

NU SKIN ENTERPRISES INC  
Form 10-Q/A  
August 12, 2014  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q/A

(Amendment No. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

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 ☐ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a 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 ☒

As of April 30, 2014, 58,949,802 shares of the registrant's Class A common stock, \$.001 par value per share, were outstanding.

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## EXPLANATORY NOTE

Nu Skin Enterprises, Inc. (the "Company") is filing this Amendment on Form 10-Q/A (the "Form 10-Q/A") to its Quarterly Report on Form 10-Q for the period ended March 31, 2014 filed with the U.S. Securities and Exchange Commission on May 8, 2014 (the "Original Form 10-Q"). This Form 10-Q/A is being filed to correct certain accounting errors arising from hyper-inflationary adjustments associated with the Company's Venezuela subsidiary that the Company subsequently determined should have been recorded as charges to Other Income (Expense) rather than as adjustments to Accumulated Other Comprehensive Loss, as well as to reflect income that should have been recorded to Other Income (Expense) for China tax rebates associated with the Company's China headquarters.

This Form 10-Q/A amends and restates Item 1 of Part I so that the Consolidated Statement of Income for the three months ended March 31, 2014, correctly reflects a \$21 million charge to Other Income (Expense) related to the Venezuela hyper-inflationary adjustment and \$7 million of income related to the China tax rebate. All other adjustments reflected in the restated Consolidated Statement of Income relate to the income tax effect of these corrections. The Company's Consolidated Balance Sheet as of March 31, 2014, Consolidated Statement of Comprehensive Income for the three months ended March 31, 2014, Consolidated Statements of Cash Flows for the three months ended March 31, 2014, and Notes to the Consolidated Financial Statements have also been amended and restated to reflect the impact of these corrections.

This Form 10-Q/A also amends and restates Item 2 of Part I of the Original Form 10-Q in its entirety to include a discussion of the impact of these corrections on the Company's Operating Results under the heading "-Other income (expense), net" and to correct financial numbers impacted by these corrections.

In addition, this Form 10-Q/A amends and restates: (i) Item 4 of Part I of the Original Form 10-Q in its entirety to include a description of the material weakness in internal controls in connection with the restatement; (ii) Item 1A of Part II of the Original Form 10-Q in its entirety to add a modified risk factor related to internal controls and the material weakness identified in Item 4; and (iii) Item 6 of Part II of the Original Form 10-Q in its entirety to indicate that we are filing the financial statements included in this Form 10-Q/A, formatted in eXtensible Business Reporting Language (XBRL).

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer dated the date of this Form 10-Q/A are filed as exhibits hereto.

Except as specifically noted above, this Form 10-Q/A does not amend or update any other items in the Original Form 10-Q, and the remainder of the Original Form 10-Q is unchanged and is not reproduced in this Form 10-Q/A.

This Form 10-Q/A and the Original Form 10-Q continue to speak as of the date of the Original Form 10-Q. Accordingly, except as specifically noted herein, this Form 10-Q/A does not reflect information or events occurring after the filing of the Original Form 10-Q or modify or update any related or other disclosures and should be read in conjunction with the Original Form 10-Q and the Company's filings made with the U.S. Securities and Exchange Commission subsequent to the filing of the Original Form 10-Q, including any amendments to those filings.

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NU SKIN ENTERPRISES, INC.

2014 FORM 10-Q/A QUARTERLY REPORT – FIRST QUARTER

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

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

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2014 RESTATE (Note 15)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 284,580	\$ 525,153
Current investments	18,703	21,974
Accounts receivable	56,644	68,652
Inventories, net	410,668	339,669
Prepaid expenses and other	150,375	162,886
	920,970	1,118,334
Property and equipment, net	411,929	396,042
Goodwill	112,446	112,446
Other intangible assets, net	81,377	83,168
Other assets	115,751	111,072
Total assets	\$ 1,642,473	\$ 1,821,062
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 51,276	\$ 82,684
Accrued expenses	439,815	626,284
Current portion of debt	88,031	67,824
	579,122	776,792
Long-term debt	109,882	113,852
Other liabilities	77,910	71,799
Total liabilities	766,914	962,443
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Class A common stock – 500 million shares authorized, \$.001 par value, 90.6 million shares issued	91	91
Additional paid-in capital	399,677	397,383
Treasury stock, at cost – 31.6 million shares	(848,335)	(826,904)
Accumulated other comprehensive loss	(44,864)	(46,228)
Retained earnings	1,368,990	1,334,277
	875,559	858,619
Total liabilities and stockholders' equity	\$ 1,642,473	\$ 1,821,062

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

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## NU SKIN ENTERPRISES, INC.

## Consolidated Statements of Income (Unaudited)

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

	Three Months Ended March 31,	
	2014	2013
	RESTATED (Note 15)	
Revenue	\$ 671,061	\$541,305
Cost of sales	106,644	90,045
Gross profit	564,417	451,260
Operating expenses:		
Selling expenses	313,101	233,094
General and administrative expenses	150,119	135,507
Total operating expenses	463,220	368,601
Operating income	101,197	82,659
Other income (expense), net	(17,508)	112
Income before provision for income taxes	83,689	82,771
Provision for income taxes	28,835	28,489
Net income	\$ 54,854	\$54,282
Net income per share (Note 2):		
Basic	\$ 0.93	\$0.93
Diluted	\$ 0.90	\$0.90
Weighted-average common shares outstanding (000s):		
Basic	58,869	58,352
Diluted	61,227	60,566

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

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NU SKIN ENTERPRISES, INC.

Consolidated Statements of Comprehensive Income (Unaudited)  
(U.S. dollars in thousands, except per share amounts)

	Three Months Ended March 31, 2014    2013 RESTATED (Note 15)	
Net income	\$54,854	\$54,282
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	1,858	(3,373)
Net unrealized gains on foreign currency cash flow hedges	(257)	986
Reclassification adjustment for realized losses (gains) in current earnings	(237)	(1,163)
	1,364	(3,550)
Comprehensive income	\$56,218	\$50,732

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

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Consolidated Statements of Cash Flows (Unaudited)  
(U.S. dollars in thousands)

	Three Months Ended March 31,	
	2014 RESTATED (Note 15)	2013
Cash flows from operating activities:		
Net income	\$ 54,854	\$ 54,282
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,251	7,612
Foreign currency gains/(losses)	24,831	(336)
Stock-based compensation	8,682	5,712
Deferred taxes	6,663	2,826
Changes in operating assets and liabilities:		
Accounts receivable	11,597	(8,048)
Inventories, net	(76,730)	(15,995)
Prepaid expenses and other	9,533	(9,997)
Other assets	(3,752)	(7,553)
Accounts payable	(30,692)	5,528
Accrued expenses	(176,449)	32,920
Other liabilities	(1,388)	3,435
Net cash provided by (used in) operating activities	(160,600)	70,386
Cash flows from investing activities:		
Purchases of property and equipment	(30,538)	(41,239)
Proceeds of investment sales	12,638	4,844
Purchases of investments	(9,556)	-
Net cash used in investing activities	(27,456)	(36,395)
Cash flows from financing activities:		
Exercise of employee stock options	(8,375)	(268)
Payment of debt	(5,834)	(7,816)

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Payment of cash dividends	(20,141)	(17,514)
Income tax benefit of options exercised	5,610	2,245
Proceeds from debt	20,000	20,000
Repurchases of shares of common stock	(25,002)	(14,615)
Net cash used in financing activities	(33,742)	(17,968)
Effect of exchange rate changes on cash	(18,775)	(10,328)
Net increase/(decrease) in cash and cash equivalents	(240,573)	5,695
Cash and cash equivalents, beginning of period	525,153	320,025
Cash and cash equivalents, end of period	\$ 284,580	\$ 325,720

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

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NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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## 1. THE COMPANY

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited consolidated financial statements include the accounts of the Company and its Subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information as of March 31, 2014, and for the three-month periods ended March 31, 2014 and 2013. 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, 2013.

## 2. NET INCOME PER SHARE

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented. For the three-month periods ended March 31, 2014 and 2013, other stock options of 2.0 million and 0.3 million, respectively were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

## 3. DIVIDENDS PER SHARE

In March 2014, the Company's board of directors declared a quarterly cash dividend of \$0.345 per share. This quarterly cash dividend of \$20.1 million was paid on March 26, 2014, to stockholders of record on March 14, 2014. In May 2014, the Company's board of directors declared a quarterly cash dividend of \$0.345 per share to be paid June 11, 2014 to stockholders of record on May 23, 2014.

## 4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company held mark-to-market forward contracts designated as foreign currency cash flow hedges with notional amounts of 2.9 billion Japanese yen and 11.0 million euros (\$28.0 million and \$15.1 million, respectively) as of

March 31, 2014 and 1.1 billion Japanese yen (\$11.7 million) and no euros as of March 31, 2013 to hedge forecasted foreign-currency-denominated intercompany transactions.

NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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The contracts held as of March 31, 2014 have maturities through February 2015 and accordingly, all unrealized gains and losses on foreign currency cash flow hedges included in accumulated other comprehensive income will be recognized in current earnings over the next 12 months. The pre-tax net gains on foreign currency cash flow hedges reclassified from accumulated other comprehensive income to revenue were \$0.4 million and \$1.8 million, respectively for the three-month periods ended March 31, 2014 and 2013. The corresponding tax effects of these transactions were recorded in provision for income tax expense. As of March 31, 2014 and December 31, 2013, there were \$0.8 million and \$1.3 million, respectively, of unrealized gains included in accumulated other comprehensive income related to foreign currency cash flow hedges. The remaining \$45.6 million and \$47.5 million as of March 31, 2014 and December 31, 2013, respectively, in accumulated other comprehensive income are related to cumulative translation adjustments.

## 5. REPURCHASES OF COMMON STOCK

During the three-month periods ended March 31, 2014 and 2013, the Company repurchased approximately 0.3 million and 0.4 million shares, respectively, of its Class A common stock under its open market repurchase plan for approximately \$25.0 million and \$14.6 million, respectively. As of March 31, 2014, \$369.5 million was available for repurchases under the stock repurchase program.

## 6. SEGMENT INFORMATION

The Company operates in a single operating segment by selling products through 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 sales employees, contractual sales promoters, and independent direct sellers to distribute its products. Contractual sales promoters sell products in similar fashion to the Company's sales employees, but act as independent agents to sell products through its retail stores and website. Independent direct sellers can sell away from the Company's stores in jurisdictions where the Company has obtained a direct sales license to do so. Selling expenses are the Company's largest expense comprised of the commissions paid to its worldwide independent distributors as well as remuneration to its sales force in Mainland China. The Company manages its business primarily by managing its sales force. The Company does not use profitability reports on a regional or divisional basis for making business decisions. However, the Company does report revenue in five geographic regions: Greater China, North Asia, Americas, South Asia/Pacific and EMEA.

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

Revenue:	Three Months Ended March 31,	
	2014	2013
Greater China	\$278,929	\$170,822
North Asia	195,461	185,910
Americas	79,909	75,692
South Asia/Pacific	71,194	66,957
EMEA	45,568	41,924
Total	\$671,061	\$541,305



NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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

	Three Months Ended March 31,	
Revenue:	2014	2013
Nu Skin	\$402,111	\$321,440
Pharmanex	267,272	218,351
Other	1,678	1,514
Total	\$671,061	\$541,305

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 March 31,	
Revenue:	2014	2013
Mainland China	\$212,217	\$119,665
South Korea	114,000	81,095
Japan	81,461	104,815
United States	54,822	56,886
Taiwan	35,764	32,126
Hong Kong	30,948	19,031
Malaysia	19,049	18,043

	March 31, 2014	December 31, 2013
Long-lived assets:		
Mainland China	\$89,967	\$82,726
South Korea	21,660	14,345
Japan	11,261	9,970
United States	274,489	273,388
Taiwan	1,938	1,928
Hong Kong	2,352	2,497
Malaysia	1,327	1,463

## 7.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 March 31, 2014, the Company has netted these deferred tax assets of \$58.4 million (restated). The Company nets 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.

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NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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The Company evaluates its indefinite reinvestment assertions with respect to foreign earnings for each quarter. Other than earnings the Company intends to reinvest indefinitely, the Company accrues for the U.S. federal, state and foreign income tax applicable to the earnings. Undistributed earnings that the Company has indefinitely reinvested, and for which no federal income taxes in the U.S. have been provided, aggregate to \$50 million as of March 31, 2014 and December 31, 2013. In the event that all non-U.S. subsidiaries' undistributed earnings, which the Company has designated as indefinitely reinvested, were remitted to the United States to fund operating and capital plans, regulatory capital requirements parent company financing or cash flow needs, the amount of incremental taxes would be approximately \$5.5 million.

#### 8. UNCERTAIN TAX POSITIONS

The Company files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Company is no longer subject to tax examinations from the United States Internal Revenue Service (the "IRS") for any years for which tax returns have been filed except for 2011. With a few exceptions, the Company is no longer subject to state and local income tax examination by tax authorities for the years before 2008. In 2009, the Company entered into a voluntary program with the IRS called Compliance Assurance Process ("CAP"). The objective of CAP is to contemporaneously work with the IRS to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. The Company has elected to participate in the CAP program for 2014 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 2007. Along with the IRS examination of 2011, the Company is currently under examination in certain foreign jurisdictions; however, the outcomes of those reviews are not yet determinable.

The Company's unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. 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 decrease within the next 12 months by a range of approximately \$3 to \$4 million.

#### 9. 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 sales force 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, 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.



NU SKIN ENTERPRISES, INC.

Notes to Consolidated Financial Statements

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The Company is subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. The Company believes it has appropriately provided for income taxes for all years. Several factors drive the calculation of its tax reserves. Some of these factors include: (i) the expiration of various statutes of limitations; (ii) changes in tax law and regulations; (iii) issuance of tax rulings; and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to the Company's reserves, which would impact its reported financial results.

The Company is currently involved in a dispute related to customs assessments by Yokohama Customs on several of the Company's products for the period of October 2006 through September 2009 in connection with post-importation audits, as well as the disputed portion of the Company's import duties from October 2009 to the present, which the Company has or will hold in bond or pay under protest. Additional assessments related to any prior period are barred by applicable statutes of limitations. The aggregate amount of these assessments and disputed duties was approximately 4.2 billion Japanese yen as of March 31, 2014 (approximately \$40.3 million), net of any recovery of consumption taxes. The issue in this case is whether a United States entity utilizing a commissionaire agent in Japan to import its products can use the manufacturer's invoice or must use another valuation method, and, if an alternative method must be used, what the allowable deductions would be in determining the proper valuation. Following the Company's review of the assessments and after consulting with the Company's legal and customs advisors, the Company believes that the additional assessments are improper and are not supported by applicable customs laws. The Company filed letters of protest with the applicable Customs authorities, which were rejected. The Company then appealed the matter to the Ministry of Finance in Japan. In the second quarter of 2011, the Ministry of Finance in Japan denied the Company's administrative appeal. The Company disagrees with the Ministry of Finance's administrative decision. The Company is now pursuing the matter in Tokyo District Court, which the Company believes will provide a more independent determination of the matter. In addition, the Company is currently being required to post a bond or make a deposit to secure any additional duties that may be due and payable on these current imports. Because the Company believes that the assessment of higher duties by the customs authorities is an improper application of the regulations, the Company is currently expensing the portion of the duties the Company believes is supported under applicable customs law, and recording the additional deposit or payment as a receivable within long-term assets on its consolidated financial statements. If the Company is unsuccessful in recovering the amounts assessed and paid, the Company will record a non-cash expense for the full amount of the disputed assessments. The Company anticipates that additional disputed duties will be limited going forward as the Company has entered into an arrangement to purchase a majority of the affected products in Japan from a Japanese company that purchases and imports the products from the manufacturers.

In addition, the Company is currently being sued in several purported class action lawsuits and derivative claims relating to negative media and regulatory scrutiny regarding the Company's business in Mainland China and the associated decline in the Company's stock price. These lawsuits, or others filed alleging similar facts, could result in monetary or other penalties that may affect the Company's operating results and financial condition.

Additionally, in April 2014, the Company responded to a stockholder demand from the Trustees of the Laborers' International Union of North America Local 235 Annuity Fund, seeking to inspect certain corporate records pursuant to Delaware General Corporation Law Section 220.



NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

## 10. DEBT

The Company currently has debt pursuant to various credit facilities and other borrowings. The Company's book value for both the individual and consolidated debt included in the table below approximates fair value. The estimated fair value of our debt is based on interest rates available for debt with similar terms and remaining maturities. The Company has classified these instruments as Level 2 in the fair value hierarchy. The following table summarizes the Company's debt arrangements:

Facility or Arrangement	Original Principal Amount	Balance as of March 31, 2014 <sup>(1)</sup>	Balance as of December 31, 2013	Interest Rate	Repayment terms
Multi-currency uncommitted shelf facility <sup>(2)</sup> :					
U.S. dollar denominated:	\$40.0 million	\$ 17.1 million	\$ 17.1 million	6.2 %	Notes due July 2016 with annual principal payments that began in July 2010.
	\$20.0 million	\$ 8.6 million	\$ 11.4 million	6.2 %	Notes due January 2017 with annual principal payments that began in January 2011.
Japanese yen denominated:	3.1 billion yen	0.4 billion yen or \$4.3 million	0.4 billion yen or \$4.1 million	1.7 %	Notes due April 2014 with annual principal payments that began in April 2008. <sup>(3)</sup>
	2.3 billion yen	1.3 billion yen or \$12.6 million	1.3 billion yen or \$12.3 million	2.6 %	Notes due September 2017 with annual principal payments that began in September 2011.
	2.2 billion yen	0.9 billion yen or \$9.0 million	1.2 billion yen or \$11.8 million	3.3 %	Notes due January 2017 with annual principal payments that began in January 2011.
	8.0 billion yen	8.0 billion yen or \$77.3 million	8.0 billion yen or \$75.8 million	1.7 %	Notes due May 2022 with annual principal payments that begin in May 2016.
Revolving credit facilities <sup>(4)(5)</sup> :					
2010		\$35.0 million	\$35.0 million	Variable 30 day: 0.66%	Revolving line of credit.
2013		\$34.0 million	\$14.0 million	Variable 30 day: 0.5843%	Revolving line of credit.

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NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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(1) The current portion of the Company's debt (i.e. becoming due in the next 12 months) includes \$10.4 million of the balance of its Japanese yen-denominated debt under the multi-currency uncommitted shelf facility, \$8.6 million of the balance on its U.S. dollar denominated debt under the multi-currency uncommitted shelf facility and \$69.0 million of the Company's revolving loans.

(2) On May 6, 2014, the Company entered into a third amendment of the amended and restated note purchase and private shelf agreement (multi-currency), dated as of May 25, 2012, among the Company, Prudential Investment Management, Inc. and certain other purchasers. The amendment modified the restricted payments covenant to allow the aggregate amount of restricted payments to exceed the allowed threshold by no more than \$50 million for the quarter ending March 31, 2014, \$100 million for the quarter ending June 30, 2014 and \$50 million for the quarter ending September 30, 2014, to avoid default or acceleration provisions of the agreement.

(3) On April 30, 2014, the Company paid the notes in full.

(4) On April 9, 2014, the Company entered into an additional 364 day revolving line of credit with Bank of America, N.A. with a commitment amount of \$50 million. The interest rate is equal to 1 month LIBOR plus 95.0 basis points.

(5) On May 6, 2014, the Company entered into a fifth amendment of the amended and restated credit agreement, dated as of May 25, 2012, among the Company, various financial institutions, and JPMorgan Chase Bank, N.A. as administrative agent. The amendment modified the restricted payments covenant to allow the aggregate amount of restricted payments to exceed the allowed threshold by no more than \$50 million for the quarter ending March 31, 2014, \$100 million for the quarter ending June 30, 2014 and \$50 million for the quarter ending September 30, 2014, to avoid default or acceleration provisions of the agreement. The amendment also fixed the applicable interest rate at LIBOR plus 0.75%, increased the commitment fee to 0.25% and extended the term of the agreement from May 9, 2014 to August 8, 2014, with \$15 million reductions in the commitment amount on June 30, 2014 and July 31, 2014.

## 11. ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the Emerging Issues Task Force). This ASU addresses when unrecognized tax benefits should be presented as reductions to deferred tax assets for net operating loss carryforwards in the financial statements. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

## 12. REVISIONS

The presentation of the Company's consolidated statements of income for the first quarter of 2013 was revised to reduce the selling expense and revenue by \$8.8 million related to an error in the classification of selling rebates. The revision had no effect on the operating income, net income or comprehensive income, the consolidated balance sheet

or cash flows. The revision was not considered to be material to the previously issued financial statements.

NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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### 13. VENEZUELA HIGHLY INFLATIONARY ACCOUNTING

The Company commenced operations in Venezuela in 2007, where it markets a variety of personal care and nutritional products. Total assets in Venezuela as of March 31, 2014 are \$27.4 million, \$24.3 of which are monetary assets. The Venezuela subsidiary also has a \$34.8 million intercompany balance to its parent company as of March 31, 2014, with respect to charges for inventory, commissions, license fees and service fees. The Company imports all of its products into Venezuela from the United States. Venezuela represents a very small portion of the Company's overall business with sales for the three months ended March 31, 2014 representing approximately 1% of the Company's overall revenue.

Since November of 2009, Venezuela has been considered a highly inflationary economy. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100% or more over a three-year period as well as other qualitative factors including historic inflation rate trends (increasing and decreasing), the capital intensiveness of the operation and other pertinent economic factors. The functional currency in highly inflationary economies is required to be the functional currency of the entity's parent company (which for our Venezuela subsidiary is the U.S. dollar), and transactions denominated in the local currency are re-measured to the functional currency. The re-measurement of bolivars into U.S. dollars creates foreign currency transaction gains or losses, which should be included in the Company's consolidated statement of income.

The Venezuela subsidiary did not transition to highly inflationary status until the first quarter of 2014 (see "- 15. Restatement"). As a result, the Company continued to account for the Venezuela subsidiary as a bolivar functional currency entity, rather than a U.S. dollar functional currency entity. In the first quarter of 2014, the Company began to account for this subsidiary as highly inflationary, and therefore changed the functional currency of the entity to the U.S. dollar. As a result, for periods prior to 2014, the Company improperly recorded \$6 million related to foreign currency remeasurement adjustments caused by changes in the Venezuela exchange rate in accumulated other comprehensive income (equity). The consolidated statement of income for the three-month period ended March 31, 2014, includes an out-of-period adjustment of \$6 million to correct this error. The Company has determined not to restate prior period financial statements because the amount of the adjustment is not material to the prior periods or this reporting period.

The current operating environment in Venezuela continues to be challenging, with high inflation in the country, government restrictions on foreign exchange and pricing controls, and the possibility of the government announcing further devaluations to its currency. Currency restrictions enacted by the Venezuelan government have impacted the ability of the Company to exchange foreign currency at the official rate to pay for imported products, license fees, commissions and other service fees. The Company has been unsuccessful in obtaining U.S. dollars at the official exchange rates and under alternative exchange mechanisms described below. As a result, these foreign exchange controls in Venezuela have limited the Company's ability to repatriate earnings and settle the Company's intercompany obligations, which has resulted in the accumulation of bolivar-denominated cash and cash equivalents in Venezuela.

During the quarter ended March 31, 2014, two new foreign exchange mechanisms ("SICAD I" and "SICAD II") became available in Venezuela. Accordingly, there are three legal mechanisms in Venezuela to exchange currency. As of March 31, 2014, the Company determined it would be most appropriate for it to utilize the SICAD I rate, which was approximately 10.7 bolivars per U.S. dollar, as the Company believes this rate better reflects the rate at which they will be able to convert bolivars to U.S. dollars. As a result of the adoption of this rate during the period ended



March 31, 2014, the Company recorded a charge of \$15 million (restated) in Other Income (Expense) to reflect foreign currency transaction losses on its net monetary assets denominated in bolivar.

NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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14. SUBSEQUENT EVENT

As of March 31, 2014, the Company was in violation of its restricted payments covenant under its amended and restated credit agreement, dated as of May 25, 2012, among the Company, various financial institutions, and JPMorgan Chase Bank, N.A. as administrative agent, as amended (the "JPMC Agreement") and its amended and restated note purchase and private shelf agreement (multi-currency), dated as of May 25, 2012, among the Company, Prudential Investment Management, Inc. and certain other purchasers, as amended (the "Prudential Agreement"), which restricts the company from making dividend payments or stock repurchases to the extent the aggregate amount of such payments exceed \$100 million plus the cumulative cash flow from operations less capital investments since June 30, 2012. Effective May 6, 2014, the Company entered into amendments of the JPMC Agreement and the Prudential Agreement that allow the aggregate amount of restricted payments to exceed the allowed threshold by no more than \$50 million for the quarter ending March 31, 2014, \$100 million for the quarter ending June 30, 2014 and \$50 million for the quarter ending September 30, 2014, to avoid default or acceleration provisions of these agreements. The amendment of the JPMC Agreement also fixed the applicable interest rate at LIBOR plus 0.75%, increased the commitment fee to 0.25% and extended the term of the agreement from May 9, 2014 to August 8, 2014, with \$15 million reductions in the commitment amount on June 30, 2014 and July 31, 2014.

15. RESTATEMENT

The consolidated financial statements as of March 31, 2014 and for the three-month period ended March 31, 2014 have been restated to correct the accounting related to (i) hyper-inflationary adjustments with respect to operations in Venezuela, and (ii) tax rebates related to the Company's new China headquarters. The hyper-inflationary currency translation adjustments should have been recorded as charges to Other Income (Expense) rather than as adjustments to Accumulated Other Comprehensive Loss. The Company also should have recorded income to Other Income (Expense) for the China tax rebates. The restatement makes these corrections by including a \$21 million charge to Other Income (Expense) related to the hyper-inflationary accounting error and \$7 million of income related to the China tax rebate. All other adjustments relate to the applicable income tax effects of these errors. With respect to the hyper-inflationary correction, \$15 million related to the first quarter of 2014, and \$6 million related to periods prior to 2014. With respect to the China tax rebates correction, \$2 million related to the first quarter of 2014, and \$5 million related to periods prior to 2014. The Company does not plan to amend financial statements for periods prior to 2014 as the amounts were determined to be immaterial. These changes, net of tax, negatively impacted net income for the three-month period ended March 31, 2014 by \$9 million.

NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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The following tables reconcile the amounts as originally reported in the Company's Original Form 10-Q for the quarter ended March 31, 2014 compared to the amounts as restated in this Form 10-Q/A.

NU SKIN ENTERPRISES, INC.  
Consolidated Statements of Income (Unaudited)  
For the Three Month Period Ended March 31, 2014  
(U.S. dollars in thousands, except per share amounts)

	As Reported	As Restated	Difference
Revenue	\$671,061	\$671,061	\$ -
Cost of sales	106,644	106,644	-
Gross profit	564,417	564,417	-
Operating expenses:			
Selling expenses	313,101	313,101	-
General and administrative expenses	150,119	150,119	-
Total operating expenses	463,220	463,220	-
Operating income	101,197	101,197	-
Other income (expense), net	(3,604 )	(17,508 )	(13,904 )
Income before provision for income taxes	97,593	83,689	(13,904 )
Provision for income taxes	33,332	28,835	(4,497 )
Net income	\$64,261	\$54,854	\$ (9,407 )
Net income per share:			
Basic	\$ 1.09	\$0.93	\$ (0.16 )
Diluted	\$ 1.05	\$0.90	\$ (0.15 )
Weighted average common shares outstanding:			
Basic	58,869	58,869	-
Diluted	61,227	61,227	-

NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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NU SKIN ENTERPRISES, INC.  
Consolidated Balance Sheets (Unaudited)  
March 31, 2014  
(U.S. dollars in thousands)

	As Reported	As Restated	Difference
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$284,580	\$284,580	\$ -
Current investments	18,703	18,703	-
Accounts receivable	56,644	56,644	-
Inventories, net	410,668	410,668	-
Prepaid expenses and other	149,523	150,375	852
	920,118	920,970	852
Property and equipment, net	411,929	411,929	-
Goodwill	112,446	112,446	-
Other intangible assets, net	81,377	81,377	-
Other assets	115,751	115,751	-
Total assets	\$1,641,621	\$1,642,473	\$ 852
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$51,276	\$51,276	-
Accrued expenses	449,434	439,815	(9,619)
Current portion of debt	88,031	88,031	-
	588,741	579,122	(9,619)
Long-term debt	109,882	109,882	-
Other liabilities	79,418	77,910	(1,508)
Total liabilities	778,041	766,914	(11,127)
Stockholders' equity:			
Class A common stock	91	91	-
Additional paid-in capital	399,677	399,677	-
Treasury stock, at cost	(848,335)	(848,335)	-
Accumulated other comprehensive loss	(66,250)	(44,864)	21,386
Retained earnings	1,378,397	1,368,990	(9,407)
	863,580	875,559	11,979
Total liabilities and stockholders' equity	\$1,641,621	\$1,642,473	\$ 852



NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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NU SKIN ENTERPRISES, INC.  
Consolidated Statements of Comprehensive Income (Unaudited)  
For the Three Month Period Ended March 31, 2014  
(U.S. dollars in thousands)

	As Reported	As Restated	Difference
Net Income	\$64,261	\$ 54,854	\$ (9,407)
Other comprehensive income, net of tax:			
Foreign currency translation adjustment	(19,528)	1,858	21,386
Net unrealized gains on foreign currency cash flow hedges	(257)	(257)	-
Reclassification adjustment for realized losses (gains) in current earnings	(237)	(237)	-
	(20,022)	1,364	21,386
Comprehensive income	\$44,239	\$ 56,218	\$ 11,979

NU SKIN ENTERPRISES, INC.  
Notes to Consolidated Financial Statements

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NU SKIN ENTERPRISES, INC.  
Consolidated Statements of Cash Flows (Unaudited)  
For the Three Month Period Ended March 31, 2014  
(U.S. dollars in thousands)

	As Reported	As Restated	Difference
Cash flows from operating activities:			
Net income	\$64,261	\$54,854	\$ (9,407 )
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,251	12,251	-
Foreign currency losses (gains)	3,445	24,831	21,386
Stock-based compensation	8,682	8,682	-
Deferred taxes	9,023	6,663	(2,360 )
Changes in operating assets and liabilities:			
Accounts receivable	11,597	11,597	-
Inventories, net	(76,730 )	(76,730 )	-
Prepaid expenses and other	9,533	9,533	-
Other assets	(3,752 )	(3,752 )	-
Accounts payable	(30,692 )	(30,692 )	-
Accrued expenses	(166,830)	(176,449)	(9,619 )
Other liabilities	(1,388 )	(1,388 )	-
Net cash provided by (used in) operating activities	(160,600)	(160,600)	-
Cash flows from investing activities:			
Purchases of property and equipment	(30,538 )	(30,538 )	-
Proceeds of investment sales	12,638	12,638	-
Purchases of investments	(9,556 )	(9,556 )	-
Net cash used in investing activities	(27,456 )	(27,456 )	-
Cash flows from financing activities:			
Exercise of employee stock options	(8,375 )	(8,375 )	-
Payment of debt	(5,834 )	(5,834 )	-
Payment of cash dividends	(20,141 )	(20,141 )	-
Income tax benefit of options exercised	5,610	5,610	-
Proceeds from debt	20,000	20,000	-
Repurchases of shares of common stock	(25,002 )	(25,002 )	-
Net cash used in financing activities	(33,742 )	(33,742 )	-
Effect of exchange rate changes on cash	(18,775 )	(18,775 )	-

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Net increase/(decrease) in cash and cash equivalents	(240,573)	(240,573)	-
Cash and cash equivalents, beginning of period	525,153	525,153	-
Cash and cash equivalents, end of period	\$284,580	\$284,580	\$ -

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

This quarterly report on Form 10-Q (this "Quarterly Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended that represent the company's current expectations and beliefs. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws and include, but are not limited to, statements of management's expectations regarding our performance, initiatives, strategies, new products, opportunities and risks; statements of projections regarding future operating results and other financial items; statements of belief; and statements of assumptions underlying any of the foregoing. In some cases, you can identify these statements by forward-looking words such as "believe," "expect," "project," "anticipate," "estimate," "intend," "plan," "targets," "likely," "will," "would," "could," "may," "might," the negative of these words and other similar words. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. We caution and advise readers that these statements are based on certain assumptions that may not be realized and involve risks and uncertainties that could cause actual results to differ materially from the expectations and beliefs contained herein. For a summary of these risks, see Part II. Item 1A. "Risk Factors" of this Quarterly Report, as well as the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2013 (our "Annual Report").

The following Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and related notes and Management's Discussion and Analysis included in our Annual Report, and our other filings, including Current Reports on Form 8-K, filed with the Securities and Exchange Commission through the date of this report. We are filing this Amendment on Form 10-Q/A to correct certain accounting errors as described in our Notes to Consolidated Financial Statements (See Part I. Item 1. "15. Restatement").

Overview

Our revenue for the three-month period ended March 31, 2014 increased 24% to \$671.1 million, when compared to the same period in 2013, with foreign currency fluctuations negatively impacting revenue 4%. This increase reflects year-over-year growth in each of our regions with significant growth in Greater China and South Korea. Earnings per share for the first quarter of 2014 and in the same prior year period were \$0.90. Sales Leaders and Actives increased 24% and 12%, respectively, compared to the prior-year period.

When compared to results for the fourth quarter of 2013, our revenue in the first quarter of 2014 decreased 36%, and Sales Leaders and Actives declined 34% and 16%, respectively. We typically experience a significant sequential decline in revenue and sales leader numbers in the quarter following a limited-time offer because of the higher than normal increase in revenue and sales leader activity during the quarter of the limited-time offer, which skews year-over-year and sequential comparisons. We also typically experience a seasonal decline from the fourth quarter to the first quarter. We believe our first quarter results, however, were adversely impacted by two additional factors.

First, in January 2014, in response to media scrutiny in a prominent Chinese newspaper and subsequent government investigations of our operations and the activities of our sales force in Mainland China, we voluntarily took a number of steps in Mainland China to address regulatory concerns. These steps included suspending our business promotional meetings and suspending the acceptance of applications for new sales representatives. These steps caused a significant disruption in business growth in Mainland China, our fastest growing market. We resumed corporate-hosted business meetings and began accepting new sales representative applications as of May 1, 2014, and we anticipate that it may take some time to determine how the business will respond.

Second, sales of ageLOC TR90 in the second half of 2013 were substantial. Our limited-time offer generated approximately \$550 million of sales during this period. This product was sold in a kit containing a three-month supply. We believe the significant 2013 sales and the three-month supply kit configuration decreased consumer demand in subsequent regional limited-time offers of this product during the first quarter. In addition, TR90 was developed to decrease fat without sacrificing lean muscle. The result is a healthier body composition but not necessarily maximum weight loss. Our research shows that some consumers of TR90 were dissatisfied with the extent of their weight loss. We plan to address any consumer dissatisfaction with TR90 weight-loss results going forward by simplifying the eating plan and educating our sales force and consumers on the importance of maintaining lean muscle mass while focusing on weight loss from fat. In some markets, we have elected to make TR90 generally available shortly following a regional limited-time offer, rather than waiting a longer period as in previous limited-time offers. We believe these issues combined to result in regional limited-time offer sales, including in the North Asia region in the first quarter of 2014, which were significantly lower than global limited-time offer sales in the second half of 2013.

### Revenue

Greater China. The following table sets forth revenue for the three-month periods ended March 31, 2014 and 2013 for the Greater China region and its principal markets (U.S. dollars in millions):

	2014	2013	Change
Mainland China	\$212.2	\$119.7	77%
Taiwan	35.8	32.1	12%
Hong Kong	30.9	19.0	63%
Greater China total	\$278.9	\$170.8	63%

Foreign currency exchange rate fluctuations positively impacted revenue in this region by 2% during the three-month period ended March 31, 2014.

Year-over-year revenue and sales force growth in the Greater China region was driven by interest in our opportunity and strong product portfolio. The final phase of our initial limited-time offers of ageLOC TR90 in the Greater China region generated approximately \$15 million in revenue in the first quarter of 2014. We currently plan to introduce our ageLOC Tru Face Essence Ultra anti-aging skin care serum through a limited-time offer in Mainland China in the second and third quarters of 2014. Regional limited-time offers of TR90 and ageLOC Tru Face Essence Ultra in Hong Kong and Taiwan are also currently planned for the second and third quarters. Sales Leaders and Actives in Mainland China increased 45% and 14%, respectively, compared to the prior-year period. Sales Leaders and Actives in Taiwan were up 10% compared to the prior year. Sales Leaders and Actives in Hong Kong were up 68% and 53%, respectively, compared to the prior year.

Adverse media reports and government investigations, and our voluntary suspension of business promotional meetings and applications for new sales representatives in Mainland China had a significant negative impact on our revenue and number of Sales Leaders and Actives in this region during the first quarter, with Sales Leaders and Actives sequentially declining 49% and 38%, respectively. At the conclusion of the regulatory investigations by the Administrations of Industry and Commerce in Shanghai and Beijing in March 2014, Nu Skin China was penalized in the amount of US \$524,000 (RMB 3.26 million) for the sale of certain products by individual direct sellers that, while permitted for sale in Nu Skin China's retail stores, were not registered for the direct selling channel. Nu Skin China was also fined US \$16,000 (RMB 100,000) for product claims that were deemed to lack sufficient documentary support. We understand that six of our sales employees were also fined for unauthorized promotional activities in an aggregate amount of US \$241,000 (RMB 1.50 million). In addition, Nu Skin China was asked to enhance the education and supervision of its sales representatives and is currently in the process of implementing these enhancements. We recently resumed corporate-hosted business meetings and acceptance of applications for new sales representatives. Any unanticipated delays, complications or other difficulties in resuming normal business operations could further impact our business negatively. As we have not previously undertaken such a lengthy suspension of

business promotional meetings and applications for new sales representatives, there is some uncertainty regarding how our sales force will respond to the resumption of these activities and what impact adverse publicity and these voluntary actions will have on our business going forward.

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North Asia. The following table sets forth revenue for the three-month periods ended March 31, 2014 and 2013 for the North Asia region and its principal markets (U.S. dollars in millions):

	2014	2013	Change
South Korea	\$114.0	\$81.1	41%
Japan	81.5	104.8	(22%)
North Asia total	\$195.5	\$185.9	5%

Revenue in the region for the three-month period ended March 31, 2014 was negatively impacted approximately 4% by foreign currency exchange rate fluctuations.

Local currency revenue growth of 38% in South Korea for the three-month period ended March 31, 2014, compared to the same prior-year period, reflects continued growth in Actives and Sales Leaders, interest generated by our ageLOC products and alignment with our product launch process. Our regional limited-time offer of TR90 in South Korea during the first quarter generated approximately \$13 million in sales. Our Sales Leaders in South Korea increased 36% and the number of Actives increased 25%, compared to the prior year, driven by strong interest in our innovative anti-aging portfolio and opportunity.

Local currency revenue in Japan during the first quarter of 2014 decreased 14%, compared to the same period in 2013. The revenue decline in Japan was augmented by the Japanese yen weakening significantly against the U.S. dollar, negatively impacting our revenue in this market by an additional 8% compared to the same period in 2013. Our limited-time offer of TR90 in Japan during the first quarter generated approximately \$5 million in sales. Japan's revenue in the first quarter of 2013 included sales from the launch of our ageLOC Body Spa and related products. Over the course of the last year we changed our distributor sign-up process and have enhanced our distributor education, training and compliance efforts to address concerns expressed by a Japanese regulatory agency in 2013. These concerns also led us to be cautious in our promotional activities in Japan. We believe these steps negatively impacted our revenue in this market. In the first quarter of 2014, Sales Leaders and Actives in Japan decreased 16% and 5%, respectively, compared to the prior-year period, reflecting challenges related to the difficult direct selling environment in Japan.

Americas. The following table sets forth revenue for the three-month periods ended March 31, 2014 and 2013 for the Americas region (U.S. dollars in millions):

	2014	2013	Change
Americas	\$79.9	\$75.7	6%

Revenue in the Americas increased 6% in the first quarter of 2014 compared to the same prior-year period. Revenue in the region for the three-month period ended March 31, 2014 was negatively impacted approximately 12% by foreign currency exchange rate fluctuations. Revenue in the region was positively impacted by strong growth in Canadian and Latin American markets. In the United States, revenue was down 4%, compared to the same prior-year period. We believe our inability to market our facial spa in the United States limited revenue growth in this market. We currently expect that the facial spa will become available for sale in the United States in the second half of 2014. Sales Leaders and Actives in the Americas region increased by 17% and 10%, respectively, when compared to the prior year.

South Asia/Pacific. The following table sets forth revenue for the three-month periods ended March 31, 2014 and 2013 for the South Asia/Pacific region (U.S. dollars in millions):

	2014	2013	Change
South Asia/Pacific	\$71.2	\$67.0	6%

Foreign currency exchange rate fluctuations in South Asia/Pacific negatively impacted revenue by 10% in the three-month period ended March 31, 2014, when compared to the same prior-year period. Revenue growth in this region reflects continued interest in our opportunity and strong product portfolio. Regional limited-time offers of ageLOC TR90 are currently planned for the second and third quarters. Sales Leaders in the region increased 27% and Actives increased 17%, compared to the prior year.

EMEA. The following table sets forth revenue for the three-month periods ended March 31, 2014 and 2013 for the Europe, Middle East and Africa ("EMEA") region (U.S. dollars in millions):

	2014	2013	Change
EMEA	\$45.6	\$41.9	9%

Foreign currency exchange rate fluctuations in the EMEA region negatively impacted revenue by 2% for the three-month period ended March 31, 2014. Local currency revenue growth of 10% in EMEA during the first quarter of 2014, compared to the same prior-year period, reflects continued interest in our product portfolio, including our ageLOC products. Sales Leaders and Actives in our EMEA region increased by 5% and 3%, respectively, when compared to the prior year.

### Gross profit

Gross profit as a percentage of revenue was 84.1% for the first quarter of 2014, and 83.4% in the same prior-year period. This increase reflects strong gross margins on a consolidated basis for our ageLOC products. Similarly, revenue growth in Mainland China, where our gross margin on a consolidated basis benefits from our self-manufactured products, also positively impacted our gross profit as a percentage of revenue. Given heightened media and regulatory scrutiny in Mainland China and the voluntary measures we have taken in that market, we have adjusted our 2014 product launch plans. This change in plans increases the risk of inventory write-offs in Mainland China if we are unable to sell the inventory we produced based on our prior plans and forecasts. Any inventory write-off in Mainland China or any of our other markets would negatively impact our gross margins.

### Selling expenses

Selling expenses as a percentage of revenue increased to 46.7% for the three-month period ended March 31, 2014 from 43.1% for the same period in 2013. This increase was largely due to growth in the number of Sales Leaders qualifying for increased sales compensation and promotional incentives. The salaries of our sales employees in Mainland China are fixed for a three-month period of time, until they are adjusted during a quarterly evaluation process. Consequently, the negative revenue impact of the voluntary measures we took in Mainland China caused our selling expenses as a percentage of revenue to be higher in the first quarter of 2014, compared to the prior-year period.

### General and administrative expenses

As a percentage of revenue, general and administrative expenses decreased to 22.4% for the three-month period ended March 31, 2014 from 25.0% for the same period in 2013, due primarily to year-over-year revenue growth.



Other income (expense), net

Other income (expense), net for the three-month period ended March 31, 2014 was \$17.5 million of expense compared to \$0.1 million of income for the same period in 2013. The increase in expense was due primarily to a \$21 million charge from the devaluations of the Venezuelan currency on monetary assets and liabilities in conjunction with highly inflationary accounting, partially offset by \$7 million in rebates related to our new China headquarters.

Provision for income taxes

Provision for income taxes for the three-month period ended March 31, 2014 was \$28.8 million, compared to \$28.5 million for the same period in 2013. The effective tax rate was 34.5% of pre-tax income during the three-month period ended March 31, 2014, compared to 34.4% in the same prior-year period.

Net income

As a result of the foregoing factors, net income for the first quarter of 2014 was \$54.9 million, compared to \$54.3 million for the same period in 2013.

Liquidity and Capital Resources

Historically, our principal uses of cash have included operating expenses, particularly selling expenses, and working capital (principally inventory purchases), as well as capital expenditures, stock repurchases, dividends, debt repayment and the development of operations in new markets. We have generally relied on cash flow from operations to fund operating activities, and we have at times incurred long-term debt in order to fund strategic transactions and stock repurchases.

We typically generate positive cash flow from operations due to favorable margins. However, during the first quarter we used \$160.6 million in cash for operations, compared to generating \$70.4 million in cash from operations during the same period in 2013, due to three primary factors. First, we had a significant amount of accrued expenses at the end of December 2013, following a quarter of record sales and a record number of sales representatives who qualified for incentive trips. The selling expenses and incentive trip expenses, although accrued in 2013, were paid in 2014. Second, we built a large amount of inventory during the first quarter for planned product launches in 2014, increasing our inventory balance by a net \$70 million from December 31, 2013 to March 31, 2014. Finally, the decrease in revenue due to the disruption in our Mainland China business lowered our net income for the first quarter of 2014.

As of March 31, 2014, working capital was \$341.8 million, compared to \$341.5 million as of December 31, 2013. Cash and cash equivalents as of March 31, 2014 and December 31, 2013 were \$284.6 million and \$525.2 million, respectively. The decrease in cash and cash equivalents reflects lower than anticipated revenue growth in Mainland China, and cash payments for inventory and accrued selling and other expenses.

As of March 31, 2014, we were in violation of our restricted payments covenant under our amended and restated credit agreement, dated as of May 25, 2012, among us, various financial institutions, and JPMorgan Chase Bank, N.A. as administrative agent, as amended (the "JPMC Agreement") and our amended and restated note purchase and private shelf agreement (multi-currency), dated as of May 25, 2012, among us, Prudential Investment Management, Inc. and certain other purchasers, as amended (the "Prudential Agreement"), which restricts us from making dividend payments or stock repurchases to the extent the aggregate amount of such payments exceed \$100 million plus the cumulative cash flow from operations less capital investments since June 30, 2012. Effective May 6, 2014, we entered into amendments of the JPMC Agreement and the Prudential Agreement that allow the aggregate amount of restricted payments to exceed the allowed threshold by no more than \$50 million for the quarter ending March 31, 2014, \$100 million for the quarter ending June 30, 2014 and \$50 million for the quarter ending September 30, 2014, to avoid

default or acceleration provisions of these agreements. While the JPMC Agreement is currently scheduled to expire on August 8, 2014, the Prudential Agreement is currently scheduled to remain in place beyond that date. If our cash flow from operations is not sufficient by the fourth quarter of 2014 to cover the necessary restricted payments, we may need to seek additional waivers or amendments under the Prudential Agreement, restructure this debt, or reduce our restricted payments to avoid a default under this agreement.

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Capital expenditures in the first three months of 2014 totaled approximately \$30.5 million, and we anticipate additional capital expenditures of approximately \$70 million for the remainder of 2014. Our 2014 capital expenditures are primarily related to:

- expansion of our corporate facilities in the United States, Greater China and South Korea;
- the build-out and upgrade of leasehold improvements in our various markets, including retail stores and service centers in Mainland China; and
- purchases of computer systems and software, including equipment and development costs.

We currently have debt pursuant to various credit facilities and other borrowings. Our book value for both the individual and consolidated debt included in the table below approximates fair value. The estimated fair value of our debt is based on interest rates available for debt with similar terms and remaining maturities. We have classified these instruments as Level 2 in the fair value hierarchy. The following table summarizes our long-term debt arrangements:

Facility or Arrangement	Original Principal Amount	Balance as of March 31, 2014 <sup>(1)</sup>	Interest Rate	Repayment terms
Multi-currency uncommitted shelf facility <sup>(2)</sup> :				
U.S. dollar denominated:	\$40.0 million	\$17.1 million	6.2%	Notes due July 2016 with annual principal payments that began in July 2010.
	\$20.0 million	\$8.6 million	6.2%	Notes due January 2017 with annual principal payments that began in January 2011.
Japanese yen denominated:	3.1 billion yen	0.4 billion yen or \$4.3 million	1.7%	Notes due April 2014 with annual principal payments that began in April 2008. <sup>(3)</sup>
	2.3 billion yen	1.3 billion yen or \$12.6 million	2.6%	Notes due September 2017 with annual principal payments that began in September 2011.
	2.2 billion yen	0.9 billion yen or \$9.0 million	3.3%	Notes due January 2017 with annual principal payments that began in January 2011.
	8.0 billion yen	8.0 billion yen or \$77.3 million	1.7%	Notes due May 2022 with annual principal payments that begin in May 2016.

Revolving credit  
facility<sup>(4)(5)</sup>:

2010	\$35.0 million	Variable 30 day: 0.66%	Revolving line of credit.
2013	\$34.0 million	Variable 30 day: 0.5843%	Revolving line of credit.

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(1) The current portion of our long-term debt (i.e. becoming due in the next 12 months) includes \$10.4 million of the balance of our Japanese yen-denominated debt under the multi-currency uncommitted shelf facility, \$8.6 million of the balance on our U.S. dollar denominated debt under the multi-currency uncommitted shelf facility and \$69.0 million of our revolving loans.

(2) On May 6, 2014, we entered into a third amendment of the amended and restated note purchase and private shelf agreement (multi-currency), dated as of May 25, 2012, among us, Prudential Investment Management, Inc. and certain other purchasers. The amendment modified the restricted payments covenant to allow the aggregate amount of restricted payments to exceed the allowed threshold by no more than \$50 million for the quarter ending March 31, 2014, \$100 million for the quarter ending June 30, 2014 and \$50 million for the quarter ending September 30, 2014, to avoid default or acceleration provisions of the agreement.

(3) On April 30, 2014, we paid the notes in full.

(4) On April 9, 2014, we entered into an additional 364 day revolving line of credit with Bank of America, N.A. with a commitment amount of \$50 million. The interest rate is equal to 1 month LIBOR plus 95.0 basis points.

(5) On May 6, 2014, we entered into a fifth amendment of the amended and restated credit agreement, dated as of May 25, 2012, among us, various financial institutions, and JPMorgan Chase Bank, N.A. as administrative agent. The amendment modified the restricted payments covenant to allow the aggregate amount of restricted payments to exceed the allowed threshold by no more than \$50 million for the quarter ending March 31, 2014, \$100 million for the quarter ending June 30, 2014 and \$50 million for the quarter ending September 30, 2014, to avoid default or acceleration provisions of the agreement. The amendment also fixed the applicable interest rate at LIBOR plus 0.75%, increased the commitment fee to 0.25% and extended the term of the agreement from May 9, 2014 to August 8, 2014, with \$15 million reductions in the commitment amount on June 30, 2014 and July 31, 2014.

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 three months of 2014, we repurchased 0.3 million shares of Class A common stock under this program for \$25.0 million. As of March 31, 2014, \$369.5 million was available for repurchases under the stock repurchase program.

In March 2014, our board of directors declared a quarterly cash dividend of \$0.345 per share. This quarterly cash dividend totaling \$20.1 million was paid on March 26, 2014, to stockholders of record on March 14, 2014. In May 2014, our board of directors declared a quarterly cash dividend of \$0.345 per share to be paid June 11, 2014 to stockholders of record on May 23, 2014. Currently, we anticipate that our board of directors will continue to declare quarterly cash dividends and that the cash flows from operations will be sufficient to fund our future dividend payments. However, the continued declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other relevant factors.

As of March 31, 2014 and December 31, 2013, we held \$284.6 million and \$525.2 million, respectively, in cash and cash equivalents, including \$279.5 million and \$493.9 million, respectively, held in our operations outside of the U.S. Substantially all of our non-U.S. cash and cash equivalents are readily convertible into U.S. dollars or other currencies, with the exception of approximately \$24.3 million, which is subject to currency exchange restrictions by the government of Venezuela. Currency exchange restrictions in Venezuela require approval from the government's currency control organization for our subsidiary in Venezuela to obtain U.S. dollars at an official exchange rate to pay for imported products or to repatriate dividends to the United States.

We typically fund the cash requirements of our operations in the U.S. through intercompany charges for products, license fees and corporate services. However, in some markets such as Mainland China, where we have lower intercompany charges, we may be unable to repatriate cash from current operations in the form of dividends until we file the necessary statutory financial statements for the relevant period. We currently have in place an intercompany loan arrangement, which allows us to access a portion of available cash in Mainland China pending our repatriation of dividends. As of March 31, 2014, we had approximately \$160.0 million in cash denominated in Chinese yuan. We currently plan to repatriate undistributed earnings from our non-U.S. operations as necessary, considering the cash needs of our non-U.S. operations and the cash needs of our U.S. operations for dividends, stock repurchases, capital investments, debt repayment and strategic transactions. In all but two jurisdictions, we have not designated our investments as indefinitely reinvested, but rather have these funds available for our operations in the U.S. as needed. Any repatriation of non-U.S. earnings requires payment of U.S. taxes in accordance with the applicable U.S. tax rules and regulations. Accordingly, we have accrued the necessary U.S. taxes related to the funds that are not permanently reinvested.

In May 2014, we amended the JPMC Agreement to extend the term of our credit facility to August 8, 2014. We are currently working to further extend or replace this line of credit and believe that existing cash balances, future cash flows from operations and existing lines of credit, with planned extensions or replacements, will be adequate to fund our cash needs on both a short- and long-term basis. The majority of our historical expenses have been variable in nature and as such, a potential reduction in the level of revenue would reduce our cash flow needs. In the event that our current cash balances, future cash flow from operations and current lines of credit are not sufficient to meet our obligations or strategic needs, or we are unsuccessful in extending or replacing expiring lines of credit, we would consider raising additional funds in the debt or equity markets or restructuring our current debt obligations. Additionally, we would consider realigning our strategic plans, including a reduction in capital spending, stock repurchases or dividend payments.

### Contingent Liabilities

We are currently involved in a dispute with customs authorities in Japan related to additional customs assessments by Yokohama Customs on several of our products for the period of October 2006 through September 2009 in connection with post-importation audits, as well as the disputed portion of our import duties from October 2009 to the present, which we have or will hold in bond or pay under protest. Additional assessments related to any prior period are barred by applicable statutes of limitations. The aggregate amount of these assessments and disputed duties was 4.2 billion Japanese yen as of March 31, 2014 (approximately \$40.3 million), net of any recovery of consumption taxes. In addition, we are currently being required to post a bond or make a deposit equal to the difference between our declared duties and the amount the customs authorities have determined we should be paying on all current imports. We anticipate that additional disputed duties will be limited going forward as we have entered into an arrangement to purchase a majority of the affected products in Japan from a Japanese company that purchases and imports the products from the manufacturer. We are now pursuing this matter in Tokyo District Court. This dispute is separate and distinct from the dispute related to customs assessments on certain of the Company's products imported into Japan during the period of October 2002 through July 2005.

We are currently being sued in several purported class action lawsuits and derivative claims relating to negative media and regulatory scrutiny regarding our business in Mainland China and the associated decline in our stock price. These lawsuits, or others filed alleging similar facts, could result in monetary or other penalties that may affect our operating results and financial condition.

Please refer to Item 1A. "Risk Factors" and Item 1. "Legal Proceedings" for more information regarding these matters.

### Critical Accounting Policies

There were no significant changes in our critical accounting policies during the quarter ended March 31, 2014.

### Seasonality and Cyclicalities

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

Although our product launch process may vary by market, we generally introduce new products to our sales force and consumers in all markets where the products are registered, through limited-time offers. The limited-time offers typically generate significant activity and a high level of purchasing, which may result in a higher than normal increase in revenue during the quarter of the limited-time offer and skew year-over-year and sequential comparisons.

### Actives and Sales Leaders

The following table provides information concerning the number of Actives and Sales Leaders as of the dates indicated. "Actives" are persons who have purchased products directly from the company during the three months ended as of the date indicated. "Sales Leaders" include our independent distributors who have completed and who maintain specified sales requirements, and our sales employees and contractual sales promoters in Mainland China, who have completed certain qualification requirements.

Region:	As of March 31, 2014		As of March 31, 2013	
	Actives	Sales Leaders	Actives	Sales Leaders
Greater China	305,000	31,118	261,000	22,011
North Asia	400,000	17,794	361,000	16,682
Americas	180,000	7,339	163,000	6,273
South Asia/Pacific	115,000	6,787	98,000	5,337
EMEA	122,000	4,326	119,000	4,118
Total	1,122,000	67,364	1,002,000	54,421

#### 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 Mainland China, South Korea and Japan, any weakening of these currencies negatively impacts reported revenue and profits, whereas a strengthening of these currencies positively impacts our reported revenue and profits. Given the uncertainty of exchange rate fluctuations, it is difficult to predict the effect of these fluctuations on our future business, product pricing and results of operations or financial condition.

Foreign exchange risk is managed in certain jurisdictions through the use of foreign currency debt. Portions of our Japanese yen borrowings have been designated, and are effective as, economic hedges of the net investment in a foreign operation. Accordingly, foreign currency transaction gains or losses due to spot rate fluctuations on these debt instruments are included in foreign currency translation adjustment within other comprehensive income. Included in the cumulative translation adjustment are \$0.9 million and \$5.1 million of pretax net gains for the periods ended March 31, 2014 and 2013, respectively from Japanese yen borrowings.

Additionally, we may seek to reduce our exposure to fluctuations in foreign currency exchange rates through the use of foreign currency exchange contracts and through intercompany loans of foreign currency. We do not use derivative financial instruments for trading or speculative purposes. We regularly monitor our foreign currency risks and periodically take measures to reduce the impact of foreign exchange fluctuations on our operating results. As of March 31, 2014 and 2013, we held forward contracts designated as foreign currency cash flow hedges with notional amounts totaling approximately 2.9 billion Japanese yen (\$28.0 million as of March 31, 2014) and 11.0 million euros (\$15.1 million as of March 31, 2014) to hedge forecasted foreign-currency-denominated intercompany transactions; and as of March 31, 2013, we held 1.1 billion Japanese yen (\$11.7 million as of March 31, 2013) and no euros.

Because of our foreign exchange contracts as of March 31, 2014, the impact of a 10% appreciation or 10% depreciation of the U.S. dollar against the Japanese yen would not represent a material potential loss in fair value, earnings or cash flows against these contracts. This potential loss does not consider the underlying foreign currency transaction or translation exposures to which we are subject.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) in connection with our filing of our Quarterly Report on Form 10-Q on May 8, 2014.

Based on that evaluation, our CEO and our CFO concluded that our disclosure controls and procedures were effective as of March 31, 2014.

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Subsequent to that evaluation and in connection with the restatement discussed in Note 15 to the consolidated financial statements included in Item 1 of this report, management, with the participation of our CEO and CFO, re-evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2014, and our CEO and CFO concluded that, our disclosure controls and procedures were not effective as of March 31, 2014, because of the material weakness in our internal control over financial reporting described below regarding the Company's accounting related to the hyper-inflationary currency translation adjustments with respect to our operations in Venezuela. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Management did not maintain effective controls over the presentation and disclosure of hyper-inflationary accounting for its Venezuela subsidiary. Specifically, the Company's controls to evaluate and implement hyper-inflationary accounting for its Venezuela subsidiary when it became material did not operate at the appropriate level of precision. Formal documentation of management's conclusions regarding hyper-inflationary accounting for its Venezuela subsidiary also needed improvement. This material weakness resulted in hyper-inflationary currency translation adjustments for Venezuela being incorrectly recorded as adjustments to Accumulated Other Comprehensive Loss rather than as charges to Other Income (Expense). As a result, management has restated its Consolidated Financial Statements for the period ended March 31, 2014. Additionally, this material weakness could result in a further misstatement of account balances or disclosures with respect to the consolidated financial statements that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Management's Remediation Initiatives

Management is taking steps to enhance the precision of existing controls over the presentation and disclosure of hyper-inflationary accounting as the Company implemented this accounting in the second quarter of 2014. The Company will continue to monitor and evaluate the effectiveness of our internal controls on an ongoing basis and may in the future modify these measures or implement additional measures.

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



ITEM 1A.

RISK FACTORS

The information presented below supplements and should be read in conjunction with the detailed discussion of risks associated with our business in our recent SEC filings, including our Annual Report on Form 10-K for the 2013 fiscal year.

We may face difficulties in re-engaging and growing our sales force in Mainland China after our recent suspension of recruiting activities.

In January of 2014 we announced that in light of various government investigations in Mainland China we were temporarily suspending all business promotional meetings as well as applications for new sales representatives in that market. This suspension was not lifted until May 1, 2014. Largely as a result of this suspension, our number of Sales Leaders in Mainland China decreased significantly during the first quarter, from approximately 49,000 as of December 31, 2013 to approximately 24,000 as of March 31, 2014. It is unclear what long term impact this suspension and negative publicity associated with these matters will have on our operations in Mainland China and other markets. Our business is highly dependent on the continual recruitment of new individuals attracted to our earnings opportunity in Mainland China and elsewhere and on momentum in our sales and expansion created by recruiting. We have not previously undertaken such a lengthy suspension of applications for new sales representatives and it is uncertain how difficult it will be for us to regain this momentum. Any significant or prolonged difficulties in re-engaging our sales force could adversely affect our sales and results of operations.

Our operations in Mainland China are subject to significant government scrutiny, and we could be subject to fines or other penalties.

Our operations in Mainland China are subject to significant regulatory scrutiny. The legal system in Mainland China provides government authorities with broad latitude to conduct investigations and many Chinese regulations, including those governing our business, are subject to significant interpretation, which may vary from jurisdiction to jurisdiction. Because of significant government concerns in Mainland China regarding improper direct selling activities, government regulators closely scrutinize activities of direct selling companies and activities that resemble direct selling. The government in Mainland China recently announced that it would inspect the direct selling industry over the next several months, which has and will increase regulatory scrutiny of the industry and our business. Government regulators frequently make inquiries into our business activities and investigate complaints from consumers and others regarding our business. Some of these inquiries and investigations in the past have resulted in the payment of fines by us or members of our sales force, interruption of sales activities at stores and warnings. We continuously face the risk of new regulatory inquiries and investigations, and any determination that our operations or activities, or the activities of our sales employees, contractual sales promoters or direct sellers, are not in compliance with applicable regulations could result in substantial fines, extended interruptions of business, termination of necessary licenses and permits, including our direct selling and other licenses, all of which could harm our business.

We work diligently to train our sales force in Mainland China on how our Mainland China business model differs from our global business model. However, Sales Leaders in Mainland China may attend regional and global events and foreign Sales Leaders may participate in business meetings in Mainland China. Because our global model varies significantly from our Mainland China business model, mistakes may be made as to how those working in Mainland China should promote the business in Mainland China. These mistakes by our sales force may lead to governmental reviews and investigations of our operations in Mainland China. For example, as a result of allegations that, among other things, certain of our sales force in Mainland China failed to adequately follow and enforce our policies and regulations, Chinese regulators commenced investigations into our business model and operations in Mainland China. For a further description of these matters, see "— Negative news reports in Mainland China led to investigations by Chinese regulators into our business in Mainland China and caused us to temporarily modify some of our business practices in that market and resulted in fines and other monetary penalties. These temporary modifications, any

further sanctions imposed on us by the Chinese authorities and any associated adverse publicity may harm our business and financial condition."

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If we are not able to register products for sale in Mainland China, our business could be harmed.

We face lengthy timelines with respect to product registrations in Mainland China. The process for obtaining product permits and licenses may require extended periods of time that may prevent us from launching new product initiatives in Mainland China on the same timelines as other markets around the world. For example, products marketed in Mainland China as "health foods" are subject to extensive laboratory and clinical analysis by governmental authorities, and the product registration process in Mainland China generally takes one to two years, but may be substantially longer. We market both "health foods" and "general foods" in Mainland China. There is some risk associated with the common practice in Mainland China of marketing a product as a "general food" while seeking "health food" classification. If government officials feel the categorization of our products is inconsistent with product claims, ingredients or function, this could end or limit our ability to market such products in Mainland China in their current form.

As we expand our direct selling channel, we face additional product marketing restrictions, compared to our retail store channel. Under applicable direct selling laws in Mainland China, we can only register our own manufactured products for direct selling and we are not permitted to market or sell "general foods" through our direct sales channel. Some products, such as our galvanic spa system, have traditionally been manufactured by third parties. If we cannot successfully implement our own manufacturing of these products, we will not be able to sell these products through the direct sales channel. Any efforts by our direct sellers to market and sell general food products or third-party manufactured products we currently sell through our retail stores could result in negative publicity, fines and other government sanctions being imposed against us.

Negative news reports in Mainland China led to investigations by Chinese regulators into our business in Mainland China and caused us to temporarily modify some of our business practices in that market and resulted in fines and other monetary penalties. These temporary modifications, any further sanctions imposed on us by the Chinese authorities and any associated adverse publicity may harm our business and financial condition.

In January 2014, a series of articles were published by the People's Daily in Mainland China, which were subsequently picked up by other media outlets. These articles contained a number of allegations including that our compensation practices violated Chinese laws against pyramid and multi-level sales organizations, that our recruiting and training techniques were unlawful or inappropriate, that some of our products were not licensed for sale in Mainland China, that certain of our products were causing adverse reactions in some users and that our employees had taken actions to "hush up" these problems, that certain of our sales force had misrepresented the scientific efficacy of our products and the nature and extent of our connections with the scientific advisors who have helped in developing or testing our products and that certain of our sales people have falsely claimed endorsement of our products by public figures, media outlets and organizations.

Under the direction of Mainland China's State Administration for Industry and Commerce, the Shanghai Administration for Industry and Commerce, where our Mainland China business is headquartered, and the Beijing Administration for Industry and Commerce, where we maintain a branch office, investigated the allegations. Administrations for Industry and Commerce in other provinces also made inquiries regarding these allegations. As a result of these regulatory investigations, Nu Skin China was penalized in March 2014 in the amount of US \$524,000 (RMB 3.26 million) for the sale of certain products by individual direct sellers that, while permitted for sale in Nu Skin China's retail stores, were not registered for the direct selling channel. Nu Skin China was also fined US \$16,000 (RMB 100,000) for product claims that were deemed to lack sufficient documentary support. Six of our sales employees were also fined for unauthorized promotional activities in an aggregate amount of US \$241,000 (RMB 1.50 million). In addition, Nu Skin China was asked to enhance the education and supervision of its sales representatives and is currently in the process of implementing these enhancements.



In January 2014, in response to this media and regulatory scrutiny, we voluntarily took a number of actions in Mainland China, including temporarily suspending our business promotional meetings, temporarily suspending acceptance of applications for new sales representatives, and extending our product refund and return policies. We resumed corporate-hosted business meetings in April 2014, and resumed acceptance of applications for new sales representatives in May 2014. Adverse publicity and the suspension of business promotional meetings and acceptance of applications have had a significant negative impact on our revenue and number of Sales Leaders and Actives in the short term. Any unanticipated delays, complications or other difficulties as we resume normal business operations could further impact our business negatively. Continuing media and regulatory scrutiny and investigations in Mainland China, and any further actions taken by us or by regulators, could negatively impact our revenue, sales force and business in this market, including the interruption of sales activities, loss of licenses, and the imposition of fines, and any other adverse actions or events.

We are currently being sued in several purported class action lawsuits and derivative claims relating to negative media and regulatory scrutiny of our business in Mainland China and the associated decline in our stock price.

We have been named as a defendant in six purported class action complaints, two of which were voluntarily dismissed, relating to negative media and regulatory scrutiny of our business in Mainland China. We have also been named as a nominal defendant in five shareholder derivative suits, one of which was voluntarily dismissed, relating to the same issues. These complaints purport to assert claims on behalf of certain of our stockholders or the company and allege that we made materially false and misleading statements regarding our sales operations in, and financial results derived from, our Mainland China business. These complaints also allege that we are engaged in illegal multi-level marketing activities in Mainland China in violation of local law. These complaints seek substantial monetary damages or make claims for indeterminate amounts of damages. These complaints, or others filed alleging similar facts, could result in monetary or other penalties that may affect our operating results and financial condition. Moreover, the negative publicity stemming from these complaints and the allegations they make could harm our business and operations. Accordingly, any adverse determination against us in these suits, or even the allegations contained in the suits regardless of whether they are ultimately found to be without merit, could harm our business, operations and financial condition.

Our ability to expand our business in Mainland China could be negatively impacted if we are unable to obtain additional necessary national and local government approvals in Mainland China.

We have obtained direct selling licenses in 19 provinces and municipalities in Mainland China. In order to expand our direct selling model into additional provinces, we currently must obtain a series of approvals from district, city, provincial and national government agencies with respect to each province in which we wish to expand. The process for obtaining the necessary government approvals to conduct direct selling continues to evolve and is lengthy, as we are required to work with a large number of provincial, city, district and national government authorities. The complexity of the approval process as well as the government's continued cautious approach as direct selling develops in Mainland China makes it difficult to predict the timeline for obtaining these approvals. Furthermore, the recent government investigations of our business in Mainland China could increase the time and difficulty we may face in obtaining additional licenses. If the government's recent evaluation of our direct selling activities results in significant delays in obtaining licenses elsewhere in Mainland China, or if the current processes for obtaining approvals are delayed further for any reason or are changed or interpreted differently than currently understood, our ability to receive direct selling licenses in Mainland China and our growth prospects in this market, could be negatively impacted.

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

Growth in our sales force and consumers and our results of operations can be particularly impacted by adverse publicity regarding us, the nature of our direct selling business models, our products or the actions of our sales force and employees. Given the nature of our operations and our continuous need to recruit and retain consumers and members of our sales force, we are particularly vulnerable to adverse publicity. Specifically, we are susceptible to adverse publicity concerning:

- suspicion about the legality and ethics of network marketing;
- continued media or regulatory scrutiny regarding our business in Mainland China;
- recent government fines issued against us and several of our sales employees in Mainland China;
- the safety or effectiveness of ingredients in our or our competitors' products;
- regulatory investigations of us, our competitors and our respective products;
- the actions of our current or former members of our sales force and employees; and
- public perceptions of the direct selling industry or the nutritional or personal care industry generally.

In addition, in the past we have experienced negative publicity that has harmed our business in connection with regulatory investigations and inquiries. Critics of our industry, short sellers and other individuals who want to pursue an agenda have in the past and may in the future utilize the Internet, the press and other means to publish criticisms of the industry, our company and our competitors, or make allegations regarding our business and operations, or the business and operations of our competitors. We or others in our industry may receive similar negative publicity or allegations in the future, and it may harm our business and reputation.

We have identified a material weakness in our internal control over financial reporting that resulted in the restatement of certain of our previously issued consolidated financial statements. This material weakness could continue to adversely affect our ability to report our results of operations and financial condition accurately and in a timely manner.

In connection with the restatement of our consolidated financial statements for the period ended March 31, 2014 and the preparation of our consolidated financial statements for the three- and six-month periods ended June 30, 2014, our management identified a material weakness in our controls over the presentation and disclosure of hyper-inflationary accounting for our Venezuela subsidiary. For more information see Part I. Item 4. "Controls and Procedures" of this Report on Form 10-Q. This weakness resulted in hyper-inflationary currency translation adjustments for Venezuela being incorrectly recorded as adjustments to Accumulated Other Comprehensive Loss rather than as charges to Other Income (Expense). As a result of this material weakness, our management concluded that our internal controls over financial reporting were not effective as of March 31, 2014 and June 30, 2014, and decided to restate our consolidated financial statements and the related evaluation of our disclosure controls and procedures for the three-month period ended March 31, 2014.

We have only recently identified this material weakness in our internal controls and have not yet designed or implemented any remediation measures to address it. It is possible that other errors in our financial statements could occur before we remediate this issue. Moreover, even once we design and implement a remediation plan, there can be

no assurance that such remedial measures will be effective or that other errors in our financial reporting will not occur. These errors could require us to further restate our financial results. In addition, if we are unable to successfully remediate the material weakness in our internal controls or if we are unable to produce accurate and timely financial statements, we may face regulatory action, be unable to maintain compliance with applicable stock exchange listing requirements and our stock price and business may be adversely affected.

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ITEM 6. EXHIBITS

Exhibits

Regulation S-K

<u>Number</u>	<u>Description</u>
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10.1	*Company, various financial institutions, and JPMorgan Chase Bank, N.A. as administrative agent, dated as of March 31, 2014.
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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.
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31.2	** Certification by Ritch N. Wood, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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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.
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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.
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101.INS\*\* XBRL Instance Document

101.SCH\*\* XBRL Taxonomy Extension Schema Document

101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

\*Previously Filed with the Original Form 10-Q

\*\* Filed Herewith

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SIGNATURE

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

August 12, 2014

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)