NU SKIN ENTERPRISES INC
Form 10-Q
April 27, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 24, 2018, 55,611,527 shares of the registrant's Class A common stock, $.001 par value per share, were outstanding.

NU SKIN ENTERPRISES, INC.

QUARTERLY REPORT ON FORM 10-Q – FIRST QUARTER 2018

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$421,484	$426,399
Current investments	8,615	11,847
Accounts receivable	54,014	33,196
Inventories, net	282,983	253,454
Prepaid expenses and other	66,705	52,893
	833,801	777,789
Property and equipment, net	508,476	464,587
Goodwill	187,423	114,954
Other intangible assets, net	100,601	67,647
Other assets	144,368	164,895
Total assets	$1,774,669	$1,589,872
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$62,253	$50,341
Accrued expenses	309,536	319,189
Current portion of long-term debt	362,659	77,840
	734,448	447,370
Long-term debt	107,275	310,790
Other liabilities	133,818	127,116
Total liabilities	975,541	885,276
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Class A common stock – 500 million shares authorized, $.001 par value, 90.6 million shares issued	91	91
Additional paid-in capital	523,233	466,349
Treasury stock, at cost – 34.9 million and 37.9 million shares	(1,280,586)	(1,304,694)
Accumulated other comprehensive loss	(55,474)	(66,318)
Retained earnings	1,611,864	1,609,168
	799,128	704,596
Total liabilities and stockholders' equity	$1,774,669	$1,589,872

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

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

	Three Months Ended March 31,	
	2018	2017
Revenue	$616,219	$499,099
Cost of sales	146,281	111,266
Gross profit	469,938	387,833
Operating expenses:		
Selling expenses	257,702	209,008
General and administrative expenses	153,246	132,563
Total operating expenses	410,948	341,571
Operating income	58,990	46,262
Other income (expense), net	1,207	(4,567)
Income before provision for income taxes	60,197	41,695
Provision for income taxes	24,658	14,206
Net income	$35,539	$27,489
Net income per share (Note 2):		
Basic	$0.66	$0.52
Diluted	$0.64	$0.51
Weighted-average common shares outstanding (000s):		
Basic	53,997	52,678
Diluted	55,959	54,057

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

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

	Three Months Ended March 31,	
	2018	2017
Net income	$35,539	$27,489
Other comprehensive income, net of tax:		
Foreign currency translation adjustment, net of taxes of $854 and $(222), respectively	11,047	9,695
Net unrealized gains (losses) on foreign currency cash flow hedges, net of taxes of $28 and $213, respectively	(247)	(387)
Reclassification adjustment for realized losses (gains) in current earnings, net of taxes of $(5) and $(24), respectively	44	43
	10,844	9,351
Comprehensive income	$46,383	$36,840

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

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

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net income	$35,539	$27,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,907	17,625
Equity method earnings	(456)	(104)
Gain on step acquisition	(13,644)	—
Loss on extinguishment of debt	7,220	—
Foreign currency losses	1,764	791
Stock-based compensation	6,761	3,929
Deferred taxes	10,062	4,522
Changes in operating assets and liabilities:		
Accounts receivable	(8,589)	3,269
Inventories, net	(6,624)	2,340
Prepaid expenses and other	(12,915)	(12,088)
Other assets	(974)	(2,023)
Accounts payable	2,179	(125)
Accrued expenses	(36,230)	(26,282)
Other liabilities	(4,113)	1,984
Net cash (used in) provided by operating activities	(1,113)	21,327
Cash flows from investing activities:		
Purchases of property and equipment	(12,652)	(15,928)
Proceeds on investment sales	7,781	4,188
Purchases of investments	(4,539)	(4,716)
Acquisitions (net of cash acquired)	(28,311)	—
Investment in equity investee	(4,750)	(12,600)
Net cash (used in) investing activities	(42,471)	(29,056)
Cash flows from financing activities:		
Exercise of employee stock options and taxes paid related to the net shares settlement of stock awards	299	164
Payments on long-term debt	(9,094)	(17,830)
Payment of cash dividends	(19,801)	(18,987)
Proceeds from debt	75,943	25,000
Repurchases of shares of common stock	(17,386)	(6,816)
Net cash provided by (used in) financing activities	29,961	(18,469)
Effect of exchange rate changes on cash	8,708	4,530

Net decrease in cash and cash equivalents	(4,915)	(21,668)
Cash and cash equivalents, beginning of period	426,399	357,246
Cash and cash equivalents, end of period	$421,484	$335,578

The accompanying notes are an integral part of these consolidated financial statements.
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NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

1. THE COMPANY

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited consolidated financial statements include the accounts of the Company and its Subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information as of March 31, 2018, and for the three-month periods ended March 31, 2018 and 2017. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. The consolidated balance sheet as of December 31, 2017 has been prepared using information from the audited financial statements at that date. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

2. NET INCOME PER SHARE

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented. For the three-month periods ended March 31, 2018 and 2017, stock options of 0.9 million and 0.8 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

3. DIVIDENDS PER SHARE

In February 2018, the Company's board of directors declared a quarterly cash dividend of $0.365 per share. This quarterly cash dividend of $19.8 million was paid on March 14, 2018 to stockholders of record on February 26, 2018. In April 2018, the Company's board of directors declared a quarterly cash dividend of $0.365 per share to be paid on June 13, 2018 to stockholders of record on May 25, 2018.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into non-designated foreign currency derivatives, primarily comprised of foreign currency forward contracts, for which hedge accounting does not apply. The changes in the fair market value of these non-designated derivatives are included in other income/expense in the Company's consolidated statements of income.

The Company uses non-designated foreign currency derivatives to hedge foreign-currency-denominated intercompany transactions and to partially mitigate the impact of foreign-currency fluctuations. The fair value of the non-designated foreign currency derivatives is based on third-party quotes.

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

The following table summarizes gains (losses) related to derivative instruments not designated as hedging instruments during the three-month periods ended March 31, 2018 and 2017 (U.S. dollars in thousands):

Derivatives not designated as hedging instruments:	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income Three Months Ended March 31, 2018	2017
Foreign currency contracts	Other income (expense)	$ —	$ (485)

The Company designates as cash-flow hedges those foreign currency forward contracts it enters to hedge forecasted intercompany transactions that are subject to foreign currency exposures. Changes in the fair value of these forward contracts designated as cash-flow hedges are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity (deficit), and are recognized in the consolidated statement of income during the period which approximates the time the hedged transaction is settled.

As of March 31, 2018, the Company held forward contracts designated as foreign currency cash flow hedges with notional amounts totaling 0.3 billion Japanese yen ($2.8 million), compared to 2.3 billion Japanese yen ($20.6 million) as of March 31, 2017, to hedge forecasted foreign-currency-denominated intercompany transactions. The fair value of these hedges were $(0.1) million and $0.3 million as of March 31, 2018 and 2017, respectively. The contracts held at March 31, 2018 have maturities through June 2018, and accordingly, all unrealized gains and losses on foreign currency cash flow hedges included in accumulated other comprehensive loss will be recognized in current earnings over the next 3 months.

The following table summarizes gains (losses) related to derivative instruments recorded in other comprehensive income (loss) during the three-month periods ended March 31, 2018 and 2017 (U.S. dollars in thousands):

Derivatives designated as hedging instruments:	Amount of Gain (Loss) Recognized in Other Comprehensive Loss Three Months Ended March 31, 2018	2017
Foreign currency forward contracts related to intercompany license fee, product sales, and selling expense hedges	$ (247)	$ (387)

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

The following table summarizes gains (losses) relating to derivative instruments reclassified from accumulated other comprehensive loss into income during the three-month periods ended March 31, 2018 and 2017 (U.S. dollars in thousands):

Derivatives designated as hedging instruments:	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income Three Months Ended March 31, 2018	2017
Foreign currency forward contracts related to intercompany license fees and product sales hedges	Revenue	$ (49)	$ (25)
Foreign currency forward contracts related to intercompany selling expense hedges	Selling expenses	$ —	$ (41)

As of March 31, 2018 and December 31, 2017, there were $(0.1) million and $0.2 million, respectively, of unrealized gains/(losses) included in accumulated other comprehensive loss related to foreign currency cash flow hedges. The remaining $55.4 million and $66.4 million as of March 31, 2018 and December 31, 2017, respectively, in accumulated other comprehensive loss are related to cumulative translation adjustments. The Company assesses hedge effectiveness at least quarterly. During the three months ended March 31, 2018 and 2017, all hedges were determined to be effective.

The Company reports its derivatives at fair value as either other current assets or accrued expenses within its consolidated balance sheet. See Note 12 - Fair Value.

5. REPURCHASES OF COMMON STOCK

During the three-month periods ended March 31, 2018 and 2017, the Company repurchased 0.2 million and 0.1 million shares of its Class A common stock under its open market stock repurchase plan for $17.4 million and $6.8 million, respectively. As of March 31, 2018, $110.6 million was available for repurchases under the Company's open market stock repurchase plan.

6. SEGMENT INFORMATION

The Company's operating segments are based on geographic regions that generate revenue and hold its long-lived assets. The Company sells and distributes its products through a global network of customers and sales leaders in approximately 50 markets. The Company has divided these markets into seven operating segments, which are the

Company's reportable segments: Mainland China, Hong Kong/Taiwan, South Korea, Japan, Southeast Asia, Americas/Pacific and EMEA. The reportable segments generate revenue from the sale of personal care products and nutritional supplements under the Nu Skin and Pharmanex brands, have similar business characteristics and align with how the CODM function began assessing performance and allocating resources in the first quarter of 2017. The Other category includes the manufacturing and product-packaging companies that the Company acquired during the first quarter of 2018, as well as the Company's indoor growing technology initiative.

Segment information for Q1 2017 has been recast to reflect the move of the Pacific components from the "South Asia/Pacific" operating segment to the "Americas/Pacific" operating segment. Consolidated financial information is not affected.

Profitability by segment as reported under US GAAP is driven primarily by the Company's transfer pricing policies. Segment contribution, which is the Company's segment profitability metric presented in the table below, excludes certain intercompany charges, specifically royalties, license fees, transfer pricing, discrete charges and other miscellaneous items. These charges have been included in Corporate and other expenses. Corporate and other expenses also include costs related to the Company's executive and administrative offices, information technology, research and development, marketing and supply chain functions not recorded at the segment level.

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

The accounting policies of the segments are the same as those described in Note 1 – The Company. The Company evaluates the performance of its segments based on revenue and segment contribution. Each segment records direct expenses related to its employees and its operations.

Summarized financial information for the Company's reportable segments is shown in the following tables. Asset information is not reviewed or included with the Company's internal management reporting. Therefore, the Company has not disclosed asset information for each reportable segment.

Revenue by Segment

	Three Months Ended March 31,	
(U.S. dollars in thousands)	2018	2017
Mainland China	$197,531	$150,004
Americas/Pacific	92,289	71,425
South Korea	88,930	82,471
Southeast Asia	70,860	63,025
Japan	63,224	61,156
EMEA	44,981	34,064
Hong Kong/Taiwan	40,992	35,948
Other	17,412	1,006
Total	$616,219	$499,099

Segment Contribution

	Three Months Ended March 31,	
(U.S. dollars in thousands)	2018	2017
Mainland China	$44,817	$35,427
Americas/Pacific	9,172	11,059
South Korea	26,201	24,512
Southeast Asia	16,402	13,017
Japan	13,238	12,426
EMEA	4,754	1,791
Hong Kong/Taiwan	7,846	5,083
Total segment contribution	122,430	103,315
Corporate and other	(63,440)	(57,053)
Operating income	58,990	46,262
Other income (expense)	1,207	(4,567)
Income before provision for income taxes	$60,197	$41,695

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

Depreciation and Amortization

(U.S. dollars in thousands)	Three Months Ended March 31, 2018	2017
Mainland China	$3,487	$3,971
Americas/Pacific	214	566
South Korea	1,667	1,632
Southeast Asia	559	527
Japan	915	880
EMEA	176	272
Hong Kong/Taiwan	323	302
Other	11,566	9,475
Total	$18,907	$17,625

Capital Expenditures

(U.S. dollars in thousands)	Three Months Ended March 31, 2018	2017
Mainland China	$1,869	$903
Americas/Pacific	189	234
South Korea	—	448
Southeast Asia	51	200
Japan	311	76
EMEA	35	193
Hong Kong/Taiwan	482	606
Other	9,715	13,268
Total	$12,652	$15,928

Revenue by Major Market

A major market is defined as one with total revenue greater than 10% of consolidated total revenue. Based on this criteria, the Company has identified three major markets: Mainland China, South Korea and Japan. There are approximately 50 other markets, each of which individually is less than 10%. No single customer accounted for 10% or more of net sales for the periods presented. Sales are recorded in the jurisdiction in which the transactions occurred.

Revenue by Product Line

(U.S. dollars in thousands)	Three Months Ended March 31, 2018	2017

Nu Skin	$386,450	$301,873
Pharmanex	212,899	196,103
Other	16,870	1,123
Total	$616,219	$499,099

NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

Long-Lived Assets by Major Market

A major market is defined as a market with long-lived assets greater than 10% of consolidated long-lived assets and also includes the Company's country of domicile (the U.S.). Long-lived assets in Mainland China consist primarily of property, plant and equipment related to manufacturing, distribution facilities and the Mainland China headquarters. Long-lived assets in the U.S. consist primarily of property, plant and equipment, including the Company's corporate offices and distribution facilities. Long-lived assets by major markets are set forth below for the periods ended March 31, 2018 and December 31, 2017 (U.S. dollars in thousands):

	March 31, 2018	December 31, 2017
United States	$348,173	$302,884
Mainland China	96,914	97,046
South Korea	40,804	42,211
Japan	9,305	9,342
All others	13,280	13,104
Total	$508,476	$464,587

7. GOODWILL

The Company's reporting units for goodwill are its operating segments, which are also its reportable segments. The following table presents goodwill allocated to the Company's reportable segments for the periods ended March 31, 2018 and December 31, 2017 (U.S. dollars in thousands):

	March 31, 2018	December 31, 2017
Mainland China	$32,179	$32,179
Americas/Pacific	9,449	9,449
South Korea	29,261	29,261
Southeast Asia	18,537	18,537
Japan	16,019	16,019
EMEA	2,875	2,875
Hong Kong/Taiwan	6,634	6,634
Other	72,469	—
Total	$187,423	$114,954

8. INVENTORY

Inventories consist of the following (U.S. dollars in thousands):

	March 31, 2018	December 31, 2017

Raw materials	$98,199	$87,683
Finished goods	184,784	165,771
	$282,983	$253,454

9. INCOME TAXES

Provision for income taxes for the first quarter of 2018 was $24.7 million, compared to $14.2 million for the prior-year period. The effective tax rate was 41.0% of pre-tax income during the first quarter of 2018 compared to 34.1% in the prior-year period. The increase in the effective tax rate reflects a $5.8 million change from increasing our income tax reserves following an assessment we received from the Indonesia tax authorities during the first quarter of 2018. This increase was partially offset by a $2.0 million benefit from a deduction in Japan related to Japan customs assessments that were affirmed by the Tokyo District Court in 2011; in the first quarter of 2018, the Japan and U.S. tax authorities reached resolution as to the amount that would be deductible in each jurisdiction.

The Company accounts for income taxes in accordance with the Income Taxes Topic of the Financial Accounting Standards Codification. These standards establish financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. The Company takes an asset and liability approach for financial accounting and reporting of income taxes. The Company pays income taxes in many foreign jurisdictions based on the profits realized in those jurisdictions, which can be significantly impacted by terms of intercompany transactions between the Company and its foreign affiliates. Deferred tax assets and liabilities are created in this process. The Company has netted these deferred tax assets and deferred tax liabilities by jurisdiction. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized. As of March 31, 2018, and December 31, 2017, the Company had net deferred tax liabilities of $5.4 million and $2.9 million, respectively.

In accordance with ASU 2018-05 and SAB 118, the Company recognized the provisional tax impacts related to the re-measurement of our deferred income tax assets and liabilities and the one-time, mandatory transition tax on deemed repatriation during the year ended December 31, 2017. As of March 31, 2018, we have not made any additional measurement-period adjustments related to these items. Such adjustments may be necessary in future periods due to, among other things, the significant complexity of the Act and anticipated additional regulatory guidance that may be issued by the Internal Revenue Service ("IRS"), changes in analysis, interpretations and assumptions the Company has made and actions the Company may take as a result of the Act. We are continuing to gather information to assess the application of the Act and expect to complete our analysis with the filing of our 2017 income tax returns during the third quarter of 2018.

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, the Company is no longer subject to state and local income tax examination by tax authorities for the years before 2011. In 2009, the Company entered into a voluntary program with the IRS called Compliance Assurance Process ("CAP"). The objective of CAP is to contemporaneously work with the IRS to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. The Company has elected to participate in the CAP program for 2018 and may elect to continue participating in CAP for future tax years; the Company may withdraw from the program at any time. In major foreign jurisdictions, the Company is generally no longer subject to income tax examinations for years before 2011. However, statutes in certain countries may be as long as ten years for transfer pricing related issues. Along with the IRS examination of 2011, the Company is currently under examination in certain foreign jurisdictions; however, the outcomes of those reviews are not yet determinable.

10. COMMITMENTS AND CONTINGENCIES

The Company is subject to government regulations pertaining to product formulation, labeling and packaging, product claims and advertising, and the Company's direct selling system. The Company is also subject to the jurisdiction of numerous foreign tax and customs authorities. Any assertions or determination that either the Company or the Company's sales force is not in compliance with existing statutes, laws, rules or regulations could have a material adverse effect on the Company's operations. In addition, in any country or jurisdiction, the adoption of new statutes, laws, rules or regulations or changes in the interpretation of existing statutes, laws, rules or regulations could have a material adverse effect on the Company and its operations. No assurance can be given that the Company's compliance with applicable statutes, laws, rules and regulations will not be challenged by foreign authorities or that such challenges will not have a material adverse effect on the Company's financial position, results of operations or cash flows. The Company and its Subsidiaries are defendants in litigation, investigations and other proceedings involving various matters. In the opinion of the Company's management, based upon advice of its counsel handling such litigation, investigations and other proceedings, adverse outcomes, if any, are not currently expected to result in a material effect on the Company's consolidated financial condition, results of operations or cash flows.

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

11. DEBT

Credit Agreement

On October 9, 2014, the Company entered into a Credit Agreement (the "Credit Agreement") with various financial institutions, and Bank of America, N.A. as administrative agent. The Credit Agreement 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. On October 10, 2014, the Company drew the full amount of the term loan facilities, and as of March 31, 2018 and December 31, 2017, the Company had an outstanding balance of $122.5 million and $47.5 million, respectively, on the revolving credit facility. The Credit Agreement requires that the Company 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. See Note 17 – Subsequent Events for discussion on the repayment of debt outstanding under the Credit Agreement on April 18, 2018.

Convertible Note

On June 16, 2016, the Company issued $210.0 million of convertible senior notes (the "Convertible Notes") in a private offering to a Chinese investor (the "Holder"). The Convertible Notes are senior unsecured obligations which will rank equal in right of payment to all senior unsecured indebtedness of the Company and will rank senior in right of payment to any indebtedness that is contractually subordinated to the Convertible Notes. Interest on the Convertible Notes is payable semiannually in arrears on June 15 and December 15 of each year at a rate of 4.75% per annum.

The Convertible Notes were scheduled to mature on June 15, 2020, unless repurchased or converted prior to maturity. Prior to the stated maturity date, the Company may, at its option, redeem all or part of the Convertible Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, provided that its common stock share price is equal to or exceeds 180% of the applicable conversion price for 20 or more trading days (including the final three trading days) in the 30 consecutive trading days prior to the Company's exercise of such redemption right. The Holder of the Convertible Notes may, at its option, cause the Company to repurchase all of such Holder's Convertible Notes or any portion thereof that is equal to $1,000 in principal amount or multiples of $1,000 upon a change in control or a termination of trading of the Company's common stock, as those terms are defined in the indenture governing the Convertible Notes. In addition, each holder of the Convertible Notes shall have the right, at such holder's option, to convert all or any portion thereof that is equal to $1,000 in principal amount or multiples of $1,000 at any time beginning six calendar months following June 16, 2016, at the then-applicable conversion rate. Upon conversion by the Holder, the Convertible Notes will be settled in cash with respect to principal and any accrued and unpaid interest to such date and in the Company's common shares with respect to any additional amounts, based on the applicable conversion rate at such time. The Convertible Notes had an initial conversion rate of 21.5054 common shares per $1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of approximately $46.50 per common share). Throughout the term of the Convertible Notes, the conversion rate may be adjusted upon the occurrence of certain specified events.

Of the $210.0 million in proceeds received from the issuance of the Convertible Notes, $199.1 million was originally allocated to long-term debt (the "Liability Component") and $10.9 million was allocated to additional paid-in capital (the "Equity Component") within the Company's consolidated balance sheet. The Liability Component was calculated by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The amount allocated to the Equity Component, which represents the conversion option, was calculated by deducting the fair value of the Liability Component from the par value of the Convertible Notes. The Company determined that the conversion option does not require separate accounting treatment as a derivative instrument because it is both indexed to the Company's own stock and would be classified in stockholders' equity if freestanding. The Equity Component will not be remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the Liability Component over its carrying amount (the "Debt Discount") will be amortized to interest expense over the term of the Convertible Notes. As a result, the Liability Component will be accreted up to the Convertible Notes' $210.0 million face value, resulting in additional non-cash interest expense being recognized within the Company's consolidated statement of income. The effective interest rate on the Convertible Notes is approximately 7.1% per annum.

The Company incurred approximately $6.6 million of issuance costs related to the issuance of the Convertible Notes. Of the $6.6 million in issuance costs incurred, $6.3 million and $0.3 million were recorded to deferred financing cost and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the Convertible Notes. The $6.3 million recorded to deferred financing cost on the Company's consolidated balance sheet as a reduction of long-term debt is being amortized over the contractual term of the Convertible Notes using the effective interest method.

During the three months ended March 31, 2018, the Company recognized $3.0 million in interest expense related to the Convertible Notes, which included $2.5 million of contractual interest and $0.5 million in amortization of debt issuance costs and in amortization of the Debt Discount prior to the conversion of the Notes.

During the first quarter of 2018, the Holder elected to convert the Convertible Notes pursuant to their terms of the indenture. The Company satisfied the equity portion of its conversion obligation on February 28, 2018 by issuing 1,535,652 shares of the Company's Class A common stock to the Holder and, on April 18, 2018, satisfied its obligations under the Convertible Notes by paying $213.4 million which included $3.4 million of accrued interest from December 15, 2017 through April 17, 2018. The early conversion of the Convertible Notes resulted in a $7.2 million charge to other income (expense) for a loss on extinguishment of debt. The net carrying amount of the Liability Component was moved to short-term debt within the Company's consolidated balance sheet during the quarter ended March 31, 2018.

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The following table summarizes the Company's debt facilities as of March 31, 2018 and December 31, 2017:

Facility or Arrangement	Original Principal Amount	Balance as of March 31, 2018[1][2]	Balance as of December 31, 2017	Interest Rate	Repayment terms
Credit Agreement term loan facility:					
U.S. dollar denominated:	$127.5 million	$90.8 million	$94.8 million	Variable 30 day: 4.627%	Principal amount was paid in full during April 2018.
Japanese yen denominated:	6.6 billion yen	4.7 billion yen ($44.2 million as of March 31, 2018)	4.9 billion yen ($43.5 million as of December 31, 2017)	Variable 30 day: 2.7595%	Principal amount was paid in full during April 2018.
Credit Agreement revolving credit facility:		$122.5 million	$47.5 million	Variable 30 day: 4.594%	Principal amount was paid in full during April 2018.
Japan subsidiary loan:	2.1 billion yen	0.4 billion yen ($4.1 million as of March 31, 2018)	0.7 billion yen ($5.9 million as of December 31, 2017)	0.66%	Payable in semi-annual installments over three years that began on January 31, 2016.
Convertible note	$210.0 million	$210.0 million	$210.0 million	4.75%	Principal amount was paid in full during April 2018.

(1) As of March 31, 2018, the current portion of the Company's debt (i.e. becoming due in the next 12 months) included $17.5 million of the balance of its U.S. dollar denominated debt under the Credit Agreement facility, $8.5 million of the balance of its Japanese yen-denominated debt under the Credit Agreement facility, $4.1 million of the Japan subsidiary loan and the $210.0 million convertible note. The Company classified the $122.5 million borrowed under the revolving line of credit as short term because it was the Company's intention to use the line of credit to borrow and pay back funds over short periods of time.

(2) The carrying value of the debt reflects the amounts stated in the above table less debt issuance costs of $1.7 million related to the Credit Agreement, which is not reflected in this table.

12. FAIR VALUE

The carrying value of financial instruments including cash and cash equivalents, accounts receivable and accounts payable approximate fair values due to the short-term nature of these instruments. The Company's current investments as of March 31, 2017 include certificates of deposits and pre-refunded municipal bonds that are classified by management as held-to-maturity as the Company had the positive intent and ability to hold to maturity. The carrying value of these current investments approximate fair values due to the short-term nature of these instruments. The Company has classified these instruments as Level 2 in the fair value hierarchy. Fair value estimates are made at a specific point in time, based on relevant market information.

The FASB Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. On a quarterly basis, the Company measures at fair value certain financial assets, including cash equivalents. Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;

Level 3 – unobservable inputs based on the Company's own assumptions.

Accounting standards permit companies, at their option, to measure certain financial instruments and other eligible items at fair value. The Company has elected not to apply the fair value option to existing eligible items beyond what is required by US GAAP.

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (U.S. dollars in thousands):

	Fair Value at March 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets (liabilities):				
Cash equivalents and current investments	$34,519	$—	$—	$34,519
Other long-term assets	3,746	—	—	3,746
Forward contracts	—	(68)	—	(68)
Life insurance contracts	—	—	38,929	38,929
Total	$38,265	$(68)	$38,929	$77,126

	Fair Value at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets (liabilities):				
Cash equivalents and current investments	$36,531	$—	$—	$36,531
Other long-term assets	3,726	—	—	3,726
Forward contracts	—	158	—	158
Life insurance contracts	—	—	37,737	37,737
Total	$40,257	$158	$37,737	$78,152

The following table provides a summary of changes in fair value of the Company's Level 3 marketable securities (U.S. dollars in thousands):

Life Insurance Contracts	
Beginning balance at January 1, 2018	$37,737
Actual return on plan assets:	
Relating to assets still held at the reporting date	1 260
Purchases and issuances	—
Sales and settlements	(68)
Transfers into Level 3	—
Ending balance at March 31, 2018	$38,929

13. ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the new standard effective January 1, 2018 using the modified retrospective transition method. As a result of adopting this new accounting guidance, the Company has changed the method of accounting for its loyalty points program from a cost provision method to a deferred revenue method. The cumulative impact of adoption was a $11.2 million net reduction to beginning retained earnings. See Note 17 – Revenue Recognition.

In February 2016, the FASB issued ASU 2016-02, Leases (Subtopic 842). ASU 2016-02 will require companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The objective of this update was to simplify several aspects of the accounting for employee share-based payment transactions, including accounting for income taxes related to share-based compensation, the related classification in the statement of cash-flows, and accounting for share award forfeitures. This ASU was effective for the Company beginning on January 1, 2017. Prior to January 1, 2017, excess tax benefits were recognized in equity. As permitted, the Company elected to classify excess tax benefits as an operating activity in the Statement of Cash Flows instead of as a financing activity on a prospective basis and did not retroactively adjust prior periods. As also permitted by the new guidance, beginning January 1, 2017 the Company has elected to account for share award forfeitures as they occur. Previously, share-based compensation expense was recorded net of estimated forfeitures. A cumulative adjustment of $2.8 million was recorded to retained earnings and additional paid-in capital as of January 1, 2017. Prior periods were not retroactively adjusted.

In the second half of 2016, the FASB issued ASU Nos. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, and 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The objective of these updates is to reduce the diversity in practice in the classification of certain cash receipts and cash payments, and the presentation of restricted cash within an entity's statement of cash flows, respectively. These

ASUs are effective for interim and annual fiscal periods beginning after December 15, 2017. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This guidance revises the definition of a business as it relates to acquisitions, disposals, goodwill impairments and consolidations. This ASU is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This guidance simplifies the required test of goodwill for impairment by eliminating Step 2 from the goodwill impairment test. If a company determines in Step 1 of the goodwill impairment test that the carrying value of a reporting unit is less than the fair value, an impairment in that amount should be recorded to the income statement, rather than proceeding to Step 2. This ASU is effective for interim and annual impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In December 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The new standard makes more financial and non-financial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. For public companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This guidance provides an option to reclassify from accumulated other comprehensive income to retained earnings the stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. This ASU is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

14. COST OF SALES

The Tokyo District Court and, on appeal in 2017, the Tokyo High Court have upheld the Japan customs authorities' customs assessments related to the importation of several of the Company's products into Japan. We have appealed the High Court's decision to the Japan Supreme Court.

As previously disclosed, the Company already recorded a charge of $31.4 million to cost of sales in the first quarter of 2016, when the District Court issued its decision. This charge represents the full amount being disputed. It was a non-cash item because the Company was previously required to pay the assessments.

15. ACQUISITIONS

On January 22, 2018, the Company acquired the remaining 73% ownership in Innuvate Health Sciences, LLC ("Innuvate"), which owns a 92% interest in a nutritional product manufacturer. Prior to this acquisition, the Company owned 27% of Innuvate and accounted for it using the equity method. The remaining 8% ownership in the manufacturer will continue to be held by an unrelated third party. Under the terms of the agreement, the Company paid $23.5 million in cash and shares of the Company in exchange for the 73% ownership in Innuvate, subject to adjustment for certain closing items. Innuvate is a contract manufacturer that specializes in softgel and hardshell capsule manufacturing.

On February 12, 2018, the Company acquired the remaining 65% ownership in Treviso, LLC ("Treviso"), making Treviso a wholly owned subsidiary of the Company. Treviso is a personal care product manufacturer. Prior to this acquisition, the Company owned 35% of Treviso and accounted for it using the equity method. Under the terms of the purchase agreement, the Company has paid $83.9 million in cash and shares of the Company in exchange for the 65% ownership in Treviso, subject to adjustment for certain closing items. Treviso is a liquid contract manufacturing laboratory for premium personal care products.

On February 12, 2018, the Company acquired 100% ownership in L&W Holdings, Inc. ("L&W") making L&W a wholly owned subsidiary of the Company. L&W is a packaging supplier company. Under the terms of the purchase agreement, the Company paid $25.0 million in shares of the Company in exchange for 100% ownership in L&W, subject to adjustment for certain closing items. L&W specializes in the distribution and packaging of products in the cosmetic and nutritional industries.

The following table summarizes the fair value of consideration transferred for the acquisitions disclosed above (U.S. dollars in thousands):

	Innuvate	Treviso	L&W Holdings	Total
Total cash consideration	$17,587	$14,648	$—	$32,235
Shares issued in conjunction with acquisition	5,863	69,252	25,000	100,115
Total consideration	23,450	83,900	25,000	132,350
Previously held equity interest in equity method Investments(1)	8,748	30,281	—	39,029
Total	$32,198	$114,181	$25,000	$171,379

(1) The acquisitions of Innuvate and Treviso are considered step acquisitions, and accordingly, the Company remeasured its pre-existing 27% equity interest in Innuvate and 35% of Treviso immediately prior to completion of the acquisition to its estimated fair value of approximately $39.0 million. As a result of the remeasurement, the Company recorded a gain of approximately $13.6 million within other income (expense), during the first quarter of 2018, representing the excess of the approximate $39.0 million estimated fair value of its pre-existing 27% equity interest in Innuvate and 35% equity interest of Treviso over its transaction date carrying value of approximately $25.4 million.

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The following table summarizes the fair value of the assets acquired for the acquisitions disclosed above (U.S. dollars in thousands):

	Innuvate		Treviso		L&W Holdings	
	Life	Amount	Life	Amount	Life	Amount
Total current assets		$6,219		$19,659		$7,353
Fixed assets		9,291		33,282		114
Customer list	9 years	5,100	9 years	16,500	7 years	6,500
Order backlog	5 months	200	10 months	4,700	4 months	900
Trademarks	7 years	900	6 years	1,300	5 years	600
Total current liabilities		(3,942)		(3,740)		(1,495)
Other non-current liabilities		—		—		(1,731)
Total identifiable net assets acquired		17,768		71,701		12,241
Goodwill		17,230		42,480		12,759
Fair value of noncontrolling interest		(2,800)		—		—
Total consideration and value to be allocated to net assets		$32,198		$114,181		$25,000

The fair values assigned to identifiable intangible assets acquired were determined primarily by using an income approach which was based on assumptions and estimates made by management. Significant assumptions utilized in the income approach were based on company-specific information and projections which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The excess of the purchase price over the fair value of the identified assets and liabilities has been recorded as goodwill.

Pro forma and historical results of operations for the acquired companies have not been presented because they are not material, either individually or in the aggregate, to the company's consolidated financial statements.

16. REVENUE RECOGNITION
Adoption of ASC Topic 606, "Revenue from Contracts with Customers"
On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

The Company recorded a net reduction to opening retained earnings of $11.2 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to our loyalty point program deferrals. The impact to revenues as a result of applying Topic 606 was a decrease of $0.6 million for the three months ended March 31, 2018.

Revenue Recognition

Net sales include products and shipping and handling charges, net of estimates for product returns and any related sales incentives. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. The Company recognizes revenue by transferring the promised products to the customer, with revenue recognized at shipping point, the point in time the customer obtains control of the products. The Company recognizes revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. The Company estimates product returns based on historical return rates. The majority of the Company's contracts have a single performance obligation and are short term in nature. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales.

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Contract Liabilities – Customer Loyalty Programs
Contract liabilities, recorded as deferred revenue within the accrued expenses line in the consolidated balance sheets, include loyalty point program deferrals with certain customers which are accounted for as a reduction in the transaction price and are generally recognized as points are redeemed for additional products on an annual basis. Significant changes in these contract liability balances were as follows for the three-month period ended March 31, 2018 (U.S. dollars in thousands):

	March 31, 2018
Outstanding at beginning of period	$13,043 [1]
Increase (decrease) attributed to:	
Customer loyalty deferrals	2,090
Customer loyalty redemptions/expirations	(1,497)
Outstanding at end of period	$13,636

(1) The company recorded customer loyalty points under the cost provision method prior to the adoption of Topic 606. The loyalty point liability under the cost provision methodology was $1.9 million as of December 31, 2017. The Company recorded an additional liability of $11.2 million to the cumulative impact of adopting Topic 606.

Disaggregation of Revenue

Please refer to Note 6 - Segment Information for revenue by segment and product line.

Arrangements with Multiple Performance Obligations

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenues to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged to customers for individual products sales to customers.

Practical Expedients and Exemptions

The Company generally expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within selling expenses.

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

17. SUBSEQUENT EVENTS

New Credit Agreement

On April 18, 2018, the Company entered into a Credit Agreement with several financial institutions as lenders and Bank of America, N.A., as administrative agent. The Credit Agreement provides for a $400 million term loan facility and a $350 million revolving credit facility, each with a term of five years. Concurrently with the closing of the Credit Agreement, the Company drew the full amount of the term loan facility and $78.5 million of the revolving facility, each of which initially bear interest at the London Interbank Offered Rate ("LIBOR"), plus 2.25%. The interest rate applicable to the facilities is subject to adjustment based on the Company's consolidated leverage ratio. The term loan facility will amortize in quarterly installments in amounts resulting in an annual amortization of 5.0% during the first and second years, 7.5% during the third and fourth years and 10.0% during the fifth year after the closing date of the Credit Agreement, with the remainder payable at final maturity. The Credit Agreement requires the Company to 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.

On April 18, 2018, the Company repaid debt that was outstanding under its existing credit agreement, dated as of October 9, 2014, with the several financial institutions party thereto as lenders and Bank of America, N.A., as administrative agent and its 4.75% convertible senior notes due 2020.

Repayment of 4.75% Convertible Senior Notes due 2020; Payment of Extension Fee

As set forth in Note 11 - Debt, the Company previously issued $210.0 million principal amount of Convertible Notes 4.75% Convertible Senior Notes due 2020 to Ping An ZQ. As previously disclosed, Ping An ZQ elected to convert the Convertible Notes in accordance with the terms of the indenture, dated as of June 16, 2016, by and between the Company and the Bank of New York Mellon Trust Company, N.A., as trustee, that governs the Convertible Notes. As set forth in Note 11 - Debt, in connection with the conversion of the Convertible Notes, the Company satisfied the equity portion of its conversion obligation on February 28, 2018 by issuing 1,535,652 shares of the Company's Class A Common Stock to Ping An ZQ. On April 18, 2018, the Company satisfied the cash portion of its conversion obligation by paying Ping An ZQ $213.4 million (representing payment of (i) the full $210.0 million principal amount of the Convertible Notes, (ii) $3.4 million of accrued interest from December 15, 2017 through April 17, 2018. Upon completion of the Cash Payment, the Company's obligations under the Convertible Notes and the Indenture were satisfied and discharged.

On April 18, 2018, the Company paid Ping An ZQ an extension fee in the amount of $105,000 (representing 0.05% of the principal amount of Convertible Notes outstanding as of 5:00 p.m. on April 2, 2018), satisfying in full the Company's obligations to Ping An ZQ under the previously disclosed side letter agreement entered into between the Company and Ping An ZQ.

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

This quarterly report on Form 10-Q (this "Quarterly Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that represent 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, product introductions and offerings, sales compensation plan enhancements, 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, audits or investigations; 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," "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 the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2017 and in our subsequent reports.

The following Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and related notes and Management's Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2017, and our other reports filed with the Securities and Exchange Commission through the date of this report on Form 10-Q.

Overview

Revenue for the quarter ended March 31, 2018 increased 24% to $616.2 million, compared to $499.1 million in the prior-year period, with foreign currency fluctuations positively impacting revenue approximately 7%. This revenue growth was driven by an 11% year-over-year increase in Customers and a 16% increase in Sales Leaders, reflecting the early results of our growth strategy that is focused on platforms, products and programs. In particular, during the quarter, we believe much of our growth was attributable to successful social selling initiatives and continued interest in our ageLOC LumiSpa skin treatment and cleansing device, which we introduced in the fourth quarter of 2017 and began making generally available for purchase in many of our markets during the first quarter of 2018. At the date of this report, LumiSpa is now generally available for purchase in all of our markets. In addition, $16.0 million of our revenue for the first quarter of 2018 was generated by businesses that we acquired during the quarter; this accounted for 3 percentage points of our 24% year-over-year revenue growth.

Earnings per share for the first quarter of 2018 were $0.64, compared to $0.51 in the prior-year period. The increase in earnings per share primarily reflects the increased revenue in 2018 and the impact of certain items that occurred during the first quarter of 2018: a $13.6 million gain from two step acquisitions completed during the quarter, a $7.2 million charge associated with the conversion of our convertible notes and a $5.8 million charge related to our income taxes in Indonesia. For more information about these items, see "Other income (expense), net" and "Provision for income taxes," below.

As previously disclosed, in the fourth quarter of 2017, we began to implement enhancements of our global sales compensation plan. We launched this program, which we refer to as "Velocity," in our Pacific region during the fourth quarter of 2017, and we are launching it in Taiwan and North America during the second quarter of 2018.

Segment Results

We report our business in seven segments to reflect our current management approach. As of the first quarter of 2018, we have reorganized the structure of our segments to reflect that our Pacific markets, which were previously managed by our Southeast Asia regional management and were included in our South Asia/Pacific operating segment, are now managed by our Americas regional management and are included in our Americas/Pacific operating segment. Segment information for the first quarter of 2017 has been recast to reflect this change. Consolidated financial information was not affected.

The following table sets forth revenue for the three-month periods ended March 31, 2018 and 2017 for each of our reportable segments (U.S. dollars in thousands):

	Three Months Ended March 31,			
	2018	2017	Change	Constant Currency Change[(1)]
Mainland China	$197,531	$150,004	32%	22%
Americas/Pacific	92,289	71,425	29%	32%
South Korea	88,930	82,471	8%	1%
Southeast Asia	70,860	63,025	12%	7%
Japan	63,224	61,156	3%	