

NATURES SUNSHINE PRODUCTS INC

Form 10-Q

December 31, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

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: 0-8707

## NATURE S SUNSHINE PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

**Utah**  
(State or other jurisdiction of  
incorporation or organization)

**87-0327982**  
(IRS Employer  
Identification No.)

**75 East 1700 South**  
**Provo, Utah 84606**  
(Address of principal executive offices and zip code)

**(801) 342-4300**  
(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares of Common Stock, no par value, outstanding on November 30, 2008 was 15,510,159 shares.

When we refer in this Form 10-Q to the Company, we, our, and us, we mean Nature s Sunshine Products, Inc., a Utah corporation, together with our subsidiaries.



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NATURE'S SUNSHINE PRODUCTS, INC.

FORM 10-Q

For the Quarter Ended September 30, 2008

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## NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

*(Unaudited)*

	September 30, 2008	December 31, 2007
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 39,886	\$ 45,299
Accounts receivable, net of allowance for doubtful accounts of \$1,623 and \$739, respectively	7,616	7,450
Investments available for sale	3,876	4,755
Inventories, net	38,571	35,249
Deferred income tax assets	8,492	8,071
Prepaid expenses and other current assets	9,967	8,153
Total current assets	108,408	108,977
Property, plant and equipment, net	30,526	28,282
Investment securities	1,537	1,674
Restricted investments	2,050	2,075
Intangible assets	1,557	1,656
Deferred income tax assets	5,828	5,828
Other assets	17,230	16,846
	\$ 167,136	\$ 165,338
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 7,946	\$ 7,009
Accrued volume incentives	17,397	15,922
Accrued liabilities	46,259	44,322
Deferred revenue	3,434	5,207
Income taxes payable	7,350	4,500
Total current liabilities	82,386	76,960
Liability related to unrecognized tax positions	26,075	25,888
Deferred compensation payable	1,537	1,674
Other liabilities	311	424
Total long-term liabilities	27,923	27,986
Shareholders' Equity:		
Common Stock, no par value; 20,000 shares authorized, 15,510 shares issued and outstanding as of September 30, 2008 and December 31, 2007	66,705	66,619

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Retained earnings	5,476	9,112
Accumulated other comprehensive loss	(15,354)	(15,339)
Total shareholders' equity	56,827	60,392
	\$ 167,136	\$ 165,338

See accompanying notes to condensed consolidated financial statements.

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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per-share information)

*(Unaudited)*

	<b>Three Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Net Sales Revenue (net of the rebate portion of volume incentives of \$10,259 and \$10,205, respectively)	\$ 94,669	\$ 88,213
Cost and Expenses:		
Cost of goods sold	17,146	18,325
Volume incentives	36,588	35,140
Selling, general and administrative	38,864	39,558
	92,598	93,023
Operating Income (Loss)	2,071	(4,810)
Other (Expense) Income, Net	(448)	426
Income (Loss) Before Provision for Income Taxes	1,623	(4,384)
Provision (Benefit) for Income Taxes	1,789	(2,761)
Net Loss	\$ (166)	\$ (1,623)
Basic Net Loss Per Common Share	\$ (0.01)	\$ (0.10)
Diluted Net Loss Per Common Share	\$ (0.01)	\$ (0.10)
Weighted Average Basic Common Shares Outstanding	15,510	15,510
Weighted Average Diluted Common Shares Outstanding	15,510	15,510

See accompanying notes to condensed consolidated financial statements.

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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per-share information)

*(Unaudited)*

	Nine Months Ended September 30,	
	2008	2007
Net Sales Revenue (net of the rebate portion of volume incentives of \$32,717 and \$32,224, respectively)	\$ 291,105	\$ 272,427
Cost and Expenses:		
Cost of goods sold	53,159	52,784
Volume incentives	113,716	107,540
Selling, general and administrative	117,882	110,684
	284,757	271,008
Operating Income	6,348	1,419
Other (Expense) Income, Net	(495)	1,535
Income Before Provision for Income Taxes	5,853	2,954
Provision for Income Taxes	7,163	8,952
Net Loss	\$ (1,310)	\$ (5,998)
Basic Net Loss Per Common Share	\$ (0.08)	\$ (0.39)
Diluted Net Loss Per Common Share	\$ (0.08)	\$ (0.39)
Weighted Average Basic Common Shares Outstanding	15,510	15,495
Weighted Average Diluted Common Shares Outstanding	15,510	15,495

See accompanying notes to condensed consolidated financial statements.



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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,310)	\$ (5,998)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision of doubtful accounts	1,027	405
Depreciation and amortization	4,381	4,734
Share-based compensation expense	86	244
Tax benefit from stock option exercises		(246)
Loss (Gain) on sale of property, plant and equipment	62	(18)
Deferred income taxes	(531)	(1,184)
Amortization of bond discount	29	36
Purchase of trading investment securities	(119)	(115)
Proceeds from sale of trading investment securities	78	134
Realized and unrealized losses (gains) on investments	261	(394)
Amortization of prepaid taxes related to gain on intercompany sales	942	1,103
Foreign exchange (gain) loss	(100)	621
Changes in assets and liabilities		
Accounts receivable	(1,207)	(272)
Inventories	(3,523)	3,217
Prepaid expenses and other current assets	(1,843)	(9,841)
Other assets	(942)	364
Accounts payable	1,299	282
Accrued volume incentives	1,591	1,237
Accrued liabilities	2,614	16,324
Deferred revenue	(1,773)	(1,280)
Income taxes payable	2,745	(2,193)
Liability related to unrecognized tax positions	187	
Deferred compensation payable	(137)	72
Net cash provided by operating activities	3,817	7,232
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(6,767)	(3,540)
Proceeds from sale of investments available for sale	640	1,432
Purchase of restricted investments		(2,075)
Proceeds from sale of restricted investments	25	
Purchase of intangible assets		(1,000)
Proceeds from sale of property, plant and equipment	79	398
Net cash used in investing activities	(6,023)	(4,785)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of cash dividends	(2,327)	(2,327)
Proceeds from exercise of stock options		1,252
Tax benefit from stock option exercises		246

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Net cash used in financing activities	(2,327)	(829)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(880)	651
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,413)	2,269
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	45,299	39,061
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 39,886	\$ 41,330
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 2,169	\$ 7,800
Cash paid for interest	\$ 59	\$ 40

See accompanying notes to condensed consolidated financial statements.

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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Per-Share Information)

*(Unaudited)*

**(1) Basis of Presentation**

Nature s Sunshine Products, Inc. and its subsidiaries (hereinafter referred to collectively as the Company ) are primarily engaged in the manufacturing and marketing of herbal products, vitamin and mineral supplements, personal care, and miscellaneous products. Nature s Sunshine Products, Inc. is a Utah corporation with its principal place of business in Provo, Utah. The Company sells its products to a sales force of independent Distributors and Managers who use the products themselves or resell them to other Distributors or consumers. The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of each of the Company s major product groups are subject to regulation by one or more governmental agencies.

The Company markets its products in the United States, China, Hong Kong, Poland, South Korea, Mexico, Venezuela, Japan, Brazil, Canada, Central America, Colombia, the Dominican Republic, Ecuador, Peru, the United Kingdom, Austria, Germany, the Netherlands, Israel, Taiwan, Thailand, Singapore, Indonesia, Malaysia, the Philippines, Australia, Russia, Ukraine, Latvia, Lithuania, Kazakhstan, Mongolia, and Belarus. The Company also exports its products to several other countries, including Argentina, Australia, Chile, New Zealand, and Norway.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles 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 accruals) considered necessary for a fair presentation of the Company s financial information as of September 30, 2008, and for the three and nine months ended September 30, 2008 and 2007. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year ending December 31, 2008.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10K/A for the year ended December 31, 2007.

**(2) Inventories**

Inventories consist of the following:

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	September 30,		December 31,	
	2008		2007	
Raw Materials	\$	9,151	\$	8,175
Works in Progress		885		912
Finished Goods		28,535		26,162
Total	\$	38,571	\$	35,249

Table of Contents**(3) Net Loss Per Share**

Basic net loss per common share or Basic EPS is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of common stock equivalents that would have an anti-dilutive effect on net loss per common share.

The following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for the three and nine months ended September 30, 2008 and 2007.

	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount
<b>Three Months Ended September 30, 2008</b>			
Basic EPS	\$ (166)	15,510	\$ (0.01)
Effect of stock options			
Diluted EPS	\$ (166)	15,510	\$ (0.01)
<b>Three Months Ended September 30, 2007</b>			
Basic EPS	\$ (1,623)	15,510	\$ (0.10)
Effect of stock options			
Diluted EPS	\$ (1,623)	15,510	\$ (0.10)
<b>Nine Months Ended September 30, 2008</b>			
Basic EPS	\$ (1,310)	15,510	\$ (0.08)
Effect of stock options			
Diluted EPS	\$ (1,310)	15,510	\$ (0.08)
<b>Nine Months Ended September 30, 2007</b>			
Basic EPS	\$ (5,998)	15,495	\$ (0.39)
Effect of stock options			
Diluted EPS	\$ (5,998)	15,495	\$ (0.39)

For the three and nine months ended September 30, 2008 and 2007, as a result of the Company's net loss for each period, there were no options outstanding to purchase shares of common stock included in the computation of Diluted EPS, as their effect would have been anti-dilutive.

Table of Contents**(4) Comprehensive Loss**

The components of comprehensive loss, net of related tax, for the three-month periods ended September 30, 2008 and 2007, respectively, are as follows:

	<b>Three Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Net loss	\$ (166)	\$ (1,623)
Foreign currency translation gain (loss)	(408)	(325)
Net unrealized (losses) gains on investment securities	(24)	44
Total comprehensive loss	\$ (598)	\$ (1,904)

The components of comprehensive net loss, net of related tax for the nine-month periods ended September 30, 2008 and 2007, respectively, are as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Net loss	\$ (1,310)	\$ (5,998)
Foreign currency translation gain	87	211
Net unrealized (losses) gains on investment securities	(101)	58
Total comprehensive loss	\$ (1,324)	\$ (5,729)

**(5) Share-based Compensation**

Share-based compensation expense from nonqualified stock options for the three-month period ended September 30, 2007 was approximately \$81; the related tax benefit was approximately \$31. Share-based compensation expense from non-qualified stock options for the nine-months periods ended September 30, 2008 and 2007 was \$86 and \$244; the related tax benefit was approximately \$33 and \$93 respectively. As of September 30, 2008, there was no unrecognized share based compensation related to issued qualified or non-qualified employee stock options.

Stock option activity for the nine-months ended September 30, 2008 is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>
Options outstanding at December 31, 2007	307	\$ 12.01
Granted		

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Forfeited or canceled	(25)	12.65
Exercised		
Options outstanding at September 30, 2008	282	11.95
Exercisable at September 30, 2008	282	\$ 11.95

No options were granted during the three and nine month periods ended September 30, 2008 and the three month period ended September 30, 2007. The Company issued 140 nonqualified stock options outside the stock plan during the nine months ended September 30, 2007, with a weighted average grant date fair value of \$3.85 per share.

For the nine months ended September 30, 2007, the Company issued 164 shares of common stock upon the exercise of stock options at an average price of \$11.85. The aggregate intrinsic values on the dates of exercise of options exercised during the nine month period ended March 31, 2007 was \$624. No options were exercised during the three month period ended September 30, 2008 and 2007, or the nine month period ended September 30, 2008. The aggregate intrinsic value of options outstanding and exercisable at September 30, 2008 was \$6.

Table of Contents**(6) Segment Information**

The Company has three operating business segments. These operating segments are components of the Company for which separate information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company has two operating business segments based on geographic operations that include a United States segment and an international segment that operate under the Nature's Sunshine Products name. The Company's third operating business segment is Synergy Worldwide, which offers products with formulations different from those of the Nature's Sunshine Products offerings. In addition, Synergy Worldwide's marketing and Distributor compensation plans are substantially different from those of Nature's Sunshine Products. Sales revenues for each segment have been reduced by any intercompany sales as they are not included in the measure of segment profit or loss reviewed by the chief operating decision maker. The Company evaluates performance based on operating income (loss) by segment before consideration of certain inter-segment transfers and expenses.

Operating segment information is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Net Sales Revenue:</b>				
Nature's Sunshine Products:				
United States	\$ 37,288	\$ 35,447	\$ 115,380	\$ 112,189
International	43,424	36,222	132,758	107,994
	80,712	71,669	248,138	220,183
Synergy Worldwide	13,957	16,544	42,967	52,244
Total net sales revenues	94,669	88,213	291,105	272,427
<b>Operating Expenses:</b>				
Nature's Sunshine Products:				
United States	37,108	39,709	113,925	117,333
International	40,423	33,687	123,431	96,420
	77,531	73,396	237,356	213,753
Synergy Worldwide	15,067	19,627	47,401	57,255
	92,598	93,023	284,757	271,008
<b>Operating Income (Loss):</b>				
Nature's Sunshine Products:				
United States	180	(4,262)	1,455	(5,144)
International	3,001	2,535	9,327	11,574
	3,181	(1,727)	10,782	6,430
Synergy Worldwide	(1,110)	(3,083)	(4,434)	(5,011)
	2,071	(4,810)	6,348	1,419
Other (Expenses) Income, Net	(448)	426	(495)	1,535
Income (Loss) Before Provision for Income Taxes	\$ 1,623	\$ (4,384)	\$ 5,853	\$ 2,954





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From an individual country perspective, only the United States, Japan, Russia and Ukraine comprise approximately 10 percent or more of consolidated net sales revenue for any of the three and six months ended September 30, 2008 and 2007 as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Sales Revenue:</b>				
United States	\$ 38,412	\$ 38,132	\$ 116,147	\$ 121,337
Japan	8,669	11,239	29,164	34,283
Russia	10,344	7,082	32,848	22,155
Ukraine	9,343	6,236	28,127	18,970
Other	27,901	25,524	84,819	75,682
<b>Total Sales Revenue</b>	<b>\$ 94,669</b>	<b>\$ 88,213</b>	<b>\$ 291,105</b>	<b>\$ 272,427</b>

Segment long-lived assets as of September 30, 2008 and December 31, 2007, are as follows:

	September 30, 2008	December 31, 2007
<b>Long-Lived Assets:</b>		
United States	\$ 23,588	\$ 25,022
Venezuela	4,513	377
Other	3,982	4,539
<b>Total Long-Lived Assets</b>	<b>\$ 32,083</b>	<b>\$ 29,938</b>

### (7) **Income Taxes**

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, adjusted for discrete tax items in the period in which they occur. For the three months ended September 30, 2008 and 2007, the Company's provision (benefit) for income taxes, as a percentage of income before income taxes, is 110 percent and (63) percent, respectively, compared with a US federal statutory rate of 35 percent. For the nine months ended September 30, 2008, the Company's provision for income taxes, as a percentage of income before income taxes, is 122 percent and 303 percent, respectively, compared with a US federal statutory rate of 35 percent. For the three and nine months ended September 30, 2008 and the nine months ended September 30, 2007, the differences between the effective rate and the federal statutory rate are primarily attributed to increases in tax liabilities associated with uncertain tax positions and increases in foreign valuation allowances primarily related to foreign subsidiary net losses for which no tax benefit is currently being recognized. For the three months ended September 30, 2007, the difference between the effective rate and the federal statutory rate are primarily attributed to changes in uncertain tax positions and valuation allowances and adjustments to the Company's effective tax rate expected for the full fiscal year.

The increase in the Company's effective tax rate for the three months ended September 30, 2008 compared to the corresponding period in 2007 is primarily the result of the pre-tax loss of the 2007 period compared to the pre-tax income for the 2008 period. The decrease in the Company's effective tax rate for the nine months ended September 30, 2008 compared to the corresponding period in 2007 is primarily related to a increase in the pretax income balance in 2008 where similar tax expense items, including uncertain tax positions and valuation allowances, have a smaller impact on the effective rate.

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As of September 30, 2008, the Company had accrued \$16.0 million (net of \$10.1 million of other assets related to competent authority and royalty benefits) related to unrecognized tax positions compared with \$15.8 million (net of \$10.1 million of other assets related to competent authority and royalty benefits) as of December 31, 2007. This net increase is primarily attributed to additional liabilities recorded related to commission payment withholdings in foreign jurisdictions and transfer pricing.

Although the Company believes its estimates are reasonable, the Company can make no assurance that the final tax outcome of these matters will not be different from that which it has reflected in its historical income tax provisions and accruals. Such difference could have a material impact on the Company's income tax provision and operating results in the period in which the Company makes such determination.

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**(8) Commitments and Contingencies**

The Company is subject to governmental regulations pertaining to product formulation, labeling and packaging, product claims and advertising, and to the Company's direct selling system. The Company is also subject to the jurisdiction of numerous foreign tax and customs authorities. Any assertions or determinations that either the Company or the Company's Distributors are not in compliance with existing statutes, laws, rules or regulations could potentially have a material adverse effect on the Company's operations. In addition, in any country or jurisdiction, the adoption of new statutes, laws, rules or regulations, or changes in the interpretation of existing statutes, laws, rules or regulations could have a material adverse effect on the Company and its operations. Although management believes that the Company is in compliance, in all material respects, with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with applicable statutes, laws, rules and regulations will not be challenged by foreign authorities or that such challenges will not have a material adverse effect on the Company's financial position or results of operations or cash flows.

**Legal Proceedings**

Currently, the Company is a party to various legal proceedings, including those noted below. Management cannot predict the ultimate outcome of these proceedings, individually or in the aggregate, or their resulting effect on the Company's business, financial position, results of operations or prospects as litigation and related matters are subject to inherent uncertainties, and unfavorable rulings could occur. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the business, financial position, results of operations or prospects for the period in which the ruling occurs or future periods. The Company maintains directors and officers liability, product liability, general liability and excess liability insurance coverage. However, no assurances can be given that such insurance will continue to be available at an acceptable cost to the Company, that such coverage will be sufficient to cover one or more large claims, or that the insurers will not successfully disclaim coverage as to a pending or future claim.

Class Action Litigation

Between April 3, 2006 and June 2, 2006, five separate shareholder class action lawsuits were filed against the Company and certain of its present and former officers and directors in the United States District Court for the District of Utah. These matters were consolidated and on November 3, 2006, the plaintiffs filed a Consolidated Complaint against the Company, the Company's Chief Executive Officer and former director, Douglas Faggioli, the Company's former Chief Financial Officer, Craig D. Huff, and a former director and former Chair of the Company's Audit Committee, Franz L. Cristiani. The Consolidated Complaint asserts three separate claims on behalf of purchasers of the Company's common stock: (1) a claim against Mr. Faggioli and the Company for violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, alleging that Mr. Faggioli made a series of alleged material misrepresentations to the investing public; (2) a claim against Mr. Faggioli and the Company for violation of Section 10(b) and Rule 10b-5, alleging that Mr. Faggioli made a series of misrepresentations to the Company's then independent auditor, KPMG, LLP ( "KPMG" ), for the purpose of obtaining unqualified or "clean" audit opinions and review opinions from KPMG concerning certain of the Company's annual and quarterly financial statements; and (3) a claim against Messrs. Faggioli, Huff and Cristiani for violation of Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act" ), alleging that the individual defendants have "control person" liability for the

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previously-alleged violations by the Company. The Consolidated Complaint seeks an unspecified amount of compensatory damages, together with interest thereon, litigation costs and expenses, including attorneys' fees and expert fees, and any such other and further relief as may be allowed by law.

On January 5, 2007, the Company and Messrs. Faggioli, Huff and Cristiani moved to dismiss the Consolidated Complaint in its entirety. On May 21, 2007, the court issued its decision denying the motion in large part, but shortening the proposed class period on one of the plaintiffs' claims. On June 6, 2007, the Company and the other defendants answered the Consolidated Complaint, wherein they denied all allegations of wrongdoing and raised a number of affirmative defenses. On November 1, 2007, the plaintiffs filed their motion for class certification, which the Company opposed. On September 25, 2008, the court granted the plaintiffs' motion for class certification in part, establishing the class as all persons who purchased or otherwise acquired the Company's common stock, and were damaged thereby, from March 16, 2005 to March 20, 2006. On May 9, 2008, at the invitation of the Court based upon recent case law developments, the Company filed a motion to dismiss the Plaintiffs' second cause of action (a 10b-5 claim based on non-public representations to KPMG). The Plaintiffs opposed this motion. On September 23, 2008, the Court granted the Company's motion and dismissed the Plaintiffs' second cause of action.

The case is currently in the early stages of discovery. The trial is not scheduled to commence until April 19, 2010. Although the Company and the other defendants are vigorously defending against the allegations in the lawsuit, and the Company intends to continue doing so, the Company is not able at this time to predict the outcome of this litigation or whether the Company will incur any liability associated to the litigation, or to estimate the effect such outcome would have on the financial condition of the Company.

The Company maintains insurance that may provide coverage for the potential consequences of a negative outcome of the litigation described above. The Company has given notice to its insurers of the claims and the insurers have responded by requesting additional information and by reserving their rights under the policies, including the rights to deny coverage under various policy exclusions or to rescind the policies in question as a result of the Company's restatement of its financial statements. There can be no assurance that the insurers will not seek to deny coverage or rescind the policies; that some or all of the claims will not be covered by such policies; or that, even if covered, the Company's ultimate liability will exceed the available insurance.

Threatened Derivative Lawsuits

By letter dated October 4, 2007, a shareholder of the Company alleged that a number of the current and former officers and directors of the Company breached their fiduciary duties to the Company by supposedly engaging in the same alleged wrongdoing that is the subject of the class action lawsuit. The shareholder demanded that the Company take action to recover from the specified officers and directors all damages sustained by the Company as a result of the alleged misconduct, and threatened to commence a derivative action if the Company failed to act on the shareholder's demand within a reasonable period of time.

On December 26, 2007, before the expiration of the Company's allotted 90-day period for responding to the demand, the shareholder presented a second but substantively identical demand on the Company, thereby triggering a new 90-day response period. The Company's Board of Directors responded to this demand on March 20, 2008, rejecting the shareholder's demands.

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On May 21, 2008, this same shareholder filed a summons and complaint in the Fourth Judicial District Court for the State of Utah seeking an order compelling the Company to produce certain books and records to the shareholder. The Company filed its answer to the complaint on June 12, 2008.

Although the Company and the other defendants are vigorously defending against the allegations in the threatened derivative lawsuit above, management believes that it is not possible at this time to predict the outcome of this litigation or whether the Company will incur any liability associated to the litigation, or to estimate the effect such outcome would have on the financial condition of the Company.

### SEC and DOJ Investigations

In March 2006, the Company voluntarily disclosed to the SEC certain information related to the independent investigation by the Company's Audit Committee. Since that time, the SEC has subpoenaed certain documents and voluntarily requested other information in connection with its subsequent investigation related to these events. The

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Company is cooperating fully with this investigation. The Company cannot predict what impact, if any, and the materiality of such impact, if any, the conclusion of this matter may have on our financial statements.

In March 2006, the Company voluntarily disclosed to the United States Department of Justice ( DOJ ) certain information related to the independent investigation by the Company s Audit Committee. Since that time, the DOJ has requested that the Company voluntarily provide documents and other information in connection with its subsequent investigation related to these events. The Company is cooperating fully with this investigation. The Company cannot predict what impact, if any, and the materiality of such impact, if any, the conclusion of this matter may have on the Company s financial statements.

SEC Section 12(j) Proceeding

On July 12, 2007, the Company announced that the SEC had instituted administrative proceedings pursuant to Section 12(j). On November 8, 2007, an administrative law judge in the administrative proceeding issued an Initial Decision to revoke the registration of the Company s common stock. Shortly thereafter, the Company filed a petition for review with the SEC. On December 5, 2007, the SEC granted our petition for review. The SEC had scheduled oral argument regarding the Company s petition on October 1, 2008. The SEC has now rescheduled the oral argument for January 7, 2009. The Company cannot predict the outcome of such review at this time. The Initial Decision of the administrative law judge will not become effective pending the review. The Company cannot presently predict what, if any, impact the SEC s ultimate determination may have on our financial statements or the materiality of such impact, if any. If a final order is issued by the SEC revoking the registration of our common stock, broker-dealers would not be permitted to effect transactions in shares of our common stock until the Company files a new registration with the SEC under the Exchange Act and that registration is made effective.

**Non Income Tax Contingencies**

The Company has reserved for certain state sales/use tax and other non income tax contingencies based on the likelihood of an obligation in accordance with SFAS No. 5, Accounting for Contingencies. Under SFAS No. 5, loss contingency provisions are recorded for probable losses at management s best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. The Company provides provisions for potential payments of tax to various tax authorities for contingencies related to uncertain positions for non income tax matters. The Company also provides provisions for state sales taxes in each of the states where the Company has potential nexus. As of September 30, 2008 and December 31, 2007, accrued liabilities includes \$19,337 and \$14,393, respectively, related to non-income tax contingencies. While management believes that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of those matters cannot presently be determined. The Company is not able at this time to predict the ultimate outcomes of those matters or to estimate the effect the ultimate outcomes, if greater than the amounts accrued, would have on the financial condition of the Company.

**(9) Fair Value**

On January 1, 2008, the Company adopted the effective portions of SFAS No. 157 Fair Value Measurements . In February 2008, the Financial Accounting Standards Board ( FASB ) issued FSP No. 157-2, which provides a one year deferral of the effect date of SFAS No. 157 for all non financial assets and non financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Therefore, the Company adopted the provisions of SFAS No. 157 with respect to only financial assets and liabilities.

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SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosure requirements for fair value. This statement does not require any new fair value measurements. SFAS No. 157 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 that 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, available-for-sale securities, restricted investments and investment securities. The adoption of this statement did not have a material impact on the 2008 consolidated financial statements.

As a basis for categorizing these inputs, SFAS 157 establishes the following hierarchy, which prioritizes the inputs used to measure fair value from market based assumptions to entity specific assumptions:

Level 1: Inputs based upon quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs that are management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instruments valuation.



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The following table presents the Company's hierarchy for its asset and liabilities measured at fair value on a recurring basis as of September 30, 2008:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Investments available for sale	\$ 1,034	\$ 2,842	\$	\$ 3,876
Investment securities	1,537			1,537
Restricted investments			2,050	2,050
Total assets measured at fair value on a recurring basis.	\$ 2,571	\$ 2,842	\$ 2,050	\$ 7,463

*Investments available for sale* The majority of the Company's investment portfolio consist of various fixed income securities such as U.S government and state and municipal bonds, mutual funds, and equity securities. The Level 1 securities are valued using quoted prices for identical assets in active markets including equity securities, U.S. government treasuries, and various mutual funds. The Level 2 securities include investments in state and municipal bonds, as well as various mutual funds whereby all significant inputs are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset.

*Investment securities* The majority of the Company's trading portfolio consists of various mutual funds that are using quoted prices in active markets.

*Restricted investments* The Company's restricted investments include auction rate preferred investments that have failed at auction during the first quarter of 2008. Despite the underlying long-term contractual maturity of ARS, there was historically a ready liquid market for these securities based on the interest reset mechanism. However, as a result of current negative liquidity and uncertainty in financial credit markets, the Company experienced failed auctions associated with our ARS. In the case of a failed auction, the ARS become illiquid investments (until a future auction is successful or the security is called prior to the contractual maturity date by the issuer) and the rates are reset in accordance with terms in the prospectus/offering circular. At September 30, 2008, restricted investments included \$2,050 in ARS which experienced remarketing failures and are included in long-term assets.

The ARS consist primarily of AAA securities. In determining the fair value of the Company's restricted investments at September 30, 2008, the Company has taken into consideration fair values determined by the financial institutions, current credit rating of the underlying securities, insurance provisions, discounted cash flow analysis, as deemed appropriate, and its current liquidity position. The Company believes the remaining ARS will ultimately be liquidated at or near our current carrying value. In December 2008, the Company received an offer from a registered broker dealer to redeem these securities at par in 2009.

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The following table shows a reconciliation of the beginning and ending fair value measurements using significant unobservable inputs for the three months ended September 30, 2008:

	<b>Total</b>
Balance at June 30, 2008	\$ 2,050
Net unrealized gains included in earnings	
Sales of restricted investments	
Purchases	
Balance at September 30, 2008	\$ 2,050

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The following table shows a reconciliation of the beginning and ending fair value measurements using significant unobservable inputs for the nine months ended September 30, 2008:

	<b>Total</b>
Balance at January 1, 2008	\$ 2,075
Net unrealized gains included in earnings	
Sales of restricted investments	(25)
Purchases	
Balance at September 30, 2008	\$ 2,050

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

The following Management's Discussion and Analysis discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto included in this Form 10-Q, as well as the consolidated financial statements, the notes thereto, and management's discussion and analysis included in our Annual Report on Form 10K/A for the year ended December 31, 2007, and our other filings, including Current Reports on Form 8-K, that have been filed with the Securities and Exchange Commission (SEC) through the date of this report.

**COMPANY OVERVIEW**

Nature's Sunshine Products, Inc. and its subsidiaries are primarily engaged in the manufacturing and marketing of herbal products, vitamin and mineral supplements, personal care, and miscellaneous products. Nature's Sunshine Products, Inc. is a Utah corporation with its principal place of business in Provo, Utah. We sell our products to a sales force of independent Distributors and Managers who use the products themselves or resell them to other Distributors or consumers. The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of each of our major product groups are subject to regulation by one or more governmental agencies.

We market our products in the United States, Mexico, Central America, Canada, Venezuela, the Dominican Republic, Japan, Ecuador, the United Kingdom, Colombia, Peru, Israel, Russia, Ukraine, Latvia, Lithuania, Kazakhstan, Mongolia, Belarus, China, Poland, and Brazil. We also export our products to several other countries, including Argentina, Australia, Chile, New Zealand, and Norway.

We also sell our products through a separate division and operating business segment, Synergy Worldwide, which was acquired in 2000. Synergy Worldwide offers products with formulations different from those of the Nature's Sunshine Products offerings. In addition, Synergy Worldwide's marketing and Distributor compensation plans are sufficiently different from those of Nature's Sunshine Products. Synergy Worldwide sells products in Japan, the United States, South Korea, Singapore, Thailand, Taiwan, Malaysia, Hong Kong, the Philippines, Indonesia, the United Kingdom, Germany, Austria, the Netherlands, and Australia.

During the first three quarters of 2008, we experienced healthy net sales revenue growth overseas in our Nature's Sunshine Products International business segment of approximately 23 percent compared to the same period in the prior year, while our domestic business segment sales decreased slightly and our Synergy Worldwide business segment experienced a decline in net sales revenue of approximately 18 percent due

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primarily to the loss of several key distributor networks. Over the same period, our cost of goods sold decreased as a percentage of net sales revenue primarily as a result of decreased importation costs in some of our foreign markets, while volume incentives remained constant. Our selling, general and administrative expenses increased somewhat primarily as a result of costs associated with increased spending in our Russian and other foreign markets as we continue to see growth, as well as costs related to entry into new markets. On our consolidated balance sheet, we maintained a fairly consistent profile from December 31, 2007 to September 30, 2008.

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The following table summarizes our unaudited consolidated operating results in dollars and as a percentage of net sales for the three months ended September 30, 2008 and 2007.

	2008		2007		Change from 2008 to 2007	
	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage
Net sales revenue	\$ 94,669	100.0%	\$ 88,213	100.0%	\$ 6,456	7.3%
Cost of goods sold	17,146	18.1	18,325	20.8	(1,179)	(6.4)
Volume incentives	36,588	38.6	35,140	39.8	1,448	4.1
SG&A expenses	38,864	41.1	39,558	44.8	(694)	(1.8)
Total operating expenses	92,598	97.8	93,023	105.4	(425)	(0.5)
Operating income (loss)	2,071	2.2	(4,810)	(5.4)	6,881	143.1
Other (expense) income, net	(448)	(0.5)	426	0.5	(874)	(205.2)
Income (loss) before provision for income taxes	1,623	1.7	(4,384)	(4.9)	6,007	137.0
Provision (benefit) for income taxes	1,789	1.9	(2,761)	(3.1)	4,550	164.8
Net loss	\$ (166)	(0.2)%	\$ (1,623)	(1.8)%	\$ 1,457	89.8%

The following table summarizes our unaudited consolidated operating results in dollars and as a percentage of net sales for the nine months ended September 30, 2008 and 2007.

	2008		2007		Change from 2008 to 2007	
	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage