NU SKIN ENTERPRISES INC
Form 10-K
February 27, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Class A Common Stock, $.001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

Based on the closing sales price of the Class A common stock on the New York Stock Exchange on June 30, 2016, the last business day of the Registrant's second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $2.51 billion. All executive officers and directors of the Registrant, and all stockholders holding more than 10% of the Registrant's outstanding voting stock other than institutional investors, such as registered investment companies, eligible to file beneficial ownership reports on Schedule 13G, have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the Registrant.

As of January 31, 2017, 52,569,172 shares of the Registrant's Class A common stock, $.001 par value per share, and no shares of the Registrant's Class B common stock, $.001 par value per share, were outstanding.

Documents incorporated by reference. Portions of the Registrant's Definitive Proxy Statement for the Registrant's 2017 Annual Meeting of Stockholders are incorporated by reference in Part III of this report. The Definitive Proxy Statement or an amendment to this Form 10-K will be filed with the Securities and Exchange Commission within 120 days after the Registrant's fiscal year end.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K, IN PARTICULAR "ITEM 1. BUSINESS" AND "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION," 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 OUR 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, PRODUCTS, PRODUCT INTRODUCTIONS AND OFFERINGS, FUTURE MANAGEMENT, GROWTH, OPPORTUNITIES AND RISKS; STATEMENTS OF PROJECTIONS REGARDING FUTURE SALES, EXPENSES, OPERATING RESULTS, TAXES AND DUTIES, CAPITAL EXPENDITURES, SOURCES AND USES OF CASH, FOREIGN CURRENCY FLUCTUATIONS OR DEVALUATIONS, AND OTHER FINANCIAL ITEMS; STATEMENTS OF MANAGEMENT'S EXPECTATIONS AND BELIEFS REGARDING OUR MARKETS; STATEMENTS REGARDING THE PAYMENT OF FUTURE DIVIDENDS AND STOCK REPURCHASES; STATEMENTS REGARDING THE OUTCOME OF LITIGATION AND OTHER LEGAL MATTERS; ACCOUNTING ESTIMATES AND ASSUMPTIONS; 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," "COMMIT," "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 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 "ITEM 1A – RISK FACTORS."

In this Annual Report on Form 10-K, references to "dollars" and "$" are to United States dollars.

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

PART I

ITEM 1. BUSINESS

Founded more than 30 years ago, Nu Skin Enterprises, Inc. develops and distributes innovative consumer products, offering a comprehensive line of premium-quality beauty and wellness solutions in approximately 50 markets worldwide. In 2016, our revenue of $2.2 billion was primarily generated by our two category brands: our beauty and personal care category brand known as Nu Skin and our nutritional products category brand, Pharmanex. We have also leveraged our scientific expertise in the area of anti-aging to develop our ageLOC brand that features innovative products in both of these categories. We operate in the direct selling channel, primarily utilizing person-to-person marketing to promote and sell our products.

About 90% of our revenue came from outside of the United States in 2016, with approximately 28% of our revenue coming from Mainland China, our largest revenue market. Given the size of our international operations, our results, as reported in U.S. dollars, are often impacted by foreign currency fluctuations. In addition, our results can be impacted by global economic, political, demographic and business trends and conditions.

Our operations are subject to various laws and regulations globally, particularly with respect to our product categories and our distribution channel. See "Risk Factors" for a more detailed description of the risks associated with our business.

PRODUCTS

We offer a branded, differentiated product platform. We believe our innovative approach to product development and distribution provides us with a competitive advantage in anti-aging and direct selling. We develop and distribute innovative, premium-quality anti-aging personal care products and nutritional supplements under our Nu Skin and Pharmanex category brands, respectively. Over the last several years, we have introduced new Nu Skin personal care products and Pharmanex nutritional supplements under our ageLOC anti-aging brand. Our research and product development is focused on understanding the sources of aging, including the influence of certain ingredients on gene expression, and utilizing that knowledge in our development of anti-aging products. We believe that our acquired and licensed technologies, research collaborations and in-house research expertise enable us to introduce innovative, proprietary products. We source and produce nearly all our proprietary products through trusted third parties, except in Mainland China, where we manufacture our own products.

During 2015 and 2016, and continuing into 2017, we launched our ageLOC Youth nutritional supplement and our ageLOC Me customized skin care system. Beginning in the second half of 2017 and continuing into 2018, we plan to launch ageLOC LumiSpa, which is a treatment and cleansing device that promotes smooth and healthy skin.

Product Categories

We have two primary product categories, each operating under its own brand. We market our premium-quality personal care products under the Nu Skin category brand and our science-based nutritional supplements under the Pharmanex category brand. Over the last several years, we have introduced new Pharmanex nutritional supplements and Nu Skin personal care products under our ageLOC anti-aging brand.

Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of Nu Skin and Pharmanex products for the years ended December 31, 2014, 2015, and 2016. This table should be read in conjunction with the information presented in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," which discusses the factors impacting revenue trends and the costs associated with generating the aggregate revenue presented.

Revenue by Product Category
(U.S. dollars in millions)[1]

	Year Ended December 31,					
Product Category	2014		2015		2016	
Nu Skin	$1,562.6	60.8 %	$1,363.5	60.7 %	$1,308.2	59.3 %
Pharmanex	1,000.3	38.9	877.9	39.1	892.7	40.4
Other[2]	6.6	0.3	5.6	0.2	6.9	0.3
	$2,569.5	100.0%	$2,247.0	100.0%	$2,207.8	100.0%

(1) In 2016, 91% of our sales were transacted in foreign currencies that were then converted to U.S. dollars for financial reporting purposes at weighted-average exchange rates. Foreign currency fluctuations negatively impacted reported revenue by approximately 2% in 2016 compared to 2015 and 8% in 2015 compared to 2014.

(2)

We currently offer a limited number of other products and services, including household products and technology services.

Nu Skin. Our strategy for the Nu Skin category brand is to leverage our distribution channel to strengthen Nu Skin's position as an innovative leader in the anti-aging personal care market. We are committed to continuously improving and evolving our product formulations to develop and incorporate innovative and proven ingredients. Our primary categories in this product line are core skin care systems and targeted treatment products that address specific skin needs. We formulate these products with ingredients that are scientifically proven to provide visible results. Products in this category include our ageLOC Me customized skin care system, ageLOC Spa systems and ageLOC Transformation anti-aging skin care system. Our ageLOC skin care products accounted for 29% of our total revenue and 49% of Nu Skin product category sales in 2016. We also offer our Epoch® products, which feature botanical ingredients derived from renewable sources, and a number of other cosmetic, personal care and hair care products.

Pharmanex. Our strategy for the Pharmanex category brand is to continue to introduce innovative, substantiated anti-aging products based on research and development and quality manufacturing. Direct selling has proven to be an effective method of marketing our high-quality supplements because our sales force can personally educate consumers on the quality and benefits of our products, differentiating them from our competitors' offerings. This product line includes our ageLOC Youth nutritional supplement, ageLOC TR90 weight management and body shaping system and LifePak nutritional supplements. ageLOC Youth was our largest nutritional product in terms of revenue in 2016, representing approximately 9% of our total revenue and approximately 23% of Pharmanex revenue. We also offer a number of other anti-aging nutritional solutions and weight management products.

Product Development

We are committed to developing and marketing innovative products. We have several products in development, including next-generation skin care products and nutritional supplements. Our research and product development is focused on understanding the sources of aging, including the influence of certain ingredients on gene expression, and utilizing that knowledge in product development.

Our research and product development activities include:

• Internal research, product development and quality testing;

• Joint research projects, collaborations and clinical studies;

• Identification and assessment of technologies for potential licensing arrangements; and

• Acquisition of technologies.

We maintain research and product development facilities in the United States and Mainland China. We also contract with third parties for clinical studies and collaborate on basic research projects with researchers from universities and other research institutions in the United States and Asia, whose staffs include scientists with basic research expertise in, among others, natural product chemistry, biochemistry, dermatology, pharmacology and clinical studies. Our expenses for internal research and development activities and joint research projects and collaborations were $18.9 million, $20.1 million and $24.3 million in 2014, 2015 and 2016, respectively.

We also work to identify and assess innovative technologies developed by third parties for potential licensing or supply arrangements. Because of the nature of our distribution channel, which allows us to provide a high level of product information on a person-to-person basis, we often have third parties who are interested in licensing innovative technologies to us to incorporate into our products and commercialize through our distribution channel. Licensing arrangements allow us to leverage the research activities of third parties that have resulted in demonstrated technologies, without all of the upfront costs and uncertainty associated with internal development. We have also invested in acquisitions to supplement our research capabilities and to acquire technologies, including our acquisition of Pharmanex in 1998; the license and acquisition of the technology underlying our BioPhotonic Scanner, a non-invasive tool that measures the level of carotenoid anti-oxidants in skin; and the acquisition of assets related to the genetic sources of aging from LifeGen Technologies, LLC. We incur expenses for royalties and amortization for previous technology-related acquisitions.

Intellectual Property

Our major trademarks are registered in the United States and in each country where we operate or have plans to operate, and we consider trademark protection to be very important to our business. Our major trademarks include Nu Skin®, our fountain logos, Pharmanex®, ageLOC®, LifePak®, Galvanic Spa®, TR90®, Epoch®, and ageLOC Me®. In addition, a number of our products, including our facial spas, ageLOC Body Spa, LumiSpa, TR90, Tru Face Essence Ultra and Pharmanex BioPhotonic Scanner, are based on proprietary technologies, some of which are patented or licensed from third parties. We also rely on patents and trade secret protection to protect our proprietary formulas and other proprietary information for our ageLOC products and other products.

Sourcing and Production

Nu Skin. For markets other than Mainland China, we acquire ingredients and contract production of nearly all our Nu Skin personal care products from third-party suppliers and manufacturers. In Mainland China, we operate manufacturing facilities where we produce the majority of our personal care products sold in Mainland China, and some products exported to other markets.

We procure our ageLOC Spa systems and our Tru Face Essence products from single vendors who own or control the product formulations, ingredients, or other intellectual property rights associated with these products. We maintain good relationships with these vendors and do not anticipate termination of these relationships in the near term. However, to continue offering these product categories following any termination of our relationship with these vendors, we would need to develop and manufacture alternative products and source them from other vendors. We also acquire ingredients and products from two other suppliers that manufactured products representing more than 10% of our Nu Skin personal care purchases in 2016. We maintain a good relationship with these suppliers and do not anticipate that any party will terminate these relationships in the near term. In the event we become unable to source any products or ingredients from these suppliers, we believe that we would be able to produce or replace those products or substitute ingredients. We also have ongoing relationships with secondary and tertiary suppliers. Please refer to "Risk Factors—The loss of suppliers or shortages in ingredients could harm our business" for a discussion of risks and uncertainties associated with our supplier relationships and with the sourcing of raw materials and ingredients.

Pharmanex. For markets other than Mainland China, we source most of our Pharmanex nutritional supplements from third-party suppliers and manufacturers. In Mainland China, we operate manufacturing facilities where we produce the majority of our nutritional supplements sold in Mainland China and herbal extracts used to produce other products sold globally.

Four of our suppliers manufactured products representing more than 10% of our Pharmanex nutritional supplement purchases in 2016. We maintain a good relationship with these suppliers and do not anticipate that any party will terminate these relationships in the near term. In the event we become unable to source any products or ingredients from these suppliers or from our other vendors, we believe that we would be able to produce or replace those products or substitute ingredients. We also have ongoing relationships with secondary and tertiary suppliers. Please refer to "Risk Factors—The loss of suppliers or shortages in ingredients could harm our business" for a discussion of certain risks and uncertainties associated with our supplier relationships, as well as with the sourcing of raw materials and ingredients.

DISTRIBUTION CHANNEL

We operate in the direct selling channel, primarily utilizing person-to-person marketing to promote and sell our products. These personal marketing efforts are supported by various mediums, including our marketing content, websites, events and social business solutions. We believe our distribution channel is an effective vehicle to distribute our products because:

- our sales force can educate consumers about our products face-to-face, which we believe is more effective for differentiating our products than using traditional mass-media advertising;
- our distribution channel allows for actual product demonstrations and trial by potential consumers;
- our distribution channel allows our sales force to provide personal testimonials of product efficacy; and
- as compared to other distribution methods, our sales force has the opportunity to provide consumers higher levels of service and encourage repeat purchases.

The manner in which we operate our distribution channel can vary from market to market based on regulatory and socio-economic conditions. While our person-to-person marketing philosophy remains consistent globally, various aspects of our business may differ from market-to-market, including product mix and pricing, compensation structure, access to distribution outlets or product stores, the manner of getting products to consumers, product claims, branding and product formulations. For example, in Mainland China we have implemented a distinct hybrid business model that utilizes retail stores, sales employees, independent direct sellers and independent marketers to market our products.

Given that members of our sales force are independent contractors in most markets, we do not control or direct their promotional efforts. We do, however, require that our sales force abide by policies and procedures that require them to act in an ethical and consumer-protective manner and in compliance with applicable laws and regulations. As a member of direct selling associations globally, Nu Skin promotes and abides by the industry's code of ethics and consumer protective standards to support and protect those who sell and purchase its products through the direct selling channel.

Consumers and Sales Network

Our distribution channel is composed of two primary groups: our consumer group—individuals who buy our products primarily for personal or family consumption; and our sales network—individuals who personally buy, use and resell products, and who also find new consumers, and recruit, train and develop new sellers. We strive to develop both our consumer group and our sales network. Our strategy for growing our consumer group is to offer high-quality, innovative products that provide demonstrable benefits. Our strategy for growing our sales network is to provide a meaningful business opportunity for those persons who demonstrate the ability to develop both a consumer group and a team of sellers, including through sales compensation and incentives.

To monitor the growth trends in our consumer group, we track the number of persons who purchased products directly from the company during the previous three months ("Customers," or previously referred to as "Actives"). We believe a significant majority of Customers purchase our products primarily for personal or family consumption but are not actively pursuing the opportunity we offer to generate income by marketing and reselling products. To monitor the growth in our sales network, we track the number of independent distributors, and sales employees and independent marketers in China, who achieve certain qualification requirements ("Sales Leaders"). The following chart sets forth information concerning our Customers and Sales Leaders for the last three years.

Total Number of Customers and Sales Leaders by Region

	As of December 31, 2014		As of December 31, 2015		As of December 31, 2016	
	Customers	Sales Leaders	Customers	Sales Leaders	Customers	Sales Leaders
Greater China	393,000	24,537	223,000	27,064	248,000	26,625
North Asia	391,000	17,478	366,000	17,415	329,000	16,330
South Asia/Pacific	124,000	8,458	119,000	10,476	116,000	7,584
Americas	186,000	7,471	176,000	8,708	166,000	6,683
EMEA	114,000	4,065	110,000	3,912	129,000	4,405
Total	1,208,000	62,009	994,000	67,575	988,000	61,627

Global Direct Selling Channel

Outside of Mainland China, individuals can elect to participate in our business as follows:

- "Distributor-Direct Consumers"—Individuals who purchase products directly from an independent distributor at a price established by the distributor.

- "Company-Direct Consumers"—Individuals who purchase products directly from the company. These consumers are typically referred by a distributor. These consumers generally have the opportunity to purchase at a discount if they participate in our subscription and/or loyalty programs. These individuals do not have the right to build a Nu Skin business by reselling product or by recruiting others.

- "Basic Distributors"—Distributors who purchase products at a discount for personal or family use or for resale to other consumers. These individuals are not eligible to receive compensation on a multi-level basis unless they elect to qualify as a Sales Leader under our global sales compensation plan. We consider these individuals to be part of our consumer group, as we believe a significant majority of these distributors are purchasing products for personal use and not actively recruiting others, and their purchasing levels are similar to our "Company-Direct Consumers."

- "Sales Leaders and Qualifiers"—Distributors who have qualified or are trying to qualify as a Sales Leader. These are the distributors who have made an election to try to qualify as a Sales Leader and are actively recruiting consumers and distributors and building a sales network under our global sales compensation plan, and constitute our sales network.

To become a distributor in most of our markets, an individual signs a distributor agreement and receives a distributor portfolio, which is free in most markets. In some markets, we charge a small fee that is limited to our costs related to the distributor portfolio. The distributor portfolio generally consists of documentation concerning the business, including copies of the sales compensation plan, distributor compensation summary, distributor policies and procedures and other documentation, but does not include products. There are no requirements to purchase products to become a distributor, and no commissions are paid on any fee for the distributor portfolio.

We offer a generous product return policy. With some exceptions based on local regulations, we offer a return policy that allows our distributors to return unopened and unused product for up to 12 months subject to a 10% restocking fee. Distributors are not required to terminate their distributorship to return product. Actual product returns have historically been less than 5% of annual revenue. We believe our generous return policy minimizes the financial risks associated with being a distributor.

In addition to our product return policy, we strive to be as consumer protective as possible. We seek to ensure that those who use our products or participate in our business opportunity are treated fairly and are not misled by inappropriate product or earnings claims.

There are two fundamental ways in which our distributors can earn money:

- by reselling products purchased from the company to consumers; and
- through commissions earned on the sale of products under our global sales compensation plan.

We believe that our global sales compensation plan, which has been implemented in each of our markets except Mainland China, is among the most generous sales compensation plans in the direct selling industry and is one of our competitive advantages. Our Sales Leaders can receive commissions under our global sales compensation plan for product sales from the company to their own network of consumers as well as for product sales from the company to other Sales Leaders and their consumer groups. This type of sales compensation is often referred to as "multi-level" compensation. Commissions are based on the sale and consumption of our products. Our sales force is not required to recruit or sponsor others, and we do not pay any commissions for recruiting or sponsoring. While all of our distributors can sponsor others at any time, our Sales Leaders and those in qualification to become Sales Leaders are those who generally are actively sponsoring others. Pursuant to our global sales compensation plan, we pay consolidated commissions in a Sales Leader's home country, in local currency, for product sales in the Sales Leader's own consumer group and for product sales in the Sales Leader's organization of Sales Leaders across other geographic markets.

Mainland China Business Model

Because of restrictions on direct selling and multi-level commissions in Mainland China, we have implemented a business model for that market that is different from the business model we use in our other markets. We have structured our business model in Mainland China based on several factors: the guidance we have received from government officials, our interpretation of applicable regulations, our understanding of the practices of other international direct selling companies operating in Mainland China, and our understanding as to how regulators are interpreting and enforcing the regulations.

In Mainland China, we utilize sales employees to sell products through our retail stores and website, independent direct sellers who can sell away from our stores where we have obtained direct selling licenses, and independent marketers who are licensed business owners authorized to sell our products either at their own approved premises or through our stores. We rely heavily on our ability to attract new consumers and promote repeat purchases through our sales employees, independent direct sellers and independent marketers, and to educate our sales force about our products through frequent training meetings.

Our sales employees, independent direct sellers and independent marketers in Mainland China do not participate in our global sales compensation plan, but are instead compensated according to a separate compensation model established for Mainland China. Sales employees, independent direct sellers and independent marketers earn bonuses or commissions based on their product sales. In addition, sales employees receive a salary, and independent marketers receive a service fee, both of which are reviewed and adjusted quarterly.

Please refer to "Business – Regulation" and "Risk Factors" for a discussion of risks and uncertainties associated with our business in Mainland China.

Our global sales compensation plan and our Mainland China business model, including our related know-how, processes and systems, play a significant role in helping us to attract and incentivize our sales force. We have strategically developed and refined our global sales compensation plan and our Mainland China business model to distinguish the business opportunity that we offer from those of other companies and to provide us with a competitive advantage.

Sales Incentives, Meetings, Recognition and Training

An important part of our distribution channel is motivating our Sales Leaders and recognizing their achievements. We hold regular meetings and events globally in order to recognize Sales Leaders who have achieved various levels of success in our business. These meetings also allow the company and key Sales Leaders to provide training to other Sales Leaders. We utilize a variety of sales incentives such as incentive trips to motivate Sales Leaders. In addition to rewarding performance, incentive trips provide Sales Leaders and the company opportunities to share best practices, generate alignment of Sales Leaders around key initiatives, and provide a high level of motivation and team building among Sales Leaders.

Product Launch Process

We use a variety of methods to launch our products, enabling us to tailor the launch process to the specific market and the specific product. Prior to making a product generally available for purchase in a market, we typically do a promotional offering of the product, such as a preview of the product to our key Sales Leaders in the market, a limited-time offer, or other type of promotion. In a limited-time offer, a product is sold for a limited time, often in limited quantities, before being taken off the market for a short period of time, after which the product becomes generally available for purchase in the market. We refer to this entire process, beginning with the Sales Leader preview, limited-time offer or other promotion through general availability of the product, as a product launch or our launch process.

Sales Leader previews, limited-time offers and other promotions may generate significant activity and a high level of purchasing, which can result in a higher-than-normal increase in revenue during the quarter and can skew year-over-year and sequential comparisons. We believe our product launch process also attracts new people to our business, helping drive growth in our Sales Leaders and Customers through increased consumer trial. Please refer to "Risk Factors" for more information on risks related to our product launch process.

Beginning in the second half of 2017 and continuing into 2018, we plan to launch our ageLOC LumiSpa treatment and cleansing device.

GEOGRAPHIC REGIONS

We currently sell and distribute our products in approximately 50 markets. We have divided our markets into five geographic regions: Greater China, North Asia, South Asia/Pacific, Americas, and Europe, Middle East and Africa ("EMEA"). The following table sets forth the revenue for each of the geographic regions for the years ended December 31, 2014, 2015 and 2016:

	Year Ended December 31,					
(U.S. dollars in millions)	2014		2015		2016	
Greater China	$948.5	37 %	$771.6	34 %	$794.4	36 %
North Asia	783.0	30	686.5	31	692.7	31
South Asia/Pacific	328.4	13	322.0	14	296.8	13
Americas	329.0	13	329.7	15	276.6	13
EMEA	180.6	7	137.2	6	147.3	7
	$2,569.5	100%	$2,247.0	100%	$2,207.8	100%

Additional comparative revenue and related financial information is presented in the tables captioned "Segment Information" in Note 19 to our consolidated financial statements.

REGULATION

Our business is subject to various laws and regulations globally, particularly with respect to our direct selling business models and our product categories. In addition, as a United States entity operating through subsidiaries in foreign jurisdictions, we are subject to foreign exchange control, transfer pricing and customs laws that regulate the flow of funds between us and our subsidiaries and for product purchases, management services and contractual obligations, such as the payment of sales commissions.

As is the case with most companies in our industry, we receive inquiries from time to time from government regulatory authorities regarding the nature of our business and other issues, such as compliance with local direct selling, transfer pricing, customs, taxation, foreign exchange control, securities and other laws. Negative publicity related to government inquiries into our operations in the United States in the early 1990s, in South Korea in the late 1990s and in Mainland China in 2014 has negatively impacted our business.

Direct Selling Regulations

Direct selling is regulated by various national, state and local government agencies in the United States and foreign countries. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, including "pyramid" schemes, which compensate participants primarily for recruiting additional participants without significant emphasis on product sales to consumers. The laws and regulations in our current markets generally:

- impose requirements related to order cancellations, product returns, inventory buy-backs and cooling-off periods for our sales force and consumers;
- require us, or our sales force, to register with government agencies;
- impose limits on the amount of sales compensation we can pay;
- impose reporting requirements; and

- require that we ensure, among other things, that our sales force maintains levels of product sales to qualify to receive commissions and that our sales force is compensated for sales of products and not for recruiting others.

The laws and regulations governing direct selling may be modified or reinterpreted from time to time, which may cause us to change our sales compensation and business models. In almost all of our markets, regulations are subject to discretionary interpretation by regulators and judicial authorities. There is often ambiguity and uncertainty with respect to the state of direct selling and anti-pyramiding laws and regulations. In the United States, for example, federal law provides law enforcement agencies, such as the Federal Trade Commission ("FTC"), broad latitude in policing unfair or deceptive trade practices, but does not provide a bright-line test for identifying a pyramid scheme. Recent settlements between the FTC and other direct selling companies and comments by FTC officials have addressed inappropriate earnings and lifestyle claims and the importance of focusing on customers. These developments have created a level of ambiguity as to the proper interpretation of the law and related court decisions. For example, in 2015, the FTC took aggressive actions against a multi-level marketing company, alleging an illegal business model and inappropriate earnings claims. We have taken additional steps to educate our distributors on proper earnings claims. If our distributors make improper claims, or if regulators determine we are making any improper claims, this could lead to an FTC investigation and could harm our business.

In 2016, the FTC entered into a settlement with another multi-level marketing company, requiring the company to modify its business model, including basing sales compensation and qualification only on sales to retail and preferred customers and on purchases by a distributor for personal consumption within allowable limits. Although this settlement does not represent judicial precedent or a new FTC rule, FTC officials have indicated that the industry should look at this settlement, and the principles underlying its specific measures, for guidance. If the requirements in this settlement lead to new industry standards or new rules, our business could be impacted and we may need to amend our global sales compensation plan. With a majority of our revenue in the United States coming from sales to retail and preferred customers, we believe that we can demonstrate consumer demand for our products, but we continue to monitor developments to assess whether we should make any changes to our business or global sales compensation plan in light of this guidance. If we are required to make changes or if the FTC seeks to enforce similar measures in the industry, either through rulemaking or an enforcement action against our company, our business could be harmed.

The regulatory environment in Mainland China is particularly complex and continues to evolve. Mainland China's direct selling and anti-pyramiding regulations contain various restrictions, including a prohibition on the payment of multi-level compensation. The regulations are subject to discretionary interpretation by provincial and local level regulators as well as local customs and practices.

Regulators continue to act cautiously as they monitor the development of direct selling in Mainland China. As of January 31, 2017, we have obtained direct selling licenses in 34 cities in 22 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 the local Department of Commerce in such provinces, the Shanghai Municipal Commission of Commerce (our supervisory authority), as well as the State Ministry of Commerce ("MOFCOM"), which is the national governmental authority overseeing direct selling. In the course of obtaining these approvals, the respective authorities under MOFCOM must also consult and seek opinions on our business operations from the Ministry of Public Security and the Administration for Industry and Commerce at both provincial and State levels.

Our operations in Mainland China are subject to significant government and media scrutiny and investigations. At times, investigations and other regulatory actions have limited our ability to conduct business in certain locations in Mainland China, and have resulted in a few cases where we have paid fines. For example, following a number of negative media stories published in January 2014, we received inquiries from various government regulators in Mainland China asking us to respond to a number of allegations relating to our business practices, products and business model. In response to this media scrutiny and government review, we voluntarily took a number of actions in Mainland China, including temporarily suspending our business meetings, temporarily suspending acceptance of applications for any new sales representatives, and extending our product refund and return policies. The adverse publicity and suspension of business meetings and acceptance of applications had a significant negative impact on our revenue and the number of Sales Leaders and Customers in the region. We face a risk that future investigations and other regulatory actions may result in fines, revocation of licenses or other significant sanctions.

Several countries, including China, South Korea, Indonesia and Vietnam, impose limits on the amount of commissions we can pay to our sales force. For example, under regulations in Mainland China, direct selling companies may pay independent direct sellers in Mainland China up to a maximum 30% of the revenue they generate through their own sales of products to consumers. Additionally, in South Korea, local regulations limit sales compensation to 35% of our total revenue in South Korea. We have implemented various measures to comply with these limits, including adjusting the commissionable value of some of our products in this market.

In some countries, regulations applicable to the activities of our Sales Leaders may affect our business because we are, or regulators may assert that we are, responsible for our Sales Leaders' conduct. In these countries, regulators may request or require that we take steps to ensure that our Sales Leaders comply with local regulations. For example, in Japan, we have taken steps to comply with strict requirements regarding how distributors approach prospective customers. In addition, in 2013, we changed our distributor sign-up process in Japan and expanded our distributor education, training and compliance efforts to address concerns expressed by Japanese regulatory agencies. We continue to be cautious in our promotional activities in Japan, and we frequently meet with regulatory and consumer agencies regarding our ongoing distributor education, training and compliance efforts.

Our sales force is required to comply with work authorization and other local legal requirements prior to working in a country. Some markets, including Mainland China and Vietnam, also prohibit or restrict participation of foreigners in direct selling activities. We have implemented policies that are designed to comply with these regulations and inform our sales force regarding the types of activities that are not permitted. However, we cannot assure that actions of our sales force will not violate local laws or regulations or our policies.

Please refer to "Risk Factors" for more information on regulatory and other risks associated with our business in Mainland China, South Korea, Japan, the United States and other markets.

Product Regulations

Our Nu Skin and Pharmanex products and related promotional and marketing activities are subject to extensive government regulation by numerous federal, state and local government agencies and authorities, including the Food and Drug Administration (the "FDA"), the FTC, the Consumer Product Safety Commission, the Department of Agriculture, United States and State Attorneys General and other state regulatory agencies in the United States, as well as the food and drug administrations in Mainland China and Taiwan, the Ministry of Food and Drug Safety in South Korea, the Ministry of Health, Labour and Welfare in Japan and similar government agencies in all other markets in which we operate. In the United States, the FDA, in particular, regulates the formulation, manufacture and labeling of over-the-counter ("OTC") drugs, cosmetics, dietary supplements, and devices such as those distributed by us.

Regulation of Personal Care Products in the United States. Our personal care products are subject to various laws and regulations that regulate cosmetic and personal care products and set forth regulations that among other things determine whether a product can be marketed as a "cosmetic" or requires further approval as an OTC drug. In the United States, the regulation of cosmetic content and labeling is under the primary jurisdiction of the FDA. Cosmetics are not subject to pre-market approval by the FDA, but their ingredients and their label and labeling content are regulated by the FDA, and it is the burden of those who sell cosmetics to ensure that they are safe for use as directed and not adulterated or misbranded. The labeling of cosmetic products is subject to the requirements of the Federal Food, Drug, and Cosmetic Act ("FDCA"), the Fair Packaging and Labeling Act and other FDA regulations.

The FDCA defines cosmetics by their intended use, as "articles intended to be rubbed, poured, sprinkled, or sprayed on, introduced into, or otherwise applied to the human body . . . for cleansing, beautifying, promoting attractiveness, or altering the appearance." Among the products included in this definition are skin moisturizers, perfumes, lipsticks, fingernail polishes, eye and facial makeup preparations, shampoos, permanent waves, hair colors, toothpastes and deodorants, as well as material intended for use as a component of a cosmetic product. A product may be considered a drug if it is intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease, or is intended to affect the structure or any function of the body ("structure/function claims"). A product's intended use can be inferred from marketing or product claims, and regulators may consider the marketing claims of our sales force. Structure/function claims are generally prohibited for cosmetic products as are disease prevention and treatment claims. The FDA prohibits certain ingredients from being included in cosmetic products. It is possible that cosmetic product ingredients now commonly in use that are derived from nanotechnology or other scientific advancements may be restricted or prohibited in the future as more is learned about such ingredients.

In recent years, the FDA has issued warning letters to many cosmetic companies alleging improper structure/function claims regarding their cosmetic products, including, for example, product claims regarding gene activity, cellular rejuvenation, and rebuilding collagen. Cosmetic companies confront difficulty in determining whether a claim would be considered by the FDA to be an improper structure/function claim. Given this difficulty, and our research and product development focus on the sources of aging and the influence of certain ingredients on gene expression, there is a risk that we could receive a warning letter, be required to modify our product claims or take other actions to satisfy the FDA if the FDA determines any of our marketing materials contain improper structure/function claims for our cosmetic products. In addition, plaintiffs' lawyers have filed class action lawsuits against some of our competitors after our competitors received these FDA warning letters. There can be no assurance that we will not be subject to government actions or lawsuits, which could harm our business.

Certain products, such as sunscreens and acne treatments, are classified as OTC drugs (and cosmetics, depending on claims) and have specific ingredient, labeling and manufacturing requirements. OTC drug products may be marketed if they conform to the requirements of an FDA-established OTC drug monograph that is applicable to that drug. Drug products not conforming to monograph requirements require an approved New Drug Application ("NDA") before marketing may begin. Under these provisions, if the agency were to find that a product or ingredient of one of our OTC drug products is not generally recognized as safe and effective or is not included in a final monograph that is applicable to one of our OTC drug products, we may be required to reformulate or cease marketing that product until it is the subject of an approved NDA or until the time, if ever, that the monograph is amended to include such product. The labeling of these products is subject to the requirements of the FDCA and the Fair Packaging and Labeling Act and other FDA regulations.

Regulation of Personal Care Products in Other Markets. The other markets in which we operate have similar regulations. In Mainland China, personal care products are placed into one of two categories, "special-purpose cosmetics" and "non-special-purpose cosmetics." Products in both categories require submission of formulas and other information with the health authorities, and certain products require human clinical studies. The product registration process for personal care products in Mainland China is unpredictable and generally takes from nine to 18 months to complete. However, in some cases, product registration in Mainland China has taken several years. In Japan, the Ministry of Health, Labour and Welfare regulates the sale and distribution of cosmetics and requires us to have an import business license and to register each personal care product imported into Japan. In Taiwan, all "medicated" cosmetic products require registration. The sale of cosmetic products is regulated in the European Union (the "EU") under the EU Cosmetics Directive, which requires a uniform application for foreign companies making personal care product sales. Similar regulations in any of our markets may limit our ability to import products or utilize key ingredients or technologies globally and may delay product launches while the registration and approval process is pending. Changing regulations may require us to stop selling, discontinue or reformulate and re-register products in order to sell those products.

Regulation of Nutritional Products in the United States. Our Pharmanex dietary supplement products are also subject to applicable regulations of government agencies in the markets in which we operate. In the United States, we generally market our nutritional products as conventional foods or dietary supplements. The FDA has jurisdiction over this regulatory area. The FDA imposes specific requirements for the labels and labeling of food and dietary supplements, including the requirements of the Food Allergen Labeling and Consumer Protection Act of 2004, which mandates declaration of the presence of major food allergens. In addition, the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 contains requirements with regard to the sale and importation of food products in the United States.

The FDA Food Safety Modernization Act ("FSMA"), which was signed into law in 2011, also increased the FDA's authority with respect to food safety and is considered one of the most significant changes to the FDCA with respect to strengthening the U.S. food safety system in recent years. It enables the FDA to focus more on preventing food safety problems rather than primarily reacting to problems after they occur. The law also provides the FDA with new enforcement authorities designed to achieve higher rates of compliance with prevention- and risk-based food safety standards and to better respond to and contain problems when they do occur. The law also gives the FDA important new tools to hold imported foods to the same standards as domestic foods and directs the FDA to build an integrated national food safety system in partnership with state and local authorities. As the agency finalizes regulations pursuant to FSMA, there is likely to be increased regulatory scrutiny with respect to food and nutritional supplements, and such scrutiny is likely to continue.

The FDA regulates dietary supplements principally under the Dietary Supplement Health and Education Act of 1994 ("DSHEA"). DSHEA formally defines what may be sold as a dietary supplement, defines statements of nutritional support and the conditions under which they may lawfully be used, and includes provisions that permit the FDA to regulate manufacturing practices and labeling claims applicable to dietary supplements. Because the majority of our Pharmanex products are regulated under DSHEA, we are generally not required to obtain regulatory approval prior to introducing a dietary supplement into the United States market.

Generally, under DSHEA, dietary ingredients that were on the market before October 15, 1994 may be used in dietary supplements without notifying the FDA. However, a "new" dietary ingredient (i.e., a dietary ingredient that was not marketed in the U.S. before October 15, 1994) must be the subject of a new dietary ingredient notification submitted to the FDA unless the ingredient has been "present in the food supply as an article used for food" without having been "chemically altered." A new dietary ingredient notification must provide the FDA with evidence of a "history of use or other evidence of safety" which establishes that use of the dietary ingredient "will reasonably be expected to be safe." A new dietary ingredient notification must be submitted to the FDA at least 75 days before the new dietary ingredient can be marketed. Under DSHEA, the FDA may seek to remove from the market any new dietary ingredient that the

FDA determines to be unsafe. In addition, the FDA may also deem a dietary supplement an unapproved drug where the marketing claims made in connection with the sale or promotion of the product effectively place it in the drug category.

Regulation of Nutritional Products Globally. In our foreign markets, dietary supplements are generally regulated by similar government agencies, such as the China Food and Drug Administration, the South Korea Ministry of Food and Drug Safety; the Japan Ministry of Health, Labour and Welfare and the Taiwan Department of Health. We typically market our Pharmanex products in international markets as foods or health foods under applicable regulatory regimes. In the event a product, or an ingredient in a product, is classified as a drug or pharmaceutical product in any market, we will generally not be able to distribute that product in that market through our distribution channel because of pre-market approvals and strict regulations applicable to drug and pharmaceutical products. Mainland China also has highly restrictive nutritional supplement product regulations. Products marketed as "health foods" are subject to extensive laboratory and clinical analysis by government authorities, and the product registration process in Mainland China generally takes one to two years, but may be substantially longer. In some cases it has taken us four years or longer to obtain product registrations. 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. In addition, we are not permitted to market or sell "general foods" through our direct sales channel in Mainland China and any efforts by our independent direct sellers to do so could result in negative publicity, fines and other government sanctions being imposed against us.

The markets in which we operate all have varied regulations that distinguish foods and nutritional health supplements from "drugs" or "pharmaceutical products." Because of the varied regulations, some products or ingredients that are recognized as a "food" in certain markets may be treated as a "pharmaceutical" in other markets. In Japan, for example, if a specified ingredient is not listed as a "food" by the Ministry of Health and Welfare, we must either modify the product to eliminate or substitute that ingredient, or petition the government to treat such ingredient as a food. We experience similar issues in our other markets. This is particularly a challenge in Europe, where regulations often still differ from state to state, despite EU regulations designed to harmonize the laws of EU member states. As a result, we must often modify the ingredients and/or the levels of ingredients in our products for certain markets, or create unique formulations for multiple markets. In some circumstances, the regulations in foreign markets may require us to obtain regulatory approval prior to introduction of a new product or limit our use of certain ingredients altogether. Because of negative publicity associated with some adulterated or misbranded supplements, including pharmaceutical drugs marketed as dietary supplements, there has been an increased movement in the United States and other markets to expand the regulation of dietary supplements, which could impose additional restrictions or requirements in the future. In general, the regulatory environment is becoming more complex with increasingly stricter regulations each year.

Manufacturing Process. In 2008, and as updated more recently under the regulations implementing the Food Safety Modernization Act, the FDA established regulations to require current good manufacturing practices for dietary supplements and food products in the United States. The regulations ensure that dietary supplements and food products are produced in a quality manner, do not contain contaminants or impurities, and are accurately labeled. The regulations include requirements for establishing quality control procedures for us and our vendors and suppliers, designing and constructing manufacturing plants, and testing ingredients and finished products throughout our supply chain. The regulations also include requirements for record keeping and handling consumer product complaints. If dietary supplements or food products contain contaminants or allergens or do not contain the type or quantity of dietary ingredient they are represented to contain, the FDA would consider those products to be adulterated or misbranded. Our business is subject to additional FDA regulations, such as new dietary ingredient regulations and adverse event reporting regulations that require us to document and track adverse events and report serious adverse events that involve hospitalization or death associated with consumers' use of certain of our products. Compliance with these regulations has increased, and may further increase, the cost of manufacturing and selling certain of our products as we incur internal costs, oversee and inspect more aspects of third party manufacturing and work with our vendors to assure they are in compliance and maintain accurate recordkeeping to establish controls. Failure to comply with good manufacturing practices could also result in product recalls.

Advertising and Product Claims. Most of our major markets also regulate advertising and product claims regarding the efficacy of products and require adequate and reliable scientific substantiation of all claims. In most of our foreign markets, we are typically not able to make any "medicinal" claims with respect to our Pharmanex products. In some cases, such regulations may limit our ability to inform consumers of some of the benefits our products offer.

In the United States, the FDA generally prohibits disease diagnosis, prevention and treatment claims when made for a dietary supplement. DSHEA, however, permits substantiated, truthful and non-misleading "statements of nutritional support" to be included in labeling for dietary supplements without FDA pre-approval. Such statements may describe how a particular dietary ingredient affects the structure, function or general well-being of the body, or the mechanism of action by which a dietary ingredient may affect the structure, function or well-being of the body, but such statements may not state that a dietary supplement will reduce the risk or incidence of a disease unless such claim has been reviewed and approved by the FDA. In addition, the FDA permits companies to use FDA-approved full and qualified health claims for products containing specific ingredients that meet stated requirements.

A company that uses a statement of nutritional support in labeling must possess evidence substantiating that the statement is truthful and not misleading. In 2004, the FDA issued guidance, paralleling an earlier guidance from the FTC, defining a manufacturer's obligations to substantiate structure/function claims. Such statements, when used in labeling, must also be submitted to the FDA no later than thirty days after first marketing the product with the statement that they possess the necessary evidence and must be accompanied by an FDA mandated label disclaimer that "This statement has not been evaluated by the FDA. This product is not intended to diagnose, treat, cure or prevent any disease." There can be no assurance, however, that the FDA or FTC will not determine that a particular statement of nutritional support that we want to use is an unacceptable disease claim or an unauthorized nutrient-disease relationship claim otherwise permitted with FDA approval as a "health claim" or that such claims have competent and reliable scientific evidence. Such a determination might prevent the use of such a claim or result in additional FDA enforcement.

We are aware of media reports regarding dietary supplements, which call for the repeal or amendment of DSHEA. Individuals or groups that are opposed to supplements or question their safety or efficacy may attempt to use these media reports to propose legislation intended to amend or repeal DSHEA. Some of the legislative proposals may include variations on premarket approval, enhanced premarket safety or substantiation required and changing the definition of a "dietary ingredient" to remove either botanicals or selected classes of ingredients now treated as dietary ingredients.

Most of the other markets in which we operate have not adopted legislation like DSHEA, and we may be subject to more restrictive limitations on the claims we can make about our products in these markets. For example, in Japan, our nutritional supplements are marketed as food products, which significantly limits our ability to make claims regarding these products. If marketing materials produced or used by us or our sales force globally make claims that exceed the scope of allowed claims for nutritional supplements, the FDA or other regulatory authorities could deem our products to be unapproved drugs. In Mainland China, we also face significant restrictions on our ability to make product claims regarding the efficacy of our products. In a series of articles in 2014, prominent media outlets in Mainland China questioned some of the product claims made by our sales people and the scientific basis of these claims. This resulted in significant negative media attention for us. Such attention could harm consumers' perception of our business and our products and could negatively impact the registration, licensing status and sales of our products.

The FTC, which exercises primary jurisdiction over the advertising of all of our products in the United States, has instituted enforcement actions against dietary supplement, food, and cosmetic companies for, among other things, deceptive advertising and lack of adequate scientific substantiation for claims. We also face limitations on our use of the scientific experts who have helped us develop and test some of our products. In the United States, for example, the FTC's Guides Concerning the Use of Endorsements and Testimonials in Advertising may restrict marketing to those results obtained by a "typical" consumer and require disclosure of any material connections between an endorser and the company or products they are endorsing. In Mainland China, some media outlets have questioned the nature and extent of our connections with our Scientific Advisory Board and others who have helped in developing our scientific approach or testing our products. This negative publicity could harm consumers' perception of our business and our products, which could negatively impact our revenue. We cannot be sure that the FTC, or comparable foreign agencies, will not question our advertising or other operations in the future.

In recent years, the FTC has initiated numerous investigations of and actions against companies that sell dietary supplements and cosmetic products. The FTC has issued guidance to assist companies in understanding and complying with its substantiation requirement. The FTC may enforce compliance with the law in a variety of ways, both administratively and judicially, using compulsory process, cease and desist orders, and injunctions. FTC enforcement can result in consent decrees or orders requiring, among other things, injunctive provisions, corrective advertising, consumer redress, and such other relief as the agency deems necessary to protect the public. Violation of these consent decrees or orders could result in substantial financial or other penalties. No assurance can be given that the FTC will not question our advertising or other operations in the United States in the future. Any action in the future by the FTC could materially and adversely affect our ability to successfully market our products in the United States.

In the United States, we are also subject to a consent decree with the FTC and various agreements with state regulatory agencies arising out of investigations that occurred in the early 1990s of certain alleged unsubstantiated product and earnings claims made by our distributors. The consent decree requires us to, among other things, supplement our procedures to enforce our policies, not allow our distributors to make earnings representations without making certain average earnings disclosures and not allow our distributors to make unsubstantiated product claims. The FTC could initiate an enforcement action to the extent the FTC determines that our advertising or promotional practices are deceptive or contrary to the requirements of the consent decree.

Regulation of Medical Devices. In 2014, our facial spa was cleared for marketing through the 510(k) process with the FDA as a medical device with cosmetic benefit. Medical devices are highly regulated by the FDA. Manufacturers of medical devices must register and list their products with the FDA annually, whether they are located domestically or overseas. Foreign jurisdictions may take note of the fact that we have registered a medical device in the U.S. and require us to register in their market as well. The FDA has broad regulatory powers in the areas of clinical testing, manufacturing and labeling of medical devices. Medical devices must be labeled in accordance with the FDA's general device labeling requirements and whatever particular label requirements the FDA may designate for that type

of device.

In addition, medical device manufacturers must adhere to certain "good manufacturing practices" in accordance with the FDA's Quality System Regulation, which regulates the manufacture of medical devices, prescribes record-keeping procedures and provides for the routine inspection of facilities for compliance with such regulations. If in connection with these inspections, the FDA believes the manufacturer has failed to comply with applicable regulations and/or procedures, it may issue observations that would necessitate prompt corrective action. If the FDA inspection observations are not addressed and/or corrective action taken in a timely manner and to the FDA's satisfaction, the FDA may issue a Warning Letter (which would similarly necessitate prompt corrective action) and/or proceed directly to other forms of enforcement action. Failure to respond timely to FDA inspection observations, a Warning Letter or other notice of noncompliance and to promptly come into compliance could result in the FDA bringing enforcement action against us, which could include the shutdown of our production facilities, denial of importation rights to the U.S. for products manufactured in overseas locations and criminal and civil fines.

Our Pharmanex BioPhotonic Scanner and our ageLOC Spa systems are subject to the regulations of various health, consumer-protection and other government authorities around the world. These regulations vary from market to market and affect whether our products are required to be registered as medical devices, the claims that can be made with respect to these products, who can use them, and where they can be used. We have been required to register our ageLOC Spa systems as medical devices in a few markets. We have been subject to regulatory inquiries in the United States, Japan and other countries with respect to the status of the Pharmanex BioPhotonic Scanner as a non-medical device. Any determination that medical device clearance is required for one of our products, in a market where we currently market and sell such product as a cosmetic or non-medical device, could require us to expend significant time and resources in order to meet the additional stringent standards imposed on medical device companies or prevent us from marketing the product. Please refer to "Risk Factors" for more information on the regulatory risks associated with our Pharmanex BioPhotonic Scanner and our ageLOC Spa systems.

COMPETITION

Direct Selling

We compete with other direct selling organizations, some of which have a longer operating history, and greater visibility, name recognition and financial resources than we do. The leading global direct selling companies are Amway, Avon Products, Herbalife and Mary Kay. We also compete with other local direct selling companies. For example, the leading direct selling companies in Mainland China are Perfect and Infinitus. We compete with these companies to attract and retain our sales force and consumers based on the strength of our product offerings, sales compensation, multiple business opportunities, management and international operations.

Products

The markets for our Nu Skin and Pharmanex products are highly competitive. Our competitors include a broad array of marketers of personal care and nutritional products and pharmaceutical companies, many of which have longer operating histories and greater name recognition and financial resources than we do. We compete in these markets by emphasizing the innovation, value and premium quality of our products and the convenience of our distribution system.

EMPLOYEES

As of December 31, 2016, we had approximately 4,650 full- and part-time employees worldwide. This does not include approximately 27,600 sales employees in our Mainland China operations. Although we have statutory employee representation obligations in certain countries, our employees are generally not represented by labor unions except where expressly required by law. We believe that our relationship with our employees is good, and we do not foresee a shortage in qualified personnel necessary to operate our business.

AVAILABLE INFORMATION

Our website address is www.nuskinenterprises.com. We make available, free of charge on the Investor Relations portion of our website, ir.nuskin.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

We also use the Investor Relations portion of our website, ir.nuskin.com, as a channel of distribution of additional Company information that may be deemed material. Accordingly, investors should monitor this channel, in addition to following our press releases, Securities and Exchange Commission filings and public conference calls and webcasts. The contents of our website shall not be deemed to be incorporated herein by reference.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers as of January 31, 2017 are as follows:

Name	Age	Position
Steven J. Lund	63	Executive Chairman of the Board
M. Truman Hunt	57	President and Chief Executive Officer
Ritch N. Wood	51	Chief Financial Officer
Joseph Y. Chang	64	Chief Scientific Officer and Executive Vice President of Product Development
Ryan S. Napierski	43	President of Global Sales and Operations
D. Matthew Dorny	52	General Counsel and Secretary

Steven J. Lund has served as Executive Chairman of our board of directors since May 2012. Mr. Lund previously served as Vice Chairman of our board of directors from September 2006 to May 2012 and as President, Chief Executive Officer and a member of our board of directors from 1996, when we went public, until 2003. Mr. Lund was a founding stockholder of our company. Mr. Lund is a trustee of the Nu Skin Force for Good Foundation, a charitable organization established in 1996 by our company to help encourage and drive the philanthropic efforts of our company and its sales force and employees to enrich the lives of others. Mr. Lund worked as an attorney in private practice prior to joining our company as Vice President and General Counsel. He received a B.A. degree from Brigham Young University and a J.D. degree from Brigham Young University's J. Reuben Clark Law School.

M. Truman Hunt has served as our President and Chief Executive Officer since 2003. He also joined our board of directors when he was named Chief Executive Officer. Mr. Hunt has served in various positions with our company since 1994, including Executive Vice President from 2001 to 2003 and General Counsel from 1996 to 2003. From 2005 until 2008, Mr. Hunt served as chairman of the World Federation of Direct Selling Associations, a global trade association for the direct selling industry. Mr. Hunt also served as chairman of the board of directors for the United States Direct Selling Association from 2014 to 2015. He received a B.S. degree from Brigham Young University and a J.D. degree from the University of Utah.

Ritch N. Wood has served as our Chief Financial Officer since November 2002. Prior to this appointment, Mr. Wood served as Vice President, Finance from July 2002 to November 2002 and Vice President, New Market Development from 2001 to 2002. Mr. Wood joined our company in 1993 and has served in various capacities. Prior to joining us, he worked for the accounting firm of Grant Thornton LLP. Mr. Wood earned a B.S. and a Master of Accountancy degree from Brigham Young University.

Joseph Y. Chang has served as our Chief Scientific Officer and Executive Vice President of Product Development since 2006. Dr. Chang served as President of our Pharmanex division from 2000 to 2006. Dr. Chang served as Vice President of Clinical Studies and Pharmacology of Pharmanex from 1997 until 2000. Dr. Chang has over 35 years of pharmaceutical experience. He received a B.S. degree from Portsmouth University and a Ph.D. degree from the University of London.

Ryan S. Napierski has served as President of Global Sales and Operations since September 2015. Prior to serving in this position, he served as President of our North Asia region since June 2014 and as President of Nu Skin Japan since June 2010. Mr. Napierski has fulfilled multiple leadership positions for Nu Skin since joining our company in 1995. Mr. Napierski has a Bachelor's degree in business, a Master's degree in business administration from Duke University and a Master's degree in international business from Goethe Universitat in Germany.

D. Matthew Dorny has served as our General Counsel and Secretary since 2003. Mr. Dorny previously served as Assistant General Counsel from 1998 to 2003. Prior to joining us, Mr. Dorny was a securities and business attorney in private practice in Salt Lake City, Utah. Mr. Dorny received B.A., M.B.A. and J.D. degrees from the University of Utah.

As previously disclosed, in December 2016 Mr. Hunt notified our company that he will step down as the Chief Executive Officer and President of our company. When our company names a new Chief Financial Officer, Mr. Wood, our current Chief Financial Officer, will become our Chief Executive Officer, Mr. Napierski will become the President of our company, and Mr. Hunt will become Vice Chairman of our board of directors. Mr. Hunt will not stand for re-election to our board of directors at our 2017 Annual Meeting of Stockholders.

ITEM 1A. RISK FACTORS

We face a number of substantial risks. Our business, financial condition or results of operations could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, which should be considered together with the other items in this Annual Report on Form 10-K, including Item 1. "Business" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Inability of products and other initiatives to gain or maintain sales force and market acceptance could harm our business.

Our operating results could be adversely affected if our products, business opportunities, and other initiatives do not generate sufficient enthusiasm and economic benefit to retain our existing consumers and sales force or to attract new consumers and people interested in joining our sales force. Potential factors affecting the attractiveness of our products, business opportunities, and other initiatives include, among other items, perceived product quality and value, product exclusivity or effectiveness, economic success in our business opportunity, adverse media attention or regulatory restrictions on claims.

In addition, our ability to develop and introduce new products could be impacted by, among other items, government regulations, the inability to attract and retain qualified research and development staff, the termination of third-party research and collaborative arrangements, intellectual property of competitors that may limit our ability to offer innovative products or that challenge our own intellectual property, or problems related to manufacturing or quality control, and difficulties in anticipating changes in consumer tastes and buying preferences.

For example, in the second half of 2013, we introduced our ageLOC TR90 weight management and body shaping system. The TR90 system was designed to promote healthy weight loss and body composition rather than to rapidly maximize gross weight loss. Unrealistic product expectations and weight-loss goals, non-compliance with the TR90 weight management program and misunderstandings of the TR90 approach to healthy weight loss and body composition contributed to some reports of consumer dissatisfaction with the TR90 program. Our operating results could be adversely impacted if TR90 or any of our other products fail to gain or maintain sales force and market acceptance.

In addition, in our more mature markets, one of the challenges we face is keeping Sales Leaders with established businesses and high-income levels motivated and actively engaged in business building activities and in developing new Sales Leaders. There can be no assurance that our initiatives will continue to generate excitement among our sales force in the long-term or that planned initiatives will be successful in maintaining sales force activity and productivity or in motivating Sales Leaders to remain engaged in business building and developing new Sales Leaders. Some initiatives may have unanticipated negative impacts on our sales force, particularly changes to our sales compensation plans. The introduction of a new product or key initiative can also negatively impact other product lines to the extent our Sales Leaders focus their efforts on the new product or initiative. In addition, if any of our products fails to gain acceptance, we could see an increase in product returns.

Challenges to the form of our network marketing system could harm our business.
We may be subject to challenges by government regulators regarding the form of our network marketing system. Legal and regulatory requirements concerning the direct selling industry generally do not include "bright line" rules and are inherently fact-based and subject to interpretation. As a result, regulators and courts have discretion in their application of these laws and regulations, and the enforcement or interpretation of these laws and regulations by government agencies or courts can change. Recent settlements between the FTC and other direct selling companies and comments by FTC officials have addressed inappropriate earnings and lifestyle claims and the importance of focusing on customers. These developments have created a level of ambiguity as to the proper interpretation of the law and related court decisions. Any adverse rulings or legal actions could impact our business if direct selling laws or anti-pyramid laws are interpreted more narrowly or in a manner that results in additional burdens or restrictions on direct selling companies. For example, in 2015, the FTC took aggressive actions against a multi-level marketing company, alleging an illegal business model and inappropriate earnings claims. We have taken additional steps to educate our distributors on proper earnings claims. If our distributors make improper claims, or if regulators determine we are making any improper claims, this could lead to an FTC investigation and could harm our business.

In 2016, the FTC entered into a settlement with another multi-level marketing company, requiring the company to modify its business model, including basing sales compensation and qualification only on sales to retail and preferred customers and on purchases by a distributor for personal consumption within allowable limits. Although this settlement does not represent judicial precedent or a new FTC rule, FTC officials have indicated that the industry should look at this settlement, and the principles underlying its specific measures, for guidance. If the requirements in this settlement lead to new industry standards or new rules, our business could be impacted and we may need to amend our global sales compensation plan. With a majority of our revenue in the United States coming from sales to retail and preferred customers, we believe that we can demonstrate consumer demand for our products, but we continue to monitor developments to assess whether we should make any changes to our business or global sales compensation plan in light of this guidance. If we are required to make changes or if the FTC seeks to enforce similar measures in the industry, either through rulemaking or an enforcement action against our company, our business could

be harmed.

We could also be subject to challenges by private parties in civil actions. We are aware of recent civil actions against some of our competitors in the United States, which have and may in the future result in significant settlements. Allegations by short sellers directed at us and our competitors regarding the legality of multi-level marketing in various markets have also created intense public scrutiny of us and our industry. Our business has also been subject to formal and informal inquiries from various government regulatory authorities in the past regarding our business and our compliance with local laws and regulations. All of these actions and any future scrutiny of us or our industry could generate negative publicity or further regulatory actions that could result in fines, restrict our ability to conduct our business in our various markets, enter into new markets, motivate our sales force and attract consumers.

Currency exchange rate fluctuations could impact our financial results.

In 2016, approximately 91% of our sales occurred in markets outside of the United States in each market's respective local currency. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenue and expenses in our markets outside the United States from their local currencies into U.S. dollars using weighted average exchange rates. If the U.S. dollar strengthens relative to local currencies, our reported revenue, gross profit and net income will likely be reduced. For example, foreign currency fluctuations negatively impacted reported revenue by approximately 2% in 2016 compared to 2015 and by approximately 8% in 2015 compared to 2014.

Foreign currency fluctuations can also result in losses and gains resulting from translation of foreign currency denominated balances on our balance sheet. Although we may engage in transactions intended to reduce our exposure to foreign currency fluctuations, there can be no assurance that these transactions will be effective. Complex global political and economic dynamics can affect exchange rate fluctuations. For example, significant foreign currency fluctuations occurred as a result of the June 2016 referendum in the United Kingdom in which voters approved an exit from the European Union. In addition, members of the current U.S. presidential administration have expressed antipathy toward some international trade agreements and have suggested the implementation of tariffs, border taxes or other measures that could impact the level of trade between the U.S. and other countries. Any such proposal or measure could impact the value of the U.S. dollar. It is difficult to predict future fluctuations and the effect these fluctuations may have upon future reported results or our overall financial condition.

Difficult economic conditions could harm our business.

Global economic conditions continue to be challenging. Difficult economic conditions could adversely affect our business by causing a decline in demand for our products, particularly if the economic conditions are prolonged or worsen. In addition, such economic conditions may adversely impact access to capital for us and our suppliers, may decrease the ability of our sales force and consumers to obtain or maintain credit cards, and may otherwise adversely impact our operations and overall financial condition. For example, certain economic indicators cause uncertainty regarding the potential for growth in Mainland China's economy. Declines in economic conditions in Mainland China could negatively impact our business and revenue in that market and in other markets globally.

Improper sales force actions that violate laws or regulations could harm our business.

Sales force activities that violate applicable laws or regulations could result in government or third-party actions against us, which could harm our business.

For example, in 2014, allegations were made by various media outlets that certain of our sales representatives in Mainland China failed to adequately follow and enforce our policies and regulations. In response to these and other allegations, our Audit Committee commenced an internal review and Chinese regulators commenced a review of our business in Mainland China. In response to this media scrutiny and government review, we voluntarily took a number of actions in Mainland China, including temporarily suspending our business meetings, temporarily suspending acceptance of applications for any new sales representatives, and extending our product refund and return policies. The adverse publicity and suspension of business meetings and acceptance of applications had a significant negative impact on our revenue and the number of Sales Leaders and Customers in the region, and our business in Mainland China still has not fully recovered from these events. For example, as of December 31, 2016, we had approximately 22,000 Sales Leaders in Mainland China, compared to approximately 49,000 as of December 31, 2013. Similar or more extreme actions by government agencies in Mainland China in the future could have a significant adverse impact on our business and results of operations.

The direct selling industry in Japan continues to experience regulatory and media scrutiny, and other direct selling companies have been suspended from sponsoring activities in the past. Japan imposes strict requirements regarding how distributors approach prospective customers. Over the last few years, we have from time to time received warnings from regulatory agencies in certain prefectures about the number of general inquiries and complaints about us and our distributors. In 2013, we changed our distributor sign-up process in Japan and expanded our distributor compliance, education and training efforts in Japan to address concerns expressed by Japanese regulatory agencies. However, we cannot be certain that our efforts will successfully prevent regulatory actions against us, including fines, suspensions or other sanctions, or that the company and the direct selling industry will not receive further negative media attention, all of which could harm our business.

Except in Mainland China, members of our sales force are not employees and act independently of us. The most significant area of risk for such activities relates to improper product claims and claims regarding the business opportunity of joining our sales force. We implement strict policies and procedures to ensure our sales force complies with legal requirements. However, given the size of our sales force, we experience problems from time to time. For example, product claims made by some of our sales force in 1990 and 1991 led to a United States Federal Trade Commission ("FTC") investigation that resulted in our entering into a consent agreement with the FTC and various agreements with state regulatory agencies. In addition, rulings by the South Korean Federal Trade Commission and by judicial authorities against us and other companies in South Korea indicate that vicarious liability may be imposed on us for the criminal activity of our sales force. We have also seen an increase in the use of social media by our sales force, and an increase in sales aids and promotional material produced by our sales force in some markets, increasing the burden on us to monitor compliance of such materials, and increasing the risk that such materials could contain problematic claims in violation of our policies and applicable regulations. As we expand internationally, our sales force often attempts to anticipate which markets we will open in the future and begin marketing and sponsoring activities in markets where we are not qualified to conduct business. We could face fines, suspensions or other legal action if our sales force violates applicable laws and regulations, and our reputation and brand could be negatively impacted.

If our business practices or policies or the actions of our sales force are deemed to be in violation of applicable local regulations regarding foreigners, then we could be sanctioned and/or required to change our business model, which could significantly harm our business.

Our sales force is required to comply with work authorization and other local legal requirements prior to working in a country. Some markets, including Mainland China and Vietnam, also prohibit or restrict participation of foreigners in direct selling activities. We have implemented policies that are designed to comply with these regulations and inform our sales force regarding the types of activities that are not permitted. However, we cannot assure that actions of our sales force will not violate local laws or regulations or our policies. If our business practices or policies or the actions of our sales force are deemed to be in violation of applicable regulations as they may be interpreted or enforced, then we could be sanctioned and/or required to change our business model, which could result in adverse publicity and significantly harm our business.

If we are unable to retain our existing sales force and recruit additional people to join our sales force, our revenue will not increase and may even decline.

Our products are primarily marketed by our sales force and we depend on them to generate virtually all of our revenue. Our sales force may terminate their services at any time, and, like most direct selling companies, we experience relatively high turnover among our sales force from year to year. People who join our company to purchase our products for personal consumption or for short-term income goals frequently only stay with us for a short time. Sales Leaders who have committed time and effort to build a sales organization will generally stay for longer periods. Our sales force has highly variable levels of training, skills and capabilities. To increase our revenue, we must increase the number of and/or the productivity of our sales force.

We have experienced periodic declines in both Sales Leaders and Customers in the past and could experience such declines again in the future. If our initiatives do not drive growth in both our Sales Leaders and Customers, our operating results could be harmed. While we take many steps to help train, motivate and retain our sales force, we cannot accurately predict how the number and productivity of our sales force may fluctuate because we rely primarily upon our Sales Leaders to find new consumers, and to find, train and develop new Sales Leaders. Our operating results could be harmed if we, and our Sales Leaders, do not generate sufficient interest in our business and its products to retain and motivate our existing sales force and attract new people to join our sales force.

The number and productivity of our sales force could be harmed by several additional factors, including:

- any adverse publicity regarding us, our products, our distribution channel, or our competitors;
- lack of interest in, dissatisfaction with, or the technical failure of, existing or new products;
- lack of compelling products or income opportunities, including through our sales compensation plans;
- any negative public perception of our products and their ingredients;
- any negative public perception of our sales force and direct selling businesses in general;
- our actions to enforce our policies and procedures;
- any regulatory actions or charges against us or others in our industry;
- general economic and business conditions;

- recruiting efforts of our competitors; and

- potential saturation or maturity levels in a given country or market which could negatively impact our ability to attract and retain our sales force in such market.

The loss of key Sales Leaders could negatively impact our growth and our revenue.

As of December 31, 2016, we had a global network of approximately 988,000 Customers. More than 61,000 of our Customers were Sales Leaders. As of December 31, 2016, approximately 640 Sales Leaders occupied the highest level under our global sales compensation plan, and in Mainland China we have approximately 260 key Sales Leaders who play a significant role in managing our sales force in that market. These Sales Leaders, together with their extensive sales networks, generate substantially all of our revenue. As a result, the loss of a high-level Sales Leader or a group of leading Sales Leaders, whether by their own choice or through disciplinary actions by us for violations of our policies and procedures, could negatively impact our growth and our revenue.

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 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 continues to inspect and interview the direct selling industry on a regular basis, which has and may continue to 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, independent direct sellers or independent marketers, are not in compliance with applicable regulations could result in substantial fines, extended interruptions of business, and 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 or interact with Sales Leaders from other markets. 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 government 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, in 2014 Chinese regulators commenced a review of our business model and operations in Mainland China. For a further description of these matters, see "We may become involved in legal proceedings and other matters that, if adversely adjudicated or settled, could adversely affect our financial results." In response to media scrutiny and this government review, we voluntarily took a number of actions in Mainland China, including temporarily suspending our business meetings, temporarily suspending acceptance of applications for any new sales representatives, and extending our product refund and return policies. The adverse publicity and suspension of business meetings and acceptance of applications had a significant negative impact on our revenue and the number of Sales Leaders and Customers in the region. Further 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.

If direct selling regulations in Mainland China are modified, interpreted or enforced in a manner that results in negative changes to our business model or the imposition of a range of potential penalties, our business would be significantly negatively impacted.

The government of Mainland China has adopted direct selling and anti-pyramiding regulations that impose significant restrictions and limitations on the way we do business. Most notably, the regulations prohibit multi-level compensation, which is the basis of how we compensate our sales force outside of Mainland China. The regulations also prohibit foreigners from participating in direct selling in Mainland China. We have structured our business model in Mainland China based on several factors: the guidance we have received from government officials, our interpretation of applicable regulations, our understanding of the practices of other international direct selling companies operating in Mainland China, and our understanding as to how regulators are interpreting and enforcing the regulations. In Mainland China, we utilize sales employees to sell products through our retail stores and website, independent direct sellers who can sell away from our stores where we have obtained direct selling licenses, and independent marketers who are licensed business owners authorized to sell our products either at their own approved premises or through our stores. We generally compensate our Sales Leaders at a level that is competitive with other direct selling companies in the market and reflective of the compensation of our Sales Leaders globally. The nature of the political, regulatory and legal systems in Mainland China gives regulatory agencies at both the local and central levels of government broad discretion to interpret and enforce regulations as they deem appropriate to promote social order. We face a risk that regulators may change the way in which they currently interpret and enforce the direct selling regulations, or that such regulations may be modified.

If our business practices are deemed to be in violation of applicable regulations as they may be interpreted or enforced, in particular our use of the sales productivity of a Sales Leader and the sales representatives that such Sales Leader leads and supervises in setting his/her salary on a quarterly basis, then we could be sanctioned and/or required to change our business model, either of which could significantly harm our business.

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.

As of January 31, 2017, we have obtained direct selling licenses in 34 cities in 22 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, any media or regulatory scrutiny of our business in Mainland China could increase the time and difficulty we may face in obtaining additional licenses. If media or regulatory scrutiny of our business in Mainland China 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.

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 government 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 regulations 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 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 independent 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.

Our business could be negatively impacted if we fail to execute our product launch process or ongoing product sales due to difficulty in forecasting or increased pressure on our supply chain, information systems and management.

Prior to making a product generally available for purchase in a market, we typically do a promotional offering of the product, such as a preview of the product to our key Sales Leaders in the market, a limited-time offer, or other type of promotion. Sales Leader previews, limited-time offers and other promotions may generate significant activity and a high level of purchasing, which can result in a higher-than-normal increase in revenue during the quarter and can skew year-over-year and sequential comparisons. We may experience difficulty effectively managing growth associated with these offers and may face increased risk of improper sales force activities and related government scrutiny. In addition, the size and condensed schedule of these product launches increases pressure on our supply chain and order processing systems. If we are unable to accurately forecast sales levels in each market for product launches or ongoing product sales, obtain sufficient ingredients or produce a sufficient supply to meet demand, we may incur higher expedited shipping costs and we may temporarily run out of stock of certain products, which could negatively impact the enthusiasm of our sales force and consumers. Conversely, if demand does not meet our expectations for a product launch or ongoing product sales or if we change our planned launch strategies or initiatives, we could incur inventory write-downs. For example, in 2014 and 2015, we incurred inventory write-downs of $50.0 million and $37.9 million, respectively, which primarily resulted from reduced sales expectations primarily in our Greater China region. Any additional write-down of inventory in any of our markets would negatively impact our gross margins. Although our previous limited-time offers have not materially affected our product return rate, these events may increase our product return rate in the future. If we fail to effectively forecast or manage our supply chain and information systems in the product launch process or for ongoing product sales, our reputation and profitability could be negatively impacted.

If our ageLOC Spa systems or Pharmanex BioPhotonic Scanner are determined to be medical devices in a particular geographic market or if our sales force uses these products for medical purposes or makes improper medical claims, our ability to continue to market and distribute such tools could be harmed, and we could face legal or regulatory actions.

One of our strategies is to market unique and innovative products and tools that allow our sales force to distinguish our products, including our ageLOC Spa systems or Pharmanex BioPhotonic Scanner. Any determination by regulatory authorities in our markets that these products must receive clearance or be registered as medical devices could restrict our ability to import or sell the product in such market until registration is obtained. While we have not been required to register our ageLOC Spa systems or Pharmanex BioPhotonic Scanner as medical devices in most of our markets, we have registered our facial spa as a medical device in Indonesia, Thailand and Colombia. In addition, we have received clearance from the United States Food and Drug Administration to market a facial spa device for over-the-counter use. There have been legislative proposals in Singapore and Malaysia relating to the regulation of medical devices that could affect the way we market our ageLOC Spa systems and Pharmanex BioPhotonic Scanner in these countries. In addition, if our sales force attempts to import or export products from one market to another in violation of our policy or is making medical claims regarding our products or using our products to perform medical diagnoses or other activities limited to licensed professionals or approved medical devices (in markets where the product is not approved), it could negatively impact our ability to market or sell these products and subject us to legal or regulatory actions. For example, in January 2016, our Taiwan subsidiary received a notification of charges related to alleged violations of local law by our Taiwan subsidiary and certain employees and Taiwan distributors. The notice alleges that ageLOC Spa devices were inappropriately sold in Taiwan in 2011 and 2012. Our Taiwan subsidiary has never sold the ageLOC Spa device in Taiwan, and has vigorously contested these charges in the proceedings that have been held to date. The local law that was in effect at the time of the alleged violations provided that the alleged violations carry a maximum fine payable by our Taiwan subsidiary of up to NT$100,000 (approximately US$3,000). In addition, individuals involved could face similar fines and possible jail sentences of up to three years.

Where necessary, obtaining medical device registrations and clearances could require us to provide documentation concerning product manufacturing and clinical utility, to make design, specification and manufacturing process modifications to meet standards imposed on medical device companies, and to modify our marketing claims regarding the registered product. While we successfully obtained clearance to market a facial spa device for over-the-counter use in the United States, and registered a facial spa unit as a medical device in Indonesia, Thailand and Colombia, because medical device regulations vary widely from country to country, there can be no assurance we will not face challenges or delays in obtaining clearance in other markets, or that we will be able to make any required modifications or provide documentation necessary to obtain clearance. If we obtain such medical device clearance in order to sell a product in one market, such clearance may be used as precedent for requiring similar approval for the product in another market, or for similar products in the same market. These additional requirements could increase the cost associated with manufacturing and selling these products as non-medical devices in such markets.

Laws and regulations may prohibit or severely restrict direct selling and cause our revenue and profitability to decline, and regulators could adopt new regulations that harm our business.

Various government agencies throughout the world regulate direct sales practices. Laws and regulations in Japan, South Korea and Mainland China are particularly stringent and subject to broad discretion in enforcement by regulators. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid schemes," that compensate participants primarily for recruiting additional participants without significant emphasis on product sales to consumers. The laws and regulations in our current markets often:

- impose requirements related to order cancellations, product returns, inventory buy-backs and cooling-off periods for our sales force and consumers;
- require us, or our sales force, to register with government agencies;
- impose limits on the amount of sales compensation we can pay;
- impose reporting requirements; and
- require that we ensure, among other things, that our sales force maintain levels of product sales to qualify to receive commissions and that our sales force is compensated primarily for selling products and not for recruiting others.

Complying with these widely varying and sometimes inconsistent rules and regulations can be difficult, time-consuming and expensive, and may require significant resources. The laws and regulations governing direct selling are modified from time to time, and, like other direct selling companies, we are subject from time to time to government inquiries and investigations in our various markets related to our direct selling activities. This can require us to make changes to our business model and aspects of our sales compensation plan in the markets impacted by such changes and investigations. In addition, countries where we currently do business could change their laws or regulations to prohibit direct selling. If we are unable to continue business in existing markets or commence operations in new markets because of these laws, our revenue and profitability may decline.

Limits on the amount of sales compensation we pay could inhibit our ability to attract and retain our sales force, negatively impact our revenue and cause regulatory risks.

Several countries, including Mainland China, South Korea, Indonesia and Vietnam, impose limits on the amount of sales compensation we can pay to our sales force. For example, under regulations in Mainland China, direct selling companies may pay independent direct sellers in Mainland China up to a maximum 30% of the revenue they generate through their own sales of products to consumers. Additionally, in South Korea, local regulations limit sales compensation to 35% of our total revenue in South Korea. These regulations limit the incentive for people to join our sales force and may reduce our ability to differentiate ourselves from our competitors in attracting and retaining our sales force.

In addition, we have been required to modify our sales compensation plan in certain countries, including South Korea, from time to time to remain in compliance with applicable sales compensation limits. Because sales compensation, as a percentage of revenue, can fluctuate as sales force productivity fluctuates, we may be required to make further changes to stay within applicable sales compensation limits or may be at risk of exceeding them. In addition, which revenues and expenses are within the scope of these regulations is not always clear, and interpretation and enforcement of these laws are subject to change, which could require us to make further changes or result in non-compliance with these regulations. Any failure to keep sales compensation within the limits in Mainland China, South Korea, Indonesia, Vietnam or any other country that imposes a sales compensation limit could result in fines or other sanctions, including suspensions.

Government regulations and private party actions relating to the marketing and advertising of our products and services may restrict, inhibit or delay our ability to sell our products and harm our business.

Government authorities regulate advertising and product claims regarding the efficacy and benefits of our products. These regulatory authorities typically require adequate and reliable scientific substantiation to support any marketing claims. What constitutes such reliable scientific substantiation can vary widely from market to market and there is no assurance that the research and development efforts that we undertake to support our claims will be deemed adequate for any particular product or claim. If we are unable to show adequate and reliable scientific substantiation for our product claims, or our marketing materials or the marketing materials of our sales force make claims that exceed the scope of allowed claims for dietary supplements, cosmetics or tools that we offer, the FDA or other regulatory authorities could take enforcement action requiring us to revise our marketing materials, amend our claims or stop selling certain products, which could harm our business.

For example, in recent years, the FDA has issued warning letters to many cosmetic companies alleging improper structure/function claims regarding their cosmetic products, including, for example, product claims regarding gene activity, cellular rejuvenation, and rebuilding collagen. There is a degree of subjectivity in determining whether a claim is an improper structure/function claim. Given this subjectivity and our research and development focus on the sources of aging and the influence of certain ingredients on gene expression, there is a risk that we could receive a warning letter, be required to modify our product claims or take other actions to satisfy the FDA if the FDA determines any of our marketing materials include improper structure/function claims for our cosmetic products. In addition, plaintiffs' lawyers have filed class action lawsuits against some of our competitors after our competitors received these FDA warning letters. There can be no assurance that we will not be subject to government actions or class action lawsuits, which could harm our business.

In 2009 in the United States, the FTC approved revisions to its Guides Concerning the Use of Endorsements and Testimonials in Advertising ("Guides") that require disclosure of material connections between an endorser and the company they are endorsing and generally do not allow marketing using atypical results. Our sales force has historically used testimonials and "before and after" photos to market and sell some of our popular products such as our ageLOC Spa systems and ageLOC Transformation anti-aging skin care system. We intend to continue to use testimonials for our popular products, including weight management products. In highly regulated and scrutinized product categories such as weight management, if we or our sales force fails to comply with the Guides or makes improper product claims, the FTC could bring an enforcement action against us and we could be fined and/or forced to alter our marketing materials.

Regulations governing the registration or pre-approval of our products could harm our business.

Our products are subject to numerous domestic and foreign government agencies' and authorities' laws and extensive regulations governing the ingredients and products that may be marketed without pre-market approval and/or registration as a drug or medical device. Many of these laws and regulations involve a high level of subjectivity, are inherently fact-based and subject to interpretation, and vary significantly from market to market. These laws and regulations can also limit the claims we can make regarding our products and often restrict our ability to introduce products or ingredients into one or more markets.

At times these laws and regulations may delay or prevent us altogether from launching a product in a market, require us to reformulate a product or limit or amend the claims made regarding a product. If these laws and regulations further restrict, inhibit or delay our ability to introduce or market our products or limit the claims we are able to make regarding our products, our business may be harmed.

For example, in the United States some legislators and industry critics have pushed for years to increase regulatory authority by the FDA over nutritional supplements. In 2011, the FDA proposed draft guidance to clarify the FDA's interpretation of the dietary ingredient notification requirements, and in August 2016, the FDA issued a revised draft guidance that superseded the 2011 version. This draft guidance is not final yet but appears to indicate that the FDA is expanding its definition of what is considered a "new dietary ingredient" in the United States. The industry has worked with the FDA for several years, providing comments to the FDA to modify this guidance. While still in flux, if enacted in final form as proposed, this guidance could impose new and significant regulatory barriers for our nutritional supplement products or unique ingredients, which could delay or inhibit our ability to formulate, introduce and sell nutritional supplements as we have in the past.

We face similar pressures in our other markets, including Europe, which continues to set new limits on acceptable maximum levels of various vitamins and minerals. In Europe, for example, we are unable to market supplements that contain ingredients that were not marketed in Europe prior to May 1997 ("novel foods") without going through an extensive registration and pre-market approval process.

Such regulations in any given market can also limit our ability to import products and can delay product launches as we go through the registration and approval process for those products. Furthermore, if we fail to comply with these regulations, we could face enforcement action, and we could be fined or forced to alter or stop selling our products.

The FDA does not have a pre-market approval system for cosmetics. However, cosmetic products may become subject to more extensive regulation in the future. These events could interrupt the marketing and sale of our products, severely damage our brand reputation and image in the marketplace, increase the cost of our products, cause us to fail to meet customer expectations or cause us to be unable to deliver merchandise in sufficient quantities or of sufficient quality to our stores, any of which could result in lost sales, which could have a material adverse effect on our business, financial condition, profitability and cash flows.

New regulations governing the introduction, marketing and sale of our products to consumers could harm our business.

Our operations could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute our products or impose additional burdens or requirements on us in order to continue selling our products. In addition, the adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance costs or discontinuation of product sales and may impair the marketability of our products, resulting in significant loss of net sales.

We have observed a general increase in regulatory activity and activism in the United States and across many markets globally where we operate and the regulatory landscape is becoming more complex with increasingly strict requirements. If this trend continues, we may find it necessary to alter some of the ways we have traditionally marketed our products in order to stay in compliance with a changing regulatory landscape and this could add to the costs of our operations and/or have an adverse impact on our business.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, would have on our business. Future changes could include requirements for the reformulation of certain products to meet new standards, the recall or discontinuation of certain products that cannot be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, and additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our business, financial condition, and operating results.

-30-

Our operations could be harmed if we fail to comply with Good Manufacturing Practices.

In the United States, FDA regulations on Good Manufacturing Practices and Adverse Event Reporting requirements for the nutritional supplement industry require us and our vendors to maintain good manufacturing processes, including stringent vendor qualifications, ingredient identification, manufacturing controls and record keeping. Good Manufacturing Practices also apply to our OTC drugs, devices and conventional foods, and Adverse Event Reporting requirements apply to OTC drugs and devices. The ingredient identification requirement, which requires us to confirm the levels, identity and potency of ingredients listed on our product labels within a narrow range, is particularly burdensome and difficult for us with respect to our product formulations, which contain many different ingredients. We are also required to report serious adverse events associated with consumer use of our products. Potential FDA responses to any such report could include injunctions, product withdrawals, recalls, product seizures, fines, or criminal prosecutions. Our operations could be harmed if regulatory authorities make determinations that we, or our vendors, are not in compliance with these regulations or public reporting of adverse events harms our reputation for quality and safety. A finding of noncompliance may result in administrative warnings, penalties or actions impacting our ability to continue selling certain products. In addition, compliance with these regulations has increased and may further increase the cost of manufacturing certain of our products as we work with our vendors to assure they are qualified and in compliance. Failure to comply with Good Manufacturing Practices could also result in product recalls. For example, we recently had a recall of three minor products in the United States based on labeling issues for those products. Our business could be harmed in the future if we are required to recall any product.

The loss of suppliers or shortages in ingredients could harm our business.

We acquire ingredients and products from third-party suppliers and manufacturers. A loss of any of these suppliers and any difficulties in finding or transitioning to alternative suppliers could harm our business. In addition, we obtain some of our products, including our ageLOC Spa systems and Tru Face Essence products from sole suppliers that own or control the product formulations, ingredients or other intellectual property rights associated with such products. We also license the right to distribute some of our products from third parties. In the event we are unable to renew these contracts, we may need to discontinue some products or develop substitute products, which could harm our revenue. In addition, if we experience supply shortages or regulatory impediments with respect to the raw materials and ingredients we use in our products, we may need to seek alternative supplies or suppliers and may experience difficulties in finding ingredients that are comparable in quality and price. For example, some of our nutritional products, including g3 juice and ageLOC Youth (Youthspan or Y-Span in some markets) incorporate unique natural ingredients that are only harvested once a year and may have limited global supplies. If demand exceeds forecasts, we may have difficulties in obtaining additional supplies to meet the excess demand until the next growing season. If we are unable to successfully respond to such issues, our business could be harmed.

Production difficulties, quality control problems, inaccurate forecasting and reliance on third-party suppliers could harm our business.

Production difficulties, quality control problems, inaccurate forecasting and our reliance on third party suppliers to manufacture and deliver products that meet our specifications in a timely manner could harm our business. Occasionally, we have experienced production difficulties with respect to our products, including the availability of raw materials and products that do not meet our specifications and quality control standards. These production difficulties and quality problems have in the past, and could in the future, result in stock outages or shortages in our markets with respect to such products, harm our sales, or create inventory write-downs for unusable products.

Our ageLOC Me customized skin care system includes multiple new product formulations and a new proprietary hands-free dispenser. By gathering information from consumers through a series of questions on a mobile-device app, ageLOC Me enables consumers to personalize a daily regimen based on individual preferences and skin care needs. It is possible that the product formulations, dispenser and degree of customization will not meet consumers' expectations

and customization might not be compatible with consumers' skin sensitivities and selected preferences. The system contains a large number of SKUs, and there is a degree of unpredictability in forecasting inventory needs globally due to the complexity and number of customized cartridges available. During the initial launch of ageLOC Me, we experienced production difficulties and a slightly higher return and complaint rates. Although these issues have been addressed, any problems with ageLOC Me or our other products could lead to an increase in product returns or stock-outs and negatively impact our reputation, revenue and profitability.

Product diversion may have a negative impact on our business.

We see our products being sold through online or other distribution channels in certain markets. Although we continually take steps to control product diversion, including for products sold in Mainland China, this activity continues to be a challenge. Product diversion causes confusion regarding our distribution channels and negatively impacts the ability of our sales force to sell our products. It also creates a negative impression regarding the viability of the business opportunity for our sales force, which can harm our ability to recruit new people to join our sales force. Product diversion schemes may also involve illegal importation, investment or other activities and harm our brand if gray market or counterfeit goods are passed off as our own. If we are unable to effectively address this issue or if diversion increases, our business could be harmed.

Changes to our sales compensation plans could be viewed negatively by some of our sales force, could fail to achieve desired long-term results and have a negative impact on revenue.

Our sales compensation plans include some components that differ from market to market. We modify components of our sales compensation plans from time to time to keep our sales compensation plans competitive and attractive to our existing sales force and people interested in joining our sales force, to address changing market dynamics, to provide incentives to our sales force that we believe will help grow our business, to conform to local regulations and to address other business needs. Because of the size of our sales force and the complexity of our sales compensation plans, it is difficult to predict how such changes will be viewed by our sales force and whether such changes will achieve their desired results. For example, certain changes we made to our sales compensation plan in the past, which were successful in several markets, did not achieve anticipated results in certain other markets and negatively impacted our business.

In addition, we have been required to modify our sales compensation plan in certain countries, including South Korea, from time to time to remain in compliance with applicable sales compensation limits. Changes to reduce sales compensation have had a negative impact on the sales force in the past and could in the future.

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:

- suspicions about the legality and ethics of network marketing;
- continued media or regulatory scrutiny regarding our business in Mainland China;
- the safety or effectiveness of ingredients in our or our competitors' products;
- inquiries, investigations, fines, legal actions, or mandatory or voluntary product recalls involving us, our competitors, or our respective products;
- the actions of our current or former sales force and employees; and
- public perceptions of the direct selling industry or the nutritional or personal care industry generally.

In addition, these issues have previously resulted in negative publicity and have harmed our business. 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 may become involved in legal proceedings and other matters that, if adversely adjudicated or settled, could adversely affect our financial results.

We have been, and may again become in the future, party to litigation, investigations or other legal matters. For example, in 2014, we were named as a defendant in a purported class action complaint relating to negative media and regulatory scrutiny of our business in Mainland China and as a nominal defendant in a shareholder derivative suit relating to the same issues. Also, beginning in 2014, we were in discussions with the Securities and Exchange Commission ("SEC"), which discussions were focused on a charitable donation we made in China in 2013 and issues related thereto. In April 2015, the SEC informed us that it was initiating a non-public, formal investigation into these issues. We also have been involved in two separate disputes with customs authorities in Japan with respect to customs assessments on several of our products. Although we settled the purported class action, shareholder derivative action and SEC investigation during 2016 and the Japan courts reached decisions on the customs disputes in 2013 and 2016 (we have appealed the 2016 decision), these matters were, and any future matters that we may become involved in may be, expensive and time consuming. In general, litigation claims could result in settlements or damages that could significantly affect financial results. It is not possible to predict the final resolution of any litigation to which we may become party, and the impact of these matters on our business, results of operations and financial condition could be material.

Please refer to Item 3. "Legal Proceedings" for more information regarding the 2016 Japan customs matter.

Non-compliance with anti-corruption laws could harm our business.

Our international operations are subject to anti-corruption laws, including the Foreign Corrupt Practices Act (the "FCPA"). Allegations that we are not in compliance with anti-corruption laws may require us to dedicate time and resources to an internal investigation of the allegations or may result in a government investigation. Any determination that our operations or activities are not in compliance with existing anti-corruption laws or regulations could result in the imposition of substantial fines and other penalties from U.S. or other regulatory entities, who have recently brought a number of enforcement actions against companies with extensive international operations. For example, in 2014, one of our competitors entered into a large settlement with U.S. regulators related to allegations that its employees violated the FCPA in Mainland China and other markets. Additionally, in September 2016, we reached

a resolution with the SEC, in which the SEC found that our books and records and internal controls related to a charitable contribution in China in 2013 were insufficient, and we agreed to pay $765,688 to the SEC. In agreeing to this settlement, we neither admitted nor denied the SEC's findings. Although we have implemented additional anti-corruption policies, controls and training globally to prevent similar situations from arising in the future, we cannot be certain that these efforts will be effective. As a result, we may face fines or penalties in the future under the FCPA or other anti-corruption laws.

Our ability to conduct business in international markets may be affected by political, legal, tax and regulatory risks.

Our ability to capitalize on growth in new international markets and to maintain the current level of operations in our existing international markets is exposed to risks associated with our international operations, including:

- the possibility that a government might ban or severely restrict our sales compensation and business models;
- the possibility that local civil unrest, political instability or changes in diplomatic or trade relationships might disrupt our operations in an international market;
- the lack of well-established or reliable legal systems in certain areas where we operate;
- the presence of high inflation in the economies of international markets in which we operate;
- the possibility that a government authority might impose legal, tax, customs, or other financial burdens on us or our sales force, due, for example, to the structure of our operations in various markets;
- the possibility that a government authority might challenge the status of our sales force as independent contractors or impose employment or social taxes on our sales force; and
- the possibility that governments may impose currency remittance restrictions limiting our ability to repatriate cash.

We depend on our key personnel, and the loss of the services provided by any of our executive officers or other key employees could harm our business and results of operations.

Our success depends to a significant degree upon the continued contributions of our senior and regional management, many of whom would be difficult to replace. Our senior and regional management employees may voluntarily terminate their employment with us at any time. In addition, we need to continue to attract and develop qualified management personnel to sustain growth in our markets. If we are not able to successfully retain existing personnel and identify, hire and integrate new personnel, our business and growth prospects could be harmed.

Government authorities may question our tax or customs positions or change their laws in a manner that could increase our effective tax rate or otherwise harm our business.

As a U.S. company doing business globally, we are subject to all applicable tax and customs laws, including those relating to intercompany pricing regulations and transactions between our corporate entities in the jurisdictions in which we do business. Periodically, we are audited by tax and customs authorities around the world. If authorities challenge our tax or customs positions, including those regarding transfer pricing and customs valuation and classification, we may be subject to penalties, interest and payment of back taxes or customs duties. Since tax rates vary from country to country, any tax assessments might also impact the ability to fully utilize foreign tax credits on our U.S. consolidated tax return. The tax and customs laws in each jurisdiction are continually changing and are further subject to interpretation by the local government agencies. We have experienced increased efforts by customs authorities in some countries to reclassify our products or otherwise increase the level of duties we pay on our products. Despite our best efforts to be aware of and comply with tax and customs laws, including changes to and interpretations thereof, there is a potential risk that the local authorities may argue that we are out of compliance. Such situations may require that we defend our positions and/or adjust our operating procedures in response to such changes. Any or all of these potential risks may increase our effective tax rate, increase our overall tax costs or otherwise harm our business.

We may be held responsible for certain taxes or assessments relating to the activities of our independent distributors, which could harm our financial condition and operating results.

Generally, our independent distributors are subject to taxation in their country of residency. In some jurisdictions, government agencies impose an obligation on us to collect taxes and to maintain appropriate records. Furthermore, in some jurisdictions, we are subject to the risk of being responsible for social security and similar taxes with respect to our independent distributors. In the event that local laws and regulations, or the interpretation of local laws and regulations, change to require us to treat our independent distributors as employees, or that our independent distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for social security and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results. If our independent distributors were deemed to be employees rather than independent contractors, we would also face the risk of increased liability for their actions.

The loss of or a disruption in our manufacturing and distribution operations could adversely affect our business.

As of December 31, 2016, our principal properties consisted of our corporate headquarters and other office locations, distribution centers and warehouses, research and development centers, manufacturing facilities, retail stores and service centers located in many of our markets. Additionally, we also use third party manufacturers to manufacture many of our key products. As a company engaged in manufacturing, distribution and research and development on a global scale, we are subject to the risks inherent in such activities, including industrial accidents, environmental events, fires, strikes and other labor or industrial disputes, disruptions in logistics or information systems, loss or impairment of key manufacturing or distribution sites, import and export restrictions or delays, product quality control, safety, licensing requirements and other regulatory or government issues, as well as natural disasters, pandemics, border disputes, acts of terrorism and other external factors over which we have no control. For example, the earthquake and tsunami in 2011 disrupted our operations in Japan and negatively impacted our operating results. These risks may be exacerbated by our efforts to increase facility consolidation covering our manufacturing, distribution and supply footprints or if we are unable to successfully enhance our disaster recovery planning. The loss of, or damage to, any of our facilities or centers, or that of our third party manufacturers could have a material adverse effect on our business, results of operations and financial condition.

Disruptions to transportation channels that we use to distribute our products to international warehouses may adversely affect our margins and profitability in those markets.

We may experience disruptions to the transportation channels used to distribute our products, including increased airport and shipping port congestion, a lack of transportation capacity, increased fuel expenses, import or export controls or delays, and labor disputes or shortages. Disruptions in our container shipments may result in increased costs, including the additional use of airfreight to meet demand. Congestion to ports can affect previously negotiated contracts with shipping companies, resulting in unexpected increases in shipping costs and reduction in our profitability.

Our markets are intensely competitive and market conditions and the strengths of competitors may harm our business.

The markets for our products are intensely competitive. Our results of operations may be harmed by market conditions and competition in the future. Many competitors have much greater name recognition and financial resources than we have, which may give them a competitive advantage. For example, our Nu Skin products compete directly with branded, premium retail products. We also compete with other direct selling organizations. Because of regulatory restrictions concerning claims about the efficacy of personal care products and dietary supplements, we may have difficulty differentiating our products from our competitors' products, and competing products entering the personal care and nutritional market could harm our revenue. In addition, our business may be negatively impacted if we fail to adequately adapt to trends in consumer behavior and technologies.

We also compete with other direct selling companies to attract and retain our sales force and consumers. Some of these competitors have longer operating histories and greater visibility, name recognition and financial resources than we do. Some of our competitors have also adopted and could continue to adopt some of our successful business strategies, including our global sales compensation plan. Consequently, to successfully compete in this industry, and attract and retain our sales force and consumers, we must ensure that our business opportunities and sales compensation plans are financially rewarding. We believe we have significant competitive advantages, but we cannot assure that we will be able to continue to successfully compete in this industry.

We may incur product liability claims that could harm our business.

We sell a variety of different products for human consumption and use, including cosmetics, dietary supplements, conventional foods, OTC drugs and devices. Our cosmetics, dietary supplements and conventional foods are not generally subject to pre-market approval or registration processes so we cannot rely upon a government safety panel to qualify or approve our products for use, and some ingredients may not have long histories of human consumption or use. We rely upon published and unpublished safety information including clinical studies on ingredients used in our products and conduct our own clinical and safety studies on some key ingredients and products, but not all products. A product may be safe for the general population when consumed or used as directed but could cause an adverse reaction for some individuals, such as a person who has a health condition or allergies or who is taking a prescription medication. While we include what we believe are adequate instructions and warnings and we have historically had low numbers of reported reactions, previously unknown adverse reactions could occur. If we discover that our products are causing adverse reactions, or if we determine that any of our employees have not properly handled reports of adverse reactions, we could suffer further adverse publicity or government sanctions.

As a result of the type of products that we sell, we may be subject to various product liability claims, including that the products fail to meet quality or manufacturing specifications, contain contaminants, include inadequate instructions as to their proper use, include inadequate warnings concerning side effects and interactions with other substances or for persons with health conditions or allergies, or cause adverse reactions or side effects. Consumer protection laws and regulations governing our business continue to expand, and in some states such as California, class-action lawsuits based on increasingly novel theories of liability are expanding. Product liability claims could increase our costs, and adversely affect our business and financial results. As we continue to offer an increasing number of new products through larger scale, limited-time offers our product liability risk may increase.

If our sales force or employees provide improper or inappropriate advice regarding our products, their use or safety, we may be subject to additional product liability.

We have generally elected to self-insure our product liability risks. We continue to periodically evaluate whether we can and should obtain product liability insurance. Based upon our current approach to product liability risk management, if any of our products are found to cause any injury or damage or we become subject to product liability claims, we will be subject to the full amount of liability associated with any injuries or damages. This liability could be substantial and may exceed our existing reserves and harm our business.

Our intellectual property may infringe on the rights of others, resulting in costly litigation.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. In particular, there has been an increase in the filing of suits alleging infringement of intellectual property rights, which pressure defendants into entering settlement arrangements quickly to dispose of such suits, regardless of their merit. Other companies or individuals may allege that we, or our sales force, consumers, licensees or other parties indemnified by us infringe on their intellectual property rights. Even if we believe that such claims are without merit, defending such intellectual property litigation can be costly, distract management's attention and resources, and the outcome is inherently uncertain. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our products. Any of these results may adversely affect our financial condition.

If we are unable to protect our intellectual property rights, our ability to compete could be negatively impacted.

The market for our products depends to a significant extent upon the value associated with our product innovations and our brand equity. We rely upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and non-disclosure, confidentiality and other types of agreements with our employees, sales force, consumers, suppliers and other parties, to establish, maintain and enforce our intellectual property rights. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property rights may not be sufficient to permit us to provide competitive advantages, which could result in costly product redesign efforts, discontinuance of certain product offerings or other competitive harm. In addition, the laws of certain foreign countries where we have significant business, including markets such as Mainland China, do not protect our intellectual property rights to the same extent as the laws of the United States. The costs required to protect our patents and trademarks may be substantial or even not practical. We have filed patent and trademark applications to protect our intellectual property rights in our new technologies, however, there can be no assurance that our patent and trademark applications will be approved and issue, that any patents and trademarks issued will adequately protect our intellectual property, or that such patents and trademarks will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Moreover, many of our products rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms or at all.

To enforce and protect our intellectual property rights, we may initiate litigation against third parties, such as patent and trademark infringement suits or interference proceedings and seek indemnification by contract or otherwise. Any lawsuits that we initiate could be expensive, take significant time and divert management's attention from other business concerns, and we may ultimately fail to prevail or recover on any indemnification claim. Litigation also puts our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing. Additionally, we may provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially valuable. The occurrence of any of these events may adversely affect our financial condition or diminish our investments in this area.

If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our products could be adversely affected.

In addition to patented technology, we rely on our unpatented proprietary technology, trade secrets, processes and know-how. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated. We generally seek to protect this information by confidentiality, non-disclosure and assignment of invention agreements with our employees, consultants, scientific advisors and third parties. Our employees may leave to work for competitors. Our distributors or Sales Leaders may seek other opportunities. These agreements may be breached, and we may not have adequate remedies for any such breach. In addition, our trade secrets may be disclosed to or otherwise become known or be independently developed by competitors. To the extent that our current or former employees, distributors, Sales Leaders, consultants or contractors use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions. If, for any of the above reasons, our intellectual property is disclosed or misappropriated, it would harm our ability to protect our rights and adversely affect our financial condition.

We may be subject to claims that we, or our employees, have inadvertently or otherwise used or disclosed alleged trade secrets or other proprietary information of our employees' former employers.

We employ individuals who were previously employed at other personal care product or nutritional supplement companies, including our competitors or potential competitors. To the extent that our employees are involved in research areas that are similar to those in which they were involved with their former employers, we may be subject to claims that such employees have inadvertently or otherwise used or disclosed the alleged trade secrets or other proprietary information of the former employers. Litigation may be necessary to defend against such claims.

We will be required to repay the $210.0 million principal amount of our Convertible Notes in cash upon maturity or conversion, which may adversely affect our liquidity.

Our Convertible Notes mature in 2020 and are currently convertible at the holder's discretion at a conversion rate as of January 31, 2017 of 21.5054 per $1,000 principal amount of Convertible Notes (which represented a conversion price of $46.50 per share). Upon conversion, we are required to settle the Convertible Notes in cash with respect to the principal amount of Convertible Notes converted and any accrued and unpaid interest to such date, and in shares of our common stock with respect to any additional amounts. For more information about the Convertible Notes, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" and Note 9 to the financial statements included in this report.

There can be no assurance that we will have sufficient financial resources, or will be able to arrange financing on favorable terms, or at all, to pay the amount of cash due upon conversion or maturity of the Convertible Notes. In addition, agreements governing any debt we have at the time such payments become due may restrict our ability to make each of the required cash payments even if we have sufficient funds to make them. If we fail to repay the Convertible Notes, to pay special interest, if any, due on the Convertible Notes, or to pay the amount of cash due upon maturity or conversion, we will be in default under the indenture governing the Convertible Notes, which in turn may result in the acceleration of other indebtedness we may then have. If the repayment of the other indebtedness were to be accelerated, we may not have sufficient funds to repay that indebtedness and to pay the amount of cash due upon maturity or conversion of the Convertible Notes. Furthermore, the use of cash to repay the Convertible Notes may adversely affect our liquidity and limit our ability to take advantage of unanticipated opportunities, to make acquisitions of other businesses or companies or to respond to changing business conditions or unanticipated competitive pressures. Any weakening of, or other adverse developments in, the U.S. or global credit markets could affect our ability to manage our debt obligations and our ability to access future debt.

In addition, if the Convertible Notes are converted we may be required to issue shares of our common stock to settle amounts due above the principal amount of the Convertible Notes, which may have a dilutive impact on holders of our common stock. Furthermore, the issuance of such shares of our common stock, any sales of shares of our common stock issuable upon such conversion of the Convertible Notes or the perception that such issuance or sales could occur could adversely affect the trading prices of our common stock. Because the number of shares of our common stock due upon conversion depends on the trading price of our common stock at the time the Convertible Notes are converted we cannot predict the extent of any dilutive or trading price impact related to the conversion of the Convertible Notes.

Any future acquisitions may expose us to additional risks.

From time to time we review acquisition prospects that would complement our current product offerings, increase the size and geographic scope of our operations or otherwise offer growth and operating efficiency opportunities. The financing for any of these acquisitions could dilute the interests of our stockholders, result in an increase in our indebtedness or both. Acquisitions may entail numerous risks, including:

- difficulties in assimilating acquired operations or products, including the loss of key employees from acquired businesses and disruption to our direct selling channel;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with our suppliers, sales force or consumers; and
- risks associated with entering markets in which we have limited or no prior experience.

Our failure to successfully complete the integration of any acquired business could have a material adverse effect on our business, financial condition and operating results. In addition, there can be no assurance that we will be able to identify suitable acquisition candidates or consummate acquisitions on favorable terms.

A failure of our internal controls over financial reporting or our compliance efforts could harm our stock price and our financial and operating results or could result in fines or penalties.

We have implemented internal controls to help ensure the accuracy of our financial reporting and have implemented compliance policies and programs to help ensure that our employees and sales force comply with applicable laws and regulations. Our internal audit team regularly audits our internal controls and various aspects of our business and compliance program, and we regularly assess the effectiveness of our internal controls. There can be no assurance, however, that our internal or external assessments and audits will identify all significant deficiencies or material weaknesses in our internal controls. A failure to correct a deficiency in internal controls could result in the ongoing deficiency being reclassified and disclosed as a material weakness. If a material weakness results in a material misstatement of our financial results, we would be required to restate our financial statements. For example, for the first three quarters of 2014, our management concluded that we did not maintain effective controls over the presentation and disclosure of hyper-inflationary accounting for our Venezuela subsidiary. As a result of this material weakness, we decided to restate our consolidated financial statements for the first quarter of 2014.

From time to time, we initiate further investigations into our business operations based on the results of our internal and external audits or on complaints, questions or allegations made by employees or other parties regarding our business practices and operations. In addition, our business and operations may be investigated by applicable government authorities. In the event any of these investigations identify material violations of applicable laws by our employees or our sales force, we could be subject to adverse publicity, fines, penalties or loss of licenses or permits.

System failures could harm our business.

With global operations and a complex sales compensation plan, our business is highly dependent on efficiently functioning information technology systems. Our systems may be damaged or disrupted by fires, floods, earthquakes or other natural disasters, telecommunications failures, break-ins, sabotage, intentional acts of vandalism and similar misconduct. We have adopted and implemented a Business Continuity/Disaster Recovery Plan. Our data is archived and stored at third-party secure sites and we have recovery sites for certain critical data and operations. Growth in our business could also strain our systems. There can be no assurance that our systems will not be significantly damaged or disrupted or that our systems will be adequate to meet our future business needs or that a system failure will not significantly damage the Company's reputation.

Cyber security risks and the failure to maintain the integrity of company, employee, sales force or guest data could expose us to data loss, litigation and liability, and our reputation could be significantly harmed.

We collect and retain large volumes of company, employee, sales force and guest data, including credit card numbers and other personally identifiable information, for business purposes, including for transactional and promotional purposes, and our various information technology systems enter, process, summarize and report such data. The integrity and protection of this data is critical to our business. We are subject to significant security and privacy regulations, as well as requirements imposed by the credit card industry. Maintaining compliance with these evolving regulations and requirements could be difficult and may increase our expenses. In addition, a penetrated or compromised data system or the intentional, inadvertent or negligent release, misuse or disclosure of data could result in theft, loss or fraudulent or unlawful use of company, employee, sales force or guest data which could negatively impact our results and reputation, disrupt our operations, or result in remedial and other costs, fines or lawsuits.

Epidemics and other crises could negatively impact our business.

Due to the person-to-person nature of direct selling, our results of operations could be harmed if the fear of a communicable and rapidly spreading disease or other crises such as natural disasters result in travel restrictions or cause people to avoid group meetings or gatherings or interaction with other people. It is difficult to predict the impact on our business, if any, of the emergence of new epidemics or other crises. In addition, most of our Pharmanex nutritional supplement revenue is generated from products that are encapsulated in bovine- and/or porcine-sourced gel capsules. If we experience production difficulties, quality control problems or shortages in supply in connection with bovine or porcine related health concerns, this could result in additional risk of product shortages or write-downs of inventory. We may be unable to introduce our products in some markets if we are unable to obtain the necessary regulatory approvals or if any product ingredients are prohibited, which could harm our business.

The market price of our Class A common stock is subject to significant fluctuations due to a number of factors that are beyond our control.

Our Class A common stock closed at $40.98 per share on January 30, 2015 and closed at $51.88 per share on January 31, 2017. During this two-year period, our Class A common stock traded as low as $23.51 per share and as high as $66.04 per share. Many factors, including some we may be unable to control, could cause the market price of our Class A common stock to fall. Some of these factors include:

- fluctuations in our operating results;
- government investigations of our business;
- adverse publicity related to our business, products, industry or competitors;
- the sale of shares of Class A common stock by significant stockholders;
- general trends in the market for our products;
- acquisitions by us or our competitors;
- economic or currency exchange issues in markets in which we operate;
- changes in estimates of our operating performance or changes in recommendations by securities analysts;
- speculative trading, including short selling and options trading; and

- general business and political conditions.

Broad market fluctuations could also lower the market price of our Class A common stock regardless of our actual operating performance.

Some of the markets in which we operate may become highly inflationary, which could negatively impact our financial position, results of operations or cash flows.

In some of our markets, we face risks associated with high levels of inflation. High levels of inflation and currency devaluations in any of our markets could negatively impact our balance sheet and results of operations.

The functional currency in countries that are designated as highly inflationary economies under U.S. generally accepted accounting principles is the U.S. dollar, and transactions denominated in the local currency are remeasured as if the functional currency were the U.S. dollar. The remeasurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. For example, during 2014 and 2015, we recorded $46.3 million and $10.2 million, respectively, of non-cash foreign currency charges related to the devaluation of the Venezuela currency. During the third quarter of 2016, we ceased business operations in Venezuela. Although we did not operate in any country other than Venezuela that was considered to have a highly inflationary economy during the periods ended December 31, 2014, 2015 and 2016, other countries, including Argentina and Ukraine, have experienced weakening currencies, and it is currently possible that such countries may be so designated in the future. Our Venezuela, Argentina and Ukraine subsidiaries' net sales revenue each represented less than 1% of consolidated net sales revenue during each of the periods ended December 31, 2014, 2015 and 2016.

Some of the markets in which we operate have currency controls in place, which may restrict our repatriation of cash.

If foreign governments restrict transfers of cash out of their country and control exchange rates, we may be limited as to the timing and amount of cash we can repatriate and may not be able to repatriate cash at beneficial exchange rates, which could have a material adverse effect on our financial position, results of operations or cash flows.

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. As of December 31, 2016, we had $86.5 million in cash denominated in Chinese RMB. Currency exchange restrictions in Venezuela also impeded our Venezuela subsidiary's ability to obtain U.S. dollars to pay for imported products or to repatriate dividends to the United States. We ceased business operations in Venezuela in the third quarter of 2016.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal properties consist of the following:

Offices

We have administrative offices at our corporate headquarters in Provo, Utah, and in various markets, including in Shanghai, China.

Distribution Centers

We distribute our products through distribution centers and warehouses in many of our markets, including in Provo, Utah; Shanghai, China; Chungcheong buk-do, Korea; Venlo, Netherlands; and Tokyo, Japan.

Research and Development Centers

We operate research and development centers in Provo, Utah, and in Shanghai, China.

Manufacturing Facilities

We operate manufacturing facilities in Mainland China.

Retail Stores, Service Centers, Walk-in Centers and Pick-up Locations

We operate walk-in centers and pick-up locations in many of our markets. We also operate retail stores and service centers in Mainland China.

We own our corporate headquarters buildings, distribution center and research and development center located in Provo, Utah; the structure and improvements of our administrative offices in Shanghai, China; our distribution center in Chungcheong buk-do, Korea; and a few other minor facilities. We currently lease the other properties described above. We believe that our existing and planned facilities are adequate for our current operations in each of our existing markets.

ITEM 3. LEGAL PROCEEDINGS

As previously disclosed, we are currently involved in a dispute related to 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 (we were previously required to post a bond or make a deposit to secure any additional duties that may have been due and payable on current imports, but we are no longer required to do so). Additional assessments related to any prior period are 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 pursuant to the transaction value method under the World Trade Organization Customs Valuation Agreement or whether it must use one of the alternative valuation methods provided in that agreement, and, if an alternative method must be used, what the allowable deductions would be in determining the proper valuation. Following our review of the assessments and after consulting with legal and customs advisors, we believe that use of

the manufacturer's invoice is the appropriate valuation method and that the additional assessments are improper and are not supported by applicable customs laws because they are based on an alternative valuation method. We filed letters of protest with the applicable Customs authorities, which were rejected. We then appealed the matter to the Ministry of Finance in Japan, which denied our administrative appeal in the second quarter of 2011. We pursued the matter in Tokyo District Court, which in February 2016 issued its ruling upholding the additional customs assessments. As a result of the District Court's decision, we recorded a charge of $31.4 million in the first quarter of 2016. This charge was a non-cash item because we were previously required to pay the assessments. This charge represents the full amount that was disputed, including assessments 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 date of the District Court's decision. We have appealed the District Court's decision to the Tokyo High Court. We anticipate that additional disputed duties will be limited going forward as we purchase a majority of the affected products in Japan from a Japanese company that purchases and imports the products from the manufacturers.

From time to time, we are involved in other legal proceedings arising in the ordinary course of business. We believe that the resolution of these matters will not have a negative material effect on our consolidated financial position, results of operations or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "NUS." The following table is based upon the information available to us and sets forth the range of the high and low sales prices for our Class A common stock for the quarterly periods during 2015 and 2016 based upon quotations on the NYSE.

Quarter Ended	High	Low
March 31, 2015	$62.63	$39.26
June 30, 2015	62.87	47.02
September 30, 2015	49.92	38.00
December 31, 2015	47.53	31.15

Quarter Ended	High	Low
March 31, 2016	$38.90	$23.51
June 30, 2016	47.65	36.78
September 30, 2016	65.15	44.95
December 31, 2016	66.04	46.35

The market price of our Class A common stock is subject to significant fluctuations in response to variations in our actual and expected operating results, demand for our products, general trends in our industry, economic and currency exchange issues in the foreign markets in which we operate and other factors, many of which are not within our control. In addition, broad market fluctuations, as well as general economic, business, regulatory and political conditions may adversely affect the market for our Class A common stock, regardless of our performance.

The closing price of our Class A common stock on January 31, 2017, was $51.88. The approximate number of holders of record of our Class A common stock as of January 31, 2017 was 360. This number of holders of record does not represent the actual number of beneficial owners of shares of our Class A common stock because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

Dividends

We declared and paid a $0.35 per share dividend for Class A common stock each quarter in 2015 and a $0.355 per share dividend for Class A common stock each quarter in 2016. The board of directors has approved an increased quarterly cash dividend of $0.36 per share of Class A common stock to be paid on March 15, 2017, to stockholders of record on February 27, 2017. Annually, this would increase the dividend to $1.44 from $1.42 in the prior year. 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.

Purchases of Equity Securities by the Issuer

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)[1]
October 1 – 31, 2016	1,449,136	$ 64.20	1,449,136	$ 312.3
November 1 – 30, 2016	1,676,062	56.37	1,676,062	217.8
December 1 – 31, 2016	359,693	50.07	359,693	199.7
Total	3,484,891	58.97	3,484,891	

(1) In October 2015, we announced that our board of directors approved a stock repurchase plan. Under this plan, our board of directors authorized the repurchase of up to $500.0 million of our outstanding Class A common stock on the open market or in privately negotiated transactions.

Stock Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return (stock price appreciation plus dividends) on our Class A common stock with the cumulative total return of the S&P 500 Index and a market-weighted index of publicly traded peers (the "Peer Group") for the period from December 31, 2011 through December 31, 2016. The graph assumes that $100 was invested in each of the Class A common stock, the S&P 500 Index and the index of publicly traded peers on December 31, 2011 and that all dividends were reinvested. The Peer Group consists of the following companies, which compete in our industry and product categories: Avon Products, Inc., The Estée Lauder Companies Inc., Tupperware Brands Corporation, Herbalife Ltd., USANA Health Sciences, Inc., Nature's Sunshine Products, Inc., Weight Watchers International, Inc. and Mannatech, Inc. Elizabeth Arden, Inc. was included in the Peer Group that was disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 but is no longer a publicly traded company.

Measured Period	Nu Skin	S&P 500 Index	Peer Group Index
December 31, 2011	$100.00	$100.00	$100.00
December 31, 2012	77.63	116.00	95.14
December 31, 2013	295.00	153.58	131.30
December 31, 2014	95.74	174.60	104.16
December 31, 2015	85.67	177.01	111.04
December 31, 2016	111.71	198.18	100.38

The Stock Performance Graph above shall not be deemed to be "soliciting material" or to be "filed" with the U.S. Securities and Exchange Commission or subject to the liabilities of Section 18 under the Securities Exchange Act of 1934 as amended (the "Exchange Act"). In addition, it shall not be deemed incorporated by reference by any statement that incorporates this Annual Report on Form 10-K by reference into any filing under the Securities Act of 1933 (the "Securities Act") or the Exchange Act, except to the extent that we specifically incorporate this information by reference.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 have been derived from the audited consolidated financial statements:

	Year Ended December 31,				
	2012	2013	2014	2015	2016
	(U.S. dollars in thousands, except per share data and cash dividends)				
Income Statement Data:					
Revenue	$2,132,257	$3,176,718	$2,569,495	$2,247,047	$2,207,797
Cost of sales	353,152	505,806	478,434 [1]	489,510 [1][2]	500,457 [2][3]
Gross profit	1,779,105	2,670,912	2,091,061	1,757,537	1,707,340
Operating expenses:					
Selling expenses	932,812	1,476,772	1,116,572	951,372	922,083
General and administrative expenses	505,449	640,028	622,301	561,463 [2]	554,153 [2]
Total operating expenses	1,438,261	2,116,800	1,738,873	1,512,835	1,476,236
Operating income	340,844	554,112	352,188	244,702	231,104
Other income (expense), net	4,398	2,828	(53,681)[4]	(32,743)[4]	(18,265)
Income before provision for income taxes	345,242	556,940	298,507	211,959	212,839
Provision for income taxes	123,597	192,052	109,331	78,913	69,753
Net income	$221,645	$364,888	$189,176	$133,046	$143,086
Net income per share:					
Basic	$3.66	$6.23	$3.20	$2.29	$2.58
Diluted	$3.52	$5.94	$3.11	$2.25	$2.55
Weighted-average common shares outstanding (000s):					
Basic	60,600	58,606	59,073	57,997	55,412
Diluted	63,025	61,448	60,887	59,057	56,097
Balance Sheet Data (at end of period):					
Cash and cash equivalents and current investments	$333,403	$547,127	$300,208	$303,725	$368,126
Working capital	268,500	341,542	416,338	298,795	315,326
Total assets	1,124,807	1,821,062	1,614,434	1,505,843	1,474,045
Current portion of long-term debt	39,019	67,824	82,770	67,849	82,727
Long-term debt	154,963	113,852	164,567	181,745	334,165
Stockholders' equity	590,612	858,619	942,438	825,621	664,070
Cash dividends declared per share	0.80	1.20	1.38	1.40	1.42
Supplemental Operating Data (at end of period):					
Approximate number of Customers[5]	946,000	1,335,000	1,208,000	994,000	988,000
Number of Sales Leaders[6]	51,790	102,117	62,009	67,575	61,627

(1) Includes write-downs of inventory of $50.0 million and $37.9 million in 2014 and 2015, respectively, resulting primarily from reduced sales expectations primarily in our Greater China region.

(2) Reflects the reclassification of $31.5 million in 2015 and $33.5 million in 2016 in overhead expenses from general and administrative expense to cost of sales.

(3) Includes a non-cash Japan customs expense of $31.4 million.

(4) Includes $46.3 million and $10.2 million of foreign currency charges in 2014 and 2015, respectively, related to the devaluation of the Venezuela currency.

(5) "Customers," previously referred to as "Actives," are persons who purchased products directly from the company during the previous three months.

(6) "Sales Leaders" are independent distributors, and sales employees and independent marketers in China, who achieve certain qualification requirements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes, which are included in this Annual Report on Form 10-K.

Business Overview

Our Products

Founded more than 30 years ago, Nu Skin Enterprises, Inc. develops and distributes innovative consumer products, offering a comprehensive line of premium-quality beauty and wellness solutions in approximately 50 markets worldwide. In 2016, our revenue of $2.2 billion was primarily generated by our two category brands: our beauty and personal care category brand known as Nu Skin and our nutritional products category brand, Pharmanex. We have also leveraged our scientific expertise in the area of anti-aging to develop our ageLOC brand that features innovative products in both of these categories. We operate in the direct selling channel, primarily utilizing person-to-person marketing to promote and sell our products.

Our Global Operations

Nu Skin's operations span approximately 50 markets with approximately 91% of our 2016 revenue coming from outside of the United States. Given the size of our international operations, our results, as reported in U.S. dollars, are often impacted by foreign currency fluctuations. In addition, our results can be impacted by global economic, political, demographic and business trends and conditions.

A Global Network of Sales Leaders and Customers

As of December 31, 2016, we had approximately 988,000 persons who purchased products directly from the company during the previous three months ("Customers," or previously referred to as "Actives"). We believe a significant majority of Customers purchase our products primarily for personal or family consumption but are not actively pursuing the opportunity to generate income by marketing and reselling products.

Our revenue is highly influenced by the number and productivity of our Sales Leaders. Sales Leaders are independent distributors, and sales employees and independent marketers in China, who achieve certain qualification requirements.

We have been successful in attracting and motivating our sales force by:

- developing and marketing innovative, technologically and scientifically advanced products;
- providing compelling initiatives and strong support; and
- offering an attractive sales compensation structure.

Our global sales force helps us to rapidly introduce products and penetrate our markets with modest up-front promotional expense. We rely on our sales force to create consumer demand for our products, as opposed to a traditional approach of advertising-generated consumer awareness. Our approach is particularly effective with products that benefit from education and demonstration. Similar to other companies in our industry, we experience

relatively high turnover among our sales force.

To enhance customer retention, we have developed product subscription and loyalty programs that provide incentives for consumers to commit to purchase a specific amount of product on a monthly basis. All purchases under these programs are subject to our standard product payment and return policies. We believe these subscription and loyalty programs have improved consumer retention, have had a stabilizing impact on revenue and have helped generate recurring sales.

Product Innovation

Our sales force markets and sells our products, and attracts others to the opportunity, based on the distinguishing benefits and innovative characteristics of our products. As a result, it is vital to our business that we continuously leverage our scientific expertise and product development resources to introduce innovative beauty and wellness products.

Since 2008, we have focused on the development of products under our ageLOC brand, an innovative line of anti-aging solutions that feature skin treatment and nutritional products. The ageLOC brand has generated more than $6 billion in cumulative sales since its 2008 introduction. This anti-aging line includes such products as our ageLOC Me customized skin care system, ageLOC Spa systems and gels, ageLOC Youth nutritional supplement, and ageLOC TR90 weight management system. Beginning in the second half of 2017 and continuing into 2018, we plan to launch our ageLOC LumiSpa treatment and cleansing device. Any delays or difficulties in introducing compelling products or attractive initiatives or tools into our markets may have a negative impact on our revenue and our number of Customers and Sales Leaders.

Our Product Launch Process

We use a variety of methods to launch our products, enabling us to tailor the launch process to the specific market and the specific product. Prior to making a product generally available for purchase in a market, we typically do a promotional offering of the product, such as a preview of the product to our key Sales Leaders in the market, a limited-time offer, or other type of promotion. Sales Leader previews, limited-time offers and other promotions may generate significant activity and a high level of purchasing, which can result in a higher-than-normal increase in revenue during the quarter and can skew year-over-year and sequential comparisons. We believe our product launch process also attracts new people to our business, helping drive growth in our Sales Leaders and Customers through increased consumer trial.

We may experience difficulty effectively managing growth associated with these limited-time offers and may face increased risk of improper sales force activities and related government scrutiny. In addition, the size and condensed schedule of these product launches increases pressure on our supply chain and order processing systems. If we are unable to accurately forecast sales levels in each market for product launches or ongoing product sales, obtain sufficient ingredients or produce a sufficient supply to meet demand, we may incur higher expedited shipping costs and we may temporarily run out of stock of certain products, which could negatively impact the enthusiasm of our sales force and consumers. Conversely, if demand does not meet our expectations for a product launch or ongoing product sales or if we change our planned launch strategies or initiatives, we could incur inventory write-downs. For example, in 2014 and 2015, we incurred inventory write-downs of $50.0 million and $37.9 million, respectively, which primarily resulted from reduced sales expectations primarily in our Greater China region. Any additional write-down of inventory in any of our markets would negatively impact our gross margins. Although our previous limited-time offers have not materially affected our product return rate, these events may increase our product return rate in the future. If we fail to effectively forecast or manage our supply chain and information systems in the product launch process or for ongoing product sales, our reputation and profitability could be negatively impacted.

Income Statement Presentation

We report revenue in five geographic regions and we translate revenue from each market's local currency into U.S. dollars using weighted-average exchange rates. The following table sets forth revenue information by region for the periods indicated. This table should be reviewed in connection with the information presented under "Results of Operations," which describes selling expenses and other costs associated with generating the aggregate revenue presented.

Revenue by Region

	Year Ended December 31,					
(U.S. dollars in millions)	2014		2015		2016	
Greater China	$948.5	37 %	$771.6	34 %	$794.4	36 %
North Asia	783.0	30	686.5	31	692.7	31
South Asia/Pacific	328.4	13	322.0	14	296.8	13
Americas	329.0	13	329.7	15	276.6	13
EMEA	180.6	7	137.2	6	147.3	7
	$2,569.5	100%	$2,247.0	100%	$2,207.8	100%

Cost of sales primarily consists of:

• cost of products purchased from third-party vendors;

• costs of self-manufactured products;

• cost of adjustments to inventory carrying value;

• freight cost of shipping products to our sales force and import duties for the products; and

• royalties and related expenses for licensed technologies.

We source the majority of our products from third-party vendors. Under direct selling regulations in Mainland China, we are required to manufacture the products we distribute through independent direct sellers in Mainland China. Cost of sales and gross profit, on a consolidated basis, may fluctuate as a result of changes in the ratio between self-manufactured products and products sourced from third-party vendors. In addition, because we purchase a significant amount of our goods in U.S. dollars and recognize revenue in local currencies, our gross margin is subject to exchange rate risks. Because our gross margins vary from product to product and due to higher pricing in some markets, changes in product mix and geographic revenue mix can impact our gross margin on a consolidated basis.

Selling expenses are our most significant expense and are classified as operating expenses. Selling expenses include sales commissions paid to our sales force, special incentives, costs for incentive trips and other rewards, as well as wages, benefits, bonuses and other labor and unemployment expenses we pay to our sales force in Mainland China. Selling expenses do not include amounts we pay to our sales force based on their personal purchases; rather, such amounts are reflected as reductions to revenue. Our global sales compensation plan, which we employ in all our markets except Mainland China, is an important factor in our ability to attract and retain our Sales Leaders. Under our global sales compensation plan, Sales Leaders can earn "multi-level" compensation, where they earn commissions for product sales to their consumer groups as well as the product sales made through the sales network they have developed and trained. We do not pay commissions on sales materials. Small fluctuations occur in the amount of

commissions paid as the Customers and Sales Leaders change from month to month. However, with approximately 988,000 Customers and 61,627 Sales Leaders, the fluctuation in the overall payout is relatively small. Selling expenses as a percentage of revenue typically increase in connection with a limited-time offer due to growth in the number of Sales Leaders qualifying for increased sales compensation and promotional incentives. From time to time, we make modifications and enhancements to our global sales compensation plan in an effort to help motivate our sales force and develop leadership characteristics, which can have an impact on selling expenses.

Outside of Mainland China, distributors also have the opportunity to make profits by purchasing products from us at a discount and selling them to consumers with a mark-up. We do not account for, nor pay, additional commissions on these mark-ups received by distributors. In many markets, we also allow individuals who are not part of our sales force, whom we refer to as "preferred customers," to buy products directly from us at a discount. We pay commissions on preferred customer purchases to the referring member of our sales force.

General and administrative expenses include:

• wages and benefits;

• rents and utilities;

• depreciation and amortization;

• promotion and advertising;

• professional fees;

• travel;

• research and development; and

• other operating expenses.

Labor expenses are the most significant portion of our general and administrative expenses. Promotion and advertising expenses include costs of sales force conventions held in various markets worldwide, which we expense in the period in which they are incurred. Because our various sales force conventions are not held during each fiscal year, or in the same period each year, their impact on our general and administrative expenses may vary from year to year and from quarter to quarter. For example, we held our global convention in October 2015 and will have another global convention in the fall of 2017 as we currently plan to hold a global convention every other year. In addition, we hold regional conventions and conventions in our major markets at different times during the year. These conventions have significant expenses associated with them. Because we have not incurred expenses for these conventions during every fiscal year or in comparable interim periods, year-over-year comparisons have been impacted accordingly.

Provision for income taxes depends on the statutory tax rates in each of the jurisdictions in which we operate. For example, statutory tax rates in 2016 were approximately 16.5% in Hong Kong, 17.0% in Taiwan, 22.7% in South Korea, 37.3% in Japan and 25.0% in Mainland China. We are subject to taxation in the United States at the statutory corporate federal tax rate of 35%, and we pay taxes in multiple states within the United States at various tax rates. Our overall effective tax rate was 32.8% for the year ended December 31, 2016.

Critical Accounting Policies

The following critical accounting policies and estimates should be read in conjunction with our audited consolidated financial statements and related Notes thereto. Management considers our critical accounting policies to be the recognition of revenue, accounting for income taxes and accounting for intangible assets. In each of these areas, management makes estimates based on historical results, current trends and future projections.

Revenue. We recognize revenue when products are shipped, which is when title and risk of loss pass to the purchaser of the products. With some exceptions based on local regulations, we offer a return policy that allows our sales force to return unopened and unused product for up to 12 months subject to a 10% restocking fee. Reported revenue is net of returns, which have historically been less than 5% of annual revenue. A reserve for product returns is accrued based on historical experience. We classify selling discounts as a reduction of revenue.

Through our product subscription and loyalty programs, which vary from market to market, participants who commit to purchase on a monthly basis receive a discount from suggested retail or wholesale prices, as applicable. We apply this discount at the time of each purchase and not through a larger discount on the initial purchase. Participants may cancel their commitment at any time, however some markets charge a one-time early cancellation fee. All purchases under these programs are subject to our standard product payment and return policies. In accordance with ASC 605-50, we classify selling discounts and rebates, as a reduction of revenue at the time the sale is recorded.

Income Taxes. We account for income taxes in accordance with the Income Taxes Topic of the Financial Accounting Standards Codification. This Topic establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. We take an asset and liability approach for financial accounting and reporting of income taxes. We pay income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between Nu Skin affiliates around the world. Deferred tax assets and liabilities are created in this process. As of December 31, 2016, we had net deferred tax assets of $35.1 million. We net 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. These net deferred tax assets assume sufficient future earnings will exist for their realization, and are calculated using anticipated tax rates. In certain foreign jurisdictions, valuation allowances have been recorded against the deferred tax assets specifically related to use of net operating losses. When we determine that there is sufficient taxable income to utilize the net operating losses, the valuation allowances will be released. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination was made.

We evaluate our indefinite reinvestment assertions with respect to foreign earnings for each period. Other than earnings we intend to reinvest indefinitely, we accrue for the U.S. federal and state income taxes applicable to the earnings. For all foreign earnings, we accrue the applicable foreign income taxes. We intend to utilize the offshore earnings to fund foreign investments, specifically capital expenditures. Undistributed earnings that we have indefinitely reinvested aggregate to $70.0 million and $70.0 million as of December 31, 2016 and 2015, respectively. If this amount were repatriated to the United States, the amount of incremental taxes would be approximately $7.6 million.

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 IRS for all years for which tax returns have been filed before 2011. With a few exceptions, we are no longer subject to state and local income tax examination by tax authorities for the years before 2011. In 2009, we entered into a voluntary program with the IRS called Compliance Assurance Process ("CAP"). The objective of CAP is to contemporaneously work with the IRS to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. We have elected to participate in the CAP program for 2017 and may elect to continue participating in CAP for future tax years; we may withdraw from the program at any time. In major foreign jurisdictions, we are generally not subject to income tax examinations for years before 2010. However, statutes in certain countries may be as long as ten years for transfer pricing related issues. Along with the IRS examination of 2011, we are currently under examination in certain foreign jurisdictions; however, the outcomes of those reviews are not yet determinable.

Our unrecognized tax benefits are related to multiple foreign and domestic jurisdictions. There are potential changes in unrecognized tax benefits from the multiple jurisdictions in which we operate, as well as the expiration of various statutes of limitation and possible completion of tax examinations; however, we do not anticipate that our total unrecognized tax benefits will significantly change over the next 12 months.

At December 31, 2016, we had $5.3 million in unrecognized tax benefits of which $1.0 million, if recognized, would affect the effective tax rate. In comparison, at December 31, 2015, we had $7.8 million in unrecognized tax benefits of which $0.9 million, if recognized, would affect the effective tax rate. We recognized approximately $0.4 million in interest and penalties during the year ended December 31, 2015 and a benefit of $0.8 million in interest and penalties during the year ended December 31, 2016. We had approximately $1.3 million, $1.7 million and $0.9 million of accrued interest and penalties related to uncertain tax positions at December 31, 2014, 2015 and 2016, respectively. Interest and penalties related to uncertain tax positions are recognized as a component of income tax expense.

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

Intangible Assets. Acquired intangible assets may represent indefinite-lived assets, determinable-lived intangibles or goodwill. Of these, only the costs of determinable-lived intangibles are amortized to expense over their estimated life. The value of indefinite-lived intangible assets and residual goodwill is not amortized, but is tested at least annually for impairment. Our impairment testing for goodwill is performed separately from our impairment testing of indefinite-lived intangibles. We test goodwill for impairment, at least annually, by reviewing the book value compared to the fair value at the reportable unit level. Beginning in 2011, we had the option to perform a qualitative assessment to determine whether further impairment testing is necessary or to perform a quantitative assessment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. Under the qualitative assessment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. If under the quantitative assessment the fair value of a reporting unit is less than its carrying amount, then the amount of the impairment loss, if any, must be measured. We used the quantitative assessment for all periods presented. Considerable management judgment is necessary to measure fair value. We did not recognize any impairment charges for goodwill or intangible assets during the periods presented.

Results of Operations

The following table sets forth our operating results as a percentage of revenue for the periods indicated:

	Year Ended December 31,		
	2014	2015	2016
Revenue	100.0%	100.0%	100.0%
Cost of sales	18.6	21.8	22.7
Gross profit	81.4	78.2	77.3
Operating expenses:			
Selling expenses	43.5	42.3	41.7
General and administrative expenses	24.2	25.0	25.1
Total operating expenses	67.7	67.3	66.8
Operating income	13.7	10.9	10.5
Other income (expense), net	(2.1)	(1.5)	(0.8)
Income before provision for income taxes	11.6	9.4	9.7
Provision for income taxes	4.2	3.5	3.2
Net income	7.4%	5.9%	6.5%

2016 Compared to 2015

Overview

Revenue in 2016 decreased 2% to $2.21 billion from $2.25 billion in 2015, with foreign currency fluctuations negatively impacting revenue 2%. As of the end of the fourth quarter of 2016, Sales Leaders and Customers were down 9% and 1%, respectively, compared to the prior year. Earnings per share for 2016 were $2.55, compared to $2.25 for 2015.

In 2016, our Mainland China business generated 8% revenue growth, or 14% revenue growth on a local-currency basis, compared to 2015. Revenue in our EMEA region also increased 7%, reflecting the success of Sales Leader social media initiatives in certain markets of that region. These gains were offset by declines in our Americas and South Asia/Pacific regions as we experienced a decline in Sales Leaders in these regions.

During 2015 and 2016, and continuing into 2017, we launched our ageLOC Youth nutritional supplement and our ageLOC Me customized skin care system across our markets. These products have generated more than $500 million in cumulative sales through the end of 2016, with more than $400 million generated during 2016. We expect that our revenue will continue to be positively impacted by new product launches. Beginning in the second half of 2017 and continuing into 2018, we plan to launch our ageLOC LumiSpa treatment and cleansing device.

The year-over-year increase in our earnings per share primarily reflects slightly lower selling expenses as a percentage of revenue, a reduction in foreign-currency charges, and lower weighted-average shares outstanding in 2016 due to approximately $247 million in share repurchases during 2016.

Revenue

Greater China. The following table sets forth revenue for the Greater China region and its principal markets (U.S. dollars in millions):

	2015	2016	Change
Mainland China	$565.5	$610.4	8%
Taiwan/Hong Kong	206.1	184.0	(11%)
Greater China total	$771.6	$794.4	3%

Foreign currency fluctuations negatively impacted revenue in the Greater China region by 5% in 2016 compared to 2015. Sales Leaders and Customers in the region decreased 2% and increased 11%, respectively, in the fourth quarter of 2016 compared to the prior-year period.

The year-over-year revenue increase in the region reflects approximately $79 million in revenue generated by a limited-time offer of ageLOC Me during the second and third quarters of 2016. The results of this limited-time offer were strong, particularly in Mainland China, where revenue grew 8%, or 14% on a local-currency basis, in 2016. There were no significant limited-time offers in the region during 2015, but revenue in 2015 was positively impacted by small previews of ageLOC Me to key Sales Leaders in the region and of ageLOC Youth in Hong Kong.

Sales Leaders and Customers in Mainland China increased 5% and 23%, respectively, compared to the fourth quarter of 2015, primarily driven by the limited-time offer of ageLOC Me. Sales Leaders and Customers in Taiwan were down 16% and 8%, respectively, and Sales Leaders and Customers in Hong Kong were down 36% and 13%, respectively. These decreases in Taiwan and Hong Kong reflect continued softness that we have seen for the last several quarters in these markets. We also believe that recent allegations and media scrutiny regarding the alleged improper importation and sale of ageLOC Body Spa devices in Taiwan in 2011 and 2012 may have negatively impacted our sales force and reputation in that market and may continue to do so. For more information, see Item 1A. Risk Factors—"If our ageLOC Spa systems or Pharmanex BioPhotonic Scanner are determined to be medical devices in a particular geographic market or if our sales force uses these products for medical purposes or makes improper medical claims, our ability to continue to market and distribute such tools could be harmed, and we could face legal or regulatory actions."

We currently plan to make ageLOC Me generally available for purchase in this region during the first quarter of 2017.

North Asia. The following table sets forth revenue for the North Asia region and its principal markets (U.S. dollars in millions):

	2015	2016	Change
South Korea	$422.3	$413.7	(2%)
Japan	264.2	279.0	6%
North Asia total	$686.5	$692.7	1%

Revenue in the region for 2016 was favorably impacted 3% by foreign-currency fluctuations compared to 2015.

Revenue in South Korea was down 2% on a year-over-year basis, reflecting a negative foreign-currency impact of 2%. Local-currency revenue in this market was even with the prior year despite increased limited-time offer sales during 2016; during the third quarter of 2016, we generated approximately $49 million in revenue from a limited-time offer of a local variation of ageLOC Youth in this market, compared to approximately $18 million generated from a limited-time offer of ageLOC Me in this market in the prior year. Our Sales Leaders and Customers in South Korea decreased 1% and 11%, respectively, compared to the prior-year period. Although the limited-time offer in this market generated an increase in Sales Leaders during the third quarter of 2016, it did not generate a similar increase in Customers. We made ageLOC Youth generally available for purchase in South Korea during the fourth quarter of 2016.

Revenue in Japan increased 6% on a year-over-year basis, reflecting a positive foreign-currency impact of 11%. On a local-currency basis, revenue declined 5%. Sales Leaders and Customers in Japan decreased 13% and 10%, respectively, in the fourth quarter of 2016 compared to the prior-year period. In the fourth quarter of 2015, a limited-time offer of ageLOC Me generated an increased level of Sales Leader activity. The year-over-year declines in local-currency revenue, Sales Leaders and Customers reflect the absence of any limited-time offers in this market during 2016, the challenging regulatory environment and continued softness in this market. We made ageLOC Youth generally available for purchase in Japan during the fourth quarter of 2016.

South Asia/Pacific. The following table sets forth revenue for the South Asia/Pacific region (U.S. dollars in millions):

	2015	2016	Change
South Asia/Pacific	$322.0	$296.8	(8%)

Foreign currency fluctuations negatively impacted revenue in the South Asia/Pacific region by 2% in 2016 compared to the prior year. Sales Leaders and Customers in the region decreased 28% and 3%, respectively, compared to the fourth quarter of 2015.

The year-over-year comparisons for this region reflect declines in our revenue, Sales Leaders and Customers in Thailand as well as the majority of the region, partially offset by strong growth in Australia. The year-over-year comparisons also reflect decreased limited-time offer activity in the region. We generated approximately $35 million of revenue from a limited-time offer of ageLOC Youth during the second quarter of 2016, compared to approximately $48 million of revenue from a limited-time offer of ageLOC Youth during the second half of 2015.

On a sequential basis, Sales Leaders increased 5% from the third quarter to the fourth quarter of 2016, and Customers remained even.

Americas. The following table sets forth revenue for the Americas region (U.S. dollars in millions):

	2015	2016	Change
United States/Canada	$284.9	$244.9	(14%)
Latin America	44.8	31.7	(29%)
Americas total	$329.7	$276.6	(16%)

Foreign currency fluctuations negatively impacted revenue in the Americas region by 3% in 2016 compared to 2015. Sales Leaders and Customers in the region decreased 23% and 6%, respectively, in the fourth quarter of 2016 compared to the prior-year period.

The declines in revenue, Sales Leaders and Customers in the region are partially attributable to a limited-time offer of ageLOC Youth in the fourth quarter of 2015, which generated approximately $21 million in revenue. We did not have any limited-time offers in this region during 2016. On a sequential basis, Sales Leaders remained even from the third quarter to the fourth quarter of 2016, and Customers decreased 3%.

Our 2016 results for the Americas region also reflect softness in this region. Revenue in the United States decreased 17% compared to 2015. Elsewhere in the region, revenue growth in Canada, our second-largest market by revenue in this region, was more than offset by declines in parts of Latin America.

During January 2017, we ceased business operations in Guatemala, Honduras, El Salvador and Costa Rica. Together, these markets accounted for less than 1% of our 2016 consolidated revenue.

EMEA. The following table sets forth revenue for the Europe, Middle East and Africa ("EMEA") region (U.S. dollars in millions):

	2015	2016	Change
EMEA	$137.2	$147.3	7%

Foreign currency fluctuations negatively impacted revenue in the EMEA region by 1% in 2016 compared to 2015. Sales Leaders and Customers in the region increased 13% and 17%, respectively, in the fourth quarter of 2016 compared to the fourth quarter of 2015. The year-over-year increases in revenue, Sales Leaders and Customers reflect the success of Sales Leader social media initiatives in certain markets of the region. We also made increased use of seasonal promotions in 2016.

Gross profit

Gross profit as a percentage of revenue in 2016 decreased to 77.3% compared to 78.2% in 2015. The decline is due to a non-cash Japan customs expense of $31.4 million in the first quarter of 2016, partially offset by lower inventory write-downs in 2016 compared to 2015. In the third quarter of 2015, we incurred a $37.9 million write-down of inventory primarily in our Greater China region. For more information about the 2016 Japan customs expense and the 2015 inventory write-down, see Notes 23 and 2, respectively, to the consolidated financial statements contained in this report.

Selling expenses

Selling expenses as a percentage of revenue decreased to 41.7% in 2016, compared to 42.3% in 2015. The decline in selling expenses as a percentage of revenue primarily reflects the decline in our Sales Leaders, as well as other normal fluctuations in our sales compensation.

General and administrative expenses

General and administrative expenses decreased to $554.2 million in 2016, compared to $561.5 million in 2015. As a percentage of revenue, general and administrative expenses increased to 25.1% in 2016 from 25.0% in 2015.

Other income (expense), net

Other income (expense), net was $18.3 million of expense in 2016, compared to $32.7 million of expense in 2015. The decrease in expense primarily reflects a decrease of $18.4 million in foreign-currency charges, partially offset by

a $7.7 million increase in interest expense primarily due to the convertible debt that we issued in the second quarter of 2016.

Provision for income taxes

Provision for income taxes decreased to $69.8 million in 2016 from $78.9 million in 2015. The effective tax rate decreased to 32.8% in 2016 from 37.2% of pre-tax income in 2015. The year-over-year decrease in the effective tax rate for 2016 is a result of the substantial liquidation of our business operations in Venezuela, which resulted in the recognition of a previously unrecognized deferred tax asset. The year-over-year comparisons also reflect an increased tax rate in the third quarter of 2015, which was due largely to lower-than-anticipated profits in Greater China caused by the inventory charge we incurred in that quarter. The lower-than-anticipated profits prevented us from recognizing a deferred tax asset associated with Greater China in 2015, but it was recognized in 2016. These declines in our effective tax rate were partially offset by the negative impact of a change in tax law that was enacted in December 2016 related to the taxation of foreign currency translation gains or losses arising from qualified business units.

Net income

As a result of the foregoing factors, net income in 2016 increased to $143.1 million, compared to $133.0 million in 2015.

2015 Compared to 2014

Overview

Revenue in 2015 decreased 13% to $2.2 billion from $2.6 billion in 2014, with foreign currency fluctuations negatively impacting revenue 8%. Sales Leaders and Customers were up 9% and down 18%, respectively, compared to the prior year. Earnings per share for 2015 were $2.25, compared to $3.11 for 2014.

The year-over-year comparisons were affected by limited-time offer activity in 2014 and the lack of major new product initiatives through the first half of 2015. Limited-time offers of our ageLOC Tru Face Essence Ultra anti-aging skin care serum and our ageLOC TR90 weight management and body shaping system generated approximately $194 million in revenue during 2014. Following the launch of ageLOC TR90 in 2013 and the beginning of 2014, we did not have any major new product initiatives until the second half of 2015, which presented challenges in our ability to grow the business. Revenue generated from limited-time offers of ageLOC Youth in our South Asia/Pacific and Americas regions and ageLOC Me in our North Asia region during 2015 totaled approximately $96 million.

Foreign currency fluctuations negatively impacted our 2015 revenue by 8% on a consolidated basis, compared to 2014. In addition, our 2015 earnings per share reflected a first-quarter charge of $10.2 million related to a new foreign exchange mechanism for the Venezuela currency and foreign currency translation expenses of $17.0 million. In 2014, we similarly incurred a charge of $46.3 million related to the Venezuela currency. For more information regarding these items, please see "—Other income (expense), net."

Our earnings per share also reflected inventory write-downs of $37.9 million in 2015 and $50.0 million in 2014. Both of these write-downs of estimated surplus inventory resulted from reduced sales expectations primarily in our Greater China region.

Revenue

Greater China. The following table sets forth revenue for the Greater China region and its principal markets (U.S. dollars in millions):

	2014	2015	Change
Mainland China	$675.1	$565.5	(16%)
Taiwan/Hong Kong	273.4	206.1	(25%)
Greater China total	$948.5	$771.6	(19%)

Foreign currency fluctuations negatively impacted revenue in the Greater China region by 2% in 2015.

The year-over-year revenue decline reflected approximately $130.5 million in revenue in this region in 2014 generated by limited-time offers of ageLOC Tru Face Essence Ultra and ageLOC TR90, consisting of $80.8 million in Mainland China and $49.7 million in Taiwan and Hong Kong. Although there were no significant limited-time offers in the region during 2015, revenue was positively impacted by small previews of ageLOC Me to key Sales Leaders in the region, and ageLOC Youth in Hong Kong, during the fourth quarter.

The year-over-year revenue decline for the region also reflected the disruption of our business in Mainland China and subsequent loss of Sales Leaders in 2014. We believe our business in Mainland China stabilized in 2015. For example, on a sequential basis, revenue in Mainland China for the fourth quarter of 2015 was 4% higher than the third quarter of 2015.

Sales Leaders in Mainland China increased 16% and Customers decreased 52% compared to 2014. Sales Leaders and Customers in Taiwan were down 14% and 18%, respectively, compared to 2014. Sales Leaders in Hong Kong were up 6% and Customers were down 19% compared to 2014. The decrease in Customers across the region reflected promotional activity that took place during the fourth quarter of 2014. On a sequential basis, Sales Leaders and Customers in the region increased 8% and 6%, respectively, from September 30, 2015 to December 31, 2015.

We believe that allegations and media scrutiny regarding the alleged improper importation and sale of ageLOC Body Spa devices in Taiwan in 2011 and 2012 may have negatively impacted our sales force and reputation in that market. For more information, see Item 1A. Risk Factors—"If our ageLOC Spa systems or Pharmanex BioPhotonic Scanner are determined to be medical devices in a particular geographic market or if our sales force uses these products for medical purposes or makes improper medical claims, our ability to continue to market and distribute such tools could be harmed, and we could face legal or regulatory actions."

North Asia. The following table sets forth revenue for the North Asia region and its principal markets (U.S. dollars in millions):

	2014	2015	Change
South Korea	$467.7	$422.3	(10%)
Japan	315.3	264.2	(16%)
North Asia total	$783.0	$686.5	(12%)

Revenue in the region for 2015 was negatively impacted approximately 9% by foreign currency fluctuations, compared to 2014. Foreign currency fluctuations negatively impacted revenue 7% and 12% in South Korea and Japan, respectively.

Local-currency revenue in South Korea was down 3% on a year-over-year basis. This decline reflects approximately $39 million in revenue in 2014 generated by limited-time offers of ageLOC Tru Face Essence Ultra and TR90. During 2015, we did not have a major product introduction in South Korea until the fourth quarter, when we introduced ageLOC Me in a limited-time offer, generating approximately $18 million in sales. Revenue from this limited-time offer was lower than our internal goals. We believe our bundling of the device with an optional 12-month product commitment may have contributed to these lower-than-expected results. We also believe that the results may have reflected softness in the South Korea market. Our Sales Leaders and Customers in South Korea decreased 2% and 8%, respectively, compared to the prior year.

Local-currency revenue in Japan decreased 4% on a year-over-year basis, reflecting challenges related to the difficult direct selling environment in Japan and the lack of a major product introduction until the fourth quarter of 2015. Our limited-time offer of ageLOC Me in December generated an increased level of Sales Leader activity. Sales Leaders in Japan increased 2% and Customers decreased 5% compared to 2014. The regulatory environment in Japan continues to be challenging.

South Asia/Pacific. The following table sets forth revenue for the South Asia/Pacific region (U.S. dollars in millions):

	2014	2015	Change
South Asia/Pacific	$328.4	$322.0	(2%)

Foreign currency fluctuations negatively impacted revenue in the South Asia/Pacific region by 12% in 2015 compared to the prior year. Local-currency revenue in the region grew on a year-over-year basis, reflecting approximately $48 million of revenue generated by a limited-time offer of ageLOC Youth during the second half of 2015. There were no significant limited-time offer sales in this region during the prior year.

Sales Leaders in the region increased 24%, driven primarily by the limited-time offer of ageLOC Youth, and Customers decreased 4% in 2015 compared to the prior year.

Americas. The following table sets forth revenue for the Americas region (U.S. dollars in millions):

	2014	2015	Change
United States/Canada	$272.4	$284.9	5%
Latin America	56.6	44.8	(21%)
Americas total	$329.0	$329.7	*

* Less than 1%

The year-over-year revenue comparison for this region reflected approximately $21 million of revenue generated by a limited-time offer of ageLOC Youth in the United States and Canada during the fourth quarter of 2015, compared to approximately $10 million in limited-time offer sales of ageLOC TR90 in the region during 2014.

Local-currency revenue growth throughout the region in 2015 was offset by a negative impact of approximately 13% from foreign currency fluctuations. Revenue in Canada, our largest market by revenue in this region outside of the United States, grew by 14% on a local-currency basis but declined by 1% on a reported basis, compared to 2014. Similarly, revenue in Latin America grew by 43% on a local-currency basis but declined by 21% on a reported basis, compared to 2014.

Sales Leaders in the Americas region increased 17%, driven primarily by the fourth-quarter limited-time offer of ageLOC Youth, and Customers decreased 5%, compared to the prior year.

EMEA. The following table sets forth revenue for the Europe, Middle East and Africa ("EMEA") region (U.S. dollars in millions):

	2014	2015	Change
EMEA	$180.6	$137.2	(24%)

Foreign currency fluctuations negatively impacted revenue in the EMEA region by 16% in 2015 compared to the prior year. The year-over-year revenue decline in EMEA was impacted by 2014 limited-time offers of TR90, which generated revenue of approximately $8 million in the region in 2014. There were no limited-time offers in the region in 2015. Revenue was also negatively impacted by a year-over-year decline of 4% in both Sales Leaders and Customers, which we believe was due in part to a lack of major new product initiatives.

Gross profit

Gross profit as a percentage of revenue in 2015 decreased to 78.2% compared to 81.4% in 2014. The decline is due to the negative impact of foreign currency fluctuations, increased promotional activity, the 2015 reclassification of certain overhead expenses related to warehousing and shipping products from general and administrative expense to cost of sales, and an increase in inventory-related overhead expenses in 2015 as a result of increased inventory turnover. The amount that was reclassified from general and administrative expense to cost of sales for 2015 was $31.5 million. We did not revise prior-period financial statements because the reclassification was not material to the prior periods.

Gross profit in both 2014 and 2015 was also negatively impacted by inventory write-downs of $50.0 million in 2014 and $37.9 million in 2015. Both of these write-downs of estimated surplus inventory resulted from reduced sales expectations primarily in our Greater China region. Any additional write-down of inventory in any of our markets would negatively impact our gross margin.

Selling expenses

Selling expenses as a percentage of revenue decreased to 42.3% in 2015, compared to 43.5% in 2014. Selling expenses as a percentage of revenue in 2015 were lower due to a reduction in the number of Sales Leaders qualifying for incentive trips and other promotional incentives based on 2015 results. In addition, 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, our selling expenses as a percentage of revenue were relatively high in the first quarter of 2014 because a portion of our sales compensation remained fixed while our revenue was negatively impacted by the voluntary measures we took in Mainland China during that quarter.

General and administrative expenses

General and administrative expenses decreased to $561.5 million in 2015, compared to $622.3 million in 2014. This decrease was due to the 2015 reclassification of overhead expenses from general and administrative expense into cost of sales as discussed under "Gross profit" above. General and administrative expenses also declined on a year-over-year basis due to a decline of $17.0 million in expenses related to promotions and advertising and a decline of $10.1 million in stock-based compensation expense.

Other income (expense), net

Other income (expense), net was $32.7 million of expense in 2015, compared to $53.7 million of expense in 2014. These expenses reflect non-cash foreign currency charges of $10.2 million in the first quarter of 2015 and $46.3 million in the first half 2014 resulting from the impact of the devaluation of the Venezuela currency on the monetary assets and liabilities of our Venezuela entity. We also incurred foreign currency translation expenses of $17.0 million in 2015. In 2014, we incurred a charge of $7.4 million related to the prepayment of debt, partially offset by approximately $7.0 million in tax incentives related to our China headquarters.

Provision for income taxes

Provision for income taxes decreased to $78.9 million in 2015 from $109.3 million in 2014. The effective tax rate increased to 37.2% in 2015 from 36.6% of pre-tax income in 2014. The year-over-year increase in the effective tax rate for 2015 was due largely to the lower than anticipated profits in China caused by the charge to inventory. Consequently, a deferred tax asset associated with China could not be recognized, thereby impacting the annual effective tax rate.

Net income

As a result of the foregoing factors, net income in 2015 decreased to $133.0 million, compared to $189.2 million in 2014.

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 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 and have generally relied on cash from operations to fund operating activities. We generated $275.3 million in cash from operations during 2016, compared to $322.1 million in cash from operations during 2015. This decrease in cash generated from operations during 2016 reflects the payment of a significant amount of items that were accrued as of the end of 2015, particularly commissions based on limited-time offers during December 2015.

As of December 31, 2016, cash and cash equivalents, including current investments, were $368.1 million compared to $303.7 million as of December 31, 2015. This increase in cash and cash equivalents primarily reflects our cash from operations, partially offset by dividend payments, long-term debt repayments and purchases of property and equipment. We also repurchased approximately $247 million of our common stock during 2016, primarily using the approximately $200 million in proceeds from our issuance of convertible debt. Working capital as of December 31, 2016 was $315.3 million compared to $298.8 million as of December 31, 2015. The increase in working capital was primarily due to our higher cash balance at the end of 2016 compared to 2015.

Capital expenditures in 2016 totaled $50.2 million, and we anticipate capital expenditures of approximately $60 million for 2017. We expect that the capital expenditures in 2017 will be primarily related to:

- the expansion and upgrade of facilities in our various markets; and
- purchases and expenditures for computer systems and equipment, software, and application development.

In June 2016, we issued $210.0 million principal amount of convertible 4.75% senior notes, due 2020 (the "Convertible Notes") to Ping An ZQ China Growth Opportunity Limited ("Ping An ZQ") at face value. Net proceeds on the issuance of the Convertible Notes were $203 million. We used the proceeds for repurchasing common stock throughout the remainder of 2016. The Convertible Notes are senior unsecured obligations of the Company and rank equal in right of payment to all senior unsecured indebtedness of the Company. Interest on the Convertible Notes is payable semiannually in cash on June 15 and December 15, and the Convertible Notes mature on June 15, 2020, subject to earlier conversion. Although the stated interest rate on the Convertible Notes is 4.75%, interest on this debt is expensed on our income statement at a rate of approximately 7.1%, reflecting the amortization of a debt discount resulting from approximately $6.3 million in issuance costs and approximately $10.9 million of the principal amount that is allocated to equity due to the conversion option. As of December 16, 2016, the Convertible Notes became convertible at the holder's discretion at a conversion rate of 21.5054 per $1,000 principal amount of Convertible Notes (which represents an initial conversion price of $46.50 per share), in each case subject to customary anti-dilution adjustments. As of January 31, 2017, the conversion price remained at $46.50 per share. Upon conversion, we intend to settle the Convertible Notes in cash with respect to the principal amount of Convertible Notes converted and any accrued and unpaid interest to such date, and in shares of our common stock with respect to any additional amounts.

Upon a change in control of the Company (as defined in the indenture governing the Convertible Notes) or the failure of our common stock to be listed on certain stock exchanges, the holders of the Convertible Notes may require that we repurchase all or part of the principal amount of the Convertible Notes at a purchase price equal to 108% of the principal amount plus accrued and unpaid interest. In addition, we may redeem all or part of the principal amount of the Convertible Notes, at our option, at a purchase price equal to the principal amount plus accrued and unpaid interest, provided that the closing trading price of our common stock exceeds 180% of the then-current conversion price for 20 or more trading days in the 30 consecutive trading day period preceding our exercise of this redemption right (including the last three such trading days). The Convertible Notes are subject to customary events of default, which may result in the acceleration of the maturity of the Convertible Notes.

Our Credit Agreement (the "Credit Agreement") with various financial institutions, and Bank of America, N.A. as administrative agent, provides for a $127.5 million term loan facility, a 6.6 billion Japanese yen term loan facility and a $187.5 million revolving credit facility, each with a term of five years ending in October 2019. The Credit Agreement requires that we maintain a consolidated leverage ratio not exceeding 2.25 to 1.00 and a consolidated interest coverage ratio of no less than 3.00 to 1.00. As of December 31, 2016, we had debt pursuant to the Credit Agreement of $203.8 million. See Note 9 to the consolidated financial statements contained in this report for further information regarding the Credit Agreement, Convertible Notes and other debt.

Our board of directors has approved a stock repurchase plan authorizing us to repurchase up to $500 million of our outstanding shares of Class A common stock on the open market or in private transactions. The repurchases are used primarily for strategic initiatives and to offset dilution from our equity incentive plans and from conversion of the Convertible Notes. During 2016, we repurchased approximately 4.5 million shares of Class A common stock under this plan for $247.2 million. At December 31, 2016, $199.7 million was available for repurchases under the stock repurchase plan.

Our board of directors declared and paid cash dividends on our Class A common stock of $0.355 per share during each quarter of 2016. These quarterly cash dividends totaled approximately $78.4 million. The board of directors has approved an increased quarterly cash dividend of $0.36 per share of Class A common stock to be paid on March 15, 2017, to stockholders of record on February 27, 2017. Annually, this would increase the dividend to $1.44 from $1.42 in 2016. 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 December 31, 2016 and 2015, we held $368.1 million and $303.7 million, respectively, in cash and cash equivalents, including current investments. These amounts include $283.5 million and $241.4 million as of December 31, 2016 and 2015, 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, subject to procedural or other requirements in certain countries as described below.

We typically fund the cash requirements of our operations in the U.S. through intercompany dividends and intercompany charges for products, use of intangible property, and corporate services. Some markets impose government-approval or other requirements for the repatriation of dividends. For example, in Mainland China, we are unable to repatriate cash from current operations in the form of dividends until we file the necessary statutory financial statements for the relevant period. As of December 31, 2016, we had $86.5 million in cash denominated in Chinese RMB. We also have intercompany loan arrangements with some of our markets, including Mainland China, that allow us to access available cash. 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. Except for partial indefinite reinvestment in 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 applicable U.S. tax rules and regulations. Accordingly, we have accrued the necessary U.S. taxes related to the funds that are not indefinitely reinvested.

We currently believe that existing cash balances, future cash flows from operations and existing lines of credit will be adequate to fund our cash needs on both a short- and long-term basis. The majority of our historical expenses have been variable in nature and as such, a potential reduction in the level of revenue would reduce our cash flow needs. In the event that our current cash balances, future cash flow from operations and current lines of credit are not sufficient to meet our obligations or strategic needs, we would consider raising additional funds in the debt or equity markets or restructuring our current debt obligations. Additionally, we would consider realigning our strategic plans, including a reduction in capital spending, stock repurchases or dividend payments.

Non-GAAP Financial Measures

Local-currency revenue growth is a non-GAAP financial measure that removes the impact of fluctuations in foreign-currency exchange rates, thereby facilitating period-to-period comparisons of the company's performance. It is calculated by translating the current period's revenue at the same average exchange rates in effect during the applicable prior-year period and then comparing this amount to the prior-year period's revenue.

Contractual Obligations and Contingencies

The following table sets forth payments due by period for fixed contractual obligations as of December 31, 2016 (U.S. dollars in thousands):

	Total	2017	2018-2019	2020-2021	Thereafter
Long-term debt obligations[1]	$435,178	$82,727	$142,451	$210,000	$ --
Interest payable	48,955	16,729	27,654	4,572	--
Operating lease obligations	120,217	36,180	51,311	17,599	15,127
Financing obligations	5,841	631	1,320	1,388	2,502
Purchase obligations	163,472	131,974	18,533	11,511	1,454
Other long-term liabilities reflected on the balance sheet[2]	76,799	9,211	5,894	5,183	56,511
Total	$850,462	$277,452	$247,163	$250,253	$ 75,594

(1) The carrying value of the debt reflects the amounts stated in the above table less a debt discount of $18.3 million.

(2) The timing of the commitments in Other long-term liabilities reflected on the balance sheet is uncertain and represents management's best estimate.

Contingent Liabilities

Please refer to Note 20 to the consolidated financial statements contained in this report for information regarding our contingent liabilities.

Seasonality and Cyclicality

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

Prior to making a product generally available for purchase in a market, we typically do a promotional offering of the product, such as a preview of the product to our key Sales Leaders in the market, a limited-time offer, or other type of promotion. Sales Leader previews, limited-time offers and other promotions may generate significant activity and a high level of purchasing, which can result in a higher-than-normal increase in revenue during the quarter and can skew year-over-year and sequential comparisons.

Customers and Sales Leaders

The following table provides information concerning the number of Customers and Sales Leaders as of the dates indicated. "Customers," previously referred to as "Actives," are persons who have purchased products directly from the Company during the three months ended as of the date indicated. "Sales Leaders" are independent distributors, and sales employees and independent marketers in China, who achieve certain qualification requirements.

	As of December 31, 2014		As of December 31, 2015		As of December 31, 2016	
	Customers	Sales Leaders	Customers	Sales Leaders	Customers	Sales Leaders
Greater China	393,000	24,537	223,000	27,064	248,000	26,625
North Asia	391,000	17,478	366,000	17,415	329,000	16,330
South Asia/Pacific	124,000	8,458	119,000	10,476	116,000	7,584
Americas	186,000	7,471	176,000	8,708	166,000	6,683
EMEA	114,000	4,065	110,000	3,912	129,000	4,405
Total	1,208,000	62,009	994,000	67,575	988,000	61,627

Quarterly Results

The following table sets forth selected unaudited quarterly data for the periods shown (U.S. dollars in millions, except per share amounts):

	2015				2016			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	$543.3	$560.2	$571.3	$572.2	$471.8	$600.5	$604.2	$531.3
Gross profit	438.3	449.9	418.6	450.8	334.0	472.3	478.3	422.8
Operating income	68.6	71.8	42.5	61.7	8.1	79.8	82.4	60.8
Net income	36.3	44.7	16.3	35.8	3.3	44.7	56.9	38.2
Net income per share:								
Basic	0.62	0.76	0.28	0.63	0.06	0.80	1.02	0.71
Diluted	0.60	0.75	0.28	0.62	0.06	0.79	0.98	0.69

Recent Accounting Pronouncements

A description of new accounting pronouncements is contained in Note 2 of the Notes to consolidated financial statements.

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, a significant portion of 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 with the exception of our Asia product-distribution subsidiary in Singapore and our Venezuela subsidiary. 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 outside of the United States, any

strengthening of the U.S. dollar negatively impacts reported revenue and profits, whereas a weakening of the U.S. dollar 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. During 2015 and 2016, the strengthening of the U.S. dollar against other currencies significantly impacted our financial results.

Foreign exchange risk is managed in certain jurisdictions through the use of foreign currency debt. Included in the cumulative translation adjustment are $1.4 million, zero and zero of pretax net gains for the years ended December 31, 2014, 2015 and 2016, 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 December 31, 2016, we held non-designated mark-to-market forward derivative contracts to hedge foreign denominated intercompany positions or third-party foreign debt with notional amounts of 11.5 billion South Korean won ($9.5 million), compared to 500.0 million Japanese yen, 9.0 million Canadian dollars and 5.8 billion South Korean won ($4.2 million, $6.5 million and $4.9 million, respectively) as of December 31, 2015. Gains and losses related to non-designated derivative contracts are recorded as part of Other Income (Expense). In addition, we held forward contracts designated as foreign currency cash flow hedges with notional amounts totaling approximately 1.4 billion Japanese yen ($12.0 million) as of December 31, 2016, compared to 1.9 billion Japanese yen and 15.0 million euros ($15.8 million and 16.3 million, respectively) as of December 31, 2015, to hedge forecasted foreign-currency-denominated intercompany transactions. Because of our foreign exchange contracts at December 31, 2016, the impact of a 10% appreciation or 10% depreciation of the U.S. dollar against the Japanese yen, the South Korean won or the euro 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.

Following are the weighted-average currency exchange rates of U.S. $1 into local currency for each of our international or foreign markets in which revenue exceeded U.S. $5.0 million for at least one of the quarters listed:

	2015				2016			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Argentina	8.7	9.0	9.2	10.0	14.7	14.2	15.0	15.5
Australia	1.3	1.3	1.4	1.4	1.4	1.3	1.3	1.3
Canada	1.2	1.2	1.3	1.3	1.4	1.3	1.3	1.3
Eurozone countries	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Hong Kong	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
Indonesia	12,826	13,144	14,066					