

## **Nu Skin's "2004 Distributor Compensation Summary"**

(included in "public comments" on Business Opportunity Disclosure rule – submitted July 13, 2006)

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### **NU SKIN ENTERPRISES, INC. DISTRIBUTOR COMPENSATION SUMMARY**

#### *Company Overview*

Nu Skin Enterprises (together with its affiliates, the "Company") is a global direct selling company that operates in more than 30 countries throughout North and South America, Asia and Europe. The Company operates in three divisions: (1) the Nu Skin division markets premium quality skin care and personal care products; (2) the Pharmanex division is a science-based developer of nutrition products; and (3) the Big Planet division markets and distributes Internet, technology, telecommunications and other products.

#### *Distributors*

The Company markets its products through a network of independent distributors. For purposes of this summary, an "Active Distributor" is a distributor who placed an order for products, promotional materials or services or renewed their distributorship during the quarter. In the United States, the Company had an average of 57,998 Active Distributors each quarter in 2004.

#### *Compensation*

There are two fundamental ways in which a distributor can earn compensation:

- Through retail markups on sales of products purchased at wholesale prices; and
- Through commissions (sometimes called bonuses) paid on one's product sales and the sales of other distributors in one's downline sales network.

As with any other sales opportunity, the compensation earned by distributors varies significantly. The cost to become a distributor is very low. People become distributors for various reasons. Many people become distributors simply to enjoy the Company's products at wholesale prices. Some join the business to improve their skills or to experience the management of their own business. Others become distributors but for various reasons never purchase products from the Company. Consequently, many distributors never qualify to receive commissions.

Generating meaningful compensation as a distributor requires considerable time, effort, and commitment. This is not a get rich quickly program. There are no guarantees of financial success.

#### *Retail Markups*

Distributors can buy Nu Skin, Pharmanex and Big Planet products from the Company at wholesale prices for resale to customers or for personal consumption. Some Big Planet products are services, such as Internet access, on which there is no retail mark-up earned by distributors. In addition, some Big Planet products are lower margin products offered through Internet mall affiliates. Consequently lower levels of commissions are paid on the sale of such products. The Company's suggested retail markup is 43% on most of its personal care and nutrition products. However, distributors are free to set their own selling price and may personally consume some of the products they purchase. As a result, the Company currently neither provides an estimate of average income from retail sales nor includes distributor retail income in its average commission information.

## Commissions

Distributors can also earn commissions based on the sale of products by a distributor and his/her downline of sponsored distributors in all markets where the Company does business. The Company also sells promotional materials that do not generate commissions to distributors.

In 2004 the Company paid approximately \$487,631,000 in commissions and sales compensation globally. In the same period, the Company paid approximately \$77,329,163 in commissions to distributors residing in the United States.

The following table shows the average quarterly commissions paid in 2004 to U.S. distributors at the various levels of the Company's sales compensation plan at the end of each quarter, the average percentage of total Active Distributors and the average percentage of Executive-and-above distributors I that qualified to receive commissions at each level at the end of each quarter. These figures do not include retail markup income

Title	Quarterly Average Commission Income at Each Level for 2004	Annualized Commissions <sup>2</sup>	Average Percentage of Active Distributors <sup>1</sup>	Average Percentage of Executive-and-above level distributors
Active Distributor Qualifying for Check (Non-Executive)	126.75	507.00	8.40%	N/A%
-Qualifying Executive	330.00	1,320.00	1.24	N/A
Executive	988.75	3,955.00	2.96	64
Gold Executive	1,995.25	7,981.00	.79	17
Lapis Executive	3,990.00	15,960.00	.46	10
Ruby Executive	8,908.50	35,634.00	.15	3
Emerald Executive	17,906.75	71,627.00	.07	2
Diamond Executive	31,706.00	126,824.00	.07	2
Blue Diamond Executive	138,087.00	552,348.00	.14	3

The average commission paid to U.S. Active Distributors each quarter was \$326.55 or \$1,306.20 on an annualized basis. The average commission paid to U.S. Active Distributors who qualified for commissions in 2004 was \$9,194.00 (annualized). Note that these figures do not represent a distributor's profit, as they do not consider expenses incurred by a distributor in promotion of his/her business and do not include retail markup income. An average of 14.28% of U.S. Active Distributors qualified for commissions in 2004<sup>3</sup> Active Distributors represented an average of 41.56% of Total Distributors.<sup>4</sup>

Note that equivalent titles of Executive-and-above distributors vary between the Nu Skin Personal Care, Pharmanex and Big Planet divisions.

If you have any questions concerning this information, please contact Distributor Support at (800) 487-1000.

<sup>1</sup>These percentages are calculated by adding the average percentage of total Active Distributors at each level at the end of the quarter for each quarter of 2004 and dividing by four.

<sup>2</sup>These numbers are calculated by taking the quarterly average commissions and multiplying by four.

<sup>3</sup>This number is calculated by adding the average percentage numbers for each level of distributors in the above table.

<sup>4</sup>"Total Distributors" includes all U.S. distributors who either signed an agreement or renewed their distributorship during 2004 irrespective of their purchasing products, promotional materials or services or earning commissions.

# NU SKIN ENTERPRISES, INC., 2004 DISTRIBUTOR COMPENSATION SUMMARY

Modified by Jon M. Taylor, Ph.D., Consumer Awareness Institute, and Advisor, Pyramid Scheme Alert  
(Words added – or replacing some of the words deleted from the original report – are in italics.)

## Company Overview

Nu Skin Enterprises, Inc. (together with its affiliates, the "Company") is a global *chain-selling*<sup>a</sup> company that operates in more than 30 countries throughout North and South America, Asia and Europe. The Company operates in three divisions: (1) the Nu Skin division markets premium quality skin care and personal care products; (2) the Pharmanex division is a science-based developer of nutrition products; and (3) the Big Planet division markets and distributes Internet, technology, telecommunication and other products.

## Distributors

The Company markets its products *primarily* to a network of *participants, which it refers to as* "distributors." For purposes of this summary, an "Active Distributor" is a distributor who placed an order for products, promotional materials or services or renewed their distributorship during the *year*. In the United States, the Company had an average of 57,998 Active Distributors in 2004 (*including some who had been with Nu Skin for many years*)— *out of over one million who have joined the program in the U.S. since its founding in 1984. Out of approximately 60,000 distributors that signed up as US distributors since the beginning of the year 2004, approximately 10,000 were still active at the end of the year.*<sup>b</sup>

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<sup>a</sup> *Nu Skin's program primarily rewards not direct selling, but the recruitment of an endless chain of participants as primary customers. It's breakaway compensation plan is a highly leveraged pyramid marketing scheme. Most of the direct selling is to participants (and immediate family members), rather than to non-participating (retail) customers.*

<sup>b</sup> *These numbers are guesses – but Nu Skin could and should supply this information to prospects.*

<sup>c</sup> *These ongoing "pay to play" requirements for minimum purchases can be significant; e.g., \$1,200/yr.*

<sup>d</sup> *Many people become distributors to help a friend or relative qualify for commissions or to advance to higher levels in the pay plan. Most of these purchases are at wholesale prices, with no retail profit margin.*

<sup>d</sup> *Those distributors who do not buy products from the Company lose only the distributor fee and are the least hurt by participation in the program.*

<sup>f</sup> *The more time, effort, and money invested by participants in Nu Skin (or any chain selling scheme), the more they are likely to lose. The notable exceptions are those who rise to a*

## Compensation

There are two fundamental ways in which a distributor can earn compensation:

- Through retail markups on sales of products purchased at wholesale prices; and
- Through commissions (sometimes called bonuses) paid on one's product sales and the sales of other distributors in one's downline sales network.

As with any other sales opportunity, the compensation earned by distributors varies significantly. *While the cost to become a distributor is very low, new distributors must commit to a minimum level of purchases to qualify for commissions*<sup>c</sup>. People become distributors for various reasons. Many people become distributors simply to enjoy the Company's products at wholesale prices.<sup>d</sup> Some join the business to improve their skills or to experience the management of their own business.<sup>d</sup> Others become distributors but for various reasons never purchase products from the Company.<sup>d</sup> *The vast majority of new distributors never qualify to receive commissions.*

Generating compensation as a distributor *in excess of expenses* requires considerable time, recruitment effort, commitment, and the willingness to misrepresent both the products and the opportunity.<sup>f</sup> This is not a get rich quickly program.<sup>g</sup> There are no guarantees of financial success, *but a high likelihood of financial loss*<sup>h</sup>.

*payout level at or near the top of a pyramid of participants. To achieve these high levels in the compensation plan requires a high degree of self-deception and aggressive recruitment of a downline of thousands of participants on the basis of many misrepresentations. Nu Skin has been charged by the FTC and state agencies on multiple occasions with misrepresentations related to products and distributor earnings. A list of 30 typical misrepresentations that are used in recruitment campaigns of "recruiting MLM's" (those that depend on recruitment of a downline for income) like Nu Skin is available online at – <http://www.mlm-thetruth.com/Misrepresentations-RecruitingMLMs.pdf>*

<sup>g</sup> *For serious participants, it could be considered a get poor quickly program. As a general rule, the more new recruits invest, the more they lose. (See note f).*

<sup>h</sup> *In fact, based on analysis of Nu Skin's own reports, about 99% of participants lose money, after subtracting money paid to Nu Skin – even before subtracting other operating expenses.*

## Retail Markups

Distributors can buy Nu Skin, Pharmanex and Big Planet products from the Company at wholesale prices for resale to customers or for personal consumption. Some Big Planet products are services, such as Internet access, on which there is no retail mark-up earned by distributors. In addition, some Big Planet products are lower margin products offered through Internet mall affiliates. Consequently, lower levels of commissions are paid on the sale of such products. The Company's suggested retail markup is 43% on most of its personal care and nutrition products.<sup>i</sup>

However, distributors are free to set their own selling price and may personally consume some of the products they purchase.<sup>j</sup> The Company currently neither provides an estimate of average income from retail sales nor includes distributor retail income in its average commission information.<sup>k</sup>

## Commissions

Distributors earn commissions based primarily on the sale of products to a distributor and his/her downline of distributors in all markets where the Company does business. The Company also sells promotional materials that do not generate commissions to distributors.

In 2004 the Nu Skin's total global revenue was over \$1.1 billion<sup>l</sup> – most of it from new recruits and cooperating family members. Of this amount the Company rebated to its network of distributors approximately \$487 million<sup>m</sup> in commissions and sales compensation globally. In the same period, out of \$146 million the Company received from markets in North America (mostly in the U.S.) the Company rebated approximately \$77 million in commissions to distributors residing in the United States.

<sup>i</sup> Because wholesale prices are much higher than retail prices for comparable products at alternative outlets, most sales are made at wholesale prices to participants and cooperating family members in order for participants to meet quotas to qualify for commissions or to advance in the scheme.

<sup>j</sup> Hyper-consumption of products is common in order to meet requirements for commissions or advancement, as are sample giveaways, storage of products, and disposal of products at termination.

<sup>k</sup> Validated retail sales to legitimate costumers outside the network of participants is relatively rare.

<sup>l</sup> From Nu Skin financial reports, as is the North American sales figure that follows.

<sup>m</sup> Rounding the numbers to millions more clearly shows where the money is coming from and where it is going.

<sup>n</sup> Includes some distributors who had been with the company since close to its founding in 1984. For statistical consistency, this time period for the population base is used throughout the report.

<sup>o</sup> Some purchases are required to qualify for commissions

The table on the following page shows the average percentage and number of total Distributors that qualified to receive commissions at each of the various levels of the Company's sales compensation plan by the end of 2004<sup>n</sup>, the average annualized commissions paid in 2004 to U.S. distributors, average purchases of goods and services from Nu Skin by distributors at these levels<sup>o</sup>, and average gross profit, without subtracting operating expenses<sup>p</sup>. These figures do not include assumed retail markup income.<sup>q</sup>

The average annualized commissions paid to U.S. "Active" Distributors [in 2004] was \$1,306.20. The average amount of moneys paid by Active distributors to Nu Skin for products and services was \$2,000<sup>r</sup>, for an average loss of \$693.80. This loss would be much greater if operating expenses were subtracted, such as travel, telephone and Internet fees, advertising and promotional expenses, meeting room rentals, and miscellaneous expenses. The average [annualized] commissions paid to U.S. Active Distributors who qualified for commissions in 2004 was \$9,194.00.

Most of the commissions and bonuses paid by Nu Skin to its distributors is paid to Blue Diamond Executives. So after subtracting purchases from the Company, a net loss was experienced by over 99% of distributors. Clearly, a distributor must recruit aggressively with the aim of becoming a Blue Diamond if he/she expects to profit from the Nu Skin program.

An average of 14.28%<sup>s</sup> of U.S. Active Distributors qualified for commissions in 2004 – probably less than 1% of all distributors who had been recruited into the program since Nu Skin's inception<sup>t</sup>. Active Distributors represented less than 2% of all distributors who had been recruited into the program since its inception.

Note that equivalent titles of Executive-and-above distributors vary between the Nu Skin Personal Care, Pharmanex and Big Planet divisions.

or advancement to higher levels in the pay plan, and others, such as training and sales materials, are necessary for full participation. (Estimates only – Nu Skin should supply the correct numbers.)

<sup>p</sup> Operating expenses for successful recruiters can be many thousands of dollars, and prospects should be encouraged to factor in estimated expenses when projecting potential profits. Such operating expenses include travel, telephone and Internet costs, advertising and promotional expenses, rental of meeting rooms, and miscellaneous expenses.

<sup>q</sup> Documented retail markup income rarely occurs.

<sup>r</sup> These numbers are merely estimates and are given to illustrate information that should be supplied by Nu Skin.

<sup>s</sup> This number is calculated by adding the average percentage numbers for each level of Active Distributors.

<sup>t</sup> The "since its inception" is used for the total population to be statistically consistent with the practice of counting all distributors who achieved the various levels – since the Company's inception.

Title (level in the compensation plan)	Percentage of total distributors *recruited during applicable time period <sup>1</sup>	Total number of distributor's ,many of which were recruited during the time period represented in the left column (total – over 1 million in U.S. A.) <sup>2</sup>	Average annual commissions per distributor for each income level	Average Total purchases * of goods and services from Nu Skin (some on behalf of others) <sup>3</sup>	Average net profit/loss <sup>3</sup> per distributor
Blue Diamond	0.007% <sup>1</sup>	81 <sup>2</sup>	\$552,348	\$20,000 <sup>3</sup>	\$532,358 <sup>3</sup>
Diamond	0.0035	41	126,824	15,000	111,824
Emerald	0.0035	41	71,627	10,000	61,627
Ruby	0.0075	87	35,634	8,000	27,634
Lapis	0.023	267	15,960	6,000	9,960
Gold	0.0395	458	7,981	5,000	2,981
Executive	0.145	1717	3,955	5,000	(1,045)
Qualifying Exec.	0.062	719	1,320	5,000	(3,680)
Distributors who qualify for commissions	0.42	4,872	507	2,500	(1,993)
All distributors who did not qualify for commissions during applicable time period	99.289	991,717	0	200	(200)

If you have any questions concerning this information, please contact Distributor Support at (800) 487-1000.

<sup>1</sup> These percentages are calculated by dividing the number of distributors in the various levels at the end of 2004 by the total number of distributors recruited during the same time period as the period covered by those included in the various payout levels.

<sup>2</sup> "Total Distributors" includes all U.S. distributors who either signed an agreement or renewed their distributorship during 2004 irrespective of their purchasing products, promotional materials or services or earning commissions – except for the bottom row, which includes those who dropped out or terminated their distributorships, which is over 99% of participants who signed up since the inception of the program. This belies the myth that chain selling programs like Nu Skin offer "residual" or "permanent income" to any but those at or near the top of the hierarchy of distributors.

<sup>3</sup> These numbers are merely estimates and are given to illustrate information that should be included.

**NOTE to FTC officials considering a Business opportunity Disclosure rule:**

If the Company objects to counting all distributors recruited since the inception of the Company (to be consistent with length of activity of those who achieved certain levels), the time period could be shortened to five or ten years, etc. But in that case only those participants who started during the same time period and who achieved the various levels during that same time period should be counted.

The most honest and statistically correct way to report this would be to take ALL recruits for a given year and follow them for one or more years and report how many achieved the various levels, and how many became inactive or terminated.