NU SKIN ENTERPRISES INC
Form 10-Q
November 08, 2010

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 SEPTEMBER 30, 2010

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

(§232.405 of this chapter) 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 (check one):

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 October 31, 2010, 62,126,553 shares of the registrant's Class A common stock, $.001 par value per share, were outstanding.

NU SKIN ENTERPRISES, INC.

2010 FORM 10-Q QUARTERLY REPORT – THIRD QUARTER

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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)

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$197,627	$158,045
Accounts receivable	29,132	22,513
Inventories, net	118,283	105,661
Prepaid expenses and other	58,374	51,724
	403,416	337,943
Property and equipment, net	95,416	79,356
Goodwill	112,446	112,446
Other intangible assets, net	79,311	81,968
Other assets	129,121	136,736
Total assets	$819,710	$748,449
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$28,763	$25,292
Accrued expenses	146,934	124,520
Current portion of long-term debt	38,116	35,400
	213,813	185,212
Long-term debt	107,300	121,119
Other liabilities	67,450	66,431
Total liabilities	388,563	372,762
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	250,912	232,219
Treasury stock, at cost – 28.6 million and 27.8 million shares	(474,123)	(433,567)
Retained earnings	720,387	645,078
Accumulated other comprehensive loss	(66,120)	(68,134)
	431,147	375,687

Total liabilities and stockholders’ equity	$819,710	$748,449

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

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue	$383,553	$334,242	$1,136,039	$953,005
Cost of sales	68,755	62,108	201,525	176,551
Gross profit	314,798	272,134	934,514	776,454
Operating expenses:				
Selling expenses	162,402	140,585	477,403	402,326
General and administrative expenses	99,501	89,794	298,938	266,824
Restructuring charges		812		11,759
Total operating expenses	261,903	231,191	776,341	680,909
Operating income	52,895	40,943	158,173	95,545
Other income (expense), net	(674)	(2,833)	(7,347)	(3,187)
Income before provision for income taxes	52,221	38,110	150,826	92,358
Provision for income taxes	16,932	12,539	52,105	32,832
Net income	$35,289	$25,571	$98,721	$59,526
Net income per share (Note 2):				
Basic	$.57	$.41	$1.58	$.94
Diluted	$.55	$.40	$1.53	$.93
Weighted-average common shares outstanding:				
Basic	61,971	62,912	62,443	63,108
Diluted	64,065	63,885	64,584	63,803

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

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net income	$98,721	$59,526
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,573	21,353
Foreign currency (gains)/losses	3,350	(1,862)
Stock-based compensation	7,739	6,400
Deferred taxes	(1,084)	7,832
Changes in operating assets and liabilities:		
Accounts receivable	(8,492)	(3,990)
Inventories, net	(8,739)	7,011
Prepaid expenses and other	(4,001)	(3,582)
Other assets	(3,675)	(211)
Accounts payable	3,482	(1,129)
Accrued expenses	16,664	8,759
Other liabilities	11,775	2,572
Net cash provided by operating activities	138,313	102,679
Cash flows from investing activities:		
Purchases of property and equipment	(28,692)	(12,067)
Net cash used in investing activities	(28,692)	(12,067)
Cash flows from financing activities:		
Exercises of employee stock options	14,099	1,660
Payments of cash dividends	(23,412)	(21,770)
Payments on debt financing	(20,459)	(14,520)
Income tax benefit of options exercised	5,524	52
Repurchases of shares of common stock	(49,960)	(13,697)
Net cash used in financing activities	(74,208)	(48,275)
Effect of exchange rate changes on cash	4,169	3,716
Net increase in cash and cash equivalents	39,582	46,053
Cash and cash equivalents, beginning of period	158,045	114,586

Cash and cash equivalents, end of period	$197,627	$160,639

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; Americas, which consists of the United States, Canada and Latin America; Greater China, which consists of Mainland China, Hong Kong, Macau and Taiwan; South Asia/Pacific, which consists of Australia, Brunei, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand; and Europe, which consists of the Company's European markets, 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 September 30, 2010, and for the three- and nine-month periods ended September 30, 2010 and 2009. 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, 2009.

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 give effect to all potentially dilutive common shares that were outstanding during the periods presented. For the three-month periods ended September 30, 2010 and 2009, other stock options totaling 0.2 million and 4.3 million, respectively, and for the nine-month periods ended September 30, 2010 and 2009, other stock options totaling 0.3 million and 5.0 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

3. DIVIDENDS PER SHARE

In February, May and August 2010, the Company's board of directors declared a quarterly cash dividend of $0.125 per share for all shares of Class A common stock. These quarterly cash dividends totaling $7.7 million, $7.9 million and $7.8 million were paid on March 17, 2010, June 16, 2010 and September 15, 2010, to stockholders of record on February 26, 2010, May 28, 2010 and August 27, 2010, respectively. In October 2010, the Company's board of directors declared a quarterly cash dividend of $0.125 per share for all shares of Class A common stock to be paid December 8, 2010 to stockholders of record on November 26, 2010.

4. DERIVATIVE FINANCIAL INSTRUMENTS

At September 30, 2010 the Company held mark-to-market forward contracts totaling 1.3 billion Japanese yen ($15.6 million as of September 30, 2010) to hedge its yen-denominated debt payments paid in October 2010. At September 30, 2009, the Company did not hold any mark to market forward contracts. Unrealized mark-to-market gains and losses, calculated from quoted market exchange rates, were immaterial and recorded as part of other income (expense), net.

5. REPURCHASES OF COMMON STOCK

During the three- and nine-month periods ended September 30, 2010, the Company repurchased approximately 0.4 million and 1.9 million shares of its Class A common stock under its open market repurchase plan for approximately $10.7 million and $50.0 million, respectively. During the three- and nine-month periods ended September 30, 2009, the Company repurchased approximately 0.4 million and 0.9 million shares of its Class A common stock under its open market repurchase plan for approximately $7.7 million and $13.7 million, respectively. In June 2010, the Company's board of directors authorized an increase of $150.0 million in the amount available under its ongoing stock repurchase program. At September 30, 2010, $162.6 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 nine-month periods ended September 30, 2010 and 2009, were as follows (U.S. dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	$35,289	$25,571	$98,721	$59,526
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	5,885	1,388	2,111	1,668
Net unrealized losses on foreign currency cash flow hedges			29	
Less: Reclassification adjustment for realized gains in current earnings			(126)	
Comprehensive income	$41,174	$26,959	$100,735	$61,194

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 a sales force of employed sales representatives, 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 paid to its worldwide independent distributors as well as remuneration to its Mainland China sales force 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, Americas, Greater China, South Asia/Pacific and Europe.

NU SKIN ENTERPRISES, INC.
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Revenue generated in each of these regions is set forth below (U.S. dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenue:	2010	2009	2010	2009
North Asia	$170,537	$152,427	$505,503	$438,957
Americas	63,721	61,312	188,564	181,968
Greater China	63,337	54,415	201,664	154,638
South Asia/Pacific	50,247	32,329	131,529	84,836
Europe (region)	35,711	33,759	108,779	92,606
Totals	$383,553	$334,242	$1,136,039	$953,005

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenue:	2010	2009	2010	2009
Nu Skin	$224,498	$185,310	$687,650	$530,609
Pharmanex	156,025	145,750	439,942	412,818
Other	3,030	3,182	8,447	9,578
Totals	$383,553	$334,242	$1,136,039	$953,005

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 September 30,		Nine Months Ended September 30,	
Revenue:	2010	2009	2010	2009
Japan	$123,010	$114,695	$344,998	$335,269
United States	54,245	50,365	160,025	150,943
South Korea	47,527	37,732	160,505	103,688
Europe	29,554	27,584	90,075	77,008
Taiwan	26,966	24,242	79,742	66,790
Mainland China	23,570	18,040	64,509	51,914

Long-lived assets: September 30,

	2010	December 31, 2009
Japan	$ 12,180	$ 8,079
United States	49,863	42,378
South Korea	7,051	3,654
Europe	2,612	3,005
Taiwan	2,203	1,758
Mainland China	11,353	11,841

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 September 30, 2010, the Company has net deferred tax assets of approximately $48.0 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, 2006, 2007 and 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. For the tax year 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 2010 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 2003. 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 $7 million to $10 million. The amount of gross unrecognized tax benefits decreased by $16.0 million during the nine months ended September 30, 2010, due to the lapse in statute of limitations in certain foreign markets. As a result of this decrease in gross unrecognized tax benefits, accrued interest and penalties decreased by $1.9 million during the nine months ended September 30, 2010.

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 assertions or determination that either the Company or the Company's distributors is not in compliance with existing statutes, laws, rules or regulations could potentially have a material adverse effect on the Company's operations. In addition, in any country or jurisdiction, the adoption of new statutes, laws, rules or regulations or changes in the interpretation of existing statutes, laws, rules or regulations could have a material adverse effect on the Company and its operations. Although management believes that the Company is in compliance, in all material respects, with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with applicable statutes, laws, rules and regulations will not be challenged by foreign authorities or that such challenges will not have a material adverse effect on the Company's financial position or results of operations or cash flows. The Company and its Subsidiaries are defendants in litigation and proceedings involving various matters. 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.

Due to the international nature of the Company's business, it is subject from time to time to reviews and audits by the foreign taxing authorities of the various jurisdictions in which it conducts business throughout the world. As previously reported, the Company is currently involved in litigation in Japan with the Ministry of Finance with respect to additional customs assessments made by Yokohama Customs for the period of October 2002 through June 2005. The aggregate amount of those assessments is 2.7 billion Japanese yen ($32.3 million as of September 30, 2010), net of any recovery of consumption taxes. The Company believes that the documentation and legal analysis support its position and the Company has taken action in the court system in Japan to overturn these assessments. The litigation on this matter is ongoing and the Company believes the court will likely decide this matter in the next year. To the extent that the Company is unsuccessful in recovering the amounts assessed and paid, it will be required to take a corresponding charge to its earnings.

In July 2005, the Company changed its operating structure in Japan and believed that these changes would eliminate further valuation disputes with Yokohama Customs as the new structure eliminated the issues that were the basis of the litigation and valuation disputes. However, in October 2009, the Company received notice from Yokohama Customs that they were assessing additional duties, penalties and interest for the period of October 2006 through November 2008, following an audit. The total amount of such assessments is 1.7 billion Japanese yen ($20.7 million as of September 30, 2010), net of any recovery of consumption taxes. The basis for such additional assessment is different from, and unrelated to, the issues that are being litigated in the current litigation with the Ministry of Finance. Following the Company's review of the assessments and after consulting with its legal and customs advisors, the Company strongly believes that the additional assessments are improper and are not supported by any legal or factual basis. Yokohama Customs rejected letters of protest, which the Company filed in November 2009 and March 2010. The Company is continuing its protests and administrative appeals of the assessment through the Ministry of Finance and may also elect to pursue the matter through the court system in Japan.

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Notes to Consolidated Financial Statements

Since October 2009, the Company has also been required to pay higher duties on all imports of the disputed products to Japan, which it is similarly disputing. Because the Company believes that the higher duties being assessed are improper, the Company expenses the portion of the duties it believes is supported under applicable customs law and records additional payments totaling $7.2 million as of September 30, 2010, as a receivable in its consolidated financial statements. The Company recently received notice that Yokohama Customs will be conducting an audit of the period November 2008 through September 2009. The Company anticipates that Yokohama Customs will likely issue an additional assessment based on this audit. To the extent the Company is unsuccessful in recovering all of these additional assessments, it will be required to take a corresponding charge to its earnings for relevant past imports and expense the full amount assessed on future imports. In the event the Company loses its litigation related to the original customs dispute, the Company may be required to reevaluate the likelihood of success in challenging these additional assessments.

In November 2008, the U.S. Internal Revenue Service began an audit of the Company's 2006 and 2007 tax years. Company anticipates this audit will be completed during 2011.

11. LONG-TERM DEBT

The Company currently has debt pursuant to various credit facilities and other borrowings. The following table summarizes the Company's long-term debt arrangements as of September 30, 2010:

Facility or Arrangement(1)	Original Principal Amount	Balance as of September 30, 2010(2)	Interest Rate	Repayment terms
2000 Japanese yen-denominated notes	9.7 billion yen	1.4 billion yen ($16.6 million as of September 30, 2010)	3.0%	Notes paid October 2010.
2003 - 2009 $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	$20.0 million	6.2%	Notes due January 2017, with annual principal payments beginning January

				2011.
Japanese yen-denominated:	3.1 billion yen	1.8 billion yen ($21.3 million as of September 30, 2010)	1.7%	Notes due April 2014, with annual principal payments that began in April 2008.
	2.3 billion yen	2.3 billion yen ($27.2 million as of September 30, 2010)	2.6%	Notes due September 2017, with annual principal payments beginning September 2011.
	2.2 billion yen	2.2 billion yen ($26.0 million as of September 30, 2010)	3.3%	Notes due January 2017, with annual principal payments beginning January 2011.
2004 $25.0 million revolving credit facility	N/A	None	N/A	
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.

(2) The current portion of the Company's long-term debt (i.e. becoming due in the next 12 months) is $38.1 million and includes $16.6 million of the balance on the Company's 2000 Japanese yen- denominated notes, $12.9 million of the balance of the Company's Japanese yen-denominated notes and $8.6 million of the balance on the Company's U.S. dollar-denominated debt under the 2003 multi-currency shelf facility.

12. RESTRUCTURING CHARGES

During the three- and nine-month periods ended September 30, 2009, the Company recorded restructuring charges of $0.8 million and $11.8 million, respectively, related to restructuring of its Japan operations, including an approximate 30% headcount reduction as well as facility relocations and closures. During the first nine months of 2009 approximately $7.2 million of the charges related to severance payments to terminated employees and approximately $4.6 million related to facility relocation or closing costs. Approximately $1.7 million remained accrued at September 30, 2010.

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, 2009 filed with the Securities and Exchange Commission ("SEC") on March 1, 2010, 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 the three- and nine-month periods ended September 30, 2010 increased 15% and 19% to $383.6 million and $1.14 billion, when compared to the same periods in 2009, with foreign currency exchange rate fluctuations positively impacting revenue by 4% and 6%, respectively. Our growth continues to be driven by strong demand for our ageLOC anti-aging products, including the successful launch of our ageLOC Transformation skincare system throughout all of our markets. In its first year, our ageLOC Transformation skin care system generated sales of approximately $200 million. During the third quarter, we initiated a limited-time offering of our first ageLOC nutritional product, ageLOC Vitality, in Japan and the United States. A 9% year-over-year increase in executive distributors globally also contributed to our growth during the third quarter.

Earnings per share for the third quarter and first nine months of 2010 were $0.55 and $1.53 compared to $0.40 and $0.93 for the same periods in 2009. This increase was largely due to continued revenue growth, coupled with improved margins and controlled expenses. Earnings per share for the third quarter and first nine months of 2009 were negatively impacted by $0.8 million and $11.8 million, respectively, in planned restructuring charges (or $0.01 and $0.12 per share), primarily related to transformation efforts to streamline our operations in Japan.

Revenue

North Asia. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2010 and 2009 for the North Asia region and its principal markets (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	2010	2009	Change
Japan	$123.0	$114.7	7%	$345.0	$335.3	3%
South Korea	47.5	37.7	26%	160.5	103.7	55%
North Asia total	$170.5	$152.4	12%	$505.5	$439.0	15%

Revenue in the region for the three- and nine-month periods ended September 30, 2010 was positively impacted approximately 8% and 9%, respectively, 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 2% and 3% for the three- and nine-month periods ended September 30, 2010, compared to the same periods in 2009. Challenges related to the difficult direct selling environment in Japan continued to negatively impact distributor activity, with active and executive distributor counts in Japan down 7% and

3%, respectively. This was partially offset by distributor and product initiatives, including the limited-time offering of our ageLOC Vitality.

South Korea experienced local-currency revenue growth for the three- and nine-month periods ended September 30, 2010 of 20% and 37% compared to the same periods in 2009. This growth was driven by continued excitement and sponsoring activities surrounding our ageLOC Transformation skin care system and other product offerings in South Korea. The number of active and executive distributors in South Korea increased 17% and 18%, respectively, compared to the prior-year period.

Americas. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2010 and 2009 for the Americas region and its principal markets (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	2010	2009	Change
United States	$54.2	$50.4	8%	$160.0	$150.9	6%
Canada	6.1	6.0	2%	18.1	16.7	8%
Latin America	3.4	4.9	(31%)	10.5	14.4	(27%)
Americas total	$63.7	$61.3	4%	$188.6	$182.0	4%

Revenue in the United States for the three- and nine-month periods ended September 30, 2010 increased by 8% and 6%, respectively, compared to the prior-year periods, primarily related to approximately $15.0 million in sales from a limited-time offering of our ageLOC Vitality as well as the continued strength of our other ageLOC anti-aging products. Active distributors in the United States decreased 2% and executive distributors increased 7% in the third quarter of 2010 compared to the same prior-year period.

On a local-currency basis, revenue in Canada decreased 5% and 4% for the three- and nine-month periods ended September 30, 2010, when compared with the same prior-year periods. Local-currency revenue in Latin America decreased by 23% and 21% compared to the prior-year periods. This decrease was due to decreased distributor activity throughout Latin America, as well as the difficult political and business environment in Venezuela.
Greater China. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2010 and 2009 for the Greater China region and its principal markets (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	2010	2009	Change
Taiwan	$27.0	$24.2	12%	$79.7	$66.8	19%
Mainland China	23.6	18.1	30%	64.5	51.9	24%
Hong Kong	12.8	12.1	6%	57.4	35.9	60%
Greater China total	$63.4	$54.4	17%	$201.6	$154.6	30%

Foreign currency exchange rate fluctuations positively impacted revenue by approximately 2% for both the three- and nine-month periods ended September 30, 2010 in this region.

On a local-currency basis, revenue in Mainland China increased 29% and 24% in the three- and nine-month periods ended September 30, 2010, compared to the same periods in 2009. This growth is due largely to significant sales force growth and excitement in anticipation of a fourth-quarter launch of our ageLOC Transformation skin care system, along with local sales initiatives that have contributed to a 28% increase in preferred customers and a 32% increase in sales representatives during the third quarter, compared to the prior-year period.

Local-currency revenue in Hong Kong increased by 6% and 60% on a year-over-year basis in the three-and nine-month periods ended September 30, 2010. This growth reflects continued interest in our ageLOC products. Growth in the nine-month period ended September 30, 2010, was also positively impacted by sales to distributors attending the Greater China regional convention during the second quarter. Local-currency revenue in Taiwan increased by 8% and 14% for the three- and nine-month periods ended September 30, 2010, compared to the same prior-year periods, primarily due to the continued strength of our ageLOC anti-aging products in this market. Third quarter executive distributors in Taiwan were up 4% and active distributors were up 6% when compared to the prior year period, while executive distributors in Hong Kong were up 3% and the active distributors in Hong Kong were down 1%.

South Asia/Pacific. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2010 and 2009 for the South Asia/Pacific region and its principal markets (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	2010	2009	Change
Singapore/Malaysia/Brunei	$ 22.0	$ 13.4	64%	$ 57.0	$ 34.5	65%
Thailand	14.7	10.3	43%	40.3	27.5	47%
Australia/New Zealand	5.3	3.8	39%	14.3	9.7	47%
Indonesia	4.4	2.9	52%	11.2	7.7	45%
Philippines	3.8	1.9	100%	8.7	5.4	61%
South Asia/Pacific total	$ 50.2	$ 32.3	55%	$ 131.5	$ 84.8	55%

Constant currency growth of 43% and 42% in this region during the third quarter and first nine months was driven primarily by the general launch of our ageLOC Transformation skin care system, along with strong sales of our TRA weight management products and ageLOC Galvanic Spa System II. Growth in this region was also reflected in a 35% and 13% increase in executive and active distributors in the third quarter of 2010, compared to the same prior-year period. Foreign currency exchange rate fluctuations positively impacted revenue in South Asia/Pacific by 12% in the third quarter of 2010 and 13% during the first nine months compared to the same prior-year periods.

Europe. The following table sets forth revenue for the three- and nine-month periods ended September 30, 2010 and 2009 for Europe (U.S. dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	2010	2009	Change
Europe (region)	$ 35.7	$ 33.8	6%	$ 108.8	$ 92.6	17%

On a local-currency basis, revenue in the Europe region increased 14% and 19% in the three- and nine-month periods ended September 30, 2010, compared to the same periods in 2009. This growth was due to sustained interest in our product offerings, including ageLOC anti-aging products and LifePak nutrition supplements, moderated by some softening in our Eastern Europe markets. Foreign currency fluctuations had a 9% and 2% negative impact on regional results in the third quarter and first nine months of 2010, respectively.

Gross profit

Gross profit as a percentage of revenue was 82.1% and 82.3% for the three- and nine-month periods ended September 30, 2010 compared with 81.4% and 81.5% for the three- and nine-month periods ended September 30, 2009. The year-over-year improvement reflects strong sales of our higher margin ageLOC products, and foreign currency benefits during the first nine months of 2010.

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Selling expenses

Selling expenses as a percentage of revenue were 42.3% and 42.0% for the three- and nine-month periods ended September 30, 2010 compared to 42.1% and 42.2% for the three- and nine-month periods ended September 30, 2009.

As part of our compensation plan improvements, we increased our focus on distributor recognition. Accordingly, during the first nine months of 2010, the costs of certain incentive trips and other rewards earned by distributors, previously recorded as general and administrative expenses, have been reclassified as selling expenses. In order to provide a meaningful comparison, we have made this reclassification for both the current and prior-year periods. The reclassification in the prior year totals $2.7 million and $6.6 million for the three- and nine-month periods ended September 30, 2009.

General and administrative expenses

As a percentage of revenue, general and administrative expenses decreased to 25.9% and 26.3% for the three- and nine-month periods ended September 30, 2010 from 26.9% and 28.0% for the same periods in 2009. This improvement as a percent of revenue was largely due to increased revenue coupled with continued efforts to improve efficiency and control expenses.

Restructuring charges

During the three- and nine-month periods ended September 30, 2009, we recorded restructuring charges of $0.8 million and $11.8 million, respectively, primarily related to restructuring in our Japan operations, including an approximately 30% headcount reduction as well as facility relocations and closures. Approximately $7.2 million of these charges related to severance payments to terminated employees and approximately $3.7 million related to facility relocation or closing costs.

Other income (expense), net

Other income (expense), net for the three- and nine-month periods ended September 30, 2010 was approximately ($0.7) million and ($7.3) million compared to ($2.8) million and ($3.2) million for the same periods in 2009. The fluctuations in other income (expense) are largely due to the impact of changes in foreign currency exchange rates.

Provision for income taxes

Provision for income taxes for the three- and nine-month periods ended September 30, 2010 was $16.9 million and $52.1 million compared to $12.5 million and $32.8 million for the same periods in 2009. The effective tax rate was 32.4% and 34.6% of pre-tax income during the three- and nine-month periods ended September 30, 2010, compared to a rate of 32.9% and 35.5% in the same prior-year periods. The decrease in tax rates in the third quarter was due primarily to the expiration of statutes of limitations in certain tax jurisdictions during the third quarter and positions taken on filed tax returns. We expect our tax rate in the fourth quarter to be between 35.5% and 37.0%.

Net income

As a result of the foregoing factors, net income for the third quarter and first nine months of 2010 increased to $35.3 million and $98.7 million, respectively, from $25.6 million and $59.5 million for the same periods in 2009.

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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 flows 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 flows from operations due to favorable margins. We generated $138.3 million in cash from operations during the first nine months of 2010, compared to $102.7 million during the same period in 2009.

As of September 30, 2010, working capital was $189.6 million, compared to $152.7 million as of December 31, 2009. Cash and cash equivalents at September 30, 2010 and December 31, 2009 were $197.6 million and $158.0 million, respectively. The increase in cash balances was primarily due to the increase in cash generated from operating activities partially offset by repurchases of our common stock. This increase in cash positively impacted our working capital.

Capital expenditures in the first nine months of 2010 totaled $28.7 million, and we anticipate additional capital expenditures of approximately $10 million to $12 million for 2010, excluding the potential acquisition of corporate facilities from related persons as described below. These capital expenditures are primarily related to:

- purchases of computer systems and software, including equipment and development costs;
- the build-out and upgrade of leasehold improvements in our various markets, including retail stores in China;
- the building of a new warehouse in South Korea; and
- real estate acquisitions from unrelated parties and initial development work related to the building of a new innovation center on our Provo campus.

In connection with our plans to build a new innovation center next to our primary corporate office building, we are also evaluating whether to purchase a building we are currently leasing on the location where we would like to build the new innovation center. The building is owned by a partnership owned principally by Blake Roney, Sandie Tillotson, Steve Lund, who serve as directors, and certain of their family members. In connection with this transaction, we also decided to evaluate whether to purchase our remaining corporate facilities in Provo, which we currently lease from similar partnerships, including our primary corporate office building, as our initial plans include the concept of connecting the new building with our primary corporate office building to form a corporate campus/plaza. In the event we elect to proceed with such a transaction, we estimate that the transaction would involve a purchase price of $33-$35 million. We have formed a special committee of independent directors to evaluate the potential purchase of the buildings and to negotiate the purchase if the committee elects to proceed with a purchase. If we elect to proceed with such a purchase, our estimated capital expenditures for 2010 would increase by such amount. We anticipate we would fund all or a portion of the purchase through debt financing collateralized by the property.

We currently have debt pursuant to various credit facilities and other borrowings. The following table summarizes these long-term debt arrangements as of September 30, 2010:

Facility or Arrangement(1)	Original Principal Amount	Balance as of September 30, 2010(2)	Interest Rate	Repayment terms
2000 Japanese yen-denominated notes	9.7 billion yen	1.4 billion yen ($16.6 million as of September 30, 2010)	3.0%	Notes paid October 2010.
2003 - 2009 $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	$20.0 million	6.2%	Notes due January 2017, with annual principal payments beginning January 2011.
Japanese yen-denominated:	3.1 billion yen	1.8 billion yen ($21.3 million as of September 30, 2010)	1.7%	Notes due April 2014, with annual principal payments that began in April 2008.
	2.3 billion yen	2.3 billion yen ($27.2 million as of September 30, 2010)	2.6%	Notes due September 2017, with annual principal payments beginning September 2011.
	2.2 billion yen	2.2 billion yen ($26.0 million as of September 30, 2010)	3.3%	Notes due January 2017, with annual principal payments beginning January

				2011.
2004 $25.0 million revolving credit facility	N/A	None	N/A	
2009 $100.0 million uncommitted multi-currency shelf facility	N/A	None	N/A	

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

(2) The current portion of our long-term debt (i.e. becoming due in the next 12 months) is $38.1 million and includes $16.6 million of the balance on our 2000 Japanese yen-denominated notes, $12.9 million of the balance of our Japanese yen-denominated notes and $8.6 million of the balance on our U.S. dollar-denominated debt under the 2003 multi-currency shelf facility.

Our board of directors has approved a stock repurchase program authorizing us to repurchase our outstanding shares of Class A common stock on the open market or in private transactions. The repurchases are used primarily to offset dilution from our equity incentive plans and for strategic initiatives. During the first nine months of 2010, we repurchased 1.9 million shares of Class A common stock under this program for approximately $50.0 million. In June 2010, our board of directors authorized an increase of $150.0 million in the amount available under our ongoing stock repurchase program. At September 30, 2010, $162.6 million was available for repurchases under the stock repurchase program.

In February, May and August 2010, our board of directors declared a quarterly cash dividend of $0.125 per share for all shares of Class A common stock. These quarterly cash dividends totaling $7.8 million, $7.9 million and $7.7 million were paid on March 17, 2010, June 16, 2010 and September 15, 2010 to stockholders of record on February 26, 2010, May 28, 2010 and August 27, 2010. In October 2010, our board of directors declared a quarterly cash dividend of $0.125 per share for all shares of Class A common stock to be paid December 8, 2010 to stockholders of record on November 26, 2010. 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 flows 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.

Due to the international nature of our business, we are subject from time to time to reviews and audits by the foreign taxing authorities of the various jurisdictions in which we conduct business throughout the world. As previously reported, we are currently involved in litigation in Japan with the Ministry of Finance with respect to additional customs assessments made by Yokohama Customs for the period of October 2002 through June 2005. The aggregate amount of those assessments is 2.7 billion Japanese yen ($32.3 million as of September 30, 2010), net of any recovery of consumption taxes. We believe that the documentation and legal analysis support our position and we have taken action in the court system in Japan to overturn these assessments. The litigation on this matter is ongoing and we believe the court will likely decide this matter in the next year. To the extent that we are unsuccessful in recovering the amounts assessed and paid, we will be required to take a corresponding charge to our earnings.

In July 2005, we changed our operating structure in Japan and believed that these changes would eliminate further valuation disputes with Yokohama Customs as the new structure eliminated the issues that were the basis of the litigation and valuation disputes. However, in October 2009 we received notice from Yokohama Customs that they were assessing additional duties, penalties and interest for the period of October 2006 through November 2008 following an audit. The total amount of such assessments is 1.7 billion Japanese yen ($20.7 million as of September 30, 2010), net of any recovery of consumption taxes. The basis for such additional assessment is different from, and unrelated to, the issues that are being litigated in the current litigation with the Ministry of Finance. Following our review of the assessments and after consulting with our legal and customs advisors, we strongly believe that the additional assessments are improper and are not supported by any legal or factual basis. Yokohama Customs rejected letters of protest, which we filed in November 2009 and March 2010. We are continuing our protests and administrative appeals of the assessment through the Ministry of Finance and may also elect to pursue the matter through the court system in Japan.

Since October 2009, we have also been required to pay higher duties on all imports of the disputed products to Japan, which we are similarly disputing. Because we believe that the higher duties being assessed are improper, we expense the portion of the duties we believe is supported under applicable customs law and record additional payments totaling $7.2 million as of September 30, 2010, as a receivable in our consolidated financial statements. We recently received notice that Yokohama Customs will be conducting an audit of the period November 2008 through September 2009. We anticipate that Yokohama Customs will likely issue an additional assessment based on this audit. To the extent that we are unsuccessful in recovering all of these additional assessments, we will be required to take a corresponding charge to our earnings for relevant past imports and expense the full amount assessed on future imports. In the event we lose our litigation related to the original customs dispute, we may be required to reevaluate the likelihood of success in challenging these additional 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 distributors. With some exceptions in various countries, we offer a return policy whereby distributors can return unopened and unused product for up to 12 months subject to a 10% restocking fee. Reported revenue is net of returns, which have historically been less than 5% of 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 September 30, 2010, we had net deferred tax assets of approximately $48.0 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, 2006, 2007 and 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 the 2010 tax year 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 2003. Along with the IRS examination, we are currently under examination in certain foreign jurisdictions; however, the outcomes of these reviews are not yet determinable.

Our unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. Due to potential increases in unrecognized tax benefits from the multiple jurisdictions in which we operate, as well as the expiration of various statutes of limitation, it is reasonably possible that our gross unrecognized tax benefits, net of foreign currency adjustments, may change within the next 12 months by a range of approximately $7 million to $10 million. The amount of gross unrecognized tax benefits decreased by $16.0 million during the nine months ended September 30, 2010, due to the lapse in statute of limitations in certain foreign markets. As a result of this decrease in gross unrecognized tax benefits, accrued interest and penalties decreased by $1.9 million during the nine months ended September 30, 2010.

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.

Recent Accounting Pronouncements

In June 2009, the FASB amended the consolidation accounting guidance. Effective January 1, 2010, we are required to qualitatively assess the determination of our being the primary beneficiary (“consolidator”) of a variable interest entity (“VIE”) on whether we (1) have the power to direct matters that most significantly impact the activities of the VIE, and (2) have the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. It also requires an ongoing reconsideration of the primary beneficiary and amends events that trigger a reassessment of whether an entity is a VIE. The new model is applicable to all new and existing VIEs. The adoption of this new guidance on January 1, 2010, had no impact on our consolidated financial position or results of operation.

In June 2009, the FASB amended the accounting guidance for determining whether a transfer of a financial asset qualifies for sale accounting. The amended guidance also provided four broad disclosure objectives designed to provide users of the financial statements with an understanding of:

- the transferor's continuing involvement with the transferred assets;
- the nature of any restrictions on the transferor's assets that relate to a transferred financial asset, including the carrying amount of those assets;
- how servicing assets and servicing liabilities are reported by the transferor; and
- how a transfer of financial assets affects the company's balance sheet, earnings and cash flows.

The prospective adoption of this guidance to new transfers of financial assets beginning January 1, 2010, had no impact on our consolidated financial position or results of operation.

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.

We have been implementing a product launch process that generally involves introducing a product in a market through a limited time offering that is often tied to a distributor event. The limited offering usually only lasts for a short period of time, but typically generates significant distributor activity and purchasing, which may result in a spike in sales during that period. We then launch the product for general sales two to three months following the limited time offering.

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 September 30, 2010		As of September 30, 2009	
Region:	Active	Executive	Active	Executive

North Asia	322,000	14,173	318,000	13,705
Americas	164,000	5,540	170,000	5,442
Greater China	118,000	7,781	105,000	6,705
South Asia/Pacific	80,000	3,776	71,000	2,791
Europe	99,000	3,535	90,000	3,184
Total	783,000	34,805	754,000	31,827

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, results of operation, cash flows or financial condition. However, based on current exchange rate levels, we currently anticipate that foreign currency fluctuations will have a positive impact on reported revenue in 2010.

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 September 30, 2010, the Company held mark-to-market forward contracts totaling 1.3 billion Japanese yen ($15.6 million as of September 30, 2010) to hedge its yen-denominated debt payments paid in October 2010. At September 30, 2009, the Company did not hold any mark-to-market forward contracts.

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:

- 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 new initiatives we are implementing 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
- increased 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 continue to experience a high 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 including providing additional training to our distributors and restructuring our compliance group in Japan. We have seen improvements in some prefectures, but not in others. We have received warnings from consumer centers in certain prefectures raising concerns about our distributor training and number of general inquiries and complaints. Although we are implementing additional steps to reinforce our distributor education and training in Japan to help address these concerns, we cannot be sure that such steps will be successful. In 2009, Japan implemented a national organization of consumer protection centers, which may increase scrutiny of our business and industry.

(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.

(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.

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 September 30, 2010.

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

No updates to report. Please refer to our recent SEC filings, including our Annual Report on Form 10-K for the 2009 fiscal year and subsequent Quarterly Report on Form 10-Q, for information regarding the status of certain legal proceedings.

ITEM 1A. RISK FACTORS

Please refer to our recent SEC filings, including our Annual Report on Form 10-K for the 2009 fiscal year, subsequent Quarterly Reports on Form 10-Q, and Current Reports of Form 8-K for a detailed discussion of risks associated with our business.

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)
July 1 – 31, 2010	157,300	$ 26.25	157,300	$ 169.2
August 1 – 31, 2010	224,114	$ 27.25	223,900	$ 163.0
September 1 – 30, 2010	17,200	$ 25.92	17,200	$ 162.6
Total	398,614 (2)			

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(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 in June 2010 increased the amount by $150.0 million. Approximately $485.0 million is currently authorized under the plan. As of September 30, 2010, $162.6 million was available for repurchases under the stock repurchase program. 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 $29.05.

ITEM 6. EXHIBITS

Exhibits Regulation S-K Number	Description
31.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
31.2	Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by M. Truman Hunt, President and Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.

* Furnished, not filed

SIGNATURE

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

November 8, 2010

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)