

August 16, 2012

## Citron is Unraveling the Big Lies at Nu Skin

### Nu Skin is :

- **operating an illegal MLM in China,**
- **in apparent violation of FDA and/or FTC regulatory law in the U.S., and**
- **lying about a scientific research relationship with Stanford University for their flagship technology AgeLOC.**

**And worse, they are instructing their own sales representatives to deceive anyone who questions the actual scientific basis of Nu Skin's product claims.**



**Editor's Note:** This document contains facts and opinions.

All facts are believed to be correct at the time of publication.

All opinions expressed herein are the opinions of Citron Research. Each investor is **always** encouraged to evaluate the facts presented here and elsewhere, and form their own opinion from all available facts.

## Update on the MLM and/or Pyramid Sales in China

Last week Citron broke the story that Nu Skin retail locations were engaging in MLM and/or pyramid sales activity in China, both expressly forbidden by law in that country. We posted multiple recordings and photos documenting our findings. Since then, our operatives have submitted a new explicit audio and report from Hefei.

In the report on this conversation, we see direct use of the word 金字塔 ("Pyramid") as well as "2000 downlines" and "6 uplines". (This **new** audio is available for [download here](#).) Since the investment community is still in denial about the possibility of Nu Skin operating an MLM in China, Citron will continue to offer more evidence to back its opinion.

Our contact attended a NUS conference in Hefei on July 7 '12. The conference started off as usual with a PowerPoint presentation showing before and after pictures of NUS customers. The host, Chunhui, explained to the group how AgeLOC products prevent aging. She told the group AgeLOC products revitalize aging cells with scientifically proven chemicals.

The main speaker at this conference was Chen Jiajun. Our contact has heard a lot about him from Li Shanshan. Jiajun graduated from the National University of Singapore, one of the best schools in his country. He has degrees in both computer science and finance. He told the group that before he joined NUS he worked for Merrill Lynch and Goldman Sachs, where he was a branch manager in Tokyo.

He explained every company's corporate structure is like a pyramid, with a few executives at the top and numerous employees at the bottom. Jiajun went on to say that NUS is composed of many pyramids, you are always at the top of your own pyramid while being at the bottom of someone else's pyramid.

Jiajun said people will never become rich if they choose to work for someone else and with NUS you can be your own boss. He explained you can make a lot of money with NUS if you take the initiative and purchase two or four spa machines. Our contact was previously told, by Li Rong and Li Shanshan, she needed to purchase four Spa machines to become a NUS distributor.

Jiajun told the group he didn't like Amway's business model. He said Amway wants to develop every distributor into their customer. Jiajun claimed that NUS is not like this. Distributors of NUS can decide whether they want to use NUS products or not. **Jiajun has 2,000 full-time downlines in China.**

In NUS, every new distributor has 6 uplines who will help train the new distributors. He said they will help you because every one of your uplines will make 5% commission from your sales.

Our contact told Jiajun that she didn't believe AgeLOC products could stop the aging process altogether. Jiajun then confessed to her that their advertisements exaggerated the effects of the AgeLOC products, but he pointed out that NUS doesn't specifically say in their ads how long one's age can be locked for.

But moving on, in our research of Nu Skin, we've discovered something equally as disturbing as operating an MLM in China, **and it's a whole lot closer to home.**

Nu Skin is in apparent violation of US law, puts its products at risk of being deemed drugs and medical devices by FDA and FTC

"Anti aging" claims are currently a hot-button topic for the FDA. In March, 2012, FDA issued the following alert regarding cosmetics with "anti aging" marketing claims, stating:

**"This import alert represents the Agency's current guidance to FDA field personnel regarding the manufacturer(s) and/or products(s) at issue."**

There are numerous skin care products on the market with exaggerated "anti-aging" claims which cause the products to be unapproved new drugs. Examples of such claims are that the products "counteract," "**retard,**" or "**control**" the aging process. Claims that the product will "rejuvenate," "repair," or "restructure" the skin may also be drug claims. A claim such as "molecules absorb and expand, exerting upward pressure to 'lift' wrinkles upward" is a claim for an inner structural change that would **usually cause a product to be a drug.**

Charge: "The article is subject to refusal of admission pursuant to Section 801(a)(3) in that it appears to be a new drug without an effective new drug application (NDA) as required by Section 505(a)."

*-- FDA Import Alert 3-27-2012*

[http://www.accessdata.fda.gov/cms\\_ia/importalert\\_188.html](http://www.accessdata.fda.gov/cms_ia/importalert_188.html)

Contrast the above FDA document to the statements the company makes about its 11 products that use its extensively-marketed AgeLOC technology. Specifically, the company purports that its AgeLOC brand is based on claimed "proprietary science" that makes the following pseudo-scientific claims:

\* "Nu Skin, in collaboration with anti-aging and genetics experts, HAS IDENTIFIED key groups or functional clusters of genes—YOUTH GENE CLUSTERS—THAT HELP INFLUENCE HOW WE AGE. Nu Skin believes that finding and identifying these functional groups of genes is the key to TARGETING AGING AT ITS SOURCE. "

\* ...ageLOC science identifies and targets groups of genes ... **resetting the genes** related to aging toward a more youthful, harmonious state.

\* **Resetting Youth Gene Clusters** is a subtle balancing process—it's not as simple as turning them on and off. **Some genes within the cluster may need to be turned up while others may need to be turned down. Nu Skin's proprietary ageLOC science resets Youth Gene Clusters** to create a youthful balance within each cluster—returning them to more youthful patterns of activity. "

\* "Nu Skin next identified **groups of genes that play a central role in the aging process**, key arSuperMarkers called Youth Gene Clusters (YGCs). Using proprietary ageLOC science and ingredients, we have found **ways to reset these YGCs** to reflect a more youthful profile. "

\* On various promotional videos, Nu Skin's Chief Scientific Officer states "These products are incredibly safe, even though they **work at the genetic level.**"

\* "by understanding how gene expression changes with age and how to **externally influence it through gene expression modulation**"

And finally, our favorite:

\* "That's why we are very confident with AgeLOC we have found this **Fountain of Youth** – we have found how to unlock the secret of youth by **restoring those YGC's. [ Youth Gene Clusters ]**

#### **Examples : (Just a few of many)**

<http://www.AgeLOC.com/us/us-en/science.html>

[https://www.nuskin.com/en\\_US/products/anti-aging\\_opportunity/AgeLOC1.html](https://www.nuskin.com/en_US/products/anti-aging_opportunity/AgeLOC1.html)

[http://www.AgeLOC.com/content/AgeLOC/global/the\\_science/identify\\_target\\_reset.html](http://www.AgeLOC.com/content/AgeLOC/global/the_science/identify_target_reset.html)

<http://www.nuskin.com/content/dam/AESoP/Library/onDemand/AgeLOC%20Science%20Brochure.pdf>

[https://www.nuskin.com/content/nuskin/en\\_PH/products/antiaging/aging\\_revolution/all\\_about\\_genes.html](https://www.nuskin.com/content/nuskin/en_PH/products/antiaging/aging_revolution/all_about_genes.html)

**Not exaggerated enough ? Read on.**

#### **Fourth "A": ageLOC Algorithm**

The fourth "A" refers to the ageLOC *Algorithm*. This may be a difficult word to understand so let me explain. The reason why Google dominates the Internet search business is because it has a special algorithm that allows it to search the Internet quickly and accurately. That's how they dominate.

Similarly, we have developed an ageLOC biological algorithm that provides a roadmap for how we look at the aging process. With this algorithm, we can more accurately identify age-related genes, categorize them into youth gene clusters, and target and reset them to a more youthful pattern. That's why ageLOC is so exciting to all our scientists and why we believe we will dominate the industry.

#### **Fifth "A": Aging Response Modulators**

The fifth advantage is particularly meaningful. Through our unique ageLOC scientific approach, we have created an entirely new category of anti-aging products – we call them *Aging Response Modulators, or ARMs for short*.

In essence, our ageLOC scientific understanding is enabling us to develop products that promote youthfulness – in essence; we're rebalancing genetic activity to a more youthful pattern. That's why ARMs is such a powerful term, and why it's going to accommodate everything that we are working to develop through the ageLOC scientific approach to product development.

[http://www.nuskin.com/content/nuskin/en\\_AU/corporate/thesource/executivemessage/six\\_reasons\\_why\\_nuskinwilldominatetheanti-agingindustry.html](http://www.nuskin.com/content/nuskin/en_AU/corporate/thesource/executivemessage/six_reasons_why_nuskinwilldominatetheanti-agingindustry.html)

These are not just a few stray loose words. There are hundreds of such specific, pseudo-scientific references to the purported benefits of the "AgeLOC science":

- throughout all of the marketing literature printed and produced by the company in multiple languages
- on the company's websites for Nu Skin's products
- on numerous online videos of statements by company officers, distributors and others about Nu Skin's products and science
- public statements made to the media and analysts by its Chief Scientific Officer and its CEO and other company scientists
- as well as countless statements made by thousands of Nu Skin distributors trained to sell the company's products by repeating these claims throughout the United States and over 50 other countries.

## The Bull vs. Bear Debate

In the heat of the moment during a live CNBC debate last Thursday, **a significant red flag** in Nu Skin's filings was glossed over glibly by Deutsche Bank analyst William Schmitz during our little "Bull vs Bear" segment which was drifting off the main debate topic -- (which had been whether Nu Skin's is operating MLM sales pyramids in China):

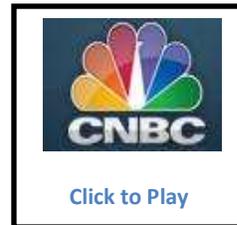
Andrew Left [Citron Research]: "... this "great product" was actually was refused admission into the United States this past spring...by the FDA"

William Schmitz [DeutscheBank]: "It wasn't approved by the FDA ... it's factually incorrect..."

Andrew Left: "It's actually in their filings..."

( ... at the 5:30 to 6:00 mark here -> )

... and at **that** very moment Herb Greenberg interrupted ....



Herb Greenberg: "Andrew, wait, if we took this entire Chinese situation away, if it just disappeared, what then would be your opinion on Nu Skin ? "

In light of the information documented in this report, Citron can now respond fully:

"Disregarding the fact that Nu Skin's worldwide selling practices are illegal in its fastest growing market (mainland China), and that the company's flagship product line is deceptively marketed and breaks U. S. and international laws, most notably those of the US Food & Drug Administration, and that they are lying about their scientific research relationship with Stanford University... ignoring all *that* and hanging any significant multiple on the stock is like asking "Besides *that* Mrs. Lincoln, how was the play?"

-- Andrew Left  
Editor, Citron Research  
August 16, 2012

Citron had much more to say about Nu Skin, and the time has come to expose it fully. This report reveals **much more ominous risk** to Nu Skin's business than last week's debate could possibly cover. DeutscheBank's William Schmitz went on to hang a "17 multiple" on Nu Skin's projected earnings; the 7 other Wall Street analysts all reflect similar thinking.

Our discussion continues with the facts Andrew Left wasn't given the time to explain on CNBC -- Nu Skin's product shipments, "detained" by the FDA, as disclosed in its last **four** 10-Q reports. <http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001021561&type=10-Q&dateb=&owner=include&count=40> (Search on FDA in the top four 10-Q's)

We've provided a summary of the filings' disclosures of the matter. Then follows a review of questions investors should demand disclosure from the company about, and our risk analysis.

## Nu Skin's disclosures about product "detained by the FDA":

**Summary:** Over the course of its last **four** quarterly 10-Q's, the story of detention of Nu Skin product shipments by the FDA unfolds. In November 2011, one shipment was detained, with the company stating the FDA believes the product may require clearance as a "medical device" In May, they disclose two other shipments of the same product as was detained in March.

The product detained was Nu Skin's "Galvanic Spa System", an electric device it sells to consumers intended to be used in conjunction with cosmetic substances applied to the face. At present, neither the FDA nor Nu Skin has disclosed that the matter is settled.

## Citron asks the hard questions.

Nu Skin's disclosures in this matter are **misleading and deficient** -- investors should demand the company come clean:

- 1) If this dispute with FDA is over the matter of of classifying the product as a "medical device", and/or AgeLOC marketing claims about the product, how will this affect other Nu Skin products?
- 2) Why hasn't the company released any disclosure of communications with FDA on this product?
- 3) Why would the company attempt to ship two more loads of product, when one is already in "detention"? Is it a lack of internal controls, or was the company trying to pull a fast one?
- 4) Where is that product currently located, and what is its status?
- 5) Is this product subject to similar regulatory scrutiny in mainland China, prompting the need to sell it in Hong Kong? (Citron observes that the product is not approved for sale in Taiwan.)

**Because the company hasn't released this information, Citron has filed for copies of FDA and FTC files through a Freedom Of Information Act request, and will continue to update investors with its findings.**

### Anti-aging scams:

Despite claims about pills or treatments that lead to endless youth, **no treatment has been proven to slow or reverse the aging process.**

*FDA Consumer Alert:*

*"Health Fraud Scams ....are Everywhere. Get the Facts*

<http://www.fda.gov/downloads/ForConsumers/ProtectYourself/HealthFraud/UCM302359.pdf>

## AgeLOC is the Key

**... but is it the key to the fountain of youth or an FDA Cease and Desist letter ?**

If you are an investor in this company, you'd better know about AgeLOC – Nu Skin's brand name for a purported set of technologies which Nu Skin has identified as its core sales strategy. As

Dr. Joseph Chang, Nu Skin's "Chief Scientific Officer" proclaimed recently during the video of his presentation (See the YouTube Links on the next page) :

**"AgeLOC is going to make Nu Skin into a 5 to 10 Billion Dollar Company over the next five years."**

*Chief Scientific Officer of Nu Skin -- Dr. Joseph Chang  
June 2012, Hong Kong Distributors Conference*

AgeLOC is an entire branding and marketing strategy, the centerpiece of Nu Skin's sales effort, designed to promote Nu Skin as a "science leader in "anti aging technology", spanning at least eleven products covering cosmetics and dietary supplements, in addition to devices.

Look at the language used by Nu Skin's Chief Scientific Officer Joseph Chang at the recent Hong Kong convention, where **he instructs 20,000 distributors on how to sell the company's AgeLOC product line, resulting in over \$100 million in sales to distributors on the spot.**

While it would be easy to blame the misstatements of any MLM company on a few rogue distributors, these quotes come **directly from Nu Skin's "Chief Scientific Officer"**, as his direct instructions to his sales force ... and the whole thing is on YouTube!

Not only is Dr. Chang instructing them to be deceptive, he is **instructing them specifically how to deceive** anyone who is questioning the actual scientific basis of Nu Skin's product claims".:

"When you talk about AgeLOC, it's very simple. Don't worry about the science. Because the science is really for scientists. Those scientists are complicated people, and they use many difficult words to explain the science. Don't get confused with the science, leave it to our 100 scientists, both in China and in the US, to worry how we make our products. ...

**All you have to do when you talk about AgeLOC is to say 'Unlike any other company, we are the only company that can attack the fundamental sources of aging.** Every other competitive product are just products used to cover up the skin, for example. And if they have a dietary supplement product line, it's all a matter of saying 'believe me, they're not using scientific evidence to prove that their products work" ...

That's why we are very confident with AgeLOC we have found **this fountain of youth – we have found how to unlock the secret of youth by restoring those YGC's. [Youth Gene Clusters]"**

*-- Chief Scientific Officer of Nu Skin Dr. Joseph Chang  
June 2012, Hong Kong  
(Sections 2:50 to 4:30 from start and 12:48 to end )*

<http://www.youtube.com/watch?v=P0bH7k-i8Jk> Part 1

<http://www.youtube.com/watch?v=udkGjkYa5QI> Part 2

<http://www.youtube.com/watch?v=DT4U9WNdKEQ> The conference

## Stanford University Denies Involvement in AgeLOC

After researching all this material, it was difficult to believe that one of the most prestigious universities in the country would lend the gravitas of its name to be the main source of credibility for AgeLOC. So before we published this report, **we reached out to Stanford, and you will not believe what we found.**

### Nu Skin relies heavily on references to Stanford University's name for much of its scientific research credibility

<http://www.nuskin.com/global/images/ageLOC/en/stanford.html>

#### Stanford University

"Researchers at **Stanford** have focused on gene expression during human development and aging, and have also explored novel modes of gene control in aging skin. Nu Skin's agreement with Stanford aims to increase the understanding of fundamental aging mechanisms in humans by translating insights from basic science into human application. The agreement also includes access to Stanford's expertise in dermatological clinical trials."

[https://www.nuskin.com/content/liveandlookyoung/en\\_AU/science.html](https://www.nuskin.com/content/liveandlookyoung/en_AU/science.html)

"Nu Skin is taking the science of anti-aging to a completely new level by studying the genetic origins of how and why we age. Developed by Nu Skin in collaboration with leading scientists from **Stanford University** and genetic experts at LifeGen Technologies, ageLOC science is based on the discovery of internal sources of aging that contribute to an aging appearance."

[http://www.nuskin.com/en\\_US/corporate/media\\_center/press\\_releases/2009/pr20091022.html](http://www.nuskin.com/en_US/corporate/media_center/press_releases/2009/pr20091022.html)

Nu Skin Announces Research Agreements with **Stanford University** and Lifegen Technologies (2009)

And even on AgeLOC's Facebook page:

AgeLOC associates itself with **Stanford** as "The Basis of AgeLOC Science"

[http://www.facebook.com/note.php?note\\_id=183829218342562](http://www.facebook.com/note.php?note_id=183829218342562)

"Nu Skin is taking the science of anti-aging to a completely new level by studying the genetic origins of how and why we age. Developed in collaboration with leading scientists from **Stanford University** and genetic experts at LifeGen Technologies, ageLOC science is based on the discovery of internal sources of aging that contribute to an aging appearance."

Video too:

<http://vimeo.com/19077914>

## Nu Skin (AgeLOC) relationship to Stanford established through Dr. Stuart Kim, Ph.D. professor in Genetics

In particular, Nu Skin announced the appointment of Stuart Kim, Ph.D., professor in **Stanford's** Department of Genetics, to its scientific advisory board in January 2010 with the full PR treatment:

[http://www.nuskin.com/content/nuskin/en\\_US/corporate/media\\_center/press\\_releases/2010/pr20100111.html](http://www.nuskin.com/content/nuskin/en_US/corporate/media_center/press_releases/2010/pr20100111.html)

Nu Skin Enterprises, Inc. (NYSE:NUS), a premier anti-aging company, announced Stuart Kim, Ph.D., professor at **Stanford University** in the departments of Developmental Biology and Genetics, as a new member of the [Nu Skin Anti-Aging Scientific Advisory Board](#). Dr. Kim will provide insights on the molecular analysis of aging science.

Dr. Kim appears with a photo in Slide 18 of this Powerpoint presentation "Ageloc-products.ppt" available for download at many sites around the internet.



And he appears here, with photo, halfway down the page in Nu Skin's company newsletter "The Source", with a feature a link to a USA Today story about Dr. Kim that **has nothing to do with Nu Skin**.  
[http://www.nuskin.com/content/corpcom/en\\_US/thesource/featuredarticle.26.html](http://www.nuskin.com/content/corpcom/en_US/thesource/featuredarticle.26.html)  
[http://www.nuskin.com/content/corpcom/en\\_US/thesource/featuredarticle/nu\\_skin\\_scientistfeaturedinusatoday.html](http://www.nuskin.com/content/corpcom/en_US/thesource/featuredarticle/nu_skin_scientistfeaturedinusatoday.html)

### Citron spoke to Dr. Kim and this is what he told us:

- Dr. Kim worked for two years looking for Youth Gene Clusters while being promised funding by Nu Skin.
- The relationship did not go well, and there was **zero data** created through Stanford University.
- Dr. Kim never received any funding from Nu Skin.

- All of Dr. Kim's research papers posted on Nu Skin's websites have nothing to do with Nu Skin, and were never done in collaboration with Nu Skin
- Dr. Kim resigned from his advisory board position in 2011. The company did not announce it.
- Yet Nu Skin continues to use the goodwill associated with Dr. Kim's name in its promotion of AgeLOC
- Dr. Kim wants nothing to do with Nu Skin.

Stanford University's legal department has been contacted.

The one line that sums it up most clearly is Dr. Kim's statement to Citron: "At best, it was a failed collaboration."

## Nu Skin's Unsubstantiated Medical Claims for AgeLOC : On the line or over the line, for the FDA and the FTC?

The FDA has no choice but to investigate the marketing claims of AgeLOC, because so many of Nu Skin's [products](#), including the "AgeLOC Galvanic Spa" and the "Galvanic Spa Facial Gels with AgeLOC " (meant to be used with the detained Galvanic Spa facial units) plus at least 9 other Nu Skin products including both cosmetics and dietary supplements, are identified with the AgeLOC brand and therefore the AgeLOC medical claims. So what are these claims?

Just some of these marketing claims appear above in the first red box above. After consulting with experts in the field of FDA regulation and the law, it is Citron's opinion that each one of these statements, as well as hundreds more, subject AgeLOC products to the risk of intense FDA /FTC scrutiny and possible intervention. If you are going to make revolutionary medical claims, about cosmetics, you had better be prepared to prove those claims if the FDA deems them to be medical claims. Ditto for medical devices, and FDA is already at work on Nu Skin's.

## Claims of affect to the structure and function of the human body trigger FDA requirements for proof of safety and efficacy

A product intended ... to affect the structure or function of the body is classified as a drug

-- (FD&C Act, Section 201(g))

Yes there are exceptions for "Generally Recognized As Safe: (GRAS) substances, which are allowed to the extent that they are foods. Examples are food extracts, vitamins and herbs. While the specifics of enforcement are looser for dietary products derived from foods,

producers are still subject to requirements that they be able to substantiate all medical claims to regulators.

Allowing Nu Skin to make such exaggerated claims is an affront to all the pharmaceutical, biotech, and legitimate cosmetic companies that spend literally billions in research every year trying to prove safety and efficacy of products that can positively impact the health of all of us.

Nu Skin's language is not merely marketing hype for a simple wrinkle cream. How do you think the **FDA regards a family of products that claim to be "working at the genetic level" and targeting, influencing, and resetting the process of gene expression? With an algorithm?**

To make Nu Skin's preposterous pseudo-scientific claims even more absurd, consider that the family of AgeLOC products **doesn't even share a universal active ingredient.**

- In the case of its supplement, AgeLOC R2 [AgeLOC R-Squared], a day/night capsule regimen costing \$160 a month, the active ingredients are Cordyceps Mushroom mycella and ginseng, (day), and grape seed, red orange and broccoli seed extracts (night).
- In a cosmetic product, a potpourri of other ingredients including Equol (a non-steroidal estrogen), pea extract, bamboo extract and hyaluronic acid (a common ingredient in cosmetics)
- In another cosmetic product, narcissus bulb extract, salicin (from willow bark) and Schizandra Chinensis (Five Flavor Berry) extract .

## Nu Skin's R&D spending

Nu Skin discloses its R&D spending as follows :

"Our research and development expenditures were \$10.4 million, \$12.4 million and \$13.6 million in 2009, 2010 and 2011, respectively"

**So for \$35 million spent over three years, Nu Skin wants its customers, its distributors and investors to believe that its products work at the genetic level to attack aging, and soon the same for weight loss. But they can't say "manipulate" – that's too close to a medical claim, so they say "reset", which leaves the experts, the public, and their own sales reps baffled as to what it really means.**

## What are the potential consequences of Nu Skin's tightrope walk with the law?

Citron believes the issues are numerous, the consequences are severe, and this obvious uncertainty is not reflected in the analysts' multiples.

Nu Skin has bet the company on "AgeLOC", and here are just some of the possible consequences, both in the US and worldwide:

- Ordering a recall of every product in the U.S. marked with the AgeLOC brand?
- Ordering retraining for every distributor in the US as to what statements are legal and illegal in marketing any of Nu Skin's products?
- Refusal of all shipments of inventory being imported into the US until this matter is remediated?
- Demanding the company delete every reference to AgeLOC and its unsubstantiated medical claims from the company's websites and its distributors' internet communications?
- Ordering Nu Skin to publish a series of public statements to retract its unsubstantiated claims?
- Civil penalties?

Investors need to assess the likelihood of collateral financial risks, including:

- Financial costs of reimbursement of returned product in the channel
- Loss of distributors "share of mind", trust and goodwill
- Customer refunds for consumed or unconsumed product purchased under false pretenses
- Class action and individual lawsuits by distributors, customers and shareholders in multiple jurisdictions
- Loss of reputation within the U S and worldwide
- [Loss of regulatory approval needed to import products into other countries](#) (the US FDA is a very influential reference point for many other countries' policies and procedures)
- Loss of capital invested in building distribution networks due to consequential damage

## Time for Full Disclosure

Which brings us back to the point that started this entire discussion. The company owes investors a duty of disclosure of all events which might be material with regard to investment decisions made by market participants.

- 1) It should start by making full and candid disclosure of the actions management has taken since being informed of MLM and/or pyramid sales activity going on in multiple locales in China.**

- 2) It should make a full disclosure as to the status of its regulatory situation with the FDA and/or the FTC.
- 3) Has any conclusive scientific data supporting AgeLOC's medical claims ever been come from Stanford University's research collaboration with Nu Skin?
- 4) Has Nu Skin ever submitted any statements referencing a research relationship with Stanford University in response to any FDA or FTC questions about any matter under those agencies' jurisdiction?

Citron Research has submitted a **Freedom of Information Act** request with the FDA and FTC regarding Nu Skin and its marketing claims, and will keep investors apprised of its findings.

## Revisiting the "Bull" vs. "Bear" Debate: "Limited-Time Offers", "Distribution load" or "Channel Stuff"?

Nu Skin presented this disclosure in their most recent Q:

Q2-2012 10-Q
<p>"Significant revenue growth in the Greater China region was driven by successful limited-time offers of our <b>AgeLOC R<sup>2</sup></b> [dietary supplement] and <b>AgeLOC Galvanic Body Spa</b> [device] and related products [cosmetics] in connection with our Greater China regional convention held in Hong Kong in June." [bracketed comments added by Citron]</p>

This event was described as a "a one-time distribution load" by DeutscheBank analyst William Schmitz. Citron thinks it is more accurately described as "Channel Stuffing".

Why did the company orchestrate this transaction at this time? When it knew products described by the identical marketing claims were under FDA "detention" and subject to the same looming threat to its entire product strategy?

What is the need for a "distribution load"? What does the company know about this product and its marketability over the next year that you don't know?

Citron also asks: While the company wants you to believe this product was sold in Hong Kong, how much of it was knowingly intended to be taken back to mainland China by the distributors as its surrogate import agents? And by the way, are those two products even approved for sale in China?

## Are all the MLM companies this bad?

Citron has frequently been asked this recently. So we surveyed the marketing language on the websites of Amway, Avon, Herbalife, and Usana. Citron isn't endorsing these companies' business models or products -- they all may have other issues.

**But none of them make pseudo-scientific claims so exaggerated that they risk being unsubstantiated medical claims.** In nearly all instances, their marketing language for cosmetic products and dietary supplements is very careful – and very similar to the language of similar products found in stores.

Even in the world of MLM's it appears to Citron that Nu Skin has ventured far beyond the rhetoric of traditional Multi-Level-Marketing companies, and has crossed over into the world of unsubstantiated medical claims, where its competitors have all restrained themselves.

## The Future for Nu Skin

From the sound of Nu Skin's AgeLOC promotional language, aging is about to be a thing of the past. But the company isn't going to be limited by that. They've just discovered a way to use the same process of gene manipulation to effect weight loss – again by resetting gene clusters. And this time, it's not the Chief Scientific Officer talking ... Nu Skin CEO Truman Hunt is personally making these claims too!

Hey gentlemen, good morning.

**Truman Hunt:** Hi Bill.

**Bill Schmitz:** Is there any way you can give us sneak peek into what the weight management products would be like next year?

....

**Truman Hunt:** Well, you've going to get a good sneak peek of the product offering itself in our November Investor Day conference. But remember that, the ageLOC platform is all about the formulation of products to maximize the right kind of generic expression and that is the unique angle of this weight management product is **essentially we're going to reset the gene clusters that have to do with weight loss...**

The revenue impact is going to be enormous.

*-- Nu SKIN CEO Truman Hunt -- Q2 Conference call, July 26 2012*

<http://seekingalpha.com/article/754081-nu-skin-enterprises-ceo-discusses-q2-2012-results-earnings-transcript>



## Conclusion

Citron stands by its evidence of MLM and/or pyramid sales operations in China at the time of publication of this story.

But now Nu Skin appears to be headed for a moment of truth with the FDA. **Citron can't predict exactly when it will happen, but it is obvious from its own filings that the process has begun and is well along.** Each day that passes is a day that harms all legitimate companies in biotech, pharmaceutical, cosmetic, and dietary supplement industries, because it is a day in which Nu Skin is allowed to **compete unfairly and illegally** with a raft of flimsy and unsubstantiated medical claims.

**Citron thinks this is an amazing moment in time, where "the truth is hiding in plain sight". Nu Skin's officers should either be on the cover of Time Magazine, or on the top of the list for FDA and FTC regulators.**

**Cautious investing to all.**

**EDITOR'S NOTE:** If any party believes any of the information or opinions expressed by Citron in this document to be factually incorrect, please send any relevant 3<sup>rd</sup> party, non-company authored information, including but not limited to, peer reviewed medical journal publications, FDA submission files, or other source documentation to [info@citronresearch.com](mailto:info@citronresearch.com) (\*)

(\*) Certain documents from Nu Skin and/or AgeLOC don't count -- the ones stating that AgeLOC products won't help us achieve immortality and AgeLOC hasn't patented any human genes. As well as hard to find, these are ridiculous.

Citron commits to accuracy as a primary goal of its reporting. Citron will immediately update this or any other published material upon receipt and verification of accurate and relevant factual information.

Citron has consulted with numerous subject matter experts, including attorneys and consultants who have specific background in the field of FDA /FTC regulatory compliance issues for drugs, cosmetics, dietary supplements and medical devices.