

NU SKIN ENTERPRISES INC
Form 10-K
February 27, 2009

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

FORM 10-K

(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, 2008

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

(State or other jurisdiction of incorporation)

87-0565309

(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:

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
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 the Securities Act. Yes No

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

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

Indicate by check mark 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

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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 large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

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 Act). Yes No

Based on the closing sales price of the Class A common stock on the New York Stock Exchange on June 30, 2008, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$737.2 million. All executive officers and directors of the Registrant, and all stockholders holding more than 10% of Registrant's outstanding voting stock, other than institutional investors, such as registered investment companies, eligible to file beneficial ownership reports on Schedule 13G, have been deemed, solely for the purpose of the foregoing calculation, to be affiliates of the Registrant.

As of February 17, 2009, 63,357,374 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 2009 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.

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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 OPERATION, 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 AND INITIATIVES, 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, EXCEPT AS REQUIRED BY LAW. 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 22.

In this Annual Report on Form 10-K, references to dollars and \$ are to United States dollars. Nu Skin and Pharmanex 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 48 markets worldwide. We develop and distribute innovative, premium-quality personal care products and nutritional supplements that are sold under the Nu Skin and Pharmanex brands. We conduct business using a direct selling model in all of our markets with the exception of Mainland China (hereinafter "China") where we operate through a modified business model.

In 2008, we posted revenue of \$1.2 billion. As of December 31, 2008, we had a global network of approximately 761,000 active independent distributors, sales representatives, and preferred customers, approximately 31,000 of whom were executive level distributors (including sales representatives in China). Our executive level distributors play an important leadership role in our distribution network and are critical to the growth and profitability of our business.

Approximately 85% of our 2008 revenue came from markets outside the United States. Japan accounted for approximately 36% of our 2008 total revenue and is our largest revenue market. Due to the size of our foreign operations, our results are often impacted positively or negatively by foreign currency fluctuations, particularly fluctuations in the Japanese yen. In addition, our results are impacted by global economic, political and general business conditions.

We develop and market branded consumer products that we believe are well suited for direct selling. Our distributors sell our products by educating consumers about the benefits and distinguishing characteristics of our products and by offering personalized customer service. Leveraging our research and development efforts, we continually develop and introduce new products that enhance our product portfolio. We attempt to attract and motivate high-caliber, independent distributors because of our focus on product innovation, our generous global compensation plan, and our distributor support programs.

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

Strategies

As we work to grow our business, we are focused on the following three key strategies:

introducing unique tools and initiatives;

developing compelling and innovative products under distinct brands; and

offering motivating and rewarding distributor incentives.

Unique Tools. We remain committed to providing unique tools and initiatives that help demonstrate our difference, motivate distributors, and aid in recruiting and product sales. We are focused on tools and initiatives that provide demonstrable results or evidence of our product efficacy. Throughout 2008, we benefited from strong interest in our *Galvanic Spa System II*, a handheld spa unit that uses galvanic current. Our distributors can easily demonstrate the benefits of the *Galvanic Spa System II* through product demonstrations. Our distributors typically introduce the *Galvanic Spa System II* by having them use the *Galvanic Spa System II* on half of their face as a demonstration. Consumers can see immediate benefits to the appearance of their skin following this demonstration. Our distributors also utilize our *Pharmanex BioPhotonic Scanner*, a portable unit based on patented technologies that allows distributors to non-invasively measure the impact of our nutritional products, particularly our *LifePak* line of nutritional products.

Innovative Products. Compelling and innovative products are vital to our success as they help attract distributors and customers. Our distributors use the innovative features of our products to build successful sales organizations and attract new customers. Our product philosophy is largely based on anti-aging and we believe we have a competitive advantage in this area through our product offerings. We believe we are one of only a few direct selling companies that has successfully built brand equity in both skin care and nutrition, both key anti-aging categories. Key anti-aging products include:

Galvanic Spa Gels with *ageLOC*, our newest anti-aging product that is used with our *Galvanic Spa System II* and incorporates our innovative *ageLOC* technology;

Tru Face Essence and *Tru Face Essence Ultra*, anti-aging products featuring the ingredient Ethocyn which helps to minimize the natural loss of skin elastin and improve skin tone;

LifePak, a family of anti-aging nutritional supplement products aimed at providing optimal levels of antioxidants, phytonutrients, vitamins, minerals and other vital ingredients that help promote general wellness;

g3, a nutrient-rich juice blend containing a highly bioavailable mix of carotenoid antioxidants and micronutrients with a natural delivery system called lipocarotenes;

Nu Skin 180° Anti-aging Skin Therapy System, designed to combat the visible signs of aging, specifically facial lines and wrinkles; and

MyVictory! and *The Right Approach (TRA)*, weight management systems focus on controlling cravings while boosting metabolism.

Distributor Incentives. We are committed to providing generous compensation and incentives to our distributors in order to motivate them and reward them for distributing our products. We believe our global sales compensation plan is one of our competitive advantages and we often refine our plan and add enhancements to help our distributors grow their businesses. For example, during the year ended December 31, 2008, we launched enhancements to our compensation plan in select markets. These enhancements are targeted at providing additional commissions and early income for new distributors who are interested in building their sales organizations and rewards positive business building behavior. We also offer incentive trips and recognition events for distributors that reach key levels in our compensation plan. In addition, we have continued to expand and promote product subscription and loyalty programs in many of our markets that provide incentives for customers who commit to purchase a set amount of products on a recurring basis. We believe that these programs, along with a concerted focus on global compensation plan alignment and an increased level of distributor recognition, goal setting and accountability, will help motivate our distributors to drive revenue growth.

Our Product Categories

We have multiple product categories, each operating under its own brand. We market our premium-quality personal care products under the Nu Skin brand and our science-based nutritional supplements under the Pharmanex brand. We also offer technology-based products and services under different brands.

Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of Nu Skin, Pharmanex, and other products and services for the years ended December 31, 2006, 2007, and 2008. This table should be read in conjunction with the information presented in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation*, 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,								
	2006		2007		2008				
Nu Skin	\$	454.5	40.8%	\$	498.5	43.0%	\$	633.4	50.8%
Pharmanex		632.7	56.7		634.2	54.8		597.7	47.9
Other		28.2	2.5		25.0	2.2		16.5	1.3
	\$	1,115.4	100.0%	\$	1,157.7	100.0%	\$	1,247.6	100.0%

⁽¹⁾ In 2008, 85% of our sales were transacted in foreign currencies that were then converted to U.S. dollars for financial reporting purposes at weighted-average exchange rates. Foreign currency fluctuations negatively impacted reported revenue by approximately 3% in 2008 compared to 2007, and positively impacted reported revenue by approximately 1% in 2007 compared to 2006.

Nu Skin. Nu Skin is our original product line and offers premium-quality personal care products in the areas of core systems, targeted treatments, total care, cosmetics and our specialty botanical-based Epoch line. 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 develop and incorporate innovative and proven ingredients. In 2008, we launched *Galvanic Spa Gels* with *ageLOC*, the first products that incorporate our innovative *ageLOC* technology. The products that incorporate this technology have been developed to address not only the outward signs of aging, but also the sources of aging in the skin. We plan a global rollout of *ageLOC* later this year at our global convention in a new daily skin care system.

In addition to marketing premium-quality personal care products, we are committed to developing tools to help distributors market our products more effectively. The *Galvanic Spa System II*, which was first introduced in 2002, is a great direct selling product because our distributors can easily demonstrate the benefits of this tool. This helps them to recruit new customers and distributors. The *Galvanic Spa System*

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II has experienced strong growth during the last 24 months as sales have risen from \$7.5 million in the first quarter of 2007 to \$52.0 million in the fourth quarter of 2008. In 2008, revenue from the sales of the *Galvanic Spa System II* and *Galvanic Spa Gels* accounted for 13% of our total revenue and 26% of Nu Skin revenue.

The following table summarizes our Nu Skin product line by category:

Category	Description	Selected Products
Core Systems	Regardless of skin type, our core systems provide a solid foundation for our customers' individual skin care needs. Our systems are developed to target specific skin concerns and are made from ingredients scientifically proven to provide visible results for concerns ranging from aging to acne.	<i>Nu Skin 180° Anti-Aging Skin Therapy System</i> <i>Nu Skin Tri-Phasic White</i> <i>Nutricentials</i> <i>Nu Skin Clear Action Acne Medication System</i>
Targeted Treatments	Our customized skin care line allows a customer to tailor product regimens that help deliver younger looking skin at any age. The products are developed using cutting-edge ingredient technologies that target specific skin care needs.	<i>Nu Skin Galvanic Spa System II</i> <i>Galvanic Spa Gels with ageLOC</i> <i>Tru Face Essence Ultra</i> <i>Tru Face Line Corrector</i> <i>Enhancer Skin Conditioning Gel</i> <i>Celltrex Ultra Recovery Fluid</i> <i>Celltrex CoQ10 Complete</i> <i>NAPCA Moisturizer</i> <i>Polishing Peel Skin Refinisher</i>

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Category	Description	Selected Products
Total Care	Our total care line addresses body, hair and oral care. The total care line can be used by families and the products are designed to deliver superior benefits from head to toe for the ultimate sense of total body wellness.	<i>Body Bar</i> <i>Liquid Body Lufra</i> <i>Perennial Intense Body Moisturizer</i> <i>Dividends Men's Care</i> <i>AP-24 Dental Care</i> <i>Nu Skin Renu Hair Mask</i>
Cosmetic	The <i>Nu Colour</i> cosmetic line products are targeted to define and highlight your natural beauty.	<i>Tinted Moisturizer SPF 15</i> <i>Finishing Powder</i> <i>Contouring Lip Gloss</i> <i>Defining Effects Mascara</i>
Epoch	Our <i>Epoch</i> line is distinguished by utilizing traditional knowledge of indigenous cultures for skin care. Each <i>Epoch</i> product is formulated with botanical ingredients derived from renewable resources found in nature. In addition, we contribute a percentage of our proceeds from <i>Epoch</i> sales to charitable causes.	<i>Baobab Body Butter</i> <i>Sole Solution Foot Treatment</i> <i>Calming Touch Soothing Skin Cream</i> <i>Glacial Marine Mud</i> <i>IceDancer Invigorating Leg Gel</i> <i>Everglide Foaming Shave Gel</i> <i>Ava puhi moni Shampoo</i> <i>Epoch Baby Hibiscus Hair & Body Wash</i>

Pharmanex. We market a variety of nutritional products comprised of comprehensive nutritional products, targeted solution supplements and weight management products under the Pharmanex brand. We also sell a nutritious meal product called *Vitameal* that can be purchased and donated through our Nourish the Children initiative to feed starving children in various locations throughout the world or purchased for personal food storage. *LifePak*, our flagship line of micronutrient supplements, accounted for 20% of our total revenue and 41% of Pharmanex revenue in 2008.

Direct selling has proven to be an extremely effective method of marketing our high-quality nutritional supplements because our distributors can personally educate consumers on the quality and benefits of our products, differentiating them from our competitors' offerings. Our strategy for expanding the nutritional supplement business is to introduce innovative, substantiated products based on extensive research and development and quality manufacturing. Our product development efforts focus in the areas of anti-aging, weight management, and general

nutrition.

In 2003, we launched the *Pharmanex BioPhotonic Scanner*, a cutting edge tool that safely measures carotenoid antioxidant levels in the skin, serving as a general indicator of a person's overall antioxidant status. This tool is used globally in our business, and is utilized by our distributors. Several improvements and enhancements have been made to the unit since its introduction.

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The following table summarizes our Pharmanex product line by category:

Category	Description	Selected Products
Nutritionals	Pharmanex nutritional products supply a broad spectrum of micronutrients that our bodies need as a foundation for a lifetime of optimal health. Our <i>LifePak</i> family of products along with our <i>g3</i> superfruit juice are the top-selling products in our nutritionals line.	<i>LifePak</i> family of products <i>g3</i> juice
Solutions	Our targeted solutions supplements contain standardized levels of botanical and other active ingredients that are formulated for consumers to meet the demands of everyday life.	<i>Tegreen 97</i> <i>ReishiMax GLp</i> <i>MarineOmega</i> <i>Cholestin</i> <i>CordyMax Cs-4</i> <i>Cortitrol</i> <i>Detox Formula</i> <i>Eye Formula</i>
Weight Management	Our weight loss management products include supplements as well as meal replacement shakes.	<i>The Right Approach (TRA)</i> weight management system <i>MyVictory!</i> weight management program
Vitameal	A highly nutritious meal that can be purchased and donated through our Nourish the Children initiative to feed starving children or purchased for personal food storage.	<i>Vitameal</i>

Other. We also offer simple and innovative technology products and services under the Big Planet and other brands. These products include digital content, storage and related services we market under the *Maxvault* name, digital video services we market under the *Maxcast* name, and other technology related products. We also have integrated technology into our other areas of our business and offer other advanced tools and services that help distributors establish an online presence and manage their business.

We also market a small line of home care products under the Ecosphere brand, designed to clean and protect the home environment, which include water purifiers, filtering showerheads and surface wipes. These products are primarily distributed in our Asian markets.

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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 and manufacturers that we believe are reliable, reputable and deliver high quality materials and service. Our *Galvanic Spa System II* is procured from a single vendor who owns certain patent rights associated with such product. In the event our relationship with this vendor were terminated, we would be required to develop a new galvanic unit and source it from another supplier. We also acquire ingredients and products from one other supplier that currently manufactures products that represent approximately 21% of our Nu Skin personal care revenue in 2008. We maintain a good relationship with our suppliers and do not anticipate that either party will terminate the relationship in the near term. We also have ongoing relationships with secondary and tertiary suppliers. *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.*

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We also established a production facility in Shanghai, where we currently manufacture our personal care products sold through our retail stores in China, as well as a small portion of product exported to select other markets. We believe that 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 or as a back up to our existing supply chain.

Pharmanex. Substantially all of our Pharmanex nutritional supplements and ingredients, including *LifePak*, are produced or provided by third-party suppliers and manufacturers. We rely on two partners for the majority of our Pharmanex products, one of which supplies products that represent approximately 40% of our nutritional supplement revenue while the other supplier manufactures products that represent approximately 18% of our nutritional supplement revenue in 2008. 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 in Zhejiang Province, China, where we produce some of our Pharmanex nutritional supplements for sale in China and herbal extracts used to produce *Tegreen 97*, *ReishiMax GLp* and other products sold globally.

Research and Development

We continually invest in our research and development capabilities. Our research and development expenditures were \$8.7 million, \$10.0 million and \$9.6 million in 2006, 2007 and 2008, respectively. Because of our commitment to product innovation, we will continue to commit resources to research and development in the future.

Our primary research and testing laboratory, adjacent to our office complex in Provo, Utah, houses both Pharmanex and Nu Skin research facilities and professional and technical personnel. We also maintain research facilities in China. Much of our Pharmanex research to date is conducted in China, where we benefit from a well-educated, low-cost, scientific 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 have joint research projects with numerous independent scientists, including scientific advisory boards comprised of recognized authorities in related disciplines for each of our nutritional and personal care product categories. We also enter into joint research projects 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 include Purdue University, Stanford University, Vanderbilt University, and Tufts University.

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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 for innovative and proprietary offerings.

Geographic Sales Regions

We currently sell and distribute our products in 48 markets. We have segregated our markets into five geographic regions: North Asia, Americas, Greater China, Europe, and South Asia/Pacific. The following table sets forth the revenue for each of the geographic regions for the years ended December 31, 2006, 2007 and 2008:

<i>(U.S. dollars in millions)</i>	Year Ended December 31,								
	2006			2007		2008			
North Asia	\$	593.8	53%	\$	585.8	50%	\$	594.5	48%
Americas		165.9	15		188.3	16		223.9	18
Greater China		208.2	19		205.0	18		210.0	17
Europe		59.5	5		77.2	7		111.6	9
South Asia/Pacific		88.0	8		101.4	9		107.6	8
	\$	1,115.4	100%	\$	1,157.7	100%	\$	1,247.6	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 opened, 2008 revenue, and the percentage of our total 2008 revenue for each market:

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<i>(U.S. dollars in millions)</i>	Year Opened	2008 Revenue	Percentage of 2008 Revenue
Japan	1993	\$ 443.7	36%
South Korea	1996	\$ 150.8	12%

Japan is our largest market and accounted for approximately 36% of total revenue in 2008. We market most of our Nu Skin and Pharmanex products in Japan, along with a limited number of other offerings. In addition, all product categories offer a limited number of locally developed products sold exclusively in our Japanese market. In 2008, we introduced *LifePak Nano EX* and *Tru Face Essence Ultra*, which have proven successful in other markets. In addition, we developed marketing programs surrounding the *Galvanic Spa System II*. In 2009, we have plans to introduce our new *ageLOC* technology anti-aging brand into the market with the launch of several new anti-aging products.

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The direct selling environment in Japan continues to be difficult as the industry has been on the decline for several years and regulatory and media scrutiny have increased. *Please refer to Government Regulation and Item 1A. Risk Factors for a discussion of risks and uncertainties associated with challenges in the Japan market.*

In South Korea, we offer most of our Nu Skin and Pharmanex products, along with a limited number of other offerings. Product introductions for 2008 included the launch of *Estera* and *Tru Face Essence Ultra*. In 2009, we plan to introduce *Prostate Formula* and *New Hair Care*.

Americas. The following table provides information on each of the markets in the Americas region, including the year opened, 2008 revenue, and the percentage of our total 2008 revenue for each market:

<i>(U.S. dollars in millions)</i>	Year Opened	2008 Revenue	Percentage of 2008 Revenue
United States	1984	\$ 192.1	15%
Canada	1990	\$ 16.2	1%
Latin America ⁽¹⁾	1994	\$ 15.6	1%

⁽¹⁾ Latin America includes Brazil, Costa Rica, El Salvador, Guatemala, Honduras, Mexico and Venezuela.

Substantially all of our Nu Skin and Pharmanex products, as well as limited other products and services, are available for sale in the United States. In 2008, we introduced the *ageLOC* technology anti-aging brand with the introduction of *Galvanic Spa Gels*. In 2009, we will begin company authorized business activity in Colombia to assess the potential of this market for future opening and business infrastructure.

Greater China. The following table provides information on each of the markets in the Greater China region, including the year opened, 2008 revenue, and the percentage of our total 2008 revenue for each market:

<i>(U.S. dollars in millions)</i>	Year Opened	2008 Revenue	Percentage of 2008 Revenue
Taiwan	1992	\$ 92.3	7%
China	2003	\$ 65.3	5%
Hong Kong	1991	\$ 52.4	4%

Our Hong Kong and Taiwan markets operate using our global direct selling business model and global compensation plan. We offer a robust product offering of the majority of our Nu Skin and Pharmanex products and limited other products and services in Hong Kong and Taiwan. Approximately half 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 helped streamline 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. We also sell a select number of Pharmanex products, including our number one nutritional product, *LifePak*.

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We currently are unable to fully 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 that utilizes an employed sales force and service contractors to sell products through fixed locations that we are supplementing with a single level direct sales opportunity in those locations where we have obtained a direct sales license. In addition, we have recently begun engaging contracted sales promoters to sell products through our retail stores. We rely on our 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 sales force, to educate them about our products through frequent training meetings, and to obtain repeat purchases. 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 also continue to implement a direct sales opportunity that allows us to engage independent distributors who can sell products away from our retail stores. We have received licenses and approvals to engage in direct selling activities in the municipalities of Shanghai, Beijing and in four cities in the Guangdong province, and we continue to work to obtain the necessary approvals in other locations in China. The direct selling licenses allow us to engage an entry-level, non-employee sales force that can sell products away from fixed retail locations. Our current direct sales model is structured in a manner that we believe is complementary to our existing retail sales model. Our independent direct sellers, for example, can transition into our retail model and become sales promoters or employees, which can provide them with a more rewarding income opportunity.

Beginning in early 2008, we made significant changes to our China business and infrastructure as we decided to change our strategy for operating retail stores in order to operate more effectively and efficiently by focusing our business around plaza stores in major cities. As part of this plan, we closed down approximately 70 retail stores scattered throughout the country and terminated approximately 650 corporate employees.

Europe. The following table provides information on our Europe region, including the year opened, revenue for 2008, and the percentage of our total 2008 revenue for the region.

<i>(U.S. dollars in millions)</i>	Year Opened	2008 Revenue	Percentage of 2008 Revenue
Europe ⁽¹⁾	1995	\$ 111.6	9%

⁽¹⁾ Europe includes Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Iceland, Israel, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, South Africa, Spain, Sweden, Switzerland, and the United Kingdom.

We currently operate and offer a full range of Nu Skin and Pharmanex products in 25 countries throughout Northern, Eastern, and Central Europe as well as in Israel and South Africa. Various products and distributor tools have contributed to Europe's recent success, including the *Galvanic Spa System II*, the *Pharmanex BioPhotonic Scanner*, and *g3*. We have been experiencing strong growth in Central and Eastern European markets. In 2008, we opened operations in South Africa and the Czech Republic. In 2009, we will begin company authorized business activity in Turkey and Ukraine to assess the potential of these markets for future opening and business infrastructure.

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South Asia/Pacific. The following table provides information on each of the markets in the South Asia/Pacific region, including the year opened, 2008 revenue, and the percentage of our total 2008 revenue for each market:

<i>(U.S. dollars in millions)</i>	Year Opened	2008 Revenue	Percentage of 2008 Revenue
Singapore/Malaysia/Brunei	2000/2001/2004	\$ 43.8	3%
Thailand	1997	\$ 34.6	3%
Australia/New Zealand	1993		