NU SKIN ENTERPRISES INC
Form 10-Q
November 07, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

–––FORM 10-Q

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

OR

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

Commission File Number: 001-12421

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

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

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

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

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

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

Large accelerated filer þ Accelerated filer ¨

Non-accelerated filer ¨ 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 þ

As of October 31, 2011, 62,159,895 shares of the registrant’s Class A common stock, $.001 par value per share, were outstanding.

NU SKIN ENTERPRISES, INC.

2011 FORM 10-Q QUARTERLY REPORT – THIRD QUARTER

TABLE OF CONTENTS

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$242,034	$230,337
Accounts receivable	36,228	25,701
Inventories, net	105,400	114,475
Prepaid expenses and other	60,235	52,013
	443,897	422,526
Property and equipment, net	145,913	133,722
Goodwill	112,446	112,446
Other intangible assets, net	70,375	78,270
Other assets	126,217	145,260
Total assets	$898,848	$892,224
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$30,945	$25,480
Accrued expenses	123,053	146,108
Current portion of long-term debt	28,586	27,865
Related party payable		16,995
	182,584	216,448
Long-term debt	109,361	133,013
Other liabilities	66,772	71,514
Total liabilities	358,717	420,975
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Class A common stock – 500 million shares authorized, $.001 par value, 90.6 million shares issued	91	91
Additional paid-in capital	285,265	256,505
Treasury stock, at cost – 28.2 million and 28.5 million shares	(508,443)	(476,748)
Retained earnings	827,077	749,940
Accumulated other comprehensive loss	(63,859)	(58,539)

	540,131	471,249
Total liabilities and stockholders’ equity	$898,848	$892,224

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

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue	$428,416	$383,553	$1,248,687	$1,136,039
Cost of sales	70,631	68,755	242,453 (1)	201,525
Gross profit	357,785	314,798	1,006,234	934,514
Operating expenses:				
Selling expenses	184,203	162,402	536,845	477,403
General and administrative expenses	106,369	99,501	311,223	298,938
Total operating expenses	290,572	261,903	848,068	776,341
Operating income	67,213	52,895	158,166	158,173
Other income (expense), net	(6,879)	(674)	(7,428)	(7,347)
Income before provision for income taxes	60,334	52,221	150,738	150,826
Provision for income taxes	13,536	16,932	46,931	52,105
Net income	$46,798	$35,289	$103,807	$98,721
Net income per share (Note 2):				
Basic	$0.75	$0.57	$1.67	$1.58
Diluted	$0.72	$0.55	$1.61	$1.53
Weighted-average common shares outstanding:				
Basic	62,285	61,971	61,998	62,443
Diluted	64,708	64,065	64,408	64,584

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

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

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

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	$103,807	$98,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,021	22,573
Japan customs expense	32,754	
Foreign currency (gains)/losses	4,388	3,350
Stock-based compensation	11,510	7,739
Deferred taxes	(11,553)	(1,084)
Changes in operating assets and liabilities:		
Accounts receivable	(10,780)	(8,492)
Inventories, net	8,195	(8,739)
Prepaid expenses and other	(5,667)	(4,001)
Other assets	(17,064)	(3,675)
Accounts payable	5,245	3,482
Accrued expenses	(25,885)	16,664
Other liabilities	8,402	11,775
Net cash provided by operating activities	127,373	138,313
Cash flows from investing activities:		
Purchases of property and equipment	(27,985)	(28,692)
Net cash used in investing activities	(27,985)	(28,692)
Cash flows from financing activities:		
Exercises of employee stock options	25,924	14,099
Payments of cash dividends	(26,671)	(23,412)
Payments on debt financing	(26,501)	(20,459)
Income tax benefit of options exercised	10,298	5,524
Repurchases of shares of common stock	(51,045)	(49,960)
Payment of related party debt	(16,995)	
Net cash used in financing activities	(84,990)	(74,208)
Effect of exchange rate changes on cash	(2,701)	4,169
Net increase in cash and cash equivalents	11,697	39,582
Cash and cash equivalents, beginning of period	230,337	158,045

Cash and cash equivalents, end of period	$242,034	$197,627

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

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

1. THE COMPANY

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

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

2. NET INCOME PER SHARE

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented. For the three-month periods ended September 30, 2011 and 2010, other stock options totaling 0.1 million and 0.2 million, respectively, and for the nine-month periods ended September 30, 2011 and 2010, other stock options totaling 2.1 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 February, May and July 2011, the Company's board of directors declared quarterly cash dividends of $0.135, $0.135 and $0.160 per share, respectively. These quarterly cash dividends totaling $8.3 million, $8.4 million and $10.0 million, were paid on March 16, 2011, June 15, 2011 and September 14, 2011, to stockholders of record on February 25, 2011, May 27, 2011 and August 26, 2011, respectively. In October 2011, the Company's board of directors declared a quarterly cash dividend of $0.160 per share to be paid December 14, 2011 to stockholders of record on November 25, 2011.

4. DERIVATIVE FINANCIAL INSTRUMENTS

At September 30, 2011, the Company held mark to market forward contracts designated as foreign currency cash flow hedges with notional amounts totaling 8.2 billion Japanese yen ($106.4 million as of September 30, 2011) and 1.3 billion Japanese yen at September 30, 2010 ($15.6 million as of September 30, 2011) to hedge forecasted foreign-currency-denominated intercompany transactions. For the nine-month period ended September 30, 2011, the Company recorded a net unrealized loss of $2.8 million in accumulated other comprehensive income. The contracts held at September 30, 2011 have maturities through February 1, 2013 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 17 months. There were no pre-tax net (losses)/gains on foreign currency cash flow hedges recorded in current earnings for the year ended December 31, 2010. The pre-tax net (losses)/gains on foreign currency cash flow hedges recorded in current earnings were immaterial for the quarter ended September 30, 2011.

5. REPURCHASES OF COMMON STOCK

During the three- and nine-month periods ended September 30, 2011, the Company repurchased approximately 0.4 million and 1.5 million shares of its Class A common stock under its open market repurchase plan for approximately $17.2 million and $51.0 million, respectively. During the three- and nine-month periods ended September 30, 2010, the Company repurchased approximately 0.4 million and 1.9 million shares of its Class A common stock under its open market repurchase plan for approximately $10.7 and $50.0 million, respectively. At September 30, 2011, $102.7 million was available for repurchases under the stock repurchase program.

6. COMPREHENSIVE INCOME

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	$46,798	$35,289	$103,807	$98,721
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(8,027)	5,885	(3,490)	2,111
Net unrealized (losses)/gains on foreign currency cash flow hedges	(2,289)		(2,144)	29
Less: Reclassification adjustment for realized (gains)/losses in current earnings	419		315	(126)
Comprehensive income	$36,901	$41,174	$98,488	$100,735

7. SEGMENT INFORMATION

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

- 5 -

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

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

Revenue:	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
North Asia	$184,322	$170,537	$546,853	$505,503
Greater China	83,367	63,337	231,364	201,664
South Asia/Pacific	61,819	50,247	170,977	131,529
Americas	59,407	63,721	175,091	188,564
Europe (region)	39,501	35,711	124,402	108,779
Totals	$428,416	$383,553	$1,248,687	$1,136,039

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

Revenue:	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Nu Skin	$235,957	$224,498	$680,848	$687,650
Pharmanex	190,073	156,025	560,374	439,942
Other	2,386	3,030	7,465	8,447
Totals	$428,416	$383,553	$1,248,687	$1,136,039

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

Revenue:	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Japan	$121,127	$123,010	$348,027	$344,998
South Korea	63,195	47,527	198,826	160,505
United States	48,850	54,245	145,701	160,025
Mainland China	42,105	23,570	111,271	64,509
Europe	34,369	29,554	107,126	90,075
Taiwan	28,090	26,966	82,301	79,742

Long-lived assets:	September 30, 2011	December 31, 2010

Japan	$14,918	$12,473
South Korea	11,519	9,396
United States	92,891	84,829
Mainland China	12,143	11,646
Europe	2,166	2,697
Taiwan	1,628	2,200

8. DEFERRED TAX ASSETS AND LIABILITIES

The Company accounts for income taxes in accordance with the Income Taxes Topic of the Financial Accounting Standards Codification. These standards establish financial accounting and reporting standards for the effects of income taxes that result from an enterprise’s activities during the current and preceding years. The Company takes an asset and liability approach for financial accounting and reporting of income taxes. The Company pays income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between the Company and its foreign affiliates. Deferred tax assets and liabilities are created in this process. As of September 30, 2011 the Company has net deferred tax assets of $63.5 million. The Company has netted these deferred tax assets and deferred tax liabilities by jurisdiction. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized.

9. UNCERTAIN TAX POSITIONS

The Company files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. During the quarter ended September 30, 2011, the Company entered into a closing agreement with the United States Internal Revenue Service (the “IRS”) for all adjustments for the 2005 through 2008 tax years. With a few exceptions, the Company is no longer subject to U.S., federal, state and local income tax examination by tax authorities for the years before 2005. In 2009, the Company entered into a voluntary program with the IRS called Compliance Assurance Process (“CAP”).The objective of CAP is to contemporaneously work with the IRS to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. The Company has elected to participate in the CAP program for 2011 and may elect to continue participating in CAP for future tax years; the Company may withdraw from the program at any time. In major foreign jurisdictions, the Company is no longer subject to income tax examinations for years before 2005. Along with the IRS examination, the Company is currently under examination in certain foreign jurisdictions; however, the outcomes of those reviews are not yet determinable.

The Company’s unrecognized tax benefits relate to multiple foreign and domestic jurisdictions. Due to potential decreases in unrecognized tax benefits from the multiple jurisdictions in which the Company operates, as well as the expiration of various statutes of limitation, it is reasonably possible that the Company’s gross unrecognized tax benefits, net of foreign currency adjustments, may change within the next 12 months by a range of approximately $1 to $3 million. The amount of gross unrecognized tax benefits decreased by $7.1 million during the nine months ended September 30, 2011, due mainly to the conclusion of an advanced pricing agreement with Japan, the completion of a tax audit in South Korea, expiration of statutes of limitation in various countries, current tax positions and changes in currency exchange rates. As a result of this decrease in gross unrecognized tax benefits, accrued interest and penalties, which are reported as a component of income tax expense, decreased by $0.9 million during the nine months ended September 30, 2011.

10. COMMITMENTS AND CONTINGENCIES

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

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

The Company is currently involved in a dispute with customs authorities in Japan with respect to duty assessments on several of the Company's Pharmanex nutritional products, which is separate and distinct from the dispute discussed in Note 13. The dispute relates to additional customs assessments made by Yokohama Customs for the period of October 2006 through September 2009 in connection with post-importation audits, as well as the disputed portion of the Company's import duties from October 2009 to the present, which the Company has or will hold in bond or pay under protest. The aggregate amount of these assessments and disputed duties was 4.0 billion Japanese yen as of September 30, 2011 (approximately $51.3 million), net of any recovery of consumption taxes, and increases approximately $2.0 million per quarter. The Company believes that additional assessments related to any prior period would be barred by applicable statutes of limitations. The issue in this 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 Yokohama Customs, which were rejected. The Company then appealed the matter to the Ministry of Finance in Japan. In May 2011, the Company received notice that, as anticipated, the Ministry of Finance in Japan denied the Company's administrative appeal. The Company disagrees with the Ministry of Finance's administrative decision. The Company is 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 equal to the difference between the Company's declared duties and the amount the customs authorities have determined the Company should be paying on all current imports. Because the Company believes that the higher rate determined by the customs authorities is an improper application of the regulations, the Company is currently expensing the portion of the duties the Company believes is supported under applicable customs law, and recording the additional deposit or payment as a receivable within long-term assets on its consolidated financial statements. To the extent that the Company is unsuccessful in recovering the amounts assessed and paid or held in bond, the Company will likely be required to record a non-cash expense for the full amount of the disputed assessments.

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

11. LONG-TERM DEBT

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

Facility or Arrangement(1)	Original Principal Amount	Balance as of September 30, 2011(2)	Interest Rate	Repayment Terms
2003 $205.0 million multi-currency uncommitted shelf facility:				
U.S. dollar denominated:	$40.0 million	$28.6 million	6.2%	Notes due July 2016, with annual principal payments that began in July 2010.
	$20.0 million	$17.1 million	6.2%	Notes due January 2017, with annual principal payments that began in January 2011.
Japanese yen denominated:	3.1 billion yen	1.3 billion yen ($17.5 million as of September 30, 2011)	1.7%	Notes due April 2014, with annual principal payments that began in April 2008.
	2.3 billion yen	1.9 billion yen ($25.2 million as of September 30, 2011)	2.6%	Notes due September 2017, with annual principal payments that began in September 2011.
	2.2 billion yen	1.9 billion yen ($24.1 million as of September 30, 2011)	3.3%	Notes due January 2017, with annual principal payments that began in January 2011.
2010 committed loan:				

U.S. dollar denominated:	$30.0 million	$25.5 million	Variable 30 day: 1.25%	Amortizes $1.5 million per quarter.
2004 $25.0 million revolving credit facility	N/A	None	N/A	Credit facility is due May 2014.
2009 $100.0 million uncommitted multi-currency shelf facility	N/A	None	N/A	

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

(2) The current portion of the Company's long-term debt (i.e. becoming due in the next 12 months) includes $10.0 million of the balance of the Company's Japanese yen-denominated debt under the 2003 multi-currency uncommitted shelf facility, $12.6 million of the balance on the Company's U.S. dollar denominated debt under the 2003 multi-currency uncommitted shelf facility and $6.0 million of the Company's 2010 committed loan.

12. ACCOUNTING PRONOUNCEMENTS

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

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

In September 2011, the FASB ratified ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 allows an entity the option of performing a qualitative assessment before calculating the fair value of its reporting units. If, based on the qualitative assessment, an entity concludes it is more likely than not that the fair value of the reporting unit exceeds its carrying value, quantitative testing for impairment is not necessary. The new accounting standard is applicable for goodwill impairment testing performed in years beginning after December 15, 2011 and early adoption is permitted. The Company does not expect this pronouncement to have a significant impact on its financial statements.

13. COST OF SALES

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

14. SUBSEQUENT EVENTS

On October 27, 2011, the Company announced that it executed a letter of intent to acquire substantially all of the assets of LifeGen Technologies, LLC, a genomics company based in Madison, Wisconsin for $11.7 million. Pursuant to the terms of the letter of intent, the acquisition is subject to completion of a definitive purchase agreement, due diligence and other closing conditions. The Company anticipates closing on the acquisition prior to the end of 2011.

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

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

Overview

Our revenue for the three- and nine-month periods ended September 30, 2011 increased 12% and 10% to $428.4 million and $1.2 billion, respectively, when compared to the same periods in 2010, with foreign currency exchange rate fluctuations positively impacting revenue by 7% in each period. Accelerated growth in our emerging markets, including Mainland China, South Asia and South Korea, was partially offset by continued softness in the United States and Japan. Revenue growth was driven by continued interest in our strong product portfolio, along with sustained sales force growth, with the number of executive and active distributors globally up 14% and 6%, respectively, compared to the prior-year period.

Earnings per share for the third quarter of 2011 were $0.72 compared to $0.55 for the same period in 2010. Earnings per share for the first nine months of 2011 were $1.61, or $1.93 excluding non-cash charges of $32.8 million associated with the first quarter Japan customs ruling, discussed below under Gross Profit, compared to $1.53 for the same period in 2010. Earnings per share improved due largely to revenue growth coupled with continued efficiencies and controlled expenses. Earnings per share were also impacted by an income tax benefit of $7.7 million, partially offset by $6.2 million of non-cash foreign currency losses on intercompany advances. Earnings per share excluding Japan customs expense is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below.

In October 2011, in connection with our global distributor convention, we introduced our latest ageLOC innovations, the R^2 nutritional supplement and the Body Galvanic Spa, which is used with new ageLOC body treatment gels. During this global limited offering, we received approximately $100 million in orders for these new products. We expect about 80% to 90% of the orders to be recognized as revenue during the fourth quarter of 2011. We currently plan to fully launch these products globally throughout 2012. We continue to assess the financial and operational impact of this launch, including factors such as the timing of product deliveries, the amount of product returns and the cannibalization of sales of our other products.

Revenue

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
Japan	$ 121.1	$ 123.0	(2%)	$ 348.0	$ 345.0	1%
South Korea	63.2	47.5	33%	198.8	160.5	24%
North Asia total	$ 184.3	$ 170.5	8%	$ 546.8	$ 505.5	8%

Revenue in the region for the three- and nine-month periods ended September 30, 2011 was positively impacted approximately 10% and 9% by foreign currency exchange rate fluctuations, due to the strengthening of both the Japanese yen and the South Korean won.

Local-currency revenue in Japan declined 11% and 9% for the three- and nine-month periods ended September 30, 2011, compared to the same periods in 2010. We estimate that the March 2011 catastrophes that occurred in Japan negatively impacted third quarter revenue by approximately $10 million, which was in line with our previous estimate. Continued weakness in our distributor numbers also contributed to the decline with our executive and active distributor counts decreasing 2% and 8%, respectively compared to the prior year.

South Korea experienced local-currency revenue growth of 22% and 17% for the three- and nine-month periods ended September 30, 2011, compared to the same periods in 2010. This revenue increase reflects continued strong distributor growth and interest generated by our ageLOC products and the restaging of our TRA weight loss products earlier in the year. The number of executive and active distributors in South Korea increased 28% and 22%, respectively, compared to the prior year.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
Taiwan	$28.1	$27.0	4%	$82.3	$79.7	3%
Mainland China	42.1	23.5	79%	111.3	64.5	73%
Hong Kong	13.2	12.8	3%	37.8	57.4	(34%)
Greater China total	$83.4	$63.3	32%	$231.4	$201.6	15%

Foreign currency exchange rate fluctuations positively impacted revenue in Greater China by approximately 7% and 6% during the three- and nine-month periods ended September 30, 2011.

On a local-currency basis, revenue in Mainland China increased 69% and 65% in the three- and nine-month periods ended September 30, 2011, compared to the same periods in 2010. This continued growth is due to significant sales force growth, driven by strong interest in our product portfolio and sales force incentives, as reflected by a 42% increase in preferred customers and 75% increase in sales representatives, compared to the prior-year period.

Compared to the same prior-year periods, local-currency revenue for the three- and nine-month periods ended September 30, 2011 in Taiwan was down 5% and 6%, respectively. Local-currency revenue in Hong Kong for the three- and nine-month periods ended September 30, 2011 was up 3% and down 34%, respectively. We continue to see interest in our income opportunity for distributors and our ageLOC products in these markets, moderated by a regional focus on growth in Mainland China. Revenue comparisons for the nine-month period ended September 30, 2011 for each of these markets were impacted by substantial sales to non-Hong Kong distributors attending the Greater China Regional Convention in May 2010. Third quarter executive distributors in Taiwan were up 3% and active distributors were down less than 1%, while executive and active distributors in Hong Kong were up 10% and down 1%, respectively, compared to the prior year.

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

	Three Months Ended	Nine Months Ended