of all Secured Obligations, the cancellation or termination of all commitments under each Senior Secured Loan Document, and the cancellation or expiration of all outstanding Letters of Credit (as defined in the Collateral Agency and Intercreditor Agreement), (b) be binding upon Pledgor, its successors and assigns, and (c) inure, together with the rights and remedies of Secured Party hereunder, to the benefit of Secured Party and its successors, transferees and assigns. Upon the payment in full of all Secured Obligations, the cancellation or termination of all commitments under each Senior Secured Loan Document, and the cancellation or expiration of all outstanding Letters of Credit, the security interest granted hereby shall terminate and all rights to the Pledged Collateral shall revert to Pledgors. Upon any such termination Secured Party will, at Pledgors' expense, execute and deliver to Pledgors such documents as Pledgors shall reasonably request to evidence such termination.

SECTION 15. Secured Party as Agent.

(a) Secured Party has been appointed to act as Secured Party hereunder by the Benefitted Parties. Secured Party shall be obligated, and shall have the right hereunder, to make demands, to give notices, to exercise or refrain from exercising any rights, and to take or refrain from taking any action (including, without limitation, the release or substitution of Pledged Collateral), solely in accordance with this Agreement and the other Senior Secured Loan Documents; provided that Secured Party shall exercise, or refrain from exercising, any remedies provided for in Section 11 in accordance with the instructions of Requisite Creditors (as defined in the Collateral Agency and Intercreditor Agreement). In furtherance of the foregoing provisions of this Section 15, each Senior Secured Creditor, by its acceptance of the benefits hereof, agrees that it shall have no right individually to realize upon any of the Pledged Collateral hereunder, it being understood and agreed by such Senior Secured Creditor that all rights and remedies hereunder may be exercised solely by Secured Party for the benefit of the Benefitted Parties in accordance with the terms of this Section 15.

(b) Secured Party shall at all times be the same Person that is Collateral Agent under the Collateral Agency and Intercreditor Agreement. Written notice of resignation by the Collateral Agent pursuant to subsection 4(h) of the Collateral Agency and Intercreditor Agreement shall also constitute notice of resignation as Secured Party under this Agreement; removal of the Collateral Agent pursuant to subsection 4(h) of the Collateral Agency and Intercreditor Agreement shall also constitute removal as Secured Party under this Agreement; and appointment of a successor Collateral Agent pursuant to subsection 4(h) of the Collateral Agency and Intercreditor Agreement shall also constitute appointment of a successor Secured Party under this Agreement. Upon the acceptance of any appointment as Collateral Agent under subsection 4(h) of the Collateral Agency and Intercreditor Agreement by a successor Collateral Agent, that successor Collateral Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Secured Party under this Agreement, and the retiring or removed Secured Party under this Agreement

shall promptly (i) transfer to such successor Secured Party all sums, securities and other items of Collateral held hereunder, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Secured Party under this Agreement, and (ii) execute and deliver to such successor Secured Party such amendments to financing statements, and take such other actions, as may be necessary or appropriate in connection with the assignment to such successor Secured Party of the security interests created hereunder, whereupon such retiring or removed Secured Party shall be discharged from its duties and obligations under this Agreement. After any retiring or removed Agent's resignation or removal hereunder as Secured Party, the provisions of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it under this Agreement while it was Secured Party hereunder.

(c) Secured Party shall not be deemed to have any duty whatsoever with respect to any Additional Senior Lender (as defined in the Collateral Agency and Intercreditor Agreement) until Secured Party shall have received written notice in form and substance satisfactory to Secured Party from a Pledgor or such Additional Senior Lender as to the existence and terms of the applicable Senior Secured Loan Documents.

SECTION 16. Additional Pledgors. Company shall be the initial Pledgor hereunder. From time to time subsequent to the date hereof, Subsidiary Guarantors may become parties hereto as additional Pledgors (each an "**Additional Pledgor**") by executing a counterpart of this Agreement substantially in the form of Schedule III annexed hereto. Upon delivery of any such counterpart to Secured Party, notice of which is hereby waived by Pledgors, each such Additional Pledgor shall be a Pledgor and shall be as fully a party hereto as if such Additional Pledgor were an original signatory hereto. Each Pledgor expressly agrees that its obligations arising hereunder shall not be affected or diminished by the addition or release of any other Pledgor hereunder, nor by any election of Secured Party or any Senior Secured Creditor not to cause any Subsidiary Guarantor to become an Additional Pledgor hereunder. This Agreement shall be fully effective as to any Pledgor that is or becomes a party hereto regardless of whether any other Person becomes or fails to become or ceases to be a Pledgor hereunder.

SECTION 17. Amendments; Etc. No amendment, modification, termination or waiver of any provision of this Agreement, and no consent to any departure by any Pledgor therefrom, shall in any event be effective unless the same shall be in writing and signed by Secured Party and, in the case of any such amendment or modification, by Pledgors. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

SECTION 18. Notices. Any notice or other communication herein required or permitted to be given shall be in writing and may be personally served or sent by telefacsimile or United States mail or courier service and shall be deemed to have been given when received. For the purposes hereof, the address of each party hereto shall be as set forth under such party's name on the signature pages hereof or as such other address as shall be designated by such party in a written notice delivered to the other party hereto.

SECTION 19. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of Secured Party in the exercise of any power, right or privilege hereunder shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude any other or further exercise thereof or of any other power, right or privilege. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

SECTION 20. Severability. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

SECTION 21. Headings. Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

SECTION 22. Governing Law; Terms. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING, WITHOUT LIMITATION, SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES, EXCEPT TO THE EXTENT THAT THE UCC PROVIDES THAT THE PERFECTION OF

THE SECURITY INTEREST HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR PLEDGED COLLATERAL ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF NEW YORK. Unless otherwise defined herein or in the Note Purchase Agreement, terms used in Articles 8 and 9 of the Uniform Commercial Code in the State of New York are used herein as therein defined. The rules of construction set forth in Section 23.4 of the Note Purchase Agreement shall be applicable to this Agreement *mutatis mutandis*.

SECTION 23. **Consent to Jurisdiction and Service of Process**. ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST ANY PLEDGOR ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR ANY OBLIGATIONS HEREUNDER, MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE , COUNTY AND CITY OF NEW YORK. BY EXECUTING AND DELIVERING THIS AGREEMENT, EACH PLEDGOR, FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, IRREVOCABLY (I) ACCEPTS GENERALLY AND UNCONDITIONALLY THE NONEXCLUSIVE JURISDICTION AND VENUE OF SUCH COURTS; (II) WAIVES ANY DEFENSE OF *FORUM NON CONVENIENS*; (III) AGREES THAT SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDING IN ANY SUCH COURT MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO SUCH PLEDGOR AT ITS ADDRESS PROVIDED IN ACCORDANCE WITH SECTION 18; (IV) AGREES THAT SERVICE AS PROVIDED IN CLAUSE (III) ABOVE IS SUFFICIENT TO CONFER PERSONAL JURISDICTION OVER SUCH PLEDGOR IN ANY SUCH PROCEEDING IN ANY SUCH COURT, AND

OTHERWISE CONSTITUTES EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT; (V) AGREES THAT SECURED PARTY RETAINS THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING PROCEEDINGS AGAINST SUCH PLEDGOR IN THE COURTS OF ANY OTHER JURISDICTION; AND (VI) AGREES THAT THE PROVISIONS OF THIS SECTION 23 RELATING TO JURISDICTION AND VENUE SHALL BE BINDING AND ENFORCEABLE TO THE FULLEST EXTENT PERMISSIBLE UNDER NEW YORK GENERAL OBLIGATIONS LAW SECTION 5-1402 OR OTHERWISE.

SECTION 24. **Waiver of Jury Trial**. PLEDGORS AND SECURED PARTY HEREBY AGREE TO WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Each Pledgor and Secured Party acknowledge that this waiver is a material inducement for such Pledgor and Secured Party to enter into a business relationship, that each Pledgor and Secured Party have already relied on this waiver in entering into this Agreement and that each will continue to rely on this waiver in their related future dealings. Each Pledgor and Secured Party further warrant and represent that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (OTHER THAN BY A MUTUAL WRITTEN WAIVER SPECIFICALLY REFERRING TO THIS SECTION 24 AND EXECUTED BY EACH OF THE PARTIES HERETO), AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

SECTION 25. **Counterparts.** This Agreement may be executed in one or more counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Pledgors and Secured Party have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

NU SKIN ENTERPRISES, INC.,

as Pledgor

By: /s/ Corey B. Lindley
Name: Corey B. Lindley
Title: Executive Vice President and
Chief Financial Officer

Notice Address

One Nu Skin Plaza
75 West Center Street
Provo, Utah 84601
Attention: General Counsel
Facsimile: (801) 345-6099

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A.,

as Secured Party

By: /s/ Stephen Rivero
Name: Stephen Rivero
Title: Vice President

Notice Address

State Street Bank and Trus
Company of California, N.A.
633 West 5th Street, 12th Floor
Los Angeles, California 90071
Attention: Corporate Trust Department
Facsimile: (213) 362-7357

SCHEDULE I

PLEDGED SHARES

Attached to and forming a part of the Pledge Agreement dated as of October 12, 2000 between Nu Skin Enterprises, Inc., as Pledgor, and State Street Bank and Trust Company of California, N.A., as Secured Party.

Issuer	Class of Stock	Stock Certificate Nos.	Par Value	Number of Shares	Number of Shares Issued and Outstanding	Percentage Represented by Pledged Shares	Holder of Shares Not Pledged
Nu Skin Japan Co., Ltd.	Common	3A-001	¥50,000	2,340	3,600	65%	Pledgor

COLLATERAL AGENCY AND INTERCREDITOR AGREEMENT

This COLLATERAL AGENCY AND INTERCREDITOR AGREEMENT (this "**Agreement**"), dated as of October 12, 2000, is entered into among the Senior Noteholder listed on the signature pages hereof (together with assignees of such Senior Noteholder, the "**Senior Noteholders**"), the Senior Lender listed on the signature pages hereof (together with any assignees of such Senior Lender, the "**Senior Lenders**"), any Additional Creditors that may become parties to this Agreement (either directly or through their agent), and State Street Bank and Trust Company of California, N.A., in its capacity as collateral agent for the Senior Noteholders, the Senior Lenders and the Additional Creditors (the "**Collateral Agent**").

R E C I T A L S

A. Nu Skin Enterprises, Inc., a Delaware corporation (the "**Company**"), will issue and sell to the Senior Noteholder its 3.03% Senior Notes due October 12, 2010 in the aggregate principal amount of JP¥9,706,500,000 (the "**Senior Noteholder Notes**") pursuant to that certain Note Purchase Agreement, dated as of October 12, 2000 (as the same may be amended, supplemented or otherwise modified from time to time, the "**Note Purchase Agreement**"), between the Company and the Senior Noteholder.

B. The Senior Lender (i) has made and may from time to time make loans up to an aggregate principal amount of US$10,000,000 to the Company pursuant to that certain Grid Note, dated May 24, 2000, executed by the Company in favor of the Senior Lender, and (ii) may from time to time issue letters of credit for the account of the Company pursuant to that certain Master Letter of Credit Agreement and Addendum, each dated as of August 4, 2000, between the Company and the Senior Lender (such Grid Note and Master Letter of Credit Agreement and Addendum, as the same may be amended, supplemented or otherwise modified or renewed or replaced from time to time, including any increase in the amount of the obligations thereunder, the "**Credit Documents**").

C. Each of the Material Domestic Subsidiaries of the Company (together with any future Material Domestic Subsidiaries entering into a guaranty agreement with respect to the Obligations (as defined below), the "**Subsidiary Guarantors**") have entered into a guaranty agreement pursuant to which the Subsidiary Guarantors guarantee to the Senior Lenders the payment and performance of all of the Company's obligations under the Credit Documents (as such guaranty agreement may be modified, amended, renewed or replaced, including any increase in the amount guaranteed thereunder, the "**Bank Obligation Guaranty**").

D. Pursuant to the Note Purchase Agreement, the Subsidiary Guarantors will enter into a guaranty agreement pursuant to which the Subsidiary Guarantors will guarantee to the Senior Noteholders the payment of the Noteholder Obligations and the payment and performance of all of the Company's obligations under the Note Purchase Agreement and the Senior Notes (as such guaranty agreement may be modified, amended, renewed or replaced, including any increase in the amount guaranteed thereunder, the "**Note Obligation Guaranty**").

E. The Company may enter into additional note purchase agreements and/or credit agreements with investors and/or lenders which become party to this Agreement (such investors and lenders, together with the lenders referred to in the next sentence, the "**Additional Creditors**") the obligations under which (the "**Additional Company Obligations**") will be guaranteed by one or more of the Subsidiary Guarantors (the "**Additional Subsidiary Guaranties**"). In addition, one or more Subsidiary Guarantors may become direct obligors to lenders which become party to this Agreement and therefore are Additional Creditors, and the obligations of such Subsidiary Guarantors to such lenders (the "**Direct Subsidiary Obligations**" and together with the Additional Company Obligations, the "**Additional Obligations**") will be guaranteed by the Company and the other Subsidiary Guarantors.

F. The Bank Obligation Guaranty, the Note Obligation Guaranty, any Additional Subsidiary Guaranty and any Direct Subsidiary Obligation are each hereinafter referred to as a "**Subsidiary Guaranty**." The Credit Documents, the Note Purchase Agreement and any additional note purchase agreements and/or credit agreements with investors and/or lenders which become party to this Agreement are hereinafter referred to, collectively, as the "**Senior Loan Documents**."

G. The Company has secured all present and future obligations to the Senior Noteholders under the Senior Noteholder Notes and the Note Purchase Agreement (all such obligations, including, without limitation, principal, interest, Make-Whole Amounts, fees and indemnities, being referred to herein as the "**Senior Noteholder Obligations**") and all present and future obligations to the Senior Lenders, including, without limitation, principal, interest, letter of credit obligations (including Contingent L/C Obligations), break-funding amounts, fees and indemnities (the "**Senior Lender** Obligations") and may secure all Additional Obligations, pursuant to the terms of that certain Pledge Agreement dated as of the date hereof between the Company and the Collateral Agent (the "**Pledge Agreement**") and any similar documents executed after the date hereof, as the same may be amended, supplemented or modified from time to time (the "**Security Documents**"). The Senior Noteholder Obligations, the Senior Lender Obligations and the Additional Obligations are collectively referred to as the "**Obligations**"). The Senior Noteholders, the Senior Lenders and the Additional Creditors are sometimes collectively referred to as the "**Benefitted Parties**" and individually referred to as a "**Benefitted Party**." The Pledge Agreement grants to the Collateral Agent, for the ratable benefit of the Benefitted Parties, a valid, perfected and enforceable first priority lien on and a security interest in 65% of the equity securities of certain foreign subsidiaries of the Company (hereinafter all of such collateral, together with all rights to payment under any Subsidiary Guaranty, shall be referred to collectively as the "**Collateral**").

H. The Senior Noteholders, the Senior Lenders and the Additional Creditors wish to set forth their understandings and agreements regarding their respective rights and priorities with respect to amounts recovered through the exercise of any right of set off, payments received after a Triggering Event (as defined in Section 2(a), below) and proceeds of the Collateral.

I. Capitalized terms used herein without being defined shall have the meanings set forth in the Note Purchase Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and the mutual covenants and promises set forth herein, each of the parties to this Agreement agrees as follows:

1. Sharing.

(a) The liens of the Collateral Agent relating to the Collateral shall be held by the Collateral Agent for the benefit of the Benefitted Parties, and any proceeds realized in respect thereof shall be shared by the Benefitted Parties and distributed in accordance with the rights and priorities set forth in this Agreement. Any Collateral Proceeds, Triggering Event Balances, Triggering Event Payments or Setoff Proceeds (as such terms are defined in Section 2(b)) shall be shared by the Benefitted Parties and distributed in accordance with the rights and priorities set forth in this Agreement. As used herein, the term "**Triggering Event**" means (a) the occurrence and continuation of a Bankruptcy Proceeding (as defined below) with respect to the Company, any Subsidiary Guarantor or any Material Foreign Subsidiary, (b) the Collateral Agent's receipt of a written notice that the unpaid principal amount of any of the Obligations has been declared to be then due and payable by the holder or holders thereof prior to the due date as a result of an event of default, or (c) any exercise of any right of setoff or banker's lien by any Benefitted Party. As used herein, the term "**Bankruptcy Proceeding**" means, with respect to any Person, a general assignment of such Person for the benefit of its creditors, or the institution by or against such Person of any proceeding seeking relief as debtor, or seeking to adjudicate such Person as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of such Person or its debts, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for such Person or for any substantial part of its property.

(b) Notwithstanding anything to the contrary set forth herein, any Collateral Proceeds, Triggering Event Balances, Triggering Event Payments or Setoff Proceeds which are to be remitted to any Benefitted Party on account of Obligations which are Contingent L/C Obligations (as defined below) shall be remitted to the Collateral Agent to be held in a separate cash collateral account (the "**L/C Account**") by the Collateral Agent and distributed by the Collateral Agent only in accordance with this Section 1(b). In the event, and upon the condition that, any Contingent L/C Obligation becomes an absolute obligation of the Company upon the honoring of a draw under any Letter of Credit (as defined below), upon receipt of written direction from the applicable Benefitted Party, the Collateral Agent shall withdraw from the L/C Account and shall pay over to the Benefitted Party (or issuing bank on behalf of such Benefitted Party) that honored such draw an amount equal to the Withdrawal Amount (as defined below) with respect to the amount of such draw together with interest on such Withdrawal Amount at the rate earned while on deposit in the L/C Account. In the event that the Collateral Agent receives written notice that any Contingent L/C Obligation lapses on account of the expiration or other termination of the applicable Letter of Credit, an amount equal to the Withdrawal Amount with respect to such lapsed Contingent L/C Obligation, together with interest on account of such amount at the rate earned while on deposit in the L/C Account, shall be released from the L/C Account and shall be distributed by the Collateral Agent to the Benefitted Parties in accordance with clause "third" of Section 2(c). As used herein "**Withdrawal Amount**" means the product of (a) the quotient of (i) the amount of a Contingent L/C Obligation which has then become an absolute obligation on account of a draw or the amount of a Contingent L/C Obligation which

has lapsed on account of the expiration or termination of the applicable Letter of Credit, as the case may be, over (ii) the total amount of all Contingent L/C Obligations, and (b) the total amount then deposited in the L/C Account.

As used herein, the term "**Contingent L/C Obligations**" means any and all contingent obligations of the Company to reimburse the issuers of Letters of Credit for drawings under such Letters of Credit.

As used herein, the term "**Letter of Credit**" means a letter of credit issued by a Benefitted Party, or an issuing bank on behalf of a Benefitted Party, for the account of the Company or any of the Subsidiary Guarantors pursuant to the Credit Documents or any additional credit agreements with lenders which become party to this Agreement.

2. Cash Collateral Account; Application of Proceeds

(a) The Collateral Agent has established an interest-bearing demand deposit cash collateral account subject to the lien and security interest created by the Security Documents (the "**Cash Collateral Account**") in the name of the Collateral Agent into which the proceeds, payments and amounts described in subsections (b)(i), (b)(ii), (b)(iii) and (b)(iv) below shall be deposited and from which only the Collateral Agent may effect withdrawals. Such amounts shall be held by the Collateral Agent in the Cash Collateral Account and shall be distributed from time to time by the Collateral Agent in accordance with Section 2(c) below.

(b) The following proceeds, payments and amounts shall be deposited and held by the Collateral Agent in the Cash Collateral Account and shall be distributed from time to time by the Collateral Agent in accordance with Section 2(c) below:

(i) any proceeds of any collection, recovery, receipt, appropriation, realization or sale of any or all of the Collateral or the enforcement of the Security Documents (the "**Collateral Proceeds**") received by the Collateral Agent or any Benefitted Party;

(ii) any amounts held in the Cash Collateral Account at the time a Triggering Event occurs (the "**Triggering Event Balances**");

(iii) any payments received or otherwise realized by any Benefitted Party in respect of any Obligations on or after the date on which a Triggering Event has occurred (the "**Triggering Event Payments**"); and

(iv) any amounts received or recovered by any Benefitted Party through any exercise of any right of setoff or banker's lien at any time on or after the occurrence of a Triggering Event (whether by law, contract or otherwise) (the "**Setoff Proceeds**").

Each Benefitted Party agrees to deliver any Collateral Proceeds, any Triggering Event Balances, any Triggering Event Payments and any Setoff Proceeds to the Collateral Agent within two (2) Business Days after receipt (other than pursuant to subsection (c) below) of such Collateral Proceeds, Triggering Event Balances, Triggering Event Payments or Setoff Proceeds.

(c) The Collateral Agent shall distribute the proceeds described in subsections (b)(i), (b)(ii), (b)(iii) and (b)(iv) above which are held in the Cash Collateral Account to the Collateral Agent and the Benefitted Parties in accordance with the following priorities:

first, to the reasonable costs and expenses of the Collateral Agent incurred in connection with the maintenance of the Cash Collateral Account and any collection, recovery, receipt, appropriation, legal proceeding (whether by or against any such party), realization or sale of any or all of the Collateral or the enforcement of the Security Documents;

second, after payment in full of all amounts set forth in item first, to the Benefitted Parties in payment of any and all amounts owed to the Benefitted Parties for reimbursement of amounts paid by them to the Collateral Agent in accordance with Section 4(g) pro rata in proportion to such amounts owed to such Benefitted Parties;

third, after payment in full of all amounts set forth in item second, to the payment and permanent reduction of the principal amount of the outstanding Obligations and the Contingent L/C Obligations, pro rata, based on the proportion that the principal amount of such outstanding Obligations and Contingent L/C Obligations held by each Benefitted Party at such time bears to the sum of the principal amount of all such Obligations and Contingent L/C Obligations;

fourth, after payment in full of all amounts set forth in item third, to the payment and permanent reduction of the amount of the outstanding Obligations representing interest, pro rata, based on the proportion that such outstanding Obligations representing interest held by each Benefitted Party at such time bears to the sum of all such Obligations representing interest;

fifth, after payment in full of all amounts set forth in item fourth, to the payment and permanent reduction of all other outstanding Obligations not representing principal, Contingent L/C Obligations or interest, pro rata, based on the proportion that such outstanding Obligations not representing principal, Contingent L/C Obligations or interest held by each Benefitted Party at such time bears to the sum of all such Obligations not representing principal, Contingent L/C Obligations or interest; and

sixth, after payment in full of all amounts set forth in item fifth, to or at the direction of the Company or as a court of competent jurisdiction may otherwise direct.

The Collateral Agent shall make such distributions promptly after the deposit of any Collateral Proceeds, Triggering Event Balances, Triggering Event Payments or Setoff Proceeds into the Cash Collateral Account. A Benefitted Party's pro rata share of the Obligations on any distribution date shall be determined by assuming that all Obligations are denominated in U.S. Dollars based upon the quoted spot rate at which the Collateral Agent's principal office offers to exchange any applicable currency for U.S. Dollars at 11:00 A.M. (local time at such principal office) on the Business Day preceding such distribution date (the "**Applicable Exchange Rate**"). For any distribution, the Collateral Agent shall exchange the relevant portion of such distribution into the applicable currency and make each such distribution in the applicable currency.

3. Payment of Obligations; Distributions Recovered.

(a) The Company and each of the Subsidiary Guarantors agree that any amounts received by a Benefitted Party and delivered by such Benefitted Party to the Collateral Agent pursuant to the terms of this Agreement will not be deemed to be a payment in respect of any Obligations owing to such Benefitted Party until such Benefitted Party receives its pro rata share of such amount from the Collateral Agent and then only to the extent of the actual payment and receipt of such pro rata share.

(b) Notwithstanding anything to the contrary contained in this Agreement, in each case in which any proceeds (or the value thereof) or payments are recovered as a preferential or otherwise voidable payment (whether by a trustee in bankruptcy or otherwise) from the party (the "**Distributor**") which distributed those proceeds to another party or parties under this Agreement, each party (a "**Distributee**") to whom any of those proceeds were ultimately distributed shall, upon the Distributor's notice of the recovery to the Distributee, return to the Distributor an amount equal to the Distributee's ratable share of the amount recovered, together with a ratable share of interest thereon to the extent the Distributor is required to pay interest thereon computed on the amount to be returned from the date of the recovery. For purposes of this Agreement, "**proceeds**" means any payment (whether made voluntarily or involuntary) from any source, including, without limitation, any offset of any deposit or other indebtedness, any security (including, without limitation, any guaranty or any collateral) or otherwise.

4. The Collateral Agent.

(a) By execution and delivery hereof, each Benefitted Party hereby appoints State Street Bank and Trust Company of California, N.A. as Collateral Agent and its representative hereunder and under the Security Documents and authorizes the Collateral Agent to act as such hereunder and thereunder on behalf of each such Benefitted Party. The Collateral Agent agrees to act as such upon the express conditions contained in this Agreement. In performing its functions and duties under this Agreement and the Security Documents, the Collateral Agent shall act solely as agent of the Benefitted Parties to the extent, but only to the extent, provided in this Agreement and does not assume, and shall not be deemed to have assumed, any obligation towards or relationship of agency, fiduciary or trust with or for any other Person, other than as set forth in the Security Documents.

(b) The Collateral Agent shall take any action with respect to the Collateral and/or the Security Documents only as directed in accordance with Section 5(a) hereof; provided that the

Collateral Agent shall not be obligated to follow any directions given in accordance with Section 5(a) hereof to the extent that the Collateral Agent has received advice from its counsel to the effect that such directions are in conflict with any provisions of law, this Agreement, the Security Documents or any order of any

court or administrative agency; provided further that the Collateral Agent shall not, under any circumstances, be liable to any Benefitted Party or any other person for following the written directions received in accordance with Section 5(a) hereof. Any directions given pursuant to Section 5(a) hereof may be withdrawn or modified by the party or parties who originally gave such directions by delivering written notice of withdrawal or modification to the Collateral Agent prior to the time when the Collateral Agent takes any action pursuant to such directions.

(c) Each Benefitted Party authorizes the Collateral Agent to take such action on such Benefitted Party's behalf and to exercise such powers hereunder as are specifically delegated to the Collateral Agent by the terms hereof and of the Security Documents, together with such powers as are reasonably incidental thereto. The Collateral Agent shall have only those duties and responsibilities that are expressly specified in this Agreement and the Security Documents, and it may perform such duties by or through its agents or employees. Nothing in this Agreement or the Security Documents, express or implied, is intended to or shall be construed as imposing upon the Collateral Agent any obligations in respect of this Agreement or such Security Documents except as expressly set forth herein.

(d) The Collateral Agent shall not be responsible to any Benefitted Party for the execution, effectiveness, genuineness, validity, perfection, enforceability, collectibility, value or sufficiency of the Collateral or the Security Documents or for any representations, warranties, recitals or statements made in any document executed in connection with the Obligations or made in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by or on behalf of the Company and its subsidiaries to any Benefitted Party or be required to ascertain or inquire as to the performance or observance by the Company or any of its subsidiaries or any other pledgor or guarantor of any of the terms, conditions, provisions, covenants or agreements contained in any document executed in connection with the Obligations or of the existence or possible existence of any Triggering Event.

(e) The Collateral Agent shall not be liable to any Benefitted Party for any action taken or omitted hereunder or under the Security Documents or in connection herewith or therewith except to the extent caused by the Collateral Agent's gross negligence or willful misconduct. The Collateral Agent shall be entitled to rely, and shall be fully protected in relying, upon any written statement, instrument or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons and, except as otherwise specifically provided in this Agreement, shall be entitled to rely upon the written direction of the Required Creditors (as defined in Section 5(a)) certifying that the persons signing such direction constitute the "Required Creditors," and shall be entitled to rely and shall be fully protected in relying on opinions and judgments of counsel, accountants, experts and other professional advisors selected by it in good faith and with due care. The Collateral Agent shall be entitled to refrain from exercising any power, discretion or authority vested in it under this Agreement or the Security Documents unless and until it has obtained the directions in accordance with Section 5(a) hereof with respect to the matters covered thereby. The Collateral Agent shall be entitled to request

from each Benefitted Party a certificate setting out the amount of the respective Obligations held by it (including, without limitation, amounts representing principal, Contingent L/C Obligations or interest of such Obligations for purposes of calculating distributions pursuant to Section 2(c)).

(f) Each Benefitted Party agrees not to take any action whatsoever to enforce any term or provision of the Security Documents or to enforce any of its rights in respect of the Collateral, in each case except through the Collateral Agent acting in accordance with this Agreement.

(g) The Company and each of its subsidiaries which is party to this Agreement, by its execution of the signature page of this Agreement, agrees to pay and save the Collateral Agent harmless from liability for payment of all costs and expenses of the Collateral Agent in connection with this Agreement and the Security Documents, other than liabilities, costs and expenses resulting from the Collateral Agent's gross negligence or willful misconduct. Each Benefitted Party severally agrees to indemnify the Collateral Agent, pro rata (to the extent set forth in the penultimate sentence of this Section 4(g)), to the extent the Collateral Agent shall not have been reimbursed by or on behalf of the Company or from proceeds of the Collateral or otherwise, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, reasonable expenses (including, without limitation, reasonable counsel fees and disbursements) or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Collateral Agent in performing its duties hereunder or under the Security Documents in its capacity as the Collateral Agent in any way relating to or arising out of this Agreement, the Security Documents and/or the Collateral; provided that no Benefitted Party shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Collateral Agent's gross negligence, willful misconduct or breach of the express terms of this Agreement. For purposes of this Section 4(g), any pro rata calculation shall be on the basis of the outstanding principal amount of the Obligations (determined by assuming that all Obligations are denominated in U.S. Dollars based upon the Applicable Exchange Rate) held by or for each Benefitted Party at the time of the act, omission or transaction giving rise to the reimbursement or indemnity required by this Section 4(g). The provisions of this Section 4(g) shall survive the payment in full of all the Obligations and the termination of this Agreement and all other documents executed in connection with the Obligations.

(h) The Collateral Agent may resign at any time by giving sixty (60) days' prior written notice thereof to the Benefitted Parties and the Company, subject to the acceptance of its appointment by a successor Collateral Agent simultaneously with or prior to any resignation of the Collateral Agent. Upon any such notice of resignation, the Required Creditors (as defined in Section 5(a) below) shall have the right to appoint a successor Collateral Agent. The Collateral Agent may be removed at any time with or without cause, by an instrument in writing delivered to the Collateral Agent, the Company and the other Benefitted Parties by the Required Creditors (as defined in Section 5(a) below). Upon the acceptance of any appointment as Collateral Agent hereunder by a successor Collateral Agent, such successor Collateral Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Collateral Agent, and the retiring or removed Collateral Agent shall be discharged from its duties and obligations under this Agreement and the Security Documents; provided, however, that the retiring or removed Collateral Agent will continue to remain liable for all acts of, or the omission to act by, such retiring or removed Collateral Agent which occurred prior to such

retirement or removal. If no successor Collateral Agent shall have been so appointed and shall have accepted such appointment within forty-five (45) days after the retiring Collateral Agent's giving of notice of resignation, then, upon five days' prior written notice to the Company and the Benefitted Parties, the retiring Collateral Agent may, on behalf of the Benefitted Parties, appoint a successor Collateral Agent, which shall be a bank or trust company organized under the laws of the United States or any state thereof (or under the laws of a foreign country and having a branch or agency located in the United States) having a combined capital and surplus of at least $500,000,000, and the short term unsecured debt obligations of which are rated at least P-1 by Moody's Investors Service or A-1 by Standard & Poor's, or any affiliate of such bank. After any retiring or removed Collateral Agent's resignation or removal hereunder as Collateral Agent, the

provisions of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it while it was the Collateral Agent under this Agreement and the Security Documents.

(i) Except as expressly set forth herein, the Collateral Agent and each of its affiliates may accept deposits from, lend money to and generally engage in any kind of banking, trust, financial advisory or other business with the Company or any affiliate thereof, and may accept fees and other consideration from the Company or any affiliate thereof for services in connection with this Agreement and otherwise without having to account for the same to any Benefitted Party.

(j) The Collateral Agent shall not be liable for or by reason of (i) any failure or defect in the registration, filing or recording of any of the Security Documents, or any notice, caveat or financing statement with respect to the foregoing, or (ii) any failure to do any act necessary to constitute, perfect and maintain the priority of the security interest created by the Security Documents.

(k) Notwithstanding anything to the contrary contained in this Agreement or any document executed in connection with any of the Obligations, the Collateral Agent, unless it shall have actual knowledge thereof, shall not be deemed to have any knowledge of any Triggering Event unless and until it shall have received written notice from the Company or any Benefitted Party describing such Triggering Event in reasonable detail (including, to the extent known, the date of occurrence of the same).

(l) Upon receipt by the Collateral Agent of any direction by the Required Creditors, all of the Benefitted Parties will be bound by such direction.

5. Relating to Defaults and Remedies.

(a) The Required Creditors may, after any Triggering Event (other than an Involuntary Proceeding) has occurred (or upon the occurrence and continuation of an Involuntary Proceeding for at least 60 consecutive days) and by giving the Collateral Agent written notice of such election, instruct and cause the Collateral Agent to exercise its rights and remedies under the Security Documents. The Collateral Agent shall follow the instructions of the Required Creditors with respect to the enforcement action to be taken. For purposes of this Agreement, the term “Required Creditors” shall mean the Benefitted Parties holding, in the aggregate, more than 50% of the sum of (a) the face amount of any commitments for undrawn Letters of Credit plus (b) the outstanding funded principal amount of the Obligations (such amounts to be determined by assuming that all such commitments and Obligations are denominated in U.S.

Dollars based upon the Applicable Exchange Rate). For purposes of the foregoing definitions, any Benefitted Party that has purchased a participation in the Obligations owing to another Benefitted Party shall be deemed to be the holder of the amount of such Obligations which are the subject of such participation.

(b) Notwithstanding anything to the contrary contained in this Agreement, the Collateral Agent shall not commence or otherwise take any action or proceeding to enforce any Collateral Document or to realize upon any or all of the Collateral unless and until the Collateral Agent has received instructions in accordance with Section 5(a) above. Upon receipt by the Collateral Agent of any such instructions, the Collateral Agent shall seek to enforce the Security Documents and to realize upon the Collateral in accordance with such instructions; provided that the Collateral Agent shall not be obligated to follow any such directions as to which the Collateral Agent has received a written opinion of its counsel to the effect that such directions are in conflict with any provisions of law, this Agreement, the Security Documents or any order of any court or administrative agency, and the Collateral Agent shall not, under any circumstances, be liable to any Benefitted Party or any other Person for following the written directions received in accordance with Section 5(a) above.

(c) The duties and responsibilities of the Collateral Agent hereunder shall consist of and be limited to (i) selling, releasing, surrendering, realizing upon or otherwise dealing with, in any manner and in any order, all or any portion of the Collateral, (ii) exercising or refraining from exercising any rights, remedies or powers of the Collateral Agent under this Agreement or the Security Documents or under applicable law in respect of all or any portion of the Collateral, (iii) making any demands or giving any notices under the Security Documents, (iv) effecting amendments to and granting waivers under the Security Documents in accordance with the terms hereof, and (v) maintaining the Cash Collateral Account under its exclusive dominion and control for the benefit of the Benefitted Parties and making deposits therein and withdrawals therefrom as necessary to effect the provisions of this Agreement.

(d) In the event that the Collateral Agent proceeds to foreclose upon, collect, sell or otherwise dispose of or take any other action with respect to any or all of the Collateral or to enforce any provisions of the Security Documents or takes any other action pursuant to this Agreement or any provision of the Security Documents or requests directions from the Required Creditors as provided herein, upon the request of the Collateral Agent or any Benefitted Party, each of the Benefitted Parties agrees that such Benefitted Party (or any agent of or representative for such Benefitted Party) shall promptly notify the Collateral Agent in writing, as of any time that the Collateral Agent may specify in such request, (i) of the aggregate amount of the respective Obligations then owing to such Benefitted Party as of such date and (ii) such other information as the Collateral Agent may reasonably request.

(e) Promptly after the Collateral Agent receives written notice of the occurrence of any Triggering Event pursuant to Section 2(a), it shall promptly send copies of such notice to each of the Benefitted Parties.

(f) The Collateral Agent shall not be obliged to expend its own funds in performing its obligations under this Agreement and shall be entitled to require that the Benefitted Parties provide it with sufficient funds prior to taking any action required under this Agreement.

6. Third Party Beneficiaries. This Agreement is solely for the benefit of the parties hereto and their respective successors and assigns, and neither the Company nor any other person or entity, including, without limitation, any guarantor of the obligations of the Company, are intended to be third party beneficiaries hereunder or to have any right, benefit, priority or interest under, or shall have any right to enforce this Agreement.

7. Relation of Creditors. This Agreement is entered into solely for the purposes set forth herein, and no Benefitted Party assumes any responsibility to any other party hereto to advise such other party of information known to such other party regarding the financial condition of the Company or any of its subsidiaries or of any other circumstances bearing upon the risk of nonpayment of any Obligation. Each Benefitted Party specifically acknowledges and agrees that nothing

contained in this Agreement is or is intended to be for the benefit of the Company or any of its subsidiaries and nothing contained herein shall limit or in any way modify any of the obligations of the Company or any Subsidiary Guarantor to the Benefitted Parties.

8. Acknowledgment of Guaranties. Each party expressly acknowledges the existence and validity of the Note Obligation Guaranty and the Bank Obligation Guaranty, agrees not to contest or challenge the validity of the Note Obligation Guaranty or the Bank Obligation Guaranty and agrees that the judicial or other determination of the invalidity of the Note Obligation Guaranty or the Bank Obligation Guaranty shall not affect the provisions of this Agreement.

9. Notice of Certain Events. Each Benefitted Party agrees that upon the occurrence of a Triggering Event, it shall promptly notify the Collateral Agent of the occurrence of such Triggering Event. In addition, each Benefitted Party agrees to provide to the Collateral Agent the amount and currency of its Obligations at such reasonable times as may be necessary to determine such Benefitted Party's pro rata share of the outstanding principal amount of the Obligations.

10. Miscellaneous.

(a) Notices. All notices and other communications provided for herein, (including, without limitation, any modifications of, or waivers or consents under this Agreement) shall be sent (i) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (ii) by registered or certified mail with return receipt requested (postage prepaid), or (iii) by a recognized overnight delivery service (with charges prepaid) to the intended recipient at the address for notices specified beneath the signature of such party hereto; or as to any party at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communication shall be deemed to have been duly given when actually received.

(b) Amendments, Waivers, Consents. All amendments, waivers or consents of any provision of this Agreement shall be effective only if the same shall be in writing and signed by all of the Benefitted Parties.

(c) Releases of Collateral. The parties hereto agree that the Collateral Agent shall release all or any portion of the Collateral (other than in connection with the exercise of its rights and remedies pursuant to Section 5) only upon the receipt by the Collateral Agent of (i) a written approval from the Required Creditors, or (ii) so long as no event of default exists under any Senior Loan Document and releasing such Collateral is not prohibited by any Senior Loan Document, an Officers' Certificates of the Company and any applicable Subsidiary Guarantor, which shall be true and correct, (x) stating that the Collateral subject to such disposition is being sold, transferred or otherwise disposed of in compliance with the terms of each of the Senior Loan Documents, and (y) specifying the Collateral being sold, transferred or otherwise disposed of in the proposed transaction. Upon the receipt of such written approval or Officers' Certificates (so long as the Collateral Agent has no reason to believe that the Officers' Certificates delivered with respect to such disposition are not true and correct), the Collateral Agent shall, at the Company's expense, execute and deliver such releases of its security interest in such Collateral to be released, and provide a copy of such releases to each of the Benefitted Parties. In connection therewith, the Benefitted Parties hereby irrevocably authorize the Collateral Agent from time to time to release such Collateral or consent to such release in accordance with the terms of this Agreement. Notwithstanding anything provided herein to the contrary, no release of security shall in any way affect the guaranties by the Material Domestic Subsidiaries of the Obligations, which guaranties shall continue to remain in full force and effect after any such release.

Upon the receipt of such Officers' Certificate, Secured Party shall, at such Pledgor's expense, execute and deliver such releases of its security interest in such Collateral which is to be so sold, transferred or disposed of, as may be reasonably requested by such Pledgor.

(d) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. At the time of any assignment of all or any portion of the Senior Noteholder Obligations by a Senior Noteholder or of all or any portion of the Senior Lender Obligations by a Senior Lender or of all or any portion of the Additional Obligations by any Additional Creditor, such assigning Senior Noteholder, Senior Lender or Additional Creditor, as the case may be, shall cause its assignee (each an "**Additional Benefitted Party**") to execute a Counterpart Collateral Agency and Intercreditor Agreement substantially in the form attached hereto as Exhibit A (a "**Counterpart**") and become a party to this Agreement.

(e) Additional Creditors. Upon the execution of a Counterpart by any Additional Creditors (either directly or through their agents) and delivery of such Counterpart to the other parties hereto, such entity or entities shall be as fully a party to this Agreement as a Benefitted Party as if such entity or entities were an original signatory hereof without any action required to be taken by any other party hereto, provided that each such entity or entities shall execute this Agreement simultaneously with the Subsidiary Guarantors' execution and delivery to it or them of a Subsidiary Guaranty. Each other party to this Agreement expressly agrees that its rights and obligations arising hereunder shall continue after giving effect to the addition of such Additional Creditors as parties to this Agreement.

(f) Captions. The captions and Section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

(g) Conflicts. In the event of a conflict between the terms of this Agreement and the terms of any of the Security Documents, the terms of this Agreement shall control.

(h) Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together will constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

(i) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN THE STATE OF NEW YORK.

(j) Merger. This Agreement and the Security Documents supersede all prior agreements, written or oral, among the parties with respect to the subject matter of such agreements.

(k) Independent Investigation. None of the Collateral Agent or any of the Benefitted Parties, nor any of their respective directors, officers, agents or employees, shall be responsible to any of the others for the solvency or financial condition of the Company or the ability of the Company to repay any of the Obligations, or for the value, sufficiency, existence or ownership of any of the Collateral, or the statements of the Company, oral or written, or for the validity, sufficiency or enforceability of any of the Obligations or any document or agreement executed or delivered in connection with or pursuant to any of the foregoing. Each Benefitted Party has entered into its respective financial agreements with the Company based upon its own independent investigation, and makes no warranty or representation to the other, nor does it rely upon any representation by any of the others, with respect to the matters identified or referred to in this Section.

(l) Severability. In case any one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

(m) Effect of Bankruptcy or Insolvency. This Agreement shall continue in effect notwithstanding the bankruptcy or insolvency of any party hereto or the Company or any of its Subsidiaries.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A.,

as Collateral Agent

By: /s/ /s/Stephen Rivero
Name: Stephen Rivero
Title: Vice President

Address for Notices:

State Street Bank and Trust
Company of California, N.A.
633 West 5th Street, 12th Floor
Los Angeles, California 90071
Attention: Corporate Trust Department
Facsimile: (213) 362-7357

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA,
as Senior Noteholder

By:
Name:
Title:

Address for Notices:

The Prudential Insurance Company of America
c/o Prudential Capital Group – Corporate Finance
Four Embarcadero Center, Suite 2700
San Francisco, California 94111
Attention: Managing Director
Facsimile: (415) 421-6233

ABN AMRO BANK N.V.,
as Senior Lender

By:
Name:
Title:
By:

Name:
Title:

Address for Notices:

ABN AMRO Bank N.V.
208 South LaSalle Street, Suite 1500
Chicago, IL 60604-1003
Attention: Credit Administration
Facsimile: (312) 992-5111

with a copy to:

ABN AMRO Bank N.V.
101 California Street, Suite 4550
San Francisco, CA 94111-5812
Attention: Gina Brusatori
Facsimile: (415) 362-3524

EACH OF THE UNDERSIGNED HEREBY ACKNOWLEDGES AND CONSENTS TO THE FOREGOING, INCLUDING, WITHOUT LIMITATION, SECTION 3. EACH OF THE UNDERSIGNED HEREBY CONSENTS TO THE RELEASE BY THE COLLATERAL AGENT TO THE BENEFITTED PARTIES OF ANY INFORMATION PROVIDED TO OR OBTAINED BY THE COLLATERAL AGENT UNDER OR IN CONNECTION WITH THE SECURITY DOCUMENTS. EACH OF THE UNDERSIGNED HEREBY COVENANTS TO PAY TO THE COLLATERAL AGENT FROM TIME TO TIME REASONABLE REMUNERATION FOR ITS SERVICES HEREUNDER AND WILL PAY OR REIMBURSE THE COLLATERAL AGENT UPON ITS REQUEST FOR ALL REASONABLE EXPENSES, DISBURSEMENTS AND ADVANCES INCURRED OR MADE BY THE COLLATERAL AGENT IN THE ADMINISTRATION OR EXECUTION OF THE COLLATERAL AGENCY HEREBY CREATED (INCLUDING THE REASONABLE COMPENSATION AND THE DISBURSEMENTS OF ITS COUNSEL AND ALL OTHER ADVISERS AND ASSISTANTS NOT REGULARLY IN ITS EMPLOY) BOTH BEFORE ANY DEFAULT HEREUNDER AND THEREAFTER UNTIL ALL DUTIES OF THE COLLATERAL AGENT HEREUNDER SHALL BE FINALLY AND FULLY PERFORMED EXCEPT ANY SUCH EXPENSE, DISBURSEMENT OR ADVANCE AS MAY ARISE OUT OF OR RESULT FROM THE COLLATERAL AGENT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. THE UNDERSIGNED HEREBY AGREES TO PROVIDE TO EACH OF THE BENEFITTED PARTIES TRUE AND CORRECT COPIES OF ALL NOTICES, CERTIFICATES, SCHEDULES AND OTHER INFORMATION PROVIDED TO THE COLLATERAL AGENT PURSUANT TO THIS AGREEMENT AND THE SECURITY DOCUMENTS.

NU SKIN ENTERPRISES, INC.

By: /s/ Corey B. Lindley
Name: Corey B. Lindley
Title: Executive Vice President and
Chief Financial Officer

NU SKIN INTERNATIONAL, INC.
NU SKIN HONG KONG, INC.
NU SKIN TAIWAN, INC.
NU SKIN UNITED STATES, INC.

By: /s/ Corey B. Lindley
Name: Corey B. Lindley
Title: Vice President

Address for Notices:
One Nu Skin Plaza
75 West Center Street
Provo, Utah 84601
Attention: General Counsel
Facsimile:(801) 345-6099

EXHIBIT A

Counterpart Collateral Agency and Intercreditor Agreement

IN WITNESS WHEREOF, the undersigned has caused this Counterpart Collateral Agency and Intercreditor Agreement, dated as of _____, 20__ (this "Counterpart"), to be duly executed and delivered by its duly authorized officer. Upon execution and delivery of this Counterpart to Collateral Agent, the undersigned shall be an Additional Benefitted Party under the Collateral Agency and Intercreditor Agreement [and shall be as fully a party to the Collateral Agency and Intercreditor Agreement as if such Additional Benefitted Party were an original signatory to the Collateral Agency and Intercreditor Agreement].

[Name of Additional Benefitted Party]

By:
Name:
Title:

SECOND

AMENDED AND RESTATED

NU SKIN ENTERPRISES, INC.

1996 STOCK INCENTIVE PLAN

1. PURPOSE

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

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

2. DEFINITIONS

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

(a) "Award" means a grant of Restricted Stock, Contingent Stock, an Option, or an SAR.

(b) "Award Agreement" means the agreement approved by the Committee evidencing an Award to a Grantee.

(c) "Board" means the Company's Board of Directors.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means the members of the Board until the Compensation Committee of the Board is appointed, and after the Compensation Committee is appointed means the members of the Compensation Committee of the Board, who are "outside directors" (within the meaning of Section 162(m) of the Code and any regulations or rulings promulgated thereunder) to the extent required for purposes of compliance with such Code Section, and "disinterested persons" (within the meaning of Rule 16b-3 of the Exchange Act), to the extent required for compliance with such Rule.

(f) "Company" means Nu Skin Enterprises, Inc.

(g) "Consultant" means any individual who provides services to the Company as an independent contractor and not as an Employee or Director.

(h) "Contingent Stock" means stock which will be issued to a Grantee upon the attainment of certain conditions pursuant to Section 9 hereof.

(i) "Director(s)" means a member or the members of the Board.

(j) "Employee" means any individual who is an employee of the Company, a Parent or Subsidiary.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value" of a Share means on, or with respect to, any given date:

(i) If the Shares are listed on a national stock exchange, the closing market price of such Shares as reported on the composite tape for issues listed on such exchange on such date or, if no trade shall have been reported for such date, on the next preceding date on which there were trades reported; provided, that if no such quotation shall have been made within the ten business days preceding such date, Fair Market Value shall be determined under (iii) below.

(ii) If the Shares are not listed on a national stock exchange but are traded on the over-the-counter market, the mean between the closing dealer bid and asked price of such Shares as reported by the National Association of Securities Dealers through their Automated Quotation System for such date, or if no quotations shall have been made on such date, on the next preceding date on which there were quotations; provided, that, if such quotations shall have been made within the ten business days preceding such date, Fair Market Value shall be determined under (iii) below.

(iii) If (i) and (ii) do not apply, the Fair Market Value of a Share shall be determined without regard to any control premium or discount for lack of control (except as otherwise required by Section 422 of the Code) by the Committee in good faith consistent with the valuation of the Company as provided by a third party appraiser for other corporate purposes before adjustments or any discounts applied due to lack of marketability. The Committee may rely

upon the most recent valuation (if it is based on a date within 3 months of the valuation date) and there shall be no requirement to cause a more recent valuation to be made (except as may be required for purposes of Section 422 of the Code). If no such valuation exists, the Committee may engage a third party appraiser to prepare the valuation.

(m) "Grantee" means an Employee, Director of the Company, a Parent or any Subsidiary or Consultant who has received an Award.

(n) "Incentive Stock Option" shall have the same meaning as given to the term by Section 422 of the Code and any regulations or rulings promulgated thereunder.

(o) "Non-qualified Stock Option" means any Option granted pursuant to Section 7 which when awarded by the Committee was not intended to be, or does not qualify as, an Incentive Stock Option.

(p) "Option" means the right to purchase from the Company a stated number of Shares at a specified Option Price. The Option may be granted to an Employee, Director or Consultant subject to the terms of this Plan, and such other conditions and restrictions as the Committee deems appropriate. Each Option shall be designated by the Committee to be either an Incentive Stock Option or a Non-qualified Stock Option. Only Employees may be granted Incentive Stock Options.

(q) "Option Agreement" means the Award Agreement pursuant to which an Option is granted under Section 7.

(r) "Option Price" means the purchase price per Share under an Option, as described in Section 7.

(s) "Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the granting of an Option, each of the corporations (other than the Company) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain within the meaning of Section 424(e) of the Code and any regulations or rulings promulgated thereunder.

(t) "Plan" means Amended and Restated Nu Skin Asia Pacific, Inc. 1996 Stock Incentive Plan, as evidenced herein and as amended from time to time.

(u) "Restricted Stock" means Shares issued, subject to restrictions, to a Grantee pursuant to Section 10.

(v) "SAR" means a stock appreciation right which provides a Grantee a potential right to a payment based on the appreciation in the fair market value of a Share granted pursuant to Section 8.

(w) "SEC" means the U.S. Securities and Exchange Commission.

(x) "Section 16 Person" means a person who is an "insider" within the meaning of Section 16(b) of the Exchange Act with respect to transactions involving equity securities of the Company, including the Shares.

(y) "Share" means one share of the Company's Class A common stock, $.001 par value.

(z) "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Option, each of the corporations (other than the last corporation) in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, within the meaning of Section 424(f) of the Code and any regulations or rulings promulgated thereunder.

3. ADMINISTRATION

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

(a) conclusively interpret the provisions of the Plan and to decide all questions of fact arising in its application;

(b) determine the individuals to whom Awards shall be made under the Plan;

(c) determine the type of Award to be made to such individuals and the amount, size and terms of each Award;

(d) determine the time when Awards will be granted to such individuals; and

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

4. SHARES SUBJECT TO THE PLAN

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

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

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

5. PARTICIPANTS

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

6. AWARDS UNDER THE PLAN

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

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

7. STOCK OPTIONS

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

7.2 Options granted pursuant to the Plan shall be authorized by the Committee under terms and conditions approved by the Committee, not inconsistent with this Plan or Exchange Act Rule 16b-3(c), and shall be evidenced by Option Agreements in such form as the Committee shall from time to time approve, which Option Agreements shall contain or shall be subject to the following terms and conditions, whether or not such terms and conditions are specifically included therein:

(a) The Option Price of an Incentive Stock Option shall not be less than 100% of the Fair Market Value of a Share on the day the Option is granted, as determined by the Committee. The Option Price of a Non-qualified Stock Option shall be such price as determined by the Committee in its discretion, which price may be more or less than the Fair Market Value of a Share on the day the Option is granted. Notwithstanding the immediately preceding sentence, the Award Agreement for a Non-qualified Stock Option at the Committee's sole discretion, may, but need not, provide for a reduction of the Option Price by dividends paid on a Share during the period the Option is outstanding and unexercised, but in no event shall the Option Price be less than the par value of such Share.

(b) Each Option Agreement shall state the period or periods of time, as determined by the Committee, within which the Option may be exercised by the Grantee, in whole or in part, provided such period shall not commence earlier than six months after the date of the grant of the Option and not later than ten years after the date of the grant of the Option. The Committee shall have the power to permit in its discretion an acceleration of previously determined exercise terms, subject to the terms of this Plan, to the extent permitted by Exchange Act Rule 16b-3(c), and under such circumstances and upon such terms and conditions as deemed appropriate and which are not inconsistent with Exchange Act Rule 16b-3(c)(1).

(c) An Option may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of Shares to be purchased. Shares purchased upon exercise of an Option shall be paid for in full at the time of purchase in the form of cash unless the Committee has adopted rules authorizing a different method of exercise as set forth below that have not been rescinded and that apply to the Options being exercised. The Committee shall have the authority, as it may determine to be appropriate from time to time, to adopt rules governing the exercise of Options that may provide for payment to be made (i) in Shares already owned by the Grantee having a Fair Market Value equal to the purchase price, (ii) by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker approved by the Committee to sell Shares and to deliver all or part of the sales proceeds to the Company in payment of all or part of the purchase price and any withholding taxes, (iii) by the delivery (on a form prescribed by the Committee) of an irrevocable direction to pledge Shares to a securities broker or lender approved by the Committee as security for a loan and to deliver all or part of the loan proceeds to the Company in payment of all or part of the purchase price and any withholding taxes, or (iv) such other method or form of consideration as may be determined to be appropriate by the Committee

consistent with applicable laws, rules and regulations, including a true cashless or net exercise procedure. The adoption of such rules by the Committee shall not provide any Grantee with any vested right to exercise Options pursuant to the methods or form of consideration set forth in such rules. The Committee may rescind any rule governing the exercise of Options at any time, and upon such rescission, no Grantee shall have any further rights to exercise Options pursuant to the methods or form of consideration set forth in such rule. In addition, the Committee shall have the right to provide in any rule adopted pursuant hereto that (i) such rule shall only apply to designated Options or grants of Options, (ii) such rule shall apply to all Options generally, or (iii) prior Committee approval, which may be granted or withheld in its sole discretion, shall be required with respect to such exercise method or form of consideration. The Committee shall have no obligation to make the rules applicable to all Grantees or to all Options. The Committee shall have no obligation to adopt rules providing for any of the above methods of exercise or forms of consideration.

(d) Notwithstanding anything herein to the contrary, the aggregate Fair Market Value (determined as of the time the Option is granted) of Incentive Stock Options for any Employee which may become first exercisable in any calendar year shall not exceed $100,000.

(e) Notwithstanding anything herein to the contrary, no Incentive Stock Option shall be granted to any individual if, at the time the Option is to be granted, the individual owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company unless at the time such Option is granted the Option Price is at least 110% of the Fair Market Value of the stock subject to the Option and such Option by its terms is not exercisable after the expiration of five years from the date such Option is granted.

(f) Each Option Agreement for an Incentive Stock Option shall contain such other terms, conditions and provisions as the Committee may determine to be necessary or desirable in order to qualify such Option as an incentive stock option within the meaning of Section 422 of the Code, or any amendment thereof, substitute therefor, or regulation thereunder. Subject to the limitations of Section 18, and without limiting any provisions hereof, the Committee shall have the power without further approval to amend the terms of any Option for Grantees.

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

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

(a) During the period of continuous employment or service as a Consultant with the Company or Subsidiary, an Option will be terminated only if it has been fully exercised or it has expired by its terms.

(b) In the event of termination of employment as an Employee or service as a Director or Consultant for any reason, the Option will terminate upon the earlier of (i) the full exercise of the Option, (ii) the expiration of the Option by its terms, or (iii) except as provided in Section 7.4(c), no more than one year (three months for Incentive Stock Options) following the date of employment termination (or termination of service as a Director or Consultant) for Non-qualified Stock Options. For purposes of the Plan, a leave of absence approved by the Company shall not be deemed to be termination of employment except with respect to an Incentive Stock Option as required to comply with Section 422 of the Code and the regulations issued thereunder.

(c) If a Grantee’s employment as an Employee, or service as a Director or Consultant, terminates by reason of death or disability prior to the termination of an Option, such Option may be exercised to the extent that the Grantee shall have been entitled to exercise it at the time of death or disability, as the case may be, by the Grantee, the estate of the Grantee or the person or persons to whom the Option may have been transferred by will or by the laws of descent and distribution for the period set forth in the Option Agreement, but no more than three years following the date of such death or disability, provided, however, with respect to an Incentive Stock Option, such right must be exercised, if at all, within one year after the date of such death or disability.

8. STOCK APPRECIATION RIGHTS

8.1 SARs shall be evidenced by Award Agreements for SARs in such form, and not inconsistent with this Plan or Exchange Act Rule 16b-3(c)(1), as the Committee shall approve from time to time, which Award Agreements shall contain in substance the following terms and conditions as discussed in Sections 8.2 through 8.4.

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

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

(a) No SAR shall be exercisable, in whole or in part, during the one year period starting with the date of grant; and

(b) SARs will be exercisable only during a Grantee’s employment by, or service as a Consultant for, the Company or a Subsidiary, except that in the discretion of the Committee an SAR may be made exercisable for up to three months after the Grantee’s employment, or service as a Director or Consultant, is terminated for any reason other than death, retirement or disability. In the event that a Grantee’s employment as an Employee, or service as a Director or Consultant, is terminated as a result of death, retirement or disability without having fully exercised such Grantee’s SARs, the Grantee or such Grantee’s beneficiary may have the right to exercise the SARs during their term within a period of 6 months after the date of such termination to the extent that the right was exercisable at the date of such termination, or during such other period and subject to such terms as may be determined by the Committee. Subject to the limitations of Section 18, the Committee in its sole discretion may reserve the right to accelerate previously determined exercised terms, within the terms of the Plan, under such circumstances and upon such terms and conditions as it deems appropriate.

(c) The Committee shall establish such additional terms and conditions, without limiting the foregoing, as it determines to be necessary or desirable to avoid “short-swing” trading liability in connection with an SAR within the meaning of Section 16(b) of the Exchange Act.

(d) The Committee, in its sole discretion, may establish different time periods than specified above for any individual or group of individual Awards.

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

9. CONTINGENT STOCK AWARDS

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

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

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

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

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

10. RESTRICTED STOCK AWARDS

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

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

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

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

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

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

11. GENERAL RESTRICTIONS

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

11.2 The authority of the Committee under Section 3 to include "forfeiture provisions" in Award Agreements is hereby confirmed. The Committee may provide in any Award Agreement for the forfeiture of the Awards governed by such Award Agreement and the benefits derived therefrom, in the event the Grantee takes actions or engages in conduct that is harmful or contrary to, or not in the best interests of, the Company. Such forfeiture may include, without limitation, (a) the cancellation of unexercised Options and/or SARs and the forfeiture or repayment to the Company of any gain realized from the exercise of any Options and/or SARs, and (b) forfeiture, or repayment of the value, of any shares of stock granted as Restricted Stock or Contingent Stock or the forfeiture or repayment to the Company of any proceeds received from the sale thereof. The Committee shall have broad discretion in defining what actions and conduct constitute forfeiture events which may include, without limitation, (i) conduct related to the Grantee's employment for which either criminal or civil penalties may be sought, (ii) the commission of an act of fraud or intentional misrepresentation, (iii) embezzlement or misappropriation or conversion of assets or opportunities of the Company, (iv) accepting employment with or serving as a consultant, adviser or in any other capacity to, or having any ownership interest in, a person or entity that is in competition with or acting against the interest of the Company, or any solicitation of employees or distributors, (v) disclosing or misusing any confidential or proprietary information of the Company in violation of the Key Employee Covenants, or any other non-disclosure agreement with the Company or other duty of confidentiality or the Company's insider trading policy, or (vi) any other actions or conduct of Grantee that the Committee determines in good faith are harmful or contrary to, or not in the best interests of, the Company. The Committee shall have broad discretion and authority to determine the scope, duration and terms of any such forfeiture provisions. The Committee, or its duly appointed agent, may waive any or all of the restrictions authorized under this subsection whenever it (or its duly appointed agent) determines in its sole discretion that such action is in the best interests of the Company. For purposes of this Section 11 references to the Company refers collectively to the Company and all of its Subsidiaries.

12. RIGHTS OF A SHAREHOLDER

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

13. RIGHTS TO TERMINATE EMPLOYMENT

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

14. WITHHOLDING OF TAXES

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

15. NON-ASSIGNABILITY

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

16. NON-UNIFORM DETERMINATIONS

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

17. ADJUSTMENTS

17.1 If the Class A Common Stock of the Company is subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Class A Common Stock as a stock dividend on its outstanding Class A Common Stock, the number of shares deliverable upon the exercise or

vesting of any Awards granted hereunder shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend.

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

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

18. AMENDMENT

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

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

19. EFFECT ON OTHER PLAN

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

20. DURATION OF PLAN

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

21. FUNDING OF THE PLAN

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

22. PLAN STATUS

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

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

23. GOVERNING LAW

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

NU SKIN ENTERPRISES, INC.

/s/ Steven J. Lund
By: Steven J. Lund

Its: President

ATTEST:

/s/ Keith R. Halls

Its: Secretary

CONTINGENT STOCK AWARD AGREEMENT

(Director Award)

THIS AGREEMENT is entered into effective as of _____ by and between Nu Skin Enterprises, Inc., a Delaware corporation, and _____ ("Director").

1. Definitions. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement.

1.1 Agreement shall mean this Contingent Stock Award Agreement.

1.2 Award Shares shall have the meaning assigned to such term in Section 2.1.

1.3 Code shall mean the Internal Revenue Code of 1986, as amended.

1.4 Committee shall mean the committee of the Board of Directors that administers the Plan.

1.5 Common Stock shall mean the Class A Common Stock of Nu Skin Enterprises, Inc.

1.6 Contingent Stock Award shall mean the contingent stock award represented by this Agreement.

1.7 Corporation shall mean Nu Skin Enterprises, Inc. and each of its Subsidiaries (as defined in the Plan).

1.8 Director shall mean the Director identified in the first paragraph of this Agreement.

1.9 Plan shall mean the Corporation's Second Amended and Restated 1996 Stock Incentive Plan.

1.10 Vesting Period shall have the meaning set forth in Section 2.1.

2. Grant of Contingent Stock Award.

2.1 Grant of Stock Award. The Corporation hereby grants to Director the right to receive 2,500 shares of Common Stock (the "Award Shares"). The Award Shares shall vest on the following dates (the "Vesting Dates") and in the following amounts provided that Director remains serving as a director of the Corporation during the period commencing on the date of this Agreement and ending on each of the respective Vesting Dates (the "Vesting Period") except as otherwise provided in Section 5:

Date Number of Award Shares

Six months from Grant 1,250 Day Prior to Annual Meeting 1,250

2.2 Delivery of Certificates. Within a reasonable time following each Vesting Date, the Corporation shall issue and deliver a certificate or certificates for the Award Shares that vested on such Vesting Date in the name of Director if Director has remained a director of the Corporation during the Vesting Period with respect to such Award Shares.

2.3 Stockholder Rights. Until such time as a certificate for the Award Shares is actually issued following the Vesting Date, the Award Shares shall not be treated as issued and outstanding and Director shall have no rights (including voting, dividend and liquidation rights) with respect to the Award Shares or as a stockholder.

3. Securities Law Compliance. Director represents that Director is familiar with the Company's filings with the SEC and has received a copy of the prospectus. Director hereby acknowledges that Director is aware of the risks associated with the Award Shares and that there can be no assurance the price of the Common Stock will not decrease in the future. Director hereby acknowledges no representations or statements have been made to Director concerning the value or potential value of the Common Stock. Director acknowledges that Director has relied only on information contained in the Prospectus and has received no representations, written or oral, from the Corporation or its Directors, attorneys or agents, other than those contained in the Prospectus or this Agreement. Director acknowledges that the Company has made no representations concerning the tax and other effects of this Contingent Stock Award and Director represents that Director has consulted with Director's own tax and other advisors concerning the tax and other effects of the Contingent Stock Award.

4. Transfer Restrictions. Director shall not transfer, sell, assign, encumber, pledge, grant a security interest in or otherwise dispose of this Contingent Stock Award, any rights under this Agreement, or any of the Award Shares that are subject to this Contingent Stock Award. Any such transfer, sale, assignment, encumbrance, pledge, security interest or disposition shall be void and shall result in the automatic termination of this Contingent Stock Award and this Agreement. The restrictions on the Award Shares set forth in this Section 4 shall terminate upon receipt of a certificate for such shares following the vesting of such shares in accordance with the vesting schedule set forth in Section 2.1.

5. Termination.

5.1 Termination of Service as Director. In the event the Director ceases to serve as a director for any reason prior to the full vesting of the Contingent Stock Award, the Contingent Stock Award granted hereunder shall immediately terminate in full with respect to any Award Shares which have not vested and Director shall not receive any of such Award Shares.

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

(a) Acknowledges receipt of a copy of the Plan and represents that Director is familiar with the provisions of the Plan, and that Director enters into this Agreement subject to all of the provisions of the Plan.

(b) Recognizes that the Committee has been granted complete authority to administer the Plan in its sole discretion, and agrees to accept all decisions related to the Plan and all interpretations of the Plan made by the Committee as final and conclusive upon Director and upon all persons at any time claiming any interest through Director in this Contingent Stock Award or any Award Shares granted hereunder.

(c) Acknowledges and understands that the establishment of the Plan and the existence of this Agreement are not sufficient, in and of themselves, to exempt Director from the requirements of Section 16(b) of the Exchange Act and any rules or regulations promulgated thereunder, and that Director (to the extent Section 16(b) applies to Director) shall not be exempt from such requirements pursuant to Rule 16b-3 unless and until Director shall comply with all applicable requirements of Rule 16b-3, including without limitation, the possible requirement that Director must not sell or otherwise dispose of any share of Common Stock acquired hereby unless and until a period of at least six months shall have elapsed between the date upon which such Contingent Stock Award was granted to Director and the date upon which Director desires to sell or otherwise dispose of any share of Common Stock acquired under this award.

7. Representations And Warranties. As a condition to the receipt of any Award Shares upon vesting, the Corporation may require Director to make any representations and warranties to the Corporation that legal counsel to the Corporation may determine to be required or advisable under any applicable law or regulation, including without limitation, representations and warranties that the shares of Common Stock are being acquired only for investment and without any present intention or view to sell or distribute any such shares.

8. Compliance With Law And Regulations. The obligations of the Corporation hereunder are subject to all applicable federal and state laws and to the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed and any other government or regulatory agency.

9. Taxes. As a condition to the issuance of any Award Shares upon vesting, Director shall remit to the Corporation the amount of cash necessary to pay any withholding taxes associated therewith, if any, or make other arrangements acceptable to the Corporation, in the Corporation's sole discretion, for the payment of any withholding taxes.

10. General Provisions.

10.1 Assignment. Director may not assign any of his/her rights under this Agreement.

10.2 No Service Contract. Nothing in this Agreement or in the Plan shall confer upon Director any right to continue in the service of the Corporation for any period of specific duration.

10.3 Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten (10) days advance written notice under this section to all other parties to this Agreement.

10.4 No Waiver. The failure of the Corporation in any instance to exercise any rights under this Agreement,, shall not constitute a waiver of any other rights that may subsequently arise under the provisions of this Agreement or any other agreement between the Corporation and Director. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

11. Miscellaneous Provisions.

11.1 Director Undertaking. Director hereby agrees to take whatever additional action and execute whatever additional documents the Corporation may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Director or the Award Shares pursuant to the provisions of this Agreement.

11.2 Agreement is Entire Contract. This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and shall in all respects be construed in conformity with the terms of the Plan.

11.3 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Utah without resort to that State's conflict-of-laws rules. In the event of any legal proceeding involving this Agreement, the prevailing party shall be entitled to recover its legal fees and expenses (including reasonable attorneys' fees).

11.4 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first indicated above.

Nu Skin Enterprises, Inc.

By: _____

Title: _____

Director

_____

Name:

Address:

NON-MANAGEMENT DIRECTOR COMPENSATION

It is currently the Company's policy to compensate non-management members of its Board of Directors as follows:

1. Annual Retainers:

   $35,000 for Board service

   $10,000 for service as Lead Independent Director

   $15,000 for Audit Committee Chair

   $10,000 for Compensation Committee Chair and Nominating/Corporate Governance Committee Chair

2. Meeting Attendance:

   $1,500 per Board meeting attended

   $1,500 per committee meeting attended

   $1,000 per committee meeting attended by chairperson (in addition to $1,500 above)

3. Stock:

   2,500 contingent stock award upon election to the Board that vest in two equal annual installments provided the director remains serving as a director as follows:
   six months from grant 1,250 day prior to annual meeting 1,250

   10,000 option grant per year (vests on the day before the next annual stockholders' meeting)

AGREEMENT AND PLAN OF MERGER

among

NU SKIN INTERNATIONAL, INC.

a Utah corporation

PHARMANEX LICENSE ACQUISITION CORPORATION

a Utah corporation and a wholly-owned

subsidiary of Nu Skin International, Inc.

CARODERM, INC.

a Utah corporation

and

CERTAIN SHAREHOLDERS OF CARODERM, INC.

Dated as of

March 7, 2006

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement") dated as of March 7, 2006 by and among Nu Skin International, Inc., a Utah corporation ("Parent"), Pharmanex License Acquisition Corporation, a Utah corporation and a wholly-owned subsidiary of Parent ("Purchaser"), Caroderm, Inc., a Utah corporation ("Caroderm"), and the following shareholders of Caroderm: E. Dallin Bagley, Werner Gellermann and Paul S. Bernstein (such shareholders collectively, the "Shareholders"). Reference is made to Article IX for the definitions of certain terms used in this Agreement.

In consideration of the mutual agreements contained in this Agreement, and for other good and valuable consideration, the value, receipt and sufficiency of which are acknowledged, the parties agree as follows:

ARTICLE I
THE MERGER

1.1 The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time, Caroderm will be merged with Purchaser (the "Merger") in accordance with the provisions of the Revised Business Corporation Act of the State of Utah (the "Utah Act"). Following the Merger, the Purchaser will continue as the surviving corporation (the "Surviving Corporation") and the separate corporate existence of Caroderm will cease. Caroderm and Purchaser are sometimes referred to collectively herein as the "Constituent Corporations."

1.2 The Closing. The closing of the Merger contemplated by this Agreement (the "Closing" or "Closing Date") will take place upon execution of this Agreement by each of the parties hereto.

1.3 Effective Time. According to the terms of this Agreement, on the Closing Date (or on such other date as the parties may agree), Caroderm and Purchaser will file with the Utah Division of Corporations and Commercial Code (the "Utah Division") appropriate articles of merger (the "Articles of Merger") and make all other filings or recordings required by the Utah Act in connection with the Merger. The Merger will be consummated on the later of the date on which the Articles of Merger have been filed with the Utah Division or such time as is agreed upon by the parties and specified in the Articles of Merger. The time the Merger becomes effective in accordance with the Utah Act is referred to in this Agreement as the "Effective Time."

1.4 Effects of the Merger. The Merger will have the effects set forth in this Agreement and Section 16-10a-1106 of the Utah Act. Without limiting the generality of the foregoing, as of the Effective Time, the Surviving Corporation will succeed to all the properties, rights, privileges, powers, franchises and assets of the Constituent Corporations, and all debts, liabilities and duties of the Constituent Corporations will become debts, liabilities and duties of the Surviving Corporation.

1.5 Organizational Documents. At the Effective Time, the articles of incorporation and bylaws of Purchaser (as in effect immediately prior to the Effective Time) will become the articles of incorporation and bylaws of the Surviving Corporation until thereafter amended in accordance with their respective terms and the Utah Act.

1.6 Directors and Officers. The directors and the officers of Purchaser at the Effective Time will be the initial directors and officers of the Surviving Corporation and will hold office from the Effective Time in accordance with the articles of incorporation and bylaws of the Surviving Corporation until their respective successors are duly elected or appointed and qualified.

1.7 Conversion of Shares. As of the Effective Time, by virtue of the Merger and without any action on the part of Caroderm, Parent or Purchaser:

1.7.1 Merger Consideration. Each of the shares of Caroderm's capital stock (other than any Dissenting Shares) issued and outstanding immediately prior to the Effective Time (such aggregate number of common shares, the "Caroderm Shares") will be converted into the right to receive cash in an aggregate amount equal to the Per Share Merger Consideration. The "Per Share Merger Consideration" shall consist of the aggregate cash sum of Four Million Dollars ($4,000,000), subject to the Holdback (the "Merger Consideration"), divided by the Caroderm Shares.

1.7.2 Conversion of Shares of Purchaser. Each issued and outstanding share of capital stock of Purchaser shall be converted into one share of common stock of the Surviving Corporation.

1.8 Funding of Holdback. At the Closing, Parent shall deduct Two Million Dollars ($2,000,000) from the Merger Consideration and withhold such amount for future distribution in accordance with the provisions of Section 7.3.3. Such amount shall be withheld, on a pro rata basis, from the Merger Consideration otherwise deliverable to Caroderm's shareholders on delivery of their Caroderm Stock Certificates in accordance with Section 2.1.

ARTICLE II
PAYMENT

2.1 Surrender of Caroderm Stock Certificates. From and after the Effective Time, each holder of a stock certificate that immediately prior to the Effective Time represented outstanding Caroderm Shares (a "Caroderm Stock Certificate") will be entitled to receive in exchange therefor, upon surrender thereof to Parent, the Per Share Merger Consideration into which the Caroderm Shares evidenced by such Caroderm Stock Certificate were converted pursuant to the Merger. No interest will be payable on the Per Share Merger Consideration to be paid to any holder of a Caroderm Stock Certificate irrespective of the time at which such Caroderm Stock Certificate is surrendered for exchange.

2.2 Caroderm Stock Certificate Surrender Procedures; Transmittals. No later than five (5) business days after the Effective Time, Caroderm will have mailed to each record holder of a Caroderm Stock Certificate a letter of transmittal in a form mutually agreeable to the parties, including instructions for use in effecting the surrender of Caroderm Stock Certificates for the Per Share Merger Consideration to which such holder is entitled. Upon the surrender to Parent of a Caroderm Stock Certificate together with a duly executed and completed letter of transmittal and all other documents and other materials required by Parent to be delivered in connection therewith, following the Effective Time, the holder will be entitled to receive the aggregate Per Share Merger Consideration into which the Caroderm Stock Certificate so surrendered has been converted in accordance with the provisions of this Agreement. Until so surrendered, each outstanding Caroderm Stock Certificate will be deemed from and after the Effective Time, for all corporate purposes, to evidence the right to receive the aggregate Per Share Merger Consideration into which the Caroderm Shares represented by such Caroderm Stock Certificate have been converted in accordance with the provisions of this Agreement.

2.3 Transfer Books. The stock transfer books of Caroderm will be closed at the Effective Time, and no transfer of any Caroderm Shares will thereafter be recorded on any of the stock transfer books. In the event of a transfer of ownership of any Caroderm Shares prior to the Effective Time that is not registered in Caroderm's stock transfer records at the Effective Time, the Per Share Merger Consideration into which such Caroderm Shares have been converted in the Merger will be paid to the transferee in accordance with the provisions of Section 2.2 only if the Caroderm Stock Certificate is surrendered as provided in Section 2.2 and accompanied by all documents required to evidence and effect such transfer (including evidence of payment of any applicable stock transfer taxes).

2.4 Dissenters Rights. Notwithstanding anything in this Agreement to the contrary, Caroderm Shares outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of the Merger or consented thereto in writing and who has complied with all of the relevant provisions of Section 16-10a-1301 et. seq. of the Utah Act regarding appraisal for such shares ("Dissenting Shares"), will not be converted into a right to receive the Per Share Merger Consideration, unless such holder fails to perfect or withdraws or otherwise loses its right to appraisal. Each holder of Dissenting Shares who becomes entitled to payment for such Dissenting Shares under the provisions of the Utah Act, will receive payment thereof from the Surviving Corporation and such Dissenting Shares will no longer be outstanding and will automatically be canceled and retired and will cease to exist.

2.5 Lost Caroderm Stock Certificates. If any Caroderm Stock Certificate has been lost, stolen or destroyed, upon the making of an affidavit (in form and substance reasonably acceptable to Parent) of that fact by the person making such a claim, Parent will deliver in exchange for the affidavit representing such lost, stolen or destroyed Caroderm Stock Certificate the Per Share Merger Consideration pursuant to Section 2.2.

2.6 No Rights as Stockholder. From and after the Effective Time, the holders of Caroderm Stock Certificates will cease to have any rights as a stockholder of the Surviving Corporation except as otherwise expressly provided in this Agreement or by applicable Laws, and Parent will be entitled to treat each Caroderm Stock Certificate that has not yet been surrendered for exchange solely as evidence of the right to receive the aggregate Per Share Merger Consideration to which such holder is entitled.

2.7 Escheat. Neither Parent, Purchaser nor Caroderm will be liable to any former holder of Caroderm Shares for any portion of the Per Share Merger Consideration delivered to any public official pursuant to any applicable abandoned property, escheat or similar Law. In the event any Caroderm Stock Certificate has not been surrendered for the Merger Consideration prior to the sixth anniversary of the Closing Date, or prior to such earlier date as of which such Caroderm Stock Certificate or the Per Share Merger Consideration payable upon the surrender thereof would otherwise escheat to or become the property of any Governmental Entity, then the Per Share Merger Consideration otherwise payable upon the surrender of such Caroderm Stock Certificate will, to the extent permitted by applicable Law, become the property of the Surviving Corporation, free and clear of all rights, interests and adverse claims of any person.

2.8 Accounting. Upon the request of any Shareholder, but not more often than once in any six-month period, Parent shall provide to the Shareholders an accounting of all payments of Merger Consideration to holders of the Caroderm Shares.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF PARENT

Parent or Purchaser, as set forth below, hereby represents and warrants to Caroderm and the Shareholders as follows:

3.1 Corporate Organization; Officers and Directors. Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Utah and has full corporate power and authority to carry on its business as now conducted. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Utah and has full corporate power and authority to carry on its business as now conducted. Parent directly owns and has power to vote all of the outstanding capital stock of Purchaser. Purchaser was formed for the purpose of effecting the Merger and has not conducted, and will not conduct, any business prior to the Effective Time other than that which is necessary to effectuate the Merger.

3.2 Authority Relative to this Agreement; No Violation.

3.2.1 Authority. Each of Parent and Purchaser has the corporate power to enter into this Agreement, to carry out its obligations hereunder, to perform and comply with all the terms and conditions hereof to be performed and complied with by it, and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement, the performance and compliance with all the terms and conditions hereof to be performed and complied with, and the consummation of the transactions contemplated hereby, by Parent and Purchaser have been duly authorized by all requisite corporate action on the part of each of Parent and Purchaser. This Agreement has been duly and validly executed and delivered by each of Parent and Purchaser and is the legal, valid and binding obligation of each of Parent and Purchaser enforceable against each of them in accordance with its terms. Any reference in this Article III to an agreement being "enforceable" shall be deemed to be qualified to the extent such enforceability is subject to (i) laws of general application relating to bankruptcy, insolvency, reorganization, moratorium and the relief of debtors, and similar laws affecting creditors' rights and remedies generally, and (ii) the availability of specific performance, injunctive relief and other equitable remedies, regardless of whether enforcement is sought in a proceeding at law or in equity.

3.2.2 Compliance with Organizational Documents and Laws. Neither the execution and delivery of this Agreement by Parent and Purchaser, the performance and compliance by Parent and Purchaser of and with the terms and conditions hereof to be performed and complied with by Parent and Purchaser, nor the consummation by Parent and Purchaser of the transactions contemplated hereby will (i) violate, conflict with or result in a breach of, any provision of the Organizational Documents of Parent or Purchaser or (ii) assuming that the approvals referred to in Section 3.3 are obtained, (A) violate, conflict with or result in a breach of any Law applicable to Parent or Purchaser or any of the respective properties or assets of Parent or Purchaser, which violation, conflict or breach is material to Parent or Purchaser or could prevent or materially delay Parent or Purchaser from consummating the transactions contemplated hereby.

3.3 Consents and Approvals. There are no consents, approvals or authorizations of or designations, declarations or filings with any Governmental Entities or any other person on the part of Parent required for the validity of the execution and delivery by Parent and Purchaser of this Agreement or the performance and compliance by them of and with the terms and conditions of this Agreement to be performed and complied with by them or the consummation of the transactions contemplated hereby, other than (i) the filing of the Articles of Merger in accordance with the Utah Act, (ii) compliance with

any applicable requirements of the Securities Act and the Exchange Act and (iii) such actions as may be required under any applicable state securities or blue sky laws.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF CARODERM AND THE SHAREHOLDERS

Except as set forth on the Disclosure Schedule, Caroderm and the Shareholders, jointly and severally, hereby represent and warrant to Parent and Purchaser as follows:

4.1 Organization and Qualification. Caroderm is a corporation duly organized, validly existing and in good standing under the laws of the State of Utah and has full corporate power and authority to carry on its business as now being conducted. Caroderm is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction wherein the character of its properties owned or leased or the nature of its activities makes such qualification legally required, except where the failure to be so qualified would not, taken together, have a Material Adverse Effect. Copies of the Caroderm Organizational Documents, as in effect on the date hereof, including all amendments thereto, have been previously delivered by Caroderm to Parent. Caroderm's current and former officers and/or directors consist exclusively of the Shareholders and Robert McClane.

4.2 Capitalization. There are 10,000,000 duly authorized shares of Caroderm common stock, no par value, of which 2,025,946 shares are issued and outstanding. All of the issued and outstanding shares of capital stock of Caroderm have been duly authorized and are validly issued, fully paid, and nonassessable. Section 4.2 of the Disclosure Schedule sets forth the name of each holder of Caroderm Shares and the number of Caroderm Shares held by such holder. There are no outstanding options, warrants, calls, stock appreciation rights or other rights, or convertible debt or security, or any share reserved for issuance or any arrangement, subscription agreement, plan, or commitment, relating to the issued (including treasury stock) or unissued capital stock or other securities of Caroderm granted or made by Caroderm or to which Caroderm is a party. Caroderm has no option, equity incentive or similar plan. Caroderm is not a party or subject to any agreement or understanding and, to the Knowledge of Caroderm or the Shareholders, other than in connection with this Agreement, there is no agreement or understanding between any persons that affects or relates to the voting or giving of written consents with respect to any securities of Caroderm or the voting by any director or shareholder of Caroderm. No shareholder of Caroderm or any Affiliate thereof is indebted to Caroderm, and Caroderm is not

indebted to any of its shareholders or any Affiliate thereof. Caroderm is not under any contractual or other obligation to register any of its presently outstanding securities or any of its securities that could have been issued in the future. There are no rights of refusal, co-sale rights or registration rights granted by Caroderm with respect to any of Caroderm's capital stock. Each shareholder of Caroderm that is an individual is either a citizen or a resident of the United States and, in either case, is not subject to federal backup withholding taxes.

4.3 Subsidiaries. Caroderm has no subsidiaries. Caroderm does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any corporation, partnership, limited liability company, joint venture or other business association or entity.

4.4 Authority Relative to this Agreement; No Violation; Consents.

4.4.1 Authority; Approval; Due Execution. Caroderm has the corporate power to enter into this Agreement, to carry out its obligations hereunder, to perform and comply with all the terms and conditions hereof to be performed and complied with by it, and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Caroderm, the performance and compliance with all the terms and conditions hereof to be performed and complied with by Caroderm, and the consummation by Caroderm of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of Caroderm, including approval of the Merger by the holders of at least ninety-six percent (96%) of the Caroderm Shares. The approval by the holders of such percentage of Caroderm Shares, voting together as a single class, is sufficient to approve the Merger in accordance with the requirements of the Utah Act and Caroderm's Organizational Documents. The Board of Directors of Caroderm, by unanimous written consent effective February 17, 2006, (i) determined that this Agreement, the Merger and the transactions contemplated thereby are advisable and in the best interests of holders of Caroderm Shares, and (ii) resolved to recommend to holders of Caroderm Shares that such holders approve and adopt the Merger and this Agreement. This Agreement has been duly and validly executed and delivered by Caroderm and is a legal, valid and binding obligation of Caroderm enforceable against Caroderm in accordance with its terms. Any reference in this Article IV to an agreement being "enforceable" shall be deemed to be qualified to the extent such enforceability is subject to (i) laws of general application relating to bankruptcy, insolvency, reorganization, moratorium and the relief of debtors, and similar laws affecting creditors' rights and remedies generally, and (ii) the availability of specific performance, injunctive relief and other equitable remedies, regardless of whether enforcement is sought in a proceeding at law or in equity.

4.4.2 Compliance with Organizational Documents and Laws. Except as disclosed in Section 4.4.2 of the Disclosure Schedule, neither the execution and delivery of this Agreement by Caroderm, the performance and compliance by Caroderm of and with the terms and conditions hereof to be performed and complied with by it, nor the consummation by Caroderm of the transactions contemplated hereby will: (i) violate, conflict with or result in a breach of, any provision of the Organizational Documents of Caroderm; or (ii) assuming that the approvals referred to in Section 4.6 are obtained, (A) violate, conflict with or result in a breach of any Law applicable to Caroderm or any of the properties or assets of Caroderm, which violation, conflict or breach is material to Caroderm or could prevent Caroderm from consummating the transactions hereby or (B) violate, conflict with, result in a breach of, result in the impairment of, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of, accelerate the performance required by, result in the creation or imposition of any Lien upon any of the properties or assets of Caroderm under, or require any consent, approval, waiver, exemption, amendment, authorization, notice or filing under, any of the terms, conditions or provisions of, any Material Contract to which Caroderm is a party or by which any of its properties or assets may be bound or affected, except for Liens created by or through Parent or Purchaser.

4.5 Financial Statements, Financial Condition and Books and Records of Caroderm.

4.5.1 Caroderm Financial Statements. Caroderm has delivered to Purchaser the following financial statements (all such financial statements collectively, the "Financial Statements"): (i) the unaudited consolidated balance sheet of Caroderm and the related unaudited consolidated statement of cash flows as of and for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, and the unaudited consolidated statement of operations and shareholders' equity as of and for the years ended December 31, 2005, December 31, 2004 and December 31, 2003; and (ii) the unaudited consolidated balance sheet of Caroderm (the "Most Recent Balance Sheet"), and the related unaudited consolidated statement of cash flows as of and for the month ended January 31, 2006 and the unaudited consolidated statement of operations and shareholders' equity as of and for the month ended January 31, 2006 (such preceding financial statements collectively, the "Most Recent Financial Statements"). The Financial Statements are true and correct, have been prepared consistently from year to year and, with respect to statements of operations and cash flows, present fairly in all material respects the results of operations of Caroderm for the respective periods covered, and with respect to balance sheets, present fairly in all material respects the consolidated financial condition of Caroderm as of their respective dates; provided however that the Most Recent Financial Statements are subject to year-end adjustments which will not be material. Section 4.5.1 of the Disclosure Schedule sets forth all of Caroderm's liabilities and indebtedness.

4.5.2 Books and Records. The books of account, minute books, stock record books, and other records of Caroderm that have been provided to Parent are complete and correct in all material respects. The minute books of Caroderm contain accurate records of all corporate action taken by Caroderm's shareholders, its Board of Directors, and the committees of its Board of Directors. At the Effective Time, all of those books and records will be in the possession of the Surviving Corporation. Caroderm maintains appropriate and sufficient financial records that allow it to properly and completely prepare the Financial Statements and other financial reports.

4.6 No Consents. There are no consents, approvals or authorizations of or designations, declarations or filings with any Governmental Entities or any other person on the part of Caroderm required for the validity of the execution and delivery by Caroderm of this Agreement or the performance and compliance by it of and with the terms and conditions of this Agreement to be performed and complied with by it or the consummation of the transactions contemplated hereby, other than as set forth in Section 4.6 of the Disclosure Schedule.

4.7 Absence of Material Changes or Events. Except as disclosed in Section 4.7 of the Disclosure Schedule, since the date of the Most Recent Balance Sheet, Caroderm has conducted its business only in the ordinary course, and since the date of the Most Recent Balance Sheet, there has been no Material Adverse Effect on Caroderm's business, assets or operations. Except as referred to in this Agreement or as disclosed in Section 4.7 of the Disclosure Schedule, Caroderm has not entered into or agreed to enter into any transaction, agreement or commitment, suffered the occurrence of any event or events or experienced any change in financial condition, business, results of operations or otherwise that, in the aggregate, has (i) interfered with its normal and usual operations of the business or business prospects of the business or (ii) resulted in a Material Adverse Effect on its business, assets, operations, prospects or condition (financial or other) or could reasonably be expected to have such a Material Adverse Effect.

4.8 Taxes and Tax Returns. Except as set forth in Section 4.5.1 of the Disclosure Schedule, Caroderm has filed all federal, state and local Tax and information returns which are required to be filed by it and such returns are true and correct. Except as set forth in Section 4.5.1 of the Disclosure Schedule, Caroderm has paid all Taxes, interest and penalties, if any, reflected in such Tax returns or otherwise due and payable by it. Caroderm has no Knowledge of any material additional assessments or any basis therefor. The reserve for Tax liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) on the balance sheet of Caroderm as of the Most Recent Balance Sheet accurately reflects all liabilities of Caroderm for such Taxes or other governmental charges. Except as set forth in Section 4.5.1 of the Disclosure Schedule, Caroderm has withheld or collected from each payment made to its employees and other service providers the amount of all Taxes required to be withheld or collected therefrom and has paid over such amounts to the appropriate taxing authorities. Any Tax deficiencies proposed as a result of any governmental audits have been paid or settled, there are no present disputes or audits as to Taxes payable by Caroderm and, to Caroderm's Knowledge, no such additional Taxes or audits have been proposed or threatened.

4.9 Employees.

4.9.1 Agreements; Benefit Plans. Caroderm does not sponsor, maintain or contribute to, and has never sponsored, maintained or contributed to or incurred any obligation or liability under any pension, retirement, profit-sharing, life, health, accident or other employee benefit plan, practice, policy or arrangement, including, but not limited to, any employee benefit plan within the meaning of Section 3(3) of ERISA. No other Person that is treated as a single employer with Caroderm under Section 414(b), (c), (m) or (o) of the Code has ever maintained, sponsored or contributed to any employee benefit plan that is subject to Title IV of ERISA or Section 412 of the Code.

4.9.2 Employees; Compensation. Section 4.9.2 of the Disclosure Schedule sets forth a true and correct list of all of Caroderm's employees, together with each employee's annual rate of compensation (including all bonus amounts paid to such employees since December 31, 2004). Except as set forth in Section 4.9.2 of the Disclosure Schedule: (i) as of the date of this Agreement, no officer or employee of Caroderm has obtained any binding and effective commitment of Caroderm to pay to him or her any amounts following the Effective Date (other than amounts owed to any such employee for services rendered during the normal pay period ending on or prior to the Closing Date), (ii) Caroderm is not obligated to provide health or welfare benefits to retirees or other former employees of Caroderm or any other employer, or their dependents, (iii) Caroderm is not a party to any collective bargaining agreement or other labor agreement with any union or labor organization or to any conciliation agreement with the Department of Labor, the Equal Employment Opportunity Commission or any federal, state or local agency which requires equal employment opportunities or affirmative action in employment, and (iv) there is no strike, dispute, slowdown, work stoppage or lockout pending against or involving Caroderm. Included in Section 4.9.2 of the Disclosure Schedule is a list of all employees and officers of Caroderm for which Caroderm does not have such a nondisclosure agreement. To the Knowledge of Caroderm or the Shareholders, no employee (or person performing similar functions) of Caroderm is in violation of any such agreement or any employment agreement, noncompetition agreement, patent disclosure agreement, invention assignment agreement, proprietary information agreement or other contract or agreement relating to the relationship of such employee with Caroderm or any other party. All employees of Caroderm are employed on an "at will" basis, and are eligible to work and are lawfully employed in the United States. Except as contemplated herein and except as disclosed on Section 4.9.2 of the Disclosure Schedule, no officer or employee has a right to severance benefits or other payouts as a result of the transactions contemplated hereby. Section 4.9.2 of the Disclosure Schedule sets

forth the practice of Caroderm with respect to payment of severance benefits to terminated employees.

4.10 Broker's Fees. Neither Caroderm nor any of its officers or directors has employed any broker, finder or investment banker or incurred any liability for any broker's fees, financial advisory fees, investment banker's or finder's fees in connection with any of the transactions contemplated by this Agreement.

4.11 Litigation. Except as set forth in Section 5.4 of this Agreement, there are no outstanding orders, judgments, injunctions, awards or decrees of any court, governmental agency or authority or arbitration tribunal by which Caroderm is bound, or to which any of its assets, properties, securities or businesses is subject. As of the date hereof there are no actions, suits, claims, legal, administrative or arbitral proceedings or investigations, pending or, to the Knowledge of Caroderm or the Shareholders, threatened against Caroderm or any of its assets or properties.

4.12 Authorizations; Compliance with Laws. Caroderm holds all authorizations, permits, licenses, variances, exemptions, orders and approvals required by Governmental Entities for the lawful conduct of its business taken as a whole, to own or hold under lease the properties and assets it owns or holds under lease and to perform all of its obligations under the agreements to which it is a party (the "Permits"), except for such authorizations, permits, licenses, variances, exemptions, orders and approvals which the failure to hold, taken together, would not have a Material Adverse Effect. Caroderm is in compliance with the terms of the Permits except where the failure to be in such compliance will not, taken together, have a Material Adverse Effect. Caroderm is and has been in compliance with all federal, state, local and foreign laws, rules, regulations, ordinances, decrees and orders applicable to the operation of its business, to its employees, or to its property, except where the failure to comply would, individually or in the aggregate, not have a Material Adverse Effect. Caroderm has not received any written notification of any asserted present or past unremedied material failure by Caroderm to comply with any of such laws, rules, ordinances, decrees or orders.

4.13 Absence of Defaults. Caroderm is not in default under or in violation of any provision of its Organizational Documents, or in material default or violation of any Material Contract and, to the Knowledge of Caroderm or the Shareholders, no event has occurred which, with notice, lapse of time and/or action by a third party, would constitute or result in such a default or violation, except where such default or violation would not have a Material Adverse Effect.

4.14 Material Contracts. Except as set forth in Section 4.14 of the Disclosure Schedule, as of the date of this Agreement, Caroderm is not a party to any of the following (the "Material Contracts"). True copies of such Material Contracts, including all amendments and supplements thereto, have been delivered to Parent:

4.14.1 any contract or agreement with any current or former officer, director, or principal stockholder, or any partnership, corporation, limited liability company, joint venture, or other entity with which any such person is an Affiliate;

4.14.2 any contract or agreement with any labor union or association representing any employee;

4.14.3 any indenture, mortgage, promissory note, loan agreement or other agreement or commitment for the borrowing of money or for a line of credit;

4.14.4 any lease, sublease or other agreement pursuant to which it is a lessee of or holds or operates any real or personal property owned by any third party;

4.14.5 any option or other executory agreement or other agreement with remaining obligations thereunder to purchase or acquire any interest in assets or property other than in the ordinary course of business;

4.14.6 any option or other executory agreement or other agreement with remaining obligations thereunder to sell or dispose of any interest in assets or property other than in the ordinary course of business;

4.14.7 any contract or agreement relating to joint ventures or similar arrangements by which the assets, properties, rights, or business is affected;

4.14.8 any license of rights of or by Caroderm;

4.14.9 any contract or agreement which could reasonably be expected to result in a payment by Caroderm;

4.14.10 any contract or agreement under which Caroderm has the obligation to issue or sell any security;

4.14.11 any contract or agreement under which Caroderm currently provides, or may, in the future, provide services or currently sells or distributes or may, in the future, sell or distribute any products to others;

4.14.12 any employment agreement, whether express or implied, or any other agreement for services that contains severance or termination pay liabilities or obligations; and

4.14.13 any Material Contract that contains a noncompetition or exclusivity agreement or other arrangement that would prevent Caroderm from carrying on its business as currently conducted anywhere in the world.

4.15 Insurance Policies. Caroderm has no insurance policies.

4.16 Intellectual Property.

4.16.1 Caroderm Intellectual Property. Section 4.16.1 of the Disclosure Schedule sets forth an accurate and complete list of all United States and foreign (a) patents, patent rights, patent applications, and continuing (continuation, divisional, or continuation-in-part) applications, re-issues, extensions, renewals, and re-examinations thereof and patents issued thereon ("Patents"); (b) registered and material unregistered trademarks and service marks, trademark and service mark rights, trade names, and domain names ("Marks"); (c) registered and material unregistered copyrights; (d) trade secrets and inventions, whether patentable or unpatentable; (e) other intellectual, industrial, or proprietary rights; (f) pending applications for and registrations of any of the foregoing; and (g) license rights to any of the foregoing (collectively "Intellectual Property"); that are owned by Caroderm (the "Caroderm Intellectual Property").

4.16.2 Sublicenses or Other Liens. Except as set forth in Section 4.16.2 of the Disclosure Schedule, Caroderm has not granted any licenses, sublicenses, or other rights under or to, nor do any other Liens exist upon, any of the Caroderm Intellectual Property, including but not limited to that certain Patent License Agreement that was entered into between the University of Utah Research Foundation, a Utah non-profit corporation (the "University"), and Spectrotek, L.C. and was subsequently assigned to Caroderm (the "Caroderm Patent License").

4.16.3 Adverse Claims Regarding Ownership and Validity of Patent Rights. Except as set forth in Section 4.16.3 of the Disclosure Schedule, neither Caroderm nor any Shareholder has Knowledge of any claim (a) challenging the University's ownership of the patent(s) licensed to Caroderm under the Caroderm Patent License or suggesting that any other Person has any claim of legal or beneficial ownership with respect

to those Patent(s), nor to the Knowledge of Caroderm and each Shareholder is there a reasonable basis for any such claim; (b) challenging the validity or enforceability of the patent(s) licensed to Caroderm under the Caroderm Patent License, nor to the Knowledge of Caroderm and each Shareholder is there a reasonable basis for any such claim; or (c) asserting or suggesting that any Person other than Caroderm has any rights within the scope of the rights granted to Caroderm under the Caroderm Patent License, nor to the Knowledge of Caroderm and each Shareholder is there a reasonable basis for any such claim.

4.16.4 No Violation. Except as set forth in Section 4.16.4 of the Disclosure Schedule, to the Knowledge of Caroderm and each Shareholder, no person is materially infringing, misappropriating, diluting, or otherwise violating any Caroderm Intellectual Property, including but not limited to practicing any technology, producing any products, or providing any services that misappropriate or otherwise infringe upon Caroderm's rights under the Caroderm Patent License.

4.17 Environmental Matters. (i) Caroderm is and has been in compliance with all applicable Environmental Laws; (ii) Caroderm is not subject to any liability under any Environmental Law; and (iii) Caroderm has not received any notice from any governmental body alleging that Caroderm is or may be in violation of, or liable under, any Environmental Law.

4.18 Labor. There are no material labor disputes, employee grievances or disciplinary actions pending or, to the Knowledge of Caroderm or the Shareholders, threatened against or involving Caroderm or any of its present or former employees. Caroderm has complied with all provisions of law relating to employment and employment practices, terms and conditions of employment, wages and hours that are material to the business of Caroderm, and Caroderm is not engaged in any unfair labor practice and has no liability for any arrears of wages or Taxes or penalties for failure to comply with any such provisions of law. There is no labor strike, dispute, slowdown or stoppage pending or, to the Knowledge of Caroderm or the Shareholders, threatened against or affecting Caroderm, and Caroderm has not experienced any material work stoppage or other labor difficulty since its incorporation. No collective bargaining agreement is binding on Caroderm. Neither Caroderm nor the Shareholders has any Knowledge of any organizational efforts presently being made or threatened by or on behalf of any labor union with respect to Caroderm's employees.

4.19 Insider Interests. Except as set forth in the Disclosure Schedule, (i) no shareholder or officer, director or employee of Caroderm has any interest (other than as a holder of Caroderm capital stock) in any material real property, personal property, technology or intellectual property rights used in or directly pertaining to Caroderm's business, including, without limitation, inventions, patents, trademarks or trade names, or in any material agreement, contract, arrangement or obligation relating to Caroderm, its present or prospective business or its operations; (ii) there are no material agreements, understandings or proposed transactions between Caroderm and any of its officers, directors, shareholders or Affiliates; and (iii) Caroderm and its officers and directors have no material ownership or management

interest in any entity that presently provides any material services, produces and/or sells any material products or product lines, or engages in any material activity that is the same, similar to or competitive with any activity or business in which Caroderm is now engaged.

4.20 Full Disclosure. No information provided by Caroderm to Parent or Purchaser in this Agreement (including, but not limited to, the Financial Statements and all information in the Disclosure Schedule and the other exhibits hereto) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements so made or information so delivered not misleading.

ARTICLE V
ADDITIONAL AGREEMENTS

5.1 Additional Agreements; Further Assurances. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use commercially reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable on the part of such party, to consummate and make effective the transactions contemplated by this Agreement at the earliest practicable date, including using its commercially reasonable best efforts to obtain all required consents, approvals, waivers, exemptions, amendments and authorizations, give all notices, and make or effect all filings, registrations, applications, designations and declarations; and each party shall cooperate fully with the other (including by providing any necessary information) with respect to the foregoing. Caroderm and Parent each will make commercially reasonable efforts to conduct its business so that its representations and warranties shall be true and correct at the Effective Time with the same force and effect as if such representations and warranties were made anew at and as of the Effective Time. In the event any claim, action, suit, investigation or other proceeding by any Governmental Entity or other person is commenced which questions the validity or legality of the Merger or any of the other transactions contemplated hereby or seeks damages in connection therewith, the parties agree to cooperate and use commercially reasonable efforts to defend against such claim, action, suit, investigation or other proceeding and, if an injunction or other order is issued in any such action, suit, or other proceeding, to use all reasonable efforts to have such injunction or other order lifted, and to cooperate reasonably regarding any other impediment to the consummation of the transactions contemplated by this Agreement. Each party shall give prompt written notice to the other of (i) the occurrence or failure to occur of any event which occurrence or failure has caused or could reasonably be expected to cause any representation or warranty of Caroderm or Parent as the case may be, contained in this Agreement to be untrue or inaccurate at any time from the date hereof to the Effective Time or that will result in the failure to satisfy any of the conditions specified in Article V and (ii) any failure of Caroderm or Parent as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder.

5.2 Publicity. Subject to compliance with applicable Laws, neither Caroderm nor Parent will, prior to the Effective Time, issue, or permit to be issued any press release or other announcement or public disclosure of matters related to this Agreement or the transactions contemplated hereby without the prior written consent of the other party, except as may be required by applicable Law, court process or by obligations pursuant to any applicable listing agreement of Parent. To the extent disclosure is required, the parties agree to consult with each other and give to each other the opportunity to review and comment on any such disclosure. Caroderm acknowledges and agrees that the disclosure of this Agreement and the transactions contemplated hereby by Parent (i) on a Form 8-K filed with the Securities and Exchange Commission at any time after the date hereof, or (ii) in a customary press release or on a customary analyst call, will not be violation of this Section 5.2. Parent and Purchaser agree that Caroderm may

disclose matters related to this Agreement and the transactions contemplated hereby to Caroderm shareholders who shall not be under any confidentiality obligations in connection therewith.

5.3 Releases; Lawsuit and Appeal.

5.3.1 Lawsuit and Appeal. Notwithstanding any other representation or warranty of Caroderm in this Agreement, and

notwithstanding any other provision of this Agreement, Caroderm acknowledges that it is entering into this Agreement with full knowledge of the pending litigation between Caroderm and Affiliates of Parent, which is described as follows:

(a) On or about July 16, 2004, Caroderm filed a lawsuit against Nu Skin Enterprises, Inc. and Niksun Acquisition Corporation (collectively "Nu Skin") in Third Judicial District Court of Salt Lake County, State of Utah, Case No. 040914826 (the "Lawsuit") concerning a licensing dispute over certain technology licensed from the University.

(b) The Lawsuit concluded with a five-day trial, after which the Court entered Final Judgment in favor of Nu Skin on June 9, 2005, denying all claims brought by Caroderm and granting Nu Skin's request for a declaratory judgment ("Judgment"), which was supported by detailed Findings of Fact and Conclusions of Law.

(c) On June 21, 2005, Caroderm filed a Notice of Appeal, appealing the Judgment, and on July 11, 2005, Caroderm filed its Docketing Statement in the Utah Court of Appeals, Appeal No. 20050559 ("Appeal"), which Appeal is currently pending.

5.3.2 Caroderm Release. Except as set forth in this Agreement (including with respect to payment of, and liability for,legal fees and costs of Parent and Purchaser), Caroderm and the Shareholders hereby release and forever discharge Nu Skin, Parent, Purchaser, and their respective officers, directors, shareholders, representatives, employees, counsel, insurers, agents, assigns, and Affiliates from and against any and all claims (including those in law or equity), demands, rights, obligations, debts, expenses, liabilities, damages, including attorneys fees, defenses, or causes of action, whether or not alleged, recited, described, or currently asserted, whether known or unknown, suspected or unsuspected, fixed or contingent, which they have, may have, or could assert against the other, arising out of, concerning, or relating to the Lawsuit or the Appeal.

5.3.3 Parent Release. Except as otherwise set forth in this Agreement (including with respect to payment of, and liability for, legal fees and costs of Caroderm and the Shareholders), Parent and Purchaser hereby release and forever discharge Caroderm and its officers, directors, shareholders, representatives, employees, counsel, agents, assigns, and Affiliates from and against any and all claims (including those in law or equity), demands, rights, obligations, debts, expenses, liabilities, damages, including attorneys fees, defenses, or causes of action, whether or not alleged, recited, described, or currently asserted, whether known or unknown, suspected or unsuspected, fixed or contingent, which they have, may have, or could assert against the other, arising out of, concerning, or relating to the Lawsuit or the Appeal.

5.4 Confidentiality; Non-competition. For a period of two (2) years from the date hereof, each of the Shareholders agrees that he shall not:

(a) disclose any information related to either of Caroderm's or Nu Skin's respective businesses, including, but not limited to, inventions, ideas, technical data, trade secrets, research, products, services, development, processes, designs, drawings, engineering, marketing, client or customer lists, vendor or supplier lists, finances and personnel information; or

(b) without the express prior written consent of Purchaser, directly or indirectly, own, manage, control or participate (including in a consulting, advisory or other similar role) in the ownership, management or control of, or be related or otherwise affiliated in any manner (including as an employee) with any business that (i) competes with the former business of Caroderm and (ii) utilizes the Raman technology that is the subject of the Caroderm Patent License.

Notwithstanding the foregoing, the Shareholders shall have no confidentiality obligations with respect to information that (i) was publicly known and made generally available in the public domain prior to the date hereof; (ii) becomes publicly known and made generally available after the date hereof through no action or inaction of any Shareholder; (iii) is obtained by a Shareholder from a third party without a breach of such third party's obligations of confidentiality; or (iv) is required to be disclosed by applicable law.

5.5 Acknowledgement of Shareholders. Each of the Shareholders agrees and acknowledges that the time limitation and the geographic scope on the restrictions in Section 5.4 are reasonable. The Shareholders also acknowledge and agree that the limitations in Section 5.4 are reasonably necessary for the protection of Purchaser and its Affiliates and that, through the transactions contemplated in this Agreement, the Shareholders will receive adequate consideration for any loss of opportunity associated therewith. In the event that any term, word, clause, phrase, provision, restriction, or section of Section 5.4 is more restrictive than permitted by the law of the jurisdiction in which Purchaser and/or its Affiliates seeks enforcement, the provisions of Section 5.4 will be limited but only to the extent that a judicial determination finds the same to be unreasonable or otherwise unenforceable. Notwithstanding any judicial determination that any term, word, clause, phrase, provision or restriction of Section 5.4 is not specifically enforceable, the parties intend that Purchaser and its Affiliates will nonetheless be entitled to recover monetary damages as a result of any breach thereof. Each of the Shareholders agrees that a breach by any of the Shareholders of Section 5.4 will cause irreparable injury to Purchaser and/or its Affiliates not adequately compensable in monetary damages alone or through other legal remedies. Therefore, in the event of a breach, Purchaser or its Affiliates shall be entitled to preliminary and permanent injunctive relief, specific performance, and other equitable relief, in addition to damages and all other available remedies.

ARTICLE VI
REQUIRED DELIVERIES IN CONNECTION WITH THIS AGREEMENT

Required Deliveries in Connection with this Agreement. The parties, as applicable, shall deliver the following in connection with the execution of this Agreement:

6.1 Caroderm Approval. Caroderm shall have obtained a written consent of shareholders approving the Merger and all of the transactions contemplated by this Agreement from holders of at least ninety-six percent (96%) of the Caroderm Shares.

6.2 Opinion of Counsel for Caroderm. Parent shall have received the opinion letter of Blackburn & Stoll, counsel for Caroderm, dated the Closing Date, substantially in the form of Exhibit A.

6.3 Board Approval. Caroderm shall have obtained a written consent of its directors approving the Merger and all of the transactions contemplated by this Agreement.

6.4 Termination and Release Agreements. Each of the Shareholders shall have executed and delivered to Parent a Termination and Release Agreement, in the form attached as Exhibit B hereto.

6.5 Caroderm Certificates. Parent shall have received a certificate of the Secretary of Caroderm, in form and substance customary for transactions of the type contemplated hereby, as to the authenticity and effectiveness of the actions of Caroderm's Board of Directors and holders of Caroderm Shares authorizing the Merger and the transactions contemplated by this Agreement. Parent shall have also received a certificate of the Chief Executive Officer of Caroderm, in form and substance customary for transactions of the type contemplated hereby, confirming that (i) the representations and warranties set forth in Article IV hereof, including, without limitation, the representations and warranties set forth in Section 4.5 above, are true and correct; and (ii) that, as of the Closing Date, Caroderm: (A) shall have satisfied all accrued or outstanding liabilities, including without limitation all fees and costs, legal and otherwise, related to the Merger, the Lawsuit and the Appeal, (B) has no accounts receivable, and (C) has never had revenues attributable to sales of services or products.

6.6 Capitalization Spreadsheet. Parent shall have received from Caroderm a spreadsheet (the "Spreadsheet"), attached as Exhibit C, which spreadsheet shall be dated as of the Closing Date and shall set forth, as of the Closing Date and immediately prior to the Effective Time, the following true and correct factual information relating to holders of Caroderm Shares: (i) the names of all of Caroderm's shareholders; and (ii) the number of Caroderm Shares held by such persons and the respective certificate numbers.

6.7 Termination of Agreements and Employee and Consulting Relationships. Caroderm shall terminate the employment of its sole employee immediately prior to the Effective Time. Caroderm shall terminate each consulting agreement to which it is a party prior to the Effective Time. The agreements set forth on Exhibit D hereto shall have been terminated as of the Effective Time (pursuant to the agreements set forth in Section 6.4 above).

6.8 Dismissal of Appeal. Caroderm shall prepare and deliver a Stipulated Dismissal of Appeal ("Dismissal"), dismissing the Appeal with prejudice. Such Dismissal shall be filed with the Utah Court of Appeals on the Closing Date.

6.9 Consent of University of Utah Research Foundation. The parties shall have received a written consent from the University acknowledging and agreeing that the transactions contemplated by this Agreement will not result in the termination, revocation or modification of any material provision or right under either of (i) the Caroderm Patent License., or (ii) that certain Amended and Restated Patent License Agreement between the University and Nutriscan, Inc. (such agreements collectively, the "License Agreements").

6.10 Amended License Agreement. Parent (or an Affiliate of Parent) and the University shall have entered into a new patent license agreement, or an amendment(s) to the License Agreements (or, in the discretion of Parent, shall have agreed upon the form of such an agreement to be entered into following execution of this Agreement), the terms of which are agreeable to Parent in its sole discretion, related to the technology that is the subject of the License Agreements. Caroderm shall have paid to the University all unpaid license fees owing to the University pursuant to the Caroderm Patent License as of the Closing Date.

6.11 Tax Returns. Following the Closing, Purchaser shall cause the Surviving Corporation to file final, separate income Tax returns for Caroderm covering the period through the Closing Date, which Tax returns shall include any taxable income earned through and including the Closing Date. Prior to filing such returns, Purchaser shall provide copies of the returns to Sellers for their review and comment. All such returns shall be prepared in a manner consistent with Caroderm's historic Tax reporting practices. To the extent provided in Section 7.3.2.1(iii) below, the Shareholders shall indemnify Purchaser for any Taxes shown as due on such returns.

ARTICLE VII
TERMINATION AND WAIVER; INDEMNIFICATION

7.1 Fees and Expenses. All fees and expenses incurred in connection with the transactions contemplated hereby will be paid by the party incurring such expenses.

7.2 Waiver. At any time, the parties hereto may (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (iii) except as prohibited by

law, waive compliance with any of the agreements or conditions contained herein that are for the benefit of such party or its shareholders. Any agreement on the part of a party hereto to any such extension or waiver shall be valid if set forth in an instrument in writing signed on behalf of such party.

7.3 Indemnification.

7.3.1 Survival of Representations and Warranties. All of the representations and warranties of Caroderm and Parent contained in this Agreement shall survive the Closing and continue in full force and effect until two years following the Closing Date (the "Survival Period").

7.3.2 Indemnification Provisions for Benefit of Parent.

7.3.2.1 Subject to the limitations set forth in this Article VII, from and after the Closing, the Parent, Purchaser, the Surviving Corporation, their officers, directors and Affiliates (including each of the successors, assigns and agents of the foregoing) (the "Parent Indemnified Parties") shall be indemnified and held harmless from and against, and shall be reimbursed solely through the Holdback for the following liabilities and Losses (the "Indemnified Losses"):

(i) any and all Losses arising out of any inaccuracy or misrepresentation in, or breach of, any representation or warranty made by Caroderm or the Shareholders in this Agreement, together with the Disclosure Schedules, or in any document delivered in connection with Agreement by Caroderm or the Shareholders;

(ii) any and all Losses arising out of any failure by Caroderm or the Shareholders to perform or comply, in whole or in part, with any covenant or agreement in this Agreement;

(iii) all liability for Taxes of Caroderm (including, without limitation, any and all liability associated with the matter disclosed in Section 4.5.1 of the Disclosure Schedule) assessed during or attributable to any taxable period ending on or prior to the Closing Date (and for any taxable period beginning before the Closing Date and ending after the Closing Date, the portion ending at the end of the Closing Date) to the extent such Taxes exceed the reserve for Tax liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth as a current liability on the face of the Most Recent Balance Sheet (rather than in any notes thereto);

(iv) any Loss resulting from a claim, demand, cause of action, suit, proceeding, hearing or investigation by any person or entity relating to Caroderm's operations on or before the Closing Date (including, without limitation, any and all actions relating to the issuance of shares of capital stock of Caroderm, the approval of the transactions contemplated by this Agreement, or the matters identified on Schedule 4.7 of the Disclosure Schedule); and

(v) any expenses of Caroderm incurred in connection with the transactions contemplated hereby;

provided, however, that Parent Indemnified Parties shall not have any right to be indemnified from and against any losses resulting from, arising out of, relating to, in the nature of, or caused by any of the matters set forth in Section 7.3.2.1 (i) – (v) until the Parent Indemnified Parties have suffered, in the aggregate, Losses by reason of all such breaches in excess of the Threshold (at which point Parent Indemnified Parties will be entitled to indemnification as described above in this Section 7.3.2.1, including the first $25,000 of such Losses); and

provided further, that in no event shall the aggregate amount paid to the Parent Indemnified Parties exceed the Holdback.

7.3.2.2 The Parent Indemnified Parties shall be indemnified through the portion of the Merger Consideration constituting the Holdback. A Parent Indemnified Party shall not be entitled to be reimbursed with respect to any claims made by the Parent Indemnified Party after the expiration of the Survival Period. To claim indemnification through the Holdback, Parent must reasonably believe in good faith that there are potential Indemnified Losses that are likely to result in actual Indemnified Losses provide notice to the Representative (the "Claim Notice") setting forth the estimated amount of such potential Indemnified Losses (the "Reserve Amount") and the facts and circumstances on which such Reserve Amount is based. The Representative may dispute any Reserve Amount contained in the Claim Notice provided, however, that the Representative shall have notified Parent in writing of each disputed item, specifying the amount thereof in dispute, the calculation of the disputed amount and setting forth, in reasonable detail, the basis for such dispute, within 30 calendar days of the Representative's receipt of the Claim Notice. The Representative shall be deemed to have agreed with all other items and amounts contained in the Claim Notice. In the event of such a dispute, Parent and the Representative shall attempt in good faith to reconcile their differences. If Parent and the Representative are unable to reach a resolution within 30 calendar days after receipt by Parent of the Representative's written notice of dispute,

Parent and the Representative shall submit the items remaining in dispute for resolution under Section 7.3.4.

7.3.3 Indemnity Holdback. The "Holdback" shall consist of Two Million Dollars ($2,000,000) of the Merger Consideration to be withheld by the Parent at the Closing and, to the extent all or any portion of the Holdback becomes payable to the Caroderm shareholders pursuant to the provisions of this Section 7.3.3, shall be paid to the Caroderm shareholders, on a pro rata basis, as an element of the Merger Consideration. Nothing contained in this

Agreement shall be construed to limit any rights of the Parent Indemnified Parties for full indemnification or otherwise against any Caroderm shareholder severally with respect to the failure of such Caroderm shareholder to have good, valid and marketable title to any Caroderm Shares held by holder as represented herein, free and clear of all Liens or to have the full right, capacity and authority to vote all of such Caroderm Shares in favor of the Merger and any other transaction contemplated by this Agreement; provided that in no event shall any Caroderm shareholder have liability to the Parent Indemnified Parties for Losses in excess of the Merger Consideration payable to such Caroderm shareholder. On expiration of one year from the date hereof, One Million Dollars ($1,000,000) of the Holdback less any (i) amounts used to compensate a Parent Indemnified Party as provided in this Article VII and (ii) amounts constituting a Reserve Amount at such time, shall be distributed to the Caroderm shareholders, pro rata in proportion to the amount each was entitled to receive of the Merger Consideration. On expiration of the Survival Period, all remaining amounts in the Holdback that have not been used to compensate a Parent Indemnified Party as provided in this Article VII or which do not constitute a Reserve Amount, shall be distributed to the Caroderm shareholders, pro rata in proportion to the amount each was entitled to receive of the Merger Consideration. Notwithstanding the foregoing, if, prior to the first anniversary of the Closing Date, the Shareholders shall have delivered to Purchaser from each of the holders of Caroderm Shares a consent to the Merger (in the form delivered by the Shareholders to Purchaser in connection with the approval of the Merger), then, on the first anniversary of the Closing Date, the entire Holdback, less any (i) amounts used to compensate a Parent Indemnified Party as provided in this Article VII and (ii) amounts constituting a Reserve Amount at such time, shall be distributed to the Caroderm shareholders. On resolution of the claim underlying any Reserve Amount or on expiration of Survival Period without a formal proceeding having been filed against the Parent Indemnified Parties with respect to the underlying claim, any Reserve Amounts shall be distributed to the shareholders of Caroderm in the same proportion as set forth above. On any distribution from the Holdback, interest or other earnings accrued on the Holdback amount shall be allocated between Parent and the shareholders of Caroderm based on the respective portions of the Holdback amount otherwise received by them pursuant to this section. Notwithstanding the foregoing, any two or more Caroderm shareholders may agree to allocate as between themselves any payments to be received by such shareholders from Parent and Parent shall make payment according to such allocation if Parent is instructed to do so in a writing signed by the Caroderm shareholders in question.

7.3.4 Procedure for Indemnification.

7.3.4.1 A Parent Indemnified Party shall give a Claim Notice of any claim for indemnification under this Article VII (a “Claim”) to the Representative, on behalf of the indemnifying parties, reasonably promptly after the assertion against a Parent Indemnified Party of any claim by a third party (a “Third Party Claim”) or, if such Claim is not in respect of a Third Party Claim, reasonably promptly after the discovery of facts on which the Parent Indemnified Party intends to base a Claim for indemnification pursuant to Article VII; provided, however, that the failure or delay to so notify the Representative shall not relieve the indemnifying party of any obligation or liability that

the indemnifying party may have to the Parent Indemnified Party except to the extent that the Representative demonstrates that the indemnifying parties’ ability to defend or resolve such Claim is adversely affected thereby. Any such Claim Notice shall describe the facts and circumstances on which the asserted Claim for indemnification is based and shall specify how such Parent Indemnified Party intends to recover such funds pursuant to this Agreement and the basis for the determination of the amount which the Parent Indemnified Party intends to recover.

7.3.4.2 If, within 30 days of the receipt by the Representative of a Claim Notice, the Representative contests in writing to the Parent Indemnified Party that Losses identified in such Claim Notice constitute indemnifiable Claims (the “Representative Notice”), then the Parent Indemnified Party and the Representative, acting in good faith, shall attempt to reach agreement with respect to the contested portions of such Claims. Unless a Claim is contested within such 30-day period, the Parent Indemnified Party shall, subject to the other terms of this Article VII, be paid the amount of the Losses related to such Claim or the uncontested portion thereof. The Representative shall not object to any Claim unless (i) it believes in good faith that the Parent Indemnified Party is not entitled to be indemnified with respect to the Losses specified therein, or (ii) it lacks sufficient information to assess the validity or amount of the Claim. If the Representative objects to a Claim on the basis that it lacks sufficient information, it shall promptly request from the Parent Indemnified Party any additional information reasonably necessary for it to assess such Claim and the Parent Indemnified Party shall, to the extent the Parent Indemnified Party reasonably can, provide additional information reasonably requested. Upon receipt of such additional information, the Representative shall review it as soon as reasonably practicable and notify the Parent Indemnified Party of any withdrawal or modification of the objection. If the Parent Indemnified Party and the Representative are unable to reach agreement with respect to any contested Claims within 45 days of the delivery of the Representative Notice, the matter shall be settled by binding arbitration in Salt Lake City, Utah as set forth below. All claims shall be settled in accordance with the Commercial Arbitration Rules then in effect of the American Arbitration Association (the “AAA Rules”). The Representative and the Parent Indemnified Party shall each designate one arbitrator within 15 days after the termination of such 45-day period. The Representative and the Parent Indemnified Party shall cause such designated arbitrators mutually to agree upon and designate a third arbitrator; provided, however, that (i) failing such agreement within 70 days of delivery of the Representative Notice, the third arbitrator shall be appointed in accordance with the AAA Rules and (ii) if either the Representative or the Parent Indemnified Party fails to timely designate an arbitrator, the dispute shall be resolved by the one arbitrator timely designated. The fees and expenses of the arbitrators shall be paid one-half by the Parent and one-half by the shareholders of Caroderm (from the Holdback amounts or otherwise). The Representative and the Parent Indemnified Party shall cause the arbitrators to decide the matter to be arbitrated pursuant hereto within 30 days after the appointment of the last arbitrator. The final decision of the majority of the arbitrators shall be furnished to the Representative and the Parent Indemnified Party in writing and shall constitute the conclusive determination of the issue in question binding upon the Representative, the shareholders of Caroderm, and the Parent Indemnified Party, and shall not be contested by any of them. Such decision may be used in a court of law only for the purpose of seeking enforcement of the arbitrators’ decision.

7.3.4.3 The indemnifying party will have the right to defend the Parent Indemnified Party against the Third Party Claim at the indemnifying party’s sole expense with counsel of its choice reasonably satisfactory to the Parent Indemnified Party so long as the

indemnifying party conducts the defense of the Third Party Claim actively and diligently; provided, however, that, notwithstanding the foregoing, Parent may elect to assume the defense and handle any such Third Party Claim if it determines in good faith that the resolution of such Third Party Claim could result in a material adverse impact on the business, operations, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise) or prospects of Parent; and provided further that the indemnifying person is also a person against whom the Third Party Claim is made and the Parent Indemnified Party determines in good faith that joint representation would be inappropriate). The Parent Indemnified Party may retain separate co-counsel and participate in the defense of the Third Party Claim which shall be at the Parent Indemnified Party's sole cost and expense so long as the indemnifying party conducts the defense of the Third Party Claim actively and diligently. The Parent Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the indemnifying party, and the indemnifying party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Parent Indemnified Party which consent shall not be unreasonably withheld.

7.3.5 Indemnification Provision for Benefit of the Caroderm shareholders. In the event Parent breaches any of its covenants, representations and warranties contained in this Agreement, provided that any of the shareholders of Caroderm or the Representative makes a written claim for indemnification against Parent (in the same manner as provided for with respect to a Parent Indemnified Party) within the Survival Period (or any time on or before the date that is thirty (30) months following the Closing Date if the covenant in question relates to the non-payment of the Merger Consideration), then Parent agrees to indemnify each of the shareholders of Caroderm and any director, officer, representative or agent thereof (the "Caroderm Indemnified Parties") from and against any Losses (including, with respect to payment of, and liability for, attorneys; fees and costs of the Caroderm Indemnified Parties) the Caroderm Indemnified Parties may suffer through and after the date of the claim for indemnification resulting from, arising out of, relating to or caused by the breach; provided however that Parent shall not have any obligation to indemnify the Caroderm Indemnified Parties from and against any losses resulting from, arising out of, relating to, in the nature of, or caused by the breach of any representation or warranty until the Caroderm Indemnified Parties have suffered, in the aggregate, Losses by reason of all such breaches in excess of the Threshold (at which point Parent will be obligated to indemnify the Caroderm Indemnified Parties from and against all such Losses, including the first $25,000 of such Losses); provided however, that in no event shall the aggregate amount paid to the Caroderm Indemnified Parties exceed Two Million Dollars ($2,000,000) plus the amount of all attorneys' fees and related costs actually incurred by the Caroderm Indemnified Parties prevailing in an action to enforce any obligation or covenant hereunder. Any notice to be delivered pursuant to this Section by any Caroderm Indemnified Party may be delivered by the Representative on behalf of such Caroderm Indemnified Party. The procedures set forth in Section 7.3.4 shall be fully applicable with respect to claims by a Caroderm Indemnified Party or the Representative, subject to appropriate changes to properly denominate the correct parties.

7.3.6 Cooperation. If requested by the indemnifying party, the indemnified party shall, at the expense of the indemnifying party, reasonably cooperate in the defense or prosecution of any suit, action, claim, proceeding or investigation for which such indemnifying party is being called upon to indemnify the indemnified party pursuant to this Section, and the indemnified party shall furnish such records, information and testimony and attend all such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested in connection therewith and, if appropriate, the indemnified party shall make any reasonable counterclaim against the party asserting such suit, action, claim, proceeding or investigation or any reasonably cross-complaint against any person in connection therewith and the indemnified party further agrees to take such other actions as it deems reasonable pursuant to any request by an indemnifying party to reduce or eliminate any Losses for which the indemnifying party would have responsibility. Without limiting the foregoing, Caroderm and the Shareholders agree that each will cooperate fully in the dismissal of the Appeal, by, among other things, filing any documents reasonably necessary related to the termination of the litigation between Caroderm and Nu Skin.

7.3.7 Sole Remedy. This Section 7.3 constitutes the sole remedy any Party may have with respect to any breach of the representations, warranties and covenants contained in this Agreement, except as specifically provided in Section 8.3.

7.3.8 Caroderm Representative. E. Dallin Bagley (or such other person or entity that shall be designated by E. Dallin Bagley) shall serve as the representative of Caroderm and/or the Caroderm shareholders with respect to any matters arising pursuant to this Section 7 (the "Representative"). The Representative is hereby fully authorized with respect to the Holdback to: (i) receive all notices or other documents given or to be given by Parent under this Agreement; (ii) receive and accept service of legal process in connection with any claim or other proceeding arising under this Agreement; (iii) undertake, compromise, defend and settle any such suit or proceeding; (iv) engage special counsel, accountants and other advisors and incur such other expenses in connection with any matter arising under this Agreement as the Representative deems appropriate; (v) take such other action as the Representative may deem appropriate, including without limitation, (A) taking any actions required or permitted under this Agreement to protect or enforce the Caroderm shareholders' rights, and (B) all such other matters as the Representative may deem necessary or appropriate to carry out the intents and purposes of this Agreement.

ARTICLE VIII
GENERAL PROVISIONS

8.1 Notices. No notice or other communication shall be deemed given unless sent in any of the manners, and to the attention of the persons, specified in this Section 8.1. All notices and other communications hereunder shall be in writing and shall be deemed given or delivered to any party (i) upon delivery to the address of such party specified below if delivered personally, (ii) one business day after being sent by reputable overnight courier (charges prepaid) or (iii) five business days after being sent by registered or certified mail (return receipt requested), in any case to the parties at the following addresses or telecopy numbers (followed promptly by personal, courier or certified or registered mail delivery) (or at such other addresses for a party as will be specified by like notice):

To Caroderm and the Caroderm Representative:

Caroderm, Inc.
2350 Oakhill Drive
Holladay, Utah 84121
Fax No.: (801) 274-8009
Attn.: E. Dallin Bagley

with a copy to:

Blackburn & Stoll
257 East 200 South, Suite 800
Salt Lake City, Utah 84111
Fax No.: (801) 578-3552
Attn: Eric L. Robinson

To Parent and Purchaser:

Nu Skin International, Inc.
75 West Center Street
8th Floor
Provo, Utah 84601
Fax No.: (801) 345-3899
Attn.: D. Matthew Dorny

with a copy to:

Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111
Fax No.: (801) 532-7750
Attn.: Brian G. Lloyd

8.2 VENUE. EACH OF THE PARTIES SUBMITS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT SITTING IN UTAH IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT AND AGREES THAT ALL CLAIMS IN RESPECT OF THE ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT. EACH PARTY ALSO AGREES NOT TO BRING ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT IN ANY OTHER COURT. EACH OF THE PARTIES WAIVES ANY DEFENSE OF INCONVENIENT FORUM TO THE MAINTENANCE OF ANY ACTION OR PROCEEDING SO BROUGHT AND WAIVES ANY BOND, SURETY, OR OTHER SECURITY THAT MIGHT BE REQUIRED OF ANY OTHER PARTY WITH RESPECT THERETO. ANY PARTY MAY MAKE SERVICE ON ANY OTHER PARTY BY SENDING OR DELIVERING A COPY OF THE PROCESS TO THE PARTY TO BE SERVED AT THE ADDRESS AND IN THE MANNER PROVIDED FOR THE GIVING OF NOTICES IN SECTION 8.1. EACH PARTY AGREES THAT A FINAL JUDGMENT IN ANY ACTION OR PROCEEDING SO BROUGHT SHALL BE CONCLUSIVE AND MAY BE ENFORCED BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW OR IN EQUITY.

8.3 Specific Performance and Other Remedies. The parties hereto acknowledge that the rights of each party to consummate the transactions contemplated hereby are special, unique and of extraordinary character, and that, in the event that any party violates or fails or refuses to perform any covenant or agreement made by it herein, the non-breaching party may be without an adequate remedy at law. The parties agree, therefore, that in the event that any party violates or fails or refuses to perform any covenant or agreement made by such party herein, the non-breaching party or parties may, subject to the terms of this Agreement and in addition to any remedies at law for damages or other relief, institute and prosecute an action in any court of competent jurisdiction to enforce specific performance of such covenant or agreement or seek any other equitable relief. The prevailing party in any such proceeding shall be entitled to reimbursement for all its costs and expenses (including reasonable attorneys fees) relating to such proceeding from the non-prevailing party.

8.4 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

8.5 Miscellaneous. This Agreement (including the documents and instruments referred to herein) (i) constitutes the entire agreement between the parties hereto in respect of the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, among the parties hereto with respect to such subject matter, (ii) is not intended to confer upon any other person any rights or remedies hereunder, (iii) shall be governed in all respects, including validity, interpretation and effect, by the internal law, not the law of conflicts, of the State of Utah and (iv) may not be amended, modified or supplemented except by written agreement of the parties hereto. This Agreement may be executed in two or more counterparts each of which shall be deemed an original but all of which together shall constitute but a single agreement.

8.6 Assignment. This Agreement (including the documents and instruments referred to herein) may not be assigned by any party. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their permitted successors and assigns, and any reference to a party hereto shall also be a reference to a permitted successor or assign.

8.7 Language. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any person.

8.8 Severability. Any provision hereof which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction will

not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by law, the parties hereto waive any provision of law, which renders any such provision prohibited or unenforceable in any respect.

ARTICLE IX
DEFINITIONS

As used in the Agreement, the terms below shall have the meanings set forth below.

"AAA Rules" is defined in Section 7.3.4.2.

"Affiliate" means any person (i) that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, an other person, (ii) that directly or beneficially owns or holds ten percent (10%) or more of any equity interest in the other person or (iii) ten percent (10%) or more of whose voting stock is owned directly or beneficially or held by the other person.

"Appeal" is defined in Section 5.3.1.

"Articles of Merger" is defined in Section 1.3.

"Benefit Plans" is defined in Section 4.9.1.

"Caroderm" is defined in the first page hereof.

"Caroderm Indemnified Parties" is defined in Section 7.3.5.

"Caroderm Patent License" is defined in Section 4.16.2

"Caroderm Shares" is defined in Section 1.7.1.

"Caroderm Stock Certificate" is defined in Section 2.1.

"Claim" is defined in Section 7.3.4.1.

"Claim Notice" is defined in Section 7.3.2.2.

"Closing" is defined in Section 1.2.

"Closing Date" is defined in Section 1.2.

"Code" means the United States Internal Revenue Code of 1986, as amended.

"Constituent Corporations" is defined in Section 1.1.

"Disclosure Schedule" means the schedule delivered by Caroderm and the Shareholders to Parent simultaneously with the execution and delivery of this Agreement.

"Dismissal" is defined in Section 6.7.

"Dissenting Shares" is defined in Section 2.4.

"Effective Time" is defined in Section 1.3.

"Environmental Law" means any and all existing federal, international, state or local statutes, laws, regulations, ordinances, orders, policies, or decrees and the like, relating to public health or safety, pollution or protection of human health or the environment, including natural resources, including but not limited to the Clean Air Act, 42 U.S.C. 7401 et seq., the Clean Water Act, 33 U.S.C. 1251 et seq., the Resource Conservation Recovery Act ("RCRA"), 42 U.S.C. 6901 et seq., the Toxic Substances Control Act, 15 U.S.C. 2601 et seq., and the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 U.S.C. 9601 et seq. and any similar or implementing state or local law, or any common law, which governs: (i) the existence, clean-up, removal and/or remedy of contamination or threat of contamination on or about real property; (ii) the emission, discharge or release, of hazardous

materials or contaminants into the environment; (iii) the control of hazardous materials or contaminants; or (iv) the use, generation, transport, treatment, storage, disposal, removal, recycling, handling or recovery of hazardous materials.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Exchange Act" means the Securities Exchange Act of 1934, as amended (together with the rules and regulations promulgated thereunder).

"Financial Statements" is defined in Section 4.5.1.

"GAAP" means the United States generally accepted accounting principles, as consistently applied.

"Governmental Entities" means, collectively, any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States, any foreign country or any state, county, city or other political subdivision.

"Holdback" is defined in Section 7.3.3.

"Indemnified Losses" is defined in Section 7.3.2.1.

"Intellectual Property" is defined in Section 4.16.

"Judgment" is defined in Section 5.3.1.

"Knowledge" means the actual knowledge of the officers and directors of a party or the knowledge that such officer or director would reasonably be expected to have or obtain through the due performance of their duties; provided that the Knowledge of prior officers and directors of acquired entities shall not be attributed to the current officers and directors under this definition.

"Laws" means, collectively, any domestic (federal, state, or local) or foreign law, statute, ordinance, rule, regulation, judgment, decree, order, writ, permit or license of any Governmental Entity.

"Lawsuit" is defined in Section 5.3.1.

"License Agreements" is defined in Section 6.8.

"Liens" means all mortgages, liens, pledges, claims, charges, security interests or other encumbrances.

"Losses" shall mean all damages, dues, penalties, fines, costs, amounts paid in settlement, liabilities (whether liquidated or accrued), obligations, Taxes, liens, losses, expenses, and fees, including court costs and reasonable attorneys' fees and expenses including, but not limited to, those arising from or relating to actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees and rulings including, without limitation, with respect to attorneys fees and other costs and expenses incurred in connection with the enforcement of this Agreement. Losses shall be computed net of (i) any insurance proceeds actually received from insurance maintained by the Indemnified Party or any third party (without consideration of deductibles) for the event or occurrence giving rise to the Losses, and (ii) any amounts actually received from any third parties based on claims related to the event or occurrence giving rise to the Losses that the Indemnified Party has against such third parties which reduce the Losses that would otherwise be sustained.

"Marks" is defined in Section 4.16.1.

"Material Adverse Effect" means any change, effect, occurrence or state of facts that is materially adverse to the business, financial condition, operations or results of operations of a person and its Subsidiaries, taken as a whole; provided, however, that the following are excluded from the definition of "Material Adverse Effect" and from the determination of whether such a Material Adverse Effect has occurred: (i) changes in Laws (including without limitation, common law, rules and regulations or the interpretation thereof) or applicable accounting regulations and principles; or (ii) any change in the relationship of a person and its Subsidiaries with their respective employees, customers and suppliers, which change results directly from the announcement, pendency, or consummation of the transactions and actions contemplated in this Agreement.

"Material Contracts" is defined in Section 4.14.

"Merger" is defined in the Section 1.1.

"Merger Consideration" is defined in Section 1.7.1.

"Most Recent Balance Sheet" is defined in Section 4.5.1.

"Nu Skin" is defined in Section 5.3.1.

"Organizational Documents" means the articles or certificate of incorporation, articles or certificate of formation, bylaws, operating agreement, limited liability company agreement or other similar formation and/or governing documents.

"Parent" is defined in the first page hereof.

"Parent Indemnified Parties" is defined in Section 7.3.2.1.

"Patents" is defined in Section 4.16.1.

"Per Share Merger Consideration" is defined in Section 1.7.1.

"Permits" is defined in Section 4.12.

"person" means an individual, a corporation, a limited liability company, a partnership, an association, a trust or any other entity or organization.

"Purchaser" is defined in the first page hereof.

"Representative" is defined in Section 7.3.8.

"Representative Notice" is defined in Section 7.3.4.2.

"Reserve Amount" is defined in Section 7.3.2.2.

"Reserve Amount Notice" is defined in Section 7.3.2.2.

"SEC" means the United States Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended (together with the rules and regulations promulgated thereunder).

"Spreadsheet" is defined in Section 6.5.

"Subsidiary" means an entity that is controlled either directly or indirectly by the person or in which the person directly or indirectly owns or controls more than fifty percent of its equity.

"Survival Period" is defined in Section 7.3.1.

"Surviving Corporation" is defined in Section 1.1.

"Taxes" means (i) all federal, state, county, local, foreign and other taxes of any kind whatsoever (including, without limitation, income, profits, premium, estimated, excise, sales, use, occupancy, license, gross receipts, franchise, ad valorem, severance, capital levy, production, transfer, payroll, stamp, occupation, withholding, employment, unemployment, disability, social security, real property, personal property, transfer import duties and other governmental charges and assessments), whether or not measured in whole or in part by net income, and including deficiencies, interest, additions to tax and penalties with respect thereto, whether disputed or not and (ii) any liability for the payment of any amount of the type described in the immediately preceding clause (iii) as a result of being (A) a "transferee" within the meaning of Section 6901 of the Code (or any other applicable law) of another person, (B) a member of an affiliated, consolidated, unitary or combined group for any period, or otherwise by operation of law, or (C) pursuant to a tax sharing, tax allocation, or tax indemnity agreement.

"Third Party Claim" is defined in Section 7.3.4.1.

"Threshold" shall mean Twenty Five Thousand Dollars ($25,000).

"University" is defined in Section 4.16.2.

"Utah Act" is defined in Section 1.1.

"Utah Division" is defined in Section 1.3.

[*remainder of page intentionally left blank; signature page follows*]

IN WITNESS WHEREOF, Parent, Purchaser, Caroderm and the Shareholders have caused this Agreement to be signed as of the date first written above by their respective officers or representatives thereunto duly authorized.

PARENT:

Nu Skin International, Inc.

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: CFO

PURCHASER:

Pharmanex License Acquisition Corporation

By: /s/ Ritch N. Wood
Name: Ritch N. Wood
Title: Vice President

CARODERM:

Caroderm, Inc.

By: /s/ Dallin Bagley
Name: Dallin Bagley
Title: President

SHAREHOLDERS:

/s/ E. Dallin Bagley
E. Dallin Bagley

/s/ Werner Gellermann
Werner Gellermann

/s/ Paul S. Bernstein
Paul S. Bernstein

March 2, 2006

Dear Richard:

It is our understanding that you will terminate your employment with Nu Skin Enterprises effective June 9, 2006.

The following have been agreed to by Yourself and Nu Skin:

1. By March 1, 2006 you will vacate the 9th floor office.

2. Nu Skin will continue to employ you until June 9, 2006.

3. Nu Skin will pay you a severance total of $200,000 minus the time employed from March 1, 2006 to June 9, 2006. A lump sum payment of $137,108 will be made to you after June 9, 2006 once Nu Skin receives a signed severance agreement.

4. You will have 90 days after June 9, 2006 to exercise any vested stock options

5. You will retain your cell phone and lap top computer. You will transfer the cell phone service to your personal account no later than one week from June 9, 2006. You will also allow removal from your lap top any software owned and licensed by Nu Skin by June 9, 2006.

6. You will transfer your Big Planet e-mail account paid by the company to your personal account within two weeks after March 1, 2006.

7. Between March 1, 2006 and June 9, 2006 you will be available to the company to assist with any transition needs.

8. You will continue use of your current Nu Skin e-mail address during the March 1, 2006 to June 9, 2006 time period.

9. You will have access to the employee store under the standing VP benefit arrangements until June 9, 2007.

10. If you become employed by another company prior to June 9, 2006, all benefits will cease as of that date and a prorated severance amount for the period remaining until June 9, 2006 will be paid you.

If you have any questions please feel free to contact me.

Sincerely,

/s/ Ritch Wood
Ritch Wood
CFO Nu Skin Enterprises

March 10, 2006

Lori Bush
75 West Center
Provo, Utah 84601

RE: Severance Package

Dear Lori,

This letter sets forth the terms of your severance package. We propose to enter into a Separation Agreement that would include terms customary to key employee terminations. The agreement would include the following terms:

- Your employment will end on March 31, 2006.

- The company would extend a severance benefit of $800,000, payable in monthly installments during an 18-month non-competition period. This sum would encompass all of the individual elements that potentially impact the calculation of a severance benefit.

- A non-competition covenant would prohibit you from working for a competing direct selling company for 18 months following termination of employment. This provision would not prohibit your employment by a company not involved in direct selling. In the event of your engagement with a company that competes in the company's product categories, however, you recognize that such an engagement may create conflicts of interest that would require termination of the consulting relationship described below.

- The agreement would include a mutual release and waiver of claims related to your employment and termination thereof.

- You would confirm your ongoing agreement to abide by key employee covenants with respect to assignment of work product, confidentiality, and any others that extend beyond your employment term.

- As of April 1, 2006, you would be engaged as a consultant and as chair of the Nu Skin Personal Care Scientific Advisory Board (the "Board"). The terms of this engagement are set forth below. This engagement would be terminable at will by either you or the company. Your activity as a consultant and on the Board would be under the direction of Joe Chang, Chief Scientific Officer.

- As a consultant and Board chair, you will receive an annual retainer of $25,000/year. This retainer would cover your activities as Board chair and will also compensate you for speaking appearances at the company's global convention as well as one other convention or distributor event each year, whether domestic or foreign. This retainer provides the company with 96 hours/year of your services, which, at the company's discretion, may not necessarily be applied evenly throughout the year.

- For additional days of service requested by the company, you will receive a fee of $1,500/day for working days, and $750/day for days of travel. All of your pre-approved travel expenses will be reimbursed by the company. Your air travel will be business or first class.

- During your tenure on the Board, you will be entitled to an allotment of products consistent with the policy in effect for corporate Vice Presidents. In addition, you will be entitled to use the Sundance cabin for up to 10 days/year, provided the company owns or leases the cabin and provided your use of the cabin is consistent with policies in effect for Vice Presidents.

- The company understands that you are writing a book on skincare that is intended to compliment Nu Skin's product philosophy. We understand that you would like to sell the book rights to Nu Skin for $75,000. The company will consider this possibility and, if the company elects to proceed, will pay half of the purchase rights after reviewing an outline and rough draft of the book, with the balance upon satisfactory completion.

Please confirm your agreement with the terms set forth herein by executing a copy of this letter in the space provided below so that we can prepare a definitive Separation Agreement.

Very truly yours,

/s/ Truman Hunt
Truman Hunt
President and Chief Executive Officer

Agreed this 10th day of March, 2006.

/s/ Lori Bush
Lori Bush

SUMMARY OF TEAM ELITE TRAVEL POLICY

The following is a summary of a travel policy adopted by the Compensation Committee of the Company's Board of Directors on March 13, 2006 with respect to the annual Team Elite distributor trip:

It is currently the Company's practice to conduct an annual international trip for those independent distributors that have achieved "Team Elite" status within the Company's distributor compensation plan. Certain members of senior management of the Company accompany Team Elite members on this trip in an effort promote contact and relationship building between senior management and Team Elite members. Members of Company management are often accompanied by their spouses in an effort to promote a family atmosphere at these events. In recognition of this, the Company has adopted a policy providing that the Company will pay for travel, lodging, and certain other costs for the spouses of certain senior managers attending the Team Elite trip.

EXHIBIT 21.1

SUBSIDIARIES OF REGISTRANT

Big Planet, Inc., a Delaware corporation

First Harvest International, LLC, a Utah limited liability company

Jixi Nu Skin Vitameal Co., Ltd., a Chinese corporation

Niksun Acquisition Corporation, a Delaware corporation

NSE Korea Ltd., a Delaware corporation

NSE Korea, Ltd., a Korean corporation

NSE Products, Inc., a Delaware corporation

Nu Family Benefits Insurance Brokerage, Inc., a Utah corporation

Nu Skin Argentina, Inc., a Utah corporation with an Argentine branch

Nu Skin Asia Investment, Inc., a Delaware corporation

Nu Skin Belgium, NV, a Belgium corporation

Nu Skin Brazil, Ltda., a Brazilian corporation

Nu Skin Canada, Inc., a Utah corporation

Nu Skin Chile, S.A., a Chilean corporation

Nu Skin (China) Daily-Use and Health Products Co., Ltd., Chinese company

Nu Skin Enterprises Australia, Inc., a Utah corporation

Nu Skin Enterprises Hong Kong, Inc., a Delaware corporation

Nu Skin Enterprises Hungary Trading, KFT, a Hungarian corporation

Nu Skin Enterprises New Zealand, Inc., a Utah corporation

Nu Skin Enterprises Poland Sp. z.o.o., a Polish corporation

Nu Skin Enterprises RS, Ltd., a Russian limited liability company

Nu Skin Enterprises Singapore Pte. Ltd., a Singapore corporation

Nu Skin France, SARL, a French corporation

Nu Skin Germany, GmbH, a German corporation

Nu Skin Guatemala, S.A., a Guatemalan corporation

Nu Skin International Management Group, Inc., a Utah corporation

Nu Skin International, Inc., a Utah Corporation

Nu Skin Israel, Inc, a Delaware corporation

Nu Skin Italy, Srl, an Italian corporation

Nu Skin Japan Company Limited, a Japanese corporation

Nu Skin Japan, Ltd., a Japanese corporation

Nu Skin Malaysia Holdings Sdn. Bhd., a Malaysian corporation

Nu Skin (Malaysia) Sdn. Bhd., a Malaysian corporation

Nu Skin Mexico, S.A. de C.V., a Mexican corporation

Nu Skin Netherlands, B.V., a Netherlands corporation

Nu Skin New Caledonia EURL, a New Caledonian corporation

Nu Skin Norway AS, a Norwegian corporation

Nu Skin Enterprises (Thailand), Ltd., a Delaware corporation

Nu Skin Enterprises (Thailand), Ltd., a Thailand corporation

Nu Skin Enterprises Philippines, Inc., a Delaware corporation with a Philippines branch

Nu Skin Poland Sp. z.o.o., a Polish corporation

Nu Skin Scandinavia A.S., a Denmark corporation

Nu Skin (Shanghai) Management Co., Ltd., a Chinese corporation

Nu Skin Spain, S.L., a Spain corporation

Nu Skin Taiwan, Inc., a Utah corporation

Nu Skin U.K., Ltd., a United Kingdom corporation

Nu Skin Enterprises United States, Inc., a Delaware corporation

NuSkin Pharmanex (B) Sdn Bhd, a Brunei corporation

Nutriscan, Inc., a Utah corporation

Pharmanex Electronic-Optical Technology (Shanghai) Co., Ltd., a Chinese corporation

Pharmanex (Huzhou) Health Products Co., Ltd., a Chinese corporation

Pharmanex License Acquisition Corporation, a Utah Corporation

Pharmanex, LLC, a Delaware limited liability company

PT. Nu Skin Distribution Indonesia, an Indonesian corporation

PT. Nusa Selaras Indonesia, an Indonesian corporation

Zhejiang Cinogen Pharmaceutical Co., Ltd., a Chinese corporation

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-12073, 333-118495, and 333-123469) and in the Registration Statements on Form S-8 (Nos. 333-48611, 333-68407, 333-95033, 333-102327, 333-124764, and 333-130304) of Nu Skin Enterprises, Inc. of our report dated March 16, 2006 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Salt Lake City, UT
March
16, 2006

EXHIBIT 31.1
SECTION 302 – CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, M. Truman Hunt, Chief Executive Officer of the registrant, certify that:

1. I have reviewed this annual report on Form 10-K of Nu Skin Enterprises, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 17, 2006

/s/ M. Truman Hunt
M. Truman Hunt
Chief Executive Officer

EXHIBIT 31.2
SECTION 302 – CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Ritch N. Wood, Chief Financial Officer of the registrant, certify that:

1. I have reviewed this annual report on Form 10-K of Nu Skin Enterprises, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 17, 2006

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

EXHIBIT 32.1
SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TOSECTION
906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-K for the period ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Truman Hunt, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 17, 2006

/s/ M. Truman Hunt
M. Truman Hunt
Chief Executive Officer

EXHIBIT 32.2
SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TOSECTION
906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Nu Skin Enterprises, Inc. (the "Company") on Form 10-K for the period ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ritch N. Wood, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 17, 2006

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