NU SKIN ENTERPRISES INC
Form 10-Q
August 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

–––FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____________ TO ____________

Commission File Number: 001-12421

NU SKIN ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	75 WEST CENTER STREET PROVO UT 84601 (Address of principal executive offices, including zip code)	87-0565309 (IRS Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of July 31, 2011, 62,404,575 shares of the registrant's Class A common stock, $.001 par value per share, were outstanding.

NU SKIN ENTERPRISES, INC.

2011 FORM 10-Q QUARTERLY REPORT – SECOND QUARTER

TABLE OF CONTENTS

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$233,403	$230,337
Accounts receivable	32,885	25,701
Inventories, net	108,431	114,475
Prepaid expenses and other	58,831	52,013
	433,550	422,526
Property and equipment, net	138,981	133,722
Goodwill	112,446	112,446
Other intangible assets, net	75,317	78,270
Other assets	127,909	145,260
Total assets	$888,203	$892,224
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$28,620	$25,480
Accrued expenses	125,500	146,108
Current portion of long-term debt	27,972	27,865
Related party payable		16,995
	182,092	216,448
Long-term debt	118,287	133,013
Other liabilities	79,565	71,514
Total liabilities	379,944	420,975
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Class A common stock – 500 million shares authorized, $.001 par value, 90.6 million shares issued	91	91
Additional paid-in capital	271,957	256,505
Treasury stock, at cost – 28.5 million shares	(500,063)	(476,748)
Retained earnings	790,236	749,940

Accumulated other comprehensive loss	(53,962)	(58,539)
	508,259	471,249
Total liabilities and stockholders' equity	$888,203	$892,224

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

NU SKIN ENTERPRISES, INC.
Consolidated Statements of Income (Unaudited)
(U.S. dollars in thousands, except per share amounts)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenue	$424,426	$388,362	$820,271	$752,486
Cost of sales	71,168	67,937	171,822 (1)	132,770
Gross profit	353,258	320,425	648,449	619,716
Operating expenses:				
Selling expenses	183,500	160,739	352,642	315,001
General and administrative expenses	103,712	100,525	204,854	199,437
Total operating expenses	287,212	261,264	557,496	514,438
Operating income	66,046	59,161	90,953	105,278
Other income (expense), net	(127)	(7,287)	(549)	(6,673)
Income before provision for income taxes	65,919	51,874	90,404	98,605
Provision for income taxes	24,218	19,482	33,395	35,173
Net income	$41,701	$32,392	$57,009	$63,432
Net income per share (Note 2):				
Basic	$0.67	$0.51	$0.92	$1.01
Diluted	$0.65	$0.50	$0.89	$0.98
Weighted-average common shares outstanding (000s):				
Basic	61,806	62,919	61,817	62,698
Diluted	64,193	65,072	64,177	64,904

(1) Includes a $32.8 million non-cash charge related to an adverse decision in the Japan customs litigation. See Note 13.

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

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

	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 57,009	$ 63,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,853	15,006
Japan customs expense	32,754	
Foreign currency (gains)/losses	(1,763)	4,308
Stock-based compensation	7,762	4,395
Deferred taxes	(7,580)	3,146
Changes in operating assets and liabilities:		
Accounts receivable	(6,423)	(4,054)
Inventories, net	7,943	(8,470)
Prepaid expenses and other	(1,882)	(1,158)
Other assets	(13,152)	(5,580)
Accounts payable	2,372	3,676
Accrued expenses	(23,571)	4,830
Other liabilities	11,466	7,621
Net cash provided by operating activities	80,788	87,152
Cash flows from investing activities:		
Purchases of property and equipment	(16,440)	(18,053)
Net cash used in investing activities	(16,440)	(18,053)
Cash flows from financing activities:		
Exercise of employee stock options	13,039	13,236
Payment of debt	(15,058)	(14,745)
Payment of cash dividends	(16,714)	(15,675)
Income tax benefit of options exercised	4,747	4,828
Payment of related party debt	(16,995)	
Repurchases of shares of common stock	(33,817)	(39,261)
Net cash used in financing activities	(64,798)	(51,617)
Effect of exchange rate changes on cash	3,516	(2,853)
Net increase in cash and cash equivalents	3,066	14,629
Cash and cash equivalents, beginning of period	230,337	158,045

Cash and cash equivalents, end of period	$ 233,403	$ 172,674

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

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

1. THE COMPANY

Nu Skin Enterprises, Inc. (the “Company”) is a leading, global direct selling company that develops and distributes premium-quality, innovative personal care products and nutritional supplements that are sold worldwide under the Nu Skin and Pharmanex brands and a small number of other products and services. The Company reports revenue from five geographic regions: North Asia, which consists of Japan and South Korea; Greater China, which consists of Mainland China, Hong Kong, Macau and Taiwan; Americas, which consists of the United States, Canada and Latin America; South Asia/Pacific, which consists of Australia, Brunei, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand; and Europe, which consists of several markets in Europe as well as Israel, Russia and South Africa (the Company’s subsidiaries operating in these countries are collectively referred to as the “Subsidiaries”).

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited consolidated financial statements include the accounts of the Company and its Subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company’s financial information as of June 30, 2011, and for the three- and six-month periods ended June 30, 2011 and 2010. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

2. NET INCOME PER SHARE

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented. For the three-month periods ended June 30, 2011 and 2010, other stock options totaling 2.2 million and 0.1 million, respectively, and for the six-month periods ended June 30, 2011 and 2010, other stock options totaling 2.2 million and 0.1 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

3. DIVIDENDS PER SHARE

In February and May 2011, the Company’s board of directors declared a quarterly cash dividend of $0.135 per share for all shares of Class A common stock. These quarterly cash dividends totaling $8.4 million each were paid on March 16, 2011 and June 15, 2011, to stockholders of record on February 25, 2011 and May 27, 2011, respectively. In July 2011, the Company’s board of directors declared a quarterly cash dividend of $0.160 per share for all shares of Class A common stock to be paid September 14, 2011 to stockholders of record on August 26, 2011.

4. DERIVATIVE FINANCIAL INSTRUMENTS

At June 30, 2011, the Company held mark to market forward contracts designated as foreign currency cash flow hedges with notional amounts totaling 5.3 billion Japanese yen ($65.8 million as of June 30, 2011) and 500,000 Euros ($0.7 million as of June 30, 2011) to hedge forecasted foreign-currency-denominated intercompany transactions. For the six-month period ended June 30, 2011, the Company recorded a net unrealized gain of $0.1 million in accumulated other comprehensive income. The Company did not hold any mark to market forward contracts as of June 30, 2010. The contracts held at June 30, 2011 have maturities through June 30, 2012 and accordingly, all unrealized gains and losses on foreign currency cash flow hedges included in accumulated other comprehensive income will be recognized in current earnings over the next 12 months. There were no pre-tax net (losses)/gains on foreign currency cash flow hedges recorded in current earnings for the year ended December 31, 2010. The pre-tax net (losses)/gains on foreign currency cash flow hedges recorded in current earnings were immaterial for the quarter ending June 30, 2011.

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

5. REPURCHASES OF COMMON STOCK

During the three- and six-month periods ended June 30, 2011, the Company repurchased approximately 0.4 million and 1.1 million shares of its Class A common stock under its open market repurchase plan for approximately $11.8 million and $33.8 million, respectively. During the three- and six-month periods ended June 30, 2010, the Company repurchased approximately 1.1 million and 1.5 million shares of its Class A common stock under its open market repurchase plan for approximately $29.1 and $39.3 million, respectively. At June 30, 2011, $119.3 million was available for repurchases under the stock repurchase program.

6. COMPREHENSIVE INCOME

The components of comprehensive income, net of related tax, for the three- and six-month periods ended June 30, 2011 and 2010, were as follows (U.S. dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	$41,701	$32,392	$57,009	$63,432
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	2,129	(2,671)	4,537	(3,774)
Net unrealized (losses)/gains on foreign currency cash flow hedges	(826)		145	29
Less: Reclassification adjustment for realized gains in current earnings	(93)		(104)	(126)
Comprehensive income	$42,911	$29,721	$61,587	$59,561

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

7. 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, contractual sales promoters and direct sellers to sell its products through fixed retail locations. Selling expenses are the Company's largest expense comprised of the commissions and incentives paid to its worldwide independent distributors as well as remuneration to its Mainland China sales employees, promoters and direct sellers 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, Americas, South Asia/Pacific and Europe.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Revenue:	2011	2010	2011	2010
North Asia	$183,097	$164,105	$362,531	$334,966
Greater China	79,404	80,642	147,997	138,327
Americas	59,805	62,389	115,684	124,843
South Asia/Pacific	59,212	45,938	109,158	81,282
Europe (region)	42,908	35,288	84,901	73,068
Totals	$424,426	$388,362	$820,271	$752,486

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Revenue:	2011	2010	2011	2010
Nu Skin	$227,931	$239,886	$444,891	$463,152
Pharmanex	194,104	145,801	370,301	283,917
Other	2,391	2,675	5,079	5,417
Totals	$424,426	$388,362	$820,271	$752,486

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

	Three Months Ended June 30,	Six Months Ended June 30,

Revenue:	2011	2010	2011	2010
Japan	$115,067	$113,295	$226,900	$221,988
South Korea	68,030	50,810	135,631	112,978
United States	49,621	52,738	96,851	105,780
Mainland China	38,110	20,558	69,166	40,939
Europe	37,126	29,156	72,757	60,521
Taiwan	28,999	28,633	54,211	52,776

Long-lived assets:	June 30, 2011	December 31, 2010
Japan	$11,878	$12,473
South Korea	12,255	9,396
United States	87,452	84,829
Europe	2,500	2,697
Mainland China	11,727	11,646
Taiwan	1,843	2,200

8. DEFERRED TAX ASSETS AND LIABILITIES

The Company accounts for income taxes in accordance with the Income Taxes Topic of the Financial Accounting Standards Codification. These standards establish financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. The Company takes an asset and liability approach for financial accounting and reporting of income taxes. The Company pays income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between the Company and its foreign affiliates. Deferred tax assets and liabilities are created in this process. As of June 30, 2011 the Company has net deferred tax assets of $68.0 million. The Company has netted these deferred tax assets and deferred tax liabilities by jurisdiction. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized.

9. UNCERTAIN TAX POSITIONS

The Company files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Company is currently under examination by the United States Internal Revenue Service (the "IRS") for the 2005 through 2008 tax years. With a few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examination by tax authorities for years before 2005. In 2009, the Company entered into a voluntary program with the IRS called Compliance Assurance Process ("CAP").The objective of CAP is to contemporaneously work with the IRS to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. The Company has elected to participate in the CAP program for 2011 and may elect to continue participating in CAP for future tax years; the Company may withdraw from the program at any time. In major foreign jurisdictions, the Company is no longer subject to income tax examinations for years before 2004. Along with the IRS examination, the Company is currently under examination in certain foreign jurisdictions; however, the outcomes of those reviews are not yet determinable.

The Company's unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. Due to potential increases in unrecognized tax benefits from the multiple jurisdictions in which the Company operates, as well as the expiration of various statutes of limitation, it is reasonably possible that the Company's gross unrecognized tax benefits, net of foreign currency adjustments, may change within the next 12 months by a range of approximately $8 to $11 million. The amount of gross unrecognized tax benefits increased by $0.5 million during the six months ended June 30, 2011, due mainly to the completion of a tax audit in Korea, current tax positions and changes in currency exchange rates.

10. 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 assertion or determination that either the Company or the Company's distributors are 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. Except as noted below, 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 believes it has appropriately provided for income taxes for all years. Several factors drive the calculation of its tax reserves. Some of these factors include: (i) the expiration of various statutes of limitations; (ii) changes in tax law and regulations; (iii) issuance of tax rulings; and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to the Company's reserves, which would impact its reported financial results.

The Company is currently involved in a dispute with customs authorities in Japan with respect to duty assessments on several of the Company's Pharmanex nutritional products, which is separate and distinct from the dispute discussed in Note 13. The dispute relates to additional customs assessments made by Yokohama Customs for the period of October 2006 through September 2009 in connection with post-importation audits, as well as the disputed portion of the Company's import duties from October 2009 to the present, which the Company has or will hold in bond or pay under protest. The aggregate amount of these assessments and disputed duties was 3.8 billion Japanese yen as of June 30, 2011 (approximately $46.8 million), net of any recovery of consumption taxes, and increases approximately $3.5 million per quarter. The Company believes that additional assessments related to any prior period would be barred by applicable statutes of limitations. The issue in this second case is whether a US entity utilizing a commissionaire agent in Japan to import its products can use the manufacturer's invoice or must use another valuation method, and, if an alternative method must be used, what the allowable deductions would be in determining the proper valuation. Following the Company's review of the assessments and after consulting with the Company's legal and customs advisors, the Company believes that the additional assessments are improper and are not supported by applicable customs laws. The Company filed letters of protest with Yokohama Customs, which were rejected. The Company then appealed the matter to the Ministry of Finance in Japan. On May 13, 2011, the Company received notice that, as anticipated, the Ministry of Finance in Japan denied the Company's administrative appeal. The Company disagrees with the Ministry of Finance's administrative decision. The Company is preparing to pursue the matter through the court system in Japan, which the Company believes will provide a more independent determination of the matter. In addition, the Company is currently being required to post a bond or make a deposit equal to the difference between the Company's declared duties and the amount the customs authorities have determined the Company should be paying on all current imports. Because the Company believes that the higher rate determined by the customs authorities is an improper application of the regulations, the Company is currently expensing the portion of the duties the Company believes is supported under applicable customs law, and recording the additional deposit or payment as a receivable within long-term assets on its consolidated financial statements. To the extent that the Company is unsuccessful in recovering the amounts assessed and paid or held in bond, the Company will likely be required to record a non-cash expense for the full amount of the disputed assessments.

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

11. LONG-TERM DEBT

The Company currently has debt pursuant to various credit facilities and other borrowings. The Company's book value for both the individual and consolidated debt included in the table below approximates fair value. The following table summarizes the Company's long-term debt arrangements as of June 30, 2011:

Facility or Arrangement(1)	Original Principal Amount	Balance as of June 30, 2011(2)	Interest Rate	Repayment terms
2003 $205.0 million multi-currency uncommitted shelf facility:				
U.S. dollar denominated:	$40.0 million	$34.3 million	6.2%	Notes due July 2016, with annual principal payments that began in July 2010.
	$20.0 million	$17.1 million	6.2%	Notes due January 2017, with annual principal payments that began in January 2011.
Japanese yen denominated:	3.1 billion yen	1.3 billion yen ($16.6 million as of June 30, 2011)	1.7%	Notes due April 2014, with annual principal payments that began in April 2008.
	2.3 billion yen	2.3 billion yen ($28.1 million as of June 30, 2011)	2.6%	Notes due September 2017, with annual principal payments beginning September 2011.
	2.2 billion yen	1.9 billion yen ($23.2 million as of June 30, 2011)	3.3%	Notes due January 2017, with annual principal payments that began in January

				2011.
2010 committed loan:				
U.S. dollar denominated:	$30.0 million	$27.0 million	Variable 30 day: 1.25%	Amortizes $1.5 million per quarter
2004 $25.0 million revolving credit facility	N/A	None	N/A	Credit facility is due May 2014.
2009 $100.0 million uncommitted multi-currency shelf facility	N/A	None	N/A	

(1) Each of the credit facilities and arrangements listed in the table are secured by guarantees issued by the Company's material domestic subsidiaries and by pledges of 65% of the outstanding stock of the Company's material foreign subsidiaries. The 2010 committed loan is also secured by deeds of trust with respect to the Company's corporate headquarters and distribution center in Provo, Utah.

(2) The current portion of our long-term debt (i.e. becoming due in the next 12 months) includes $9.6 million of the balance of our Japanese yen-denominated debt under the 2003 multi-currency uncommitted shelf facility, $12.4 million of the balance on our U.S. dollar denominated debt under the 2003 multi-currency uncommitted shelf facility and $6.0 million of our 2010 committed loan.

12. ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-04 provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. This guidance will be effective for interim and annual reporting periods beginning after December 15, 2011, and will be applied prospectively. The Company is currently evaluating the impact of adopting ASU 2011-04, but believes there will be no significant impact on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires entities to present items of net income and other comprehensive income either in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements of net income and other comprehensive income. This guidance will be effective as of January 1, 2012 for the Company and is not expected to have a significant impact on its financial statements, other than presentation.

13. COST OF SALES

In March 2011, the Tokyo District Court upheld a disputed $32.8 million customs assessment on certain of the Company's products imported into Japan during the period of October 2002 through July 2005. As a result of this decision, the Company recorded an expense for the full amount of the disputed assessments in the first quarter of 2011. The charge was a non-cash item, as the Company was previously required to pay the assessments under protest. The Company has appealed this decision.

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

The following Management's Discussion and Analysis should be read in conjunction with Management's Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission ("SEC") on February 23, 2011, and our other filings, including Current Reports on Form 8-K, filed with the SEC through the date of this report.

Overview

Our revenue for both the three- and six-month periods ended June 30, 2011 increased 9% to $424.4 million and $820.3 million, when compared to the same periods in 2010, with foreign currency exchange rate fluctuations positively impacting revenue by 8% and 7%, respectively. Accelerated growth in our emerging markets, including Mainland China and South Asia, was partially offset by expected softness in the United States and Japan. Revenue growth was also driven by continued interest in our strong product portfolio, along with sustained sales force growth, with the number of active and executive distributors globally up 5% and 8%, respectively, compared to the prior-year period. We currently plan to introduce new ageLOC nutritional and personal care products in connection with our 2011 global convention in October.

Earnings per share for the second quarter of 2011 were $0.65 compared to $0.50 for the same period in 2010. Earnings per share for the first half of 2011 were $0.89, or $1.21 excluding non-cash charges of $32.8 million associated with the first quarter Japan customs ruling, discussed below under Gross Profit, compared to $0.98 for the same period in 2010. Excluding the Japan customs expense, earnings per share improved due largely to revenue growth coupled with continued efficiencies and controlled expenses. In addition, earnings per share for the second quarter of 2010 were negatively impacted by significant foreign currency translation losses. Earnings per share excluding Japan customs expense is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.

Revenue

North Asia. The following table sets forth revenue for the three- and six-month periods ended June 30, 2011 and 2010 for the North Asia region and its principal markets (U.S. dollars in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Japan	$ 115.1	$ 113.3	2%	$ 226.9	$ 222.0	2%
South Korea	68.0	50.8	34%	135.6	113.0	20%
North Asia total	$ 183.1	$ 164.1	12%	$ 362.5	$ 335.0	8%

Revenue in the region for the three- and six-month periods ended June 30, 2011 was positively impacted approximately 11% and 9% by foreign currency exchange rate fluctuations, due to the strengthening of both the Japanese yen and the South Korean won.

Local-currency revenue in Japan declined 10% and 8% for the three- and six-month periods ended June 30, 2011, compared to the same periods in 2010. We estimate that recent catastrophes in Japan negatively impacted second quarter revenue by approximately $10 million, in line with our previous estimate. Continued weakness in our distributor numbers also contributed to the decline with our active and executive distributor counts decreasing 9% and 6%, respectively.

South Korea experienced local-currency revenue growth of 25% and 15% for the three- and six-month periods ended June 30, 2011, compared to the same periods in 2010. This revenue increase reflects continued strong distributor growth and interest generated by our ageLOC products and a recent restaging of our TRA weight loss products. The number of active and executive distributors in South Korea increased 18% and 27%, respectively, compared to the prior-year periods.

Greater China. The following table sets forth revenue for the three- and six-month periods ended June 30, 2011 and 2010 for the Greater China region and its principal markets (U.S. dollars in millions):

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Change	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Change
Taiwan	$29.0	$28.6	1%	$54.2	$52.8	3%
Mainland China	38.1	20.6	85%	69.2	40.9	69%
Hong Kong	12.3	31.4	(61%)	24.6	44.6	(45%)
Greater China total	$79.4	$80.6	(2%)	$148.0	$138.3	7%

Revenue in Greater China declined due largely to the launch of our ageLOC Transformation skin care system in the second quarter of 2010, which increased revenue by approximately $25 million and contributed to 53 percent revenue growth reported in the prior year. Individual market comparisons for the quarter were also impacted by regional convention sales in Hong Kong in the prior year. Foreign currency exchange rate fluctuations positively impacted revenue by approximately 6% in this region during both the three- and six-month periods ended June 30, 2011.

On a local-currency basis, revenue in Mainland China increased 77% and 62% in the three- and six-month periods ended June 30, 2011, compared to the same periods in 2010. This continued growth is largely due to significant sales force growth, driven by strong interest in our product portfolio and sales force incentives, as reflected by a 37% increase in preferred customers and 35% increase in sales representatives, compared to the prior-year period. In addition, revenue in Mainland China for the second quarter of 2010 was negatively impacted by substantial sales at the Greater China Regional Convention in Hong Kong.

Compared to the same prior-year periods, local-currency revenue for the three- and six-month periods ended June 30, 2011 in Taiwan was down 8% and 6%, respectively. This decrease was due largely to the launch of our ageLOC Transformation skin care system in the prior year. Compared to the same prior-year periods, local-currency revenue for the three- and six-month periods ended June 30, 2011 in Hong Kong was down 61% and 45%, respectively. Revenue comparisons for Hong Kong reflect substantial sales to non-Hong Kong distributors attending the Greater China Regional Convention in May 2010. Decreased revenue in both Taiwan and Hong Kong is also due in part to the regional focus on growth in Mainland China.

Second quarter executive distributors in Taiwan were down 4% and active distributors were level when compared to the prior-year period, while active and executive distributors in Hong Kong were down 2% and 9%, respectively.

Americas. The following table sets forth revenue for the three- and six-month periods ended June 30, 2011 and 2010 for the Americas region and its principal markets (U.S. dollars in millions):

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Change	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Change
United States	$ 49.6	$ 52.7	(6%)	$ 96.8	$ 105.8	(9%)
Canada	5.5	6.0	(8%)	10.6	11.9	(11%)

Latin America		4.7		3.7	27%		8.3		7.1	17%
Americas total	$	59.8	$	62.4	(4%)	$	115.7	$	124.8	(7%)

Revenue in the United States for the three- and six-month periods ended June 30, 2011 decreased by 6% and 8%, compared to the prior-year periods. This decline reflects continued weakness in our distributor numbers with our active and executive distributor counts decreasing 1% and 6%, respectively. We currently expect continued softness in the United States in the third quarter of 2011, followed by growth in the fourth quarter in connection with our global convention in October. The opening of Argentina in the second quarter contributed to revenue growth in Latin America.

South Asia/Pacific. The following table sets forth revenue for the three- and six-month periods ended June 30, 2011 and 2010 for the South Asia/Pacific region and its principal markets (U.S. dollars in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Singapore/Malaysia/Brunei	$26.6	$21.3	25%	$47.5	$35.0	36%
Thailand	16.2	13.6	19%	31.0	25.6	21%
Australia/New Zealand	7.2	4.6	57%	13.3	9.0	48%
Indonesia	5.5	3.7	49%	10.2	6.8	50%
Philippines	3.7	2.7	37%	7.2	4.9	47%
South Asia/Pacific total	$59.2	$45.9	29%	$109.2	$81.3	34%

Foreign currency exchange rate fluctuations in South Asia/Pacific impacted revenue positively 11% in both the three- and six-month periods ended June 30, 2011, compared to the same prior-year periods. Local currency revenue growth in this region was driven primarily by robust distributor growth and activity, along with continued interest in our strong product portfolio, including our ageLOC and TRA weight loss products. Executive distributors in the region increased 24% while active distributors increased 23% compared to the prior year.

Europe. The following table sets forth revenue for the three- and six-month periods ended June 30, 2011 and 2010 for the Europe region (U.S. dollars in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Europe	$42.9	$35.3	22%	$84.9	$73.1	16%

Growth in this region was driven largely by continued interest in our strong product portfolio, including our ageLOC products. Revenue in the region for the three- and six-month periods ended June 30, 2011 was positively impacted approximately 14% and 6%, respectively, by foreign currency exchange rate fluctuations. Our active and executive distributor counts in our Europe region both increased by 8% and 7%, compared to the prior year.

Gross profit

Gross profit as a percentage of revenue was 83.2% for the second quarter of 2011, compared to 82.5% for the same prior-year period. Gross profit as a percentage of revenue was 79.1% and 82.4% for the first half of 2011 and 2010, respectively. In March 2011, the Tokyo District Court upheld a disputed $32.8 million customs assessment on certain of our products imported into Japan. As a result of this decision, we recorded an expense within cost of sales for the full amount of the disputed assessments in the first quarter of 2011. The charge is a non-cash item, as we were previously required to pay the assessments under protest. We have appealed this decision. Excluding this $32.8 million non-cash charge, gross profit as a percentage of revenue for the first half of 2011 was 83.0%. These improvements reflect continued supply chain improvements and foreign currency benefits. Gross profit excluding Japan customs expense is a non-GAAP financial measure. See “Non-GAAP Financial Measures” below.

Selling expenses

Selling expenses as a percentage of revenue increased to 43.2% and 43.0% for the three- and six-month periods ended June 30, 2011 from 41.4% and 41.9% for the same periods in 2010. This increase reflects growth in the number of independent distributors qualifying for various promotional sales incentives, as well as temporary commission subsidies for distributors in the region of Japan most impacted by recent catastrophes. In addition, selling expenses in the prior year were unusually low due to non-commissionable convention fees and sales aid revenue.

General and administrative expenses

As a percentage of revenue, general and administrative expenses decreased to 24.4% and 25.0% for the three- and six-month periods ended June 30, 2011 from 25.9% and 26.5% for the same periods in 2010, primarily as a result of increased revenue and controlled expenses.

Other income (expense), net

Other income (expense), net for the three- and six-month periods ended June 30, 2011 was $0.1 million and $0.5 million of expense compared to $7.3 million and $6.7 million of expense for the same periods in 2010. This decrease in expense is due primarily to the impact of fluctuations in foreign currency exchange rates.

Provision for income taxes

Provision for income taxes for the three- and six-month periods ended June 30, 2011 was $24.2 million and $33.4 million compared to $19.5 million and $35.2 million for the same periods in 2010. The effective tax rate was 36.7% and 36.9% of pre-tax income during the three- and six-month periods ended June 30, 2011, compared to rates of 37.6% and 35.7% in the same prior-year periods.

Net income

As a result of the foregoing factors, net income for the second quarter of 2011 was $41.7 million compared to $32.4 million for the same period in 2010. Net income for the first half of 2011 was $57.0 million, or $77.7 million excluding $32.8 million ($20.7 million, net of tax) in Japan customs expense, compared to $63.4 million for the first half of 2010. Net income excluding Japan customs expense is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.

Liquidity and Capital Resources

Historically, our principal uses of cash have included operating expenses, particularly selling expenses, and working capital (principally inventory purchases), as well as capital expenditures, stock repurchases, dividends, debt repayment and the development of operations in new markets. We have 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 $80.8 million in cash from operations during the first half of 2011, compared to $87.2 million during the same period in 2010.

As of June 30, 2011, working capital was $251.5 million, compared to $206.1 million as of December 31, 2010. Cash and cash equivalents at June 30, 2011 and December 31, 2010 were $233.4 million and $230.3 million, respectively. The increase in working capital was primarily due to the payment of taxes and the payment of related party debt in the first half of 2011, while generating strong cash flows from operations.

Capital expenditures in the first six months of 2011 totaled $16.4 million, and we anticipate additional capital expenditures of approximately $40 million to $45 million for the remainder of 2011. These capital expenditures are primarily related to:

- planning and construction of a new innovation center on our Provo campus and a new Greater China regional headquarters in Shanghai, China, and related real estate acquisitions;
- the build-out and upgrade of leasehold improvements in our various markets, including retail stores in China; and
- purchases of computer systems and software, including equipment and development costs.

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 June 30, 2011:

Facility or Arrangement(1)	Original Principal Amount	Balance as of June 30, 2011(2)	Interest Rate	Repayment terms
2003 $205.0 million multi-currency uncommitted shelf facility:				
U.S. dollar denominated:	$40.0 million	$34.3 million	6.2%	Notes due July 2016, with annual principal payments that began in July 2010.
	$20.0 million	$17.1 million	6.2%	Notes due January 2017, with annual principal payments that began in January 2011.
Japanese yen denominated:	3.1 billion yen	1.3 billion yen ($16.6 million as of June 30, 2011)	1.7%	Notes due April 2014, with annual principal payments that began in April 2008.
	2.3 billion yen	2.3 billion yen ($28.1 million as of June 30, 2011)	2.6%	Notes due September 2017, with annual principal payments beginning September 2011.

	2.2 billion yen	1.9 billion yen ($23.2 million as of June 30, 2011)	3.3%	Notes due January 2017, with annual principal payments that began in January 2011.
2010 committed loan:				
U.S. dollar denominated:	$30.0 million	$27.0 million	Variable 30 day: 1.25%	Amortizes $1.5 million per quarter
2004 $25.0 million revolving credit facility	N/A	None	N/A	Credit facility is due May 2014.
2009 $100.0 million uncommitted multi-currency shelf facility	N/A	None	N/A	

(1) Each of the credit facilities and arrangements listed in the table are secured by guarantees issued by the Company's material domestic subsidiaries and by pledges of 65% of the outstanding stock of the Company's material foreign subsidiaries. The 2010 committed loan is also secured by deeds of trust with respect to our corporate headquarters and distribution center in Provo, Utah.

(2) The current portion of the Company's long-term debt (i.e. becoming due in the next 12 months) includes $9.6 million of the balance of its Japanese yen-denominated debt under the 2003 multi-currency uncommitted shelf facility, $12.4 million of the balance on its U.S. dollar denominated debt under the 2003 multi-currency uncommitted shelf facility and $6.0 million of its 2010 committed loan.

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 to offset dilution from our equity incentive plans and for strategic initiatives. During the first half of 2011, we repurchased 1.1 million shares of Class A common stock under this program for $33.8 million. At June 30, 2011, $119.3 million was available for repurchases under the stock repurchase program.

In February 2011 and May 2011, our board of directors declared a quarterly cash dividend of $0.135 per share for all shares of Class A common stock. These quarterly cash dividends each totaling $8.4 million each were paid on March 16, 2011 and June 15, 2011, to stockholders of record on February 25, 2011 and May 27, 2011, respectively. In July 2011, our board of directors declared a quarterly cash dividend of $0.160 per share for all shares of Class A common stock to be paid September 14, 2011 to stockholders of record on August 26, 2011. Currently, we anticipate that our board of directors will continue to declare quarterly cash dividends and that the cash flows from operations will be sufficient to fund our future dividend payments. However, the continued declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other 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- and long-term basis. We currently believe that existing cash balances, future cash flows from operations and existing lines of credit will be adequate to fund our cash needs on both a short- and long-term basis. The majority of our historical expenses have been variable in nature and as such, a potential reduction in the level of revenue would reduce our cash flow needs. In the event that our current cash balances, future cash flow from operations and current lines of credit are not sufficient to meet our obligations or strategic needs, we would consider raising additional funds in the debt or equity markets or restructuring our current debt obligations. Additionally, we would consider realigning our strategic plans, including a reduction in capital spending, stock repurchases or dividend payments.

Contingent Liabilities

We are currently involved in a dispute with customs authorities in Japan with respect to duty assessments on several of our Pharmanex nutritional products, which is separate and distinct from the dispute discussed above under Gross Profit. The dispute relates to additional customs assessments made by Yokohama Customs for the period of October 2006 through September 2009 in connection with post-importation audits, as well as the disputed portion of our import duties from October 2009 to the present, which we have or will hold in bond or pay under protest. The aggregate amount of these assessments and disputed duties was 3.8 billion Japanese yen as of June 30, 2011 (approximately $46.8 million), net of any recovery of consumption taxes, and increases approximately $3.5 million per quarter. We believe that additional assessments related to any prior period would be barred by applicable statutes of limitations. The issue in this second case is whether a US entity utilizing a commissionaire agent in Japan to import its products can use the manufacturer's invoice or must use another valuation method, and, if an alternative method must be used, what the allowable deductions would be in determining the proper valuation. Following our review of the assessments and after consulting with our legal and customs advisors, we believe that the additional assessments are improper and are not supported by applicable customs laws. We filed letters of protest with Yokohama Customs, which were rejected. We then appealed the matter to the Ministry of Finance in Japan. On May 13, 2011, we received notice that, as we had anticipated, the Ministry of Finance in Japan denied our administrative appeal. We disagree with the Ministry of Finance's administrative decision. We are preparing to pursue the matter through the court system in Japan, which we believe will provide a more independent determination of the matter. In addition, we are currently being required to post a bond or make a deposit equal to the difference between our declared duties and the amount the customs authorities have determined we should be paying on all current imports. Because we believe that the higher rate determined by the customs authorities is an improper application of the regulations, we are currently expensing the portion of the duties we believe is supported under applicable customs law, and recording the additional deposit or payment as a receivable within long-term assets on our consolidated financial statements. To the extent that we are unsuccessful in recovering the amounts assessed and paid or held in bond, we will likely record a non-cash expense for the full amount of the disputed assessments.

Critical Accounting Policies

The following critical accounting policies and estimates should be read in conjunction with our audited Consolidated Financial Statements and related Notes thereto. Management considers our critical accounting policies to be the recognition of revenue, accounting for income taxes, accounting for intangible assets and accounting for stock-based compensation. 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 and preferred customers who are our customers. 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 annual revenue. A reserve for product returns is accrued based on historical experience. We classify selling discounts as a reduction of revenue. Our selling expenses are computed pursuant to our global compensation plan for our distributors, which is focused on remunerating distributors based primarily upon the selling efforts of the distributors and the volume of products purchased by their downlines, and not their personal purchases.

Income Taxes. We account for income taxes in accordance with the Income Taxes Topic of the Financial Accounting Standards Codification. These standards establish financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. We take an asset and liability approach for financial accounting and reporting of income taxes. We pay income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions among our affiliates around the world. Deferred tax assets and liabilities are created in this process. As of June 30, 2011, we had net deferred tax assets of $68.0 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. In certain foreign jurisdictions valuation allowances have been recorded against the deferred tax assets specifically related to use of net operating losses. When we determine that there is sufficient taxable income to utilize the net operating losses, the valuation allowances will be released. In the event we were to determine that we would not be able to realize all or part of our 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.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. We are currently under examination by the United States Internal Revenue Service (the "IRS") for the 2005 through 2008 tax years. With a few exceptions, we are no longer subject to U.S. federal, state and local income tax examination by tax authorities for years before 2005. For the tax year 2009, we entered into a voluntary program with the IRS called Compliance Assurance Process ("CAP").The objective of CAP is to contemporaneously work with the IRS to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. We have elected to continue participating in CAP for 2011 and may elect to continue participating in future tax years; we may withdraw from the program at any time. In major foreign jurisdictions, we are no longer subject to income tax examinations for years before 2004. Along with the IRS examination, we are currently under examination in certain foreign jurisdictions; however, the outcomes of these reviews are not yet determinable.

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

Intangible Assets. Acquired intangible assets may represent indefinite-lived assets, determinable-lived intangibles, or goodwill. Of these, only the costs of determinable-lived intangibles are amortized to expense over their estimated life. The value of indefinite-lived intangible assets and residual goodwill is not amortized, but is tested at least annually for impairment. Our impairment testing for goodwill is performed separately from our impairment testing of indefinite-lived intangibles. We test goodwill for impairment, at least annually, by reviewing the book value compared to the fair value at the reportable unit level. We test individual indefinite-lived intangibles at least annually by reviewing the individual book values compared to the fair value. Considerable management judgment is necessary to measure fair value. We did not recognize any impairment charges for goodwill or intangible assets during the periods presented.

Stock-Based Compensation. All share-based payments to employees are recognized in the financial statements based on their fair values using an option-pricing model at the date of grant. We use a Black-Scholes-Merton option-pricing model to calculate the fair value of options. Stock based compensation expense is recognized net of any estimated forfeitures on a straight-line basis over the requisite service period of the award.

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 sales representatives in China who have completed a qualification process.

	As of June 30, 2011		As of June 30, 2010	
Region:	Active	Executive	Active	Executive
North Asia	331,000	15,127	327,000	14,286
Greater China	130,000	9,580	114,000	8,398
Americas	65,000	5,185	169,000	5,528
South Asia/Pacific	91,000	4,499	74,000	3,630
Europe	110,000	3,917	102,000	3,664
Total	827,000	38,308	786,000	35,506

Currency Risk and Exchange Rate Information

A majority of our revenue and many of our expenses are recognized outside of the United States, except for inventory purchases, 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. Given the large portion of our business derived from Japan, any weakening of the yen negatively impacts reported revenue and profits, whereas a strengthening of the yen positively impacts our reported revenue and profits. Given the uncertainty of exchange rate fluctuations, it is difficult to predict the effect of these fluctuations on our future business, product pricing and results of operation or financial condition. However, based on current exchange rate levels, we currently anticipate that foreign currency fluctuations will have a slightly positive impact on reported revenue in 2011.

We may 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. At June 30, 2011, we held forward contracts designated as foreign currency cash flow hedges with notional amounts totaling approximately 5.3 billion Japanese yen ($65.8 million as of June 30, 2011) and 500,000 Euros ($0.7 million as of June 30, 2011). At June 30, 2010, we did not hold any forward contracts to hedge foreign-currency-denominated debt payments.

Note Regarding Forward-Looking Statements

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words “may,” “will,” “estimate,” “intend,” “plan,” “continue,” “believe “expect” or “anticipate” and any other similar words.

We wish to caution readers that although we believe that the expectations reflected in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. 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, except as required by law. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed or incorporated by reference in our filings with the Securities and Exchange Commission. Some of the risks and uncertainties that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in our forward-looking statements include, among others, the following:

(a) Global economic conditions continue to be challenging. Although there are modest signs of economic recovery, it is not possible for us to predict the extent and timing of any improvement in global economic conditions. Even with continued growth in many of our markets during this period, the economic downturn could adversely impact our business in the future by causing a decline in demand for our products, particularly if the economic conditions are prolonged or worsen. In addition, such economic conditions may adversely impact access to capital for us and our suppliers, may decrease our distributors' ability to obtain or maintain credit cards, and may otherwise adversely impact our operations and overall financial condition.

(b) Due to the international nature of our business, we are exposed to the fluctuations of numerous currencies. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenue and expenses in our markets outside the United States from their local currencies into U.S. dollars using weighted average exchange rates. Our results could be negatively impacted if the U.S. dollar strengthens relative to these currencies. In addition, our business may be negatively impacted by inflation, currency exchange restrictions, pricing controls and currency devaluation, especially in countries such as Venezuela.

(c) We have experienced revenue declines in Japan over the last several years and continue to face challenges in this market. If we are unable to stabilize or renew growth in this market our results could be harmed. Factors that could impact our results in the market include:

- risks related to general disruption and market conditions following the recent disasters in Japan and the risk that the resulting impact on our operations in that market and on the ability of our independent distributors to maintain or reestablish their business and sponsoring activities may negatively impact our revenues more than anticipated;
- continued or increased levels of regulatory and media scrutiny and any regulatory actions taken by regulators, or any adoption of more restrictive regulations, in response to such scrutiny;
- any weakening of the Japanese yen;
- regulatory constraints with respect to the claims we can make regarding the efficacy of products and tools, which could limit our ability to effectively market them;

- risks that the initiatives we have implemented in Japan, which are patterned after successful initiatives implemented in other markets, will not have the same level of success in Japan, may not generate renewed growth or increased productivity among our distributors, and may cost more or require more time to implement than we have anticipated;
- inappropriate activities by our distributors and any resulting regulatory actions;
- any increased weakness in the economy or consumer confidence; and
- competitive pressures from other direct selling companies and their distributors who actively seek to solicit our distributors to join their businesses.

(d) Distributor activities that violate applicable laws or regulations could result in government or third party actions against us. We have experienced an increased level of general inquiries regarding our company and complaints to consumer protection centers in Japan and have taken steps to try to resolve these issues. We have received warnings from consumer centers in certain prefectures raising concerns about the number of general inquiries and complaints regarding our company. Although we continue to implement additional steps to reinforce our distributor compliance, education and training efforts in Japan, we cannot be sure that such efforts will be successful. If consumer complaints and inquiries escalate to a government review or if the current level of complaints and inquiries does not improve, there is an increased likelihood that regulators could take action against us, including a suspension of our sponsoring activities, or we could receive negative media attention, either of which could harm our business.

(e) 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 fines being paid in some cases. Even though we have obtained direct selling licenses in a limited number of provinces, government regulators continue to scrutinize our activities and the activities of our employed sales representatives, contractual sales promoters and direct sellers to monitor our compliance with applicable regulations as we integrate direct selling into our business model. Any determination that our operations or activities, or the activities of our employed sales representatives, contractual sales promoters or direct sellers, are not in compliance with applicable regulations, could result in the imposition of substantial fines, extended interruptions of business, termination of necessary licenses and permits, including our direct selling licenses, or restrictions on our ability to open new stores or obtain approvals for service centers or expand into new locations, all of which could harm our business.

(f) The direct selling regulations in China are restrictive and there continues to be some confusion and uncertainty as to the meaning of the 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 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, contractual sales promoters and direct sellers violates these regulations. In particular, our business would be harmed by any determination that our current method of compensating our employed sales representatives and contractual sales promoters, including our use of the sales productivity of an individual and the group of individuals whom he or she trains and supervises in establishing salary and compensation, violates the restriction on multi-level compensation under the rules. Our business could also be harmed if regulators inhibit our ability to concurrently operate our business model, which includes retail stores, employed sales representatives, contractual sales promoters and direct sellers.

(g) 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. In addition, in our more mature markets, one of the challenges we face is keeping distributor leaders with established businesses and high income levels motivated and actively engaged in business building activities and in developing new distributor leaders. There can be no assurance that our initiatives will continue to generate excitement among our distributors in the long-term or that planned initiatives will be successful in maintaining distributor activity and productivity or in motivating distributor leaders to remain engaged in business building and developing new distributor leaders. For example, over the last several months we have experienced some softness in our active and executive distributor numbers in the United States. If our initiatives for 2011 do not drive growth in our distributor numbers, particularly in the United States and Japan where our distributors numbers have been down, our operating results could be harmed.

(h) There have been a series of third party actions and governmental actions involving some of our competitors in the direct selling industry. These actions have generated negative publicity for the industry and likely have resulted in increased regulatory scrutiny of other companies in the industry. In addition, Belgium authorities have alleged that we violated anti-pyramid regulations in that market. Adverse rulings in any of these cases could harm our business if they create adverse publicity or interpret laws in a manner inconsistent with our current business practices.

(i) 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. Negative publicity concerning 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 new regulations applicable to our business that limit our ability to market such products or impose additional requirements on us, our revenue and profitability may be harmed.

(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. In addition, if we are not able to accurately forecast sales levels on a market by market basis, or are unable to produce a sufficient supply to meet such demand globally, we could have stock outs which could negatively impact enthusiasm of our distributors.

(k) Historically, most of our products have been imported from the United States 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 may be subject to prospective or retrospective increases in duties on our products imported into our markets outside of the United States, which could adversely impact our results. As discussed above under the heading “Liquidity and Capital Resources,” we are currently appealing assessments of duties by Yokohama Customs in Japan. In addition, we are currently required to pay duties in excess of what we believe are supported by applicable customs law, and we record the additional payment as a long-term asset. If we are not able to resolve these assessments and ongoing duties, we could be required to take large charges to our earnings.

Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other SEC regulations define and prescribe the conditions for use of certain non-GAAP financial information. Our measures of earnings per share, gross profit and net income, each excluding the Japan customs expense, meet the definition of non-GAAP financial measures. Earnings per share, gross profit and net income, each excluding the Japan customs expense, are used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures.

Management believes these non-GAAP financial measures assist management and investors in evaluating, and comparing from period to period, results from ongoing operations in a more meaningful and consistent manner while also highlighting more meaningful trends in the results of operations.

The following is a reconciliation of gross profit, as reported, to gross profit excluding Japan customs expenses for the six months ended June 30, 2011 and 2010 (in thousands):

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenue	$820,271	$752,486
Gross profit	$648,449	$619,716
Japan customs expense	32,754	
Gross profit, excluding Japan customs expense	$681,203	$619,716
Gross profit, excluding Japan customs expense, as a % of revenue	83.0%	
Gross profit as a % of revenue	79.1%	82.4%

The following is a reconciliation of net income and diluted earnings per share, as reported, to net income and diluted earnings per share excluding Japan customs expenses for the six months ended June 30, 2011 and 2010 (in thousands):

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$57,009	$63,432
Japan customs expense	32,754	
Tax effect of Japan customs expense	(12,099)	
Net income, excluding Japan customs expense	$77,664	$63,432
Diluted earnings per share, excluding Japan customs expense	$1.21	
Diluted earnings per share	$0.89	$0.98

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 3 of Part I of Form 10-Q is incorporated herein by reference from the section entitled “Currency Risk and Exchange Rate Information” in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation” of Part I and also in Note 4 to the Financial Statements contained in Item 1 of Part I of this Quarterly Report on Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer 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 Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, our disclosure controls and procedures were effective as of June 30, 2011.

Changes in internal controls over financial reporting.

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the most recent fiscal quarter covered by this report, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Please refer to our recent SEC filings, including our Annual Report on Form 10-K for the 2010 fiscal year and subsequent Quarterly Report on Form 10-Q, for information regarding the status of certain legal proceedings that have been previously disclosed.

On May 13, 2011, we received notice that, as we had anticipated, the Ministry of Finance in Japan denied our administrative appeal of additional customs assessments made by Yokohama Customs for the period of October 2006 through September 2009 in connection with post-importation audits, as well as the disputed portion of the Company's import duties from October 2009 to the present. We disagree with the Ministry of Finance's administrative decision. We are preparing to pursue the matter through the court system in Japan, which we believe will provide a more independent determination of the matter.

ITEM 1A. RISK FACTORS

The information presented below supplements and should be read in conjunction with the detailed discussion of risks associated with our business in our recent SEC filings, including our Annual Report on Form 10-K for the 2010 fiscal year and subsequent Quarterly Report on Form 10-Q.

New regulations governing the marketing and sale of nutritional supplements could harm our business.

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. In the United States, for example, some legislators and industry critics continue to push for increased regulatory authority by the FDA over nutritional supplements. Our business could be harmed if more restrictive legislation is successfully introduced and adopted in the future. For example, the FDA has recently proposed draft guidance for the industry to clarify the FDA's interpretation of the new dietary ingredient notification requirements. This draft guidance is not final but appears to indicate that the FDA is expanding its definition of what is considered a "new dietary ingredient" in the United States. The industry is providing comments and working with the FDA to modify this guidance, however, if enacted in final form as proposed this guidance could impose new and significant regulatory barriers for our nutritional supplement products, many of which could delay or inhibit our ability to formulate, introduce and sell nutritional supplements as we have in the past. We face similar pressures in our other markets, including Europe, which is expected to adopt additional regulations setting new limits on acceptable maximum levels of vitamins and minerals. In the United States, effective December 1, 2009, the FTC approved revisions to its Guides Concerning the Use of Endorsements and

Testimonials in Advertising, or Guides, that require disclosure of material connections between an endorser and the company they are endorsing and do not allow marketing using atypical results. The requirements and restrictions of the revised Guides may diminish the impact of our marketing efforts and negatively impact our sales results. If we or our distributors fail to comply with these Guides, the FTC could bring an enforcement action against us and we could be fined and/or forced to alter our operations. Our operations also could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute nutritional supplements or impose additional burdens or requirements on nutritional supplement companies or require us to reformulate our products.

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)(1)
April 1 – 30, 2011	217,600	$ 29.44	217,600	$ 145.9
May 1 – 31, 2011	40,000	$ 33.46	40,000	$ 141.0
June 1 – 30, 2011	112,314	$ 36.62	112,100	$ 119.3
Total	369,914(2)			

---

(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 $485.0 million is currently authorized. As of June 30, 2011, we had repurchased approximately $365.7 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 and distributors in certain foreign markets because of regulatory and other issues that make it difficult or 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, 214 relate to repurchases from such employees and distributors at an average price per share of $37.84.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

(a) As previously reported in a Form 8-K filed May 31, 2011, at our Annual Meeting of Stockholders on May 24, 2011, a plurality of our stockholders voted in favor of one year as the frequency of stockholder advisory votes on our executive compensation. Accordingly, until the next stockholder advisory vote on the frequency of stockholder advisory votes on our executive compensation, we intend to hold a stockholder advisory vote on our executive compensation annually.

(b) As previously reported in a Form 8-K filed July 22, 2011, on July 18, 2011 our Board of Directors adopted an amendment and restatement of our bylaws (the “Second Amended and Restated Bylaws”), which, among other amendments, modified provisions regarding advance notice requirements for stockholders to make director nominations, including shortening the advance notice period from 120 days to 90 days for nominations not included in our proxy statement and identifying specific information that must be provided by the nominating stockholder. The Second Amended and Restated Bylaws are filed as Exhibit 3.1 to this quarterly report on Form 10-Q and are incorporated by reference.

ITEM 6. EXHIBITS

Exhibits Regulation S-K Number	Description
3.1	Second Amended and Restated Bylaws of Nu Skin Enterprises, Inc.
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 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.

August 4, 2011

NU SKIN ENTERPRISES, INC.

By:	/s/ Ritch N. Wood
	Ritch N. Wood
Its:	Chief Financial Officer
	(Duly Authorized Officer and
	Principal Financial and
	Accounting Officer)