

NATURES SUNSHINE PRODUCTS INC
Form 10-Q
May 11, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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 March 31, 2015

OR

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

For the transition period from to .

Commission File Number: 001-34483

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.)

2500 West Executive Parkway, Suite 100

Lehi, Utah 84043

(Address of principal executive offices and zip code)

(801) 341-7900

(Registrant's telephone number including area code)

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

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

Indicate by check mark 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 Smaller reporting company
(Do not check if a smaller reporting company)

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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 April 24, 2015, was 18,710,392 shares.

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NATURE'S SUNSHINE PRODUCTS, INC.

FORM 10-Q

For the Quarter Ended March 31, 2015

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated herein by reference in this report may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies. All statements (other than statements of historical fact) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as believe, hope, may, anticipate, should, intend, plan, will, expect, estimate, positioned, strategy and similar expressions, and are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. For example, information appearing under Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are more fully described in this report, including the risks set forth under Risk Factors in Item 1A, but include the following:

- any negative consequences resulting from the economy, including the availability of liquidity to us, our independent Distributors and our suppliers or the willingness of our customers to purchase products;
- our relationship with, and our ability to influence the actions of, our independent Distributors, and other third parties with whom we do business;
- improper activity by our employees or independent Distributors;
- negative publicity related to our products, ingredients, and the nutritional supplement industry or direct selling organization;
- changing consumer preferences and demands;
- our reliance upon, or the loss or departure of any member of, our senior management team which could negatively impact our Distributor relations and operating results;
- increased state and federal regulatory scrutiny of the dietary supplement industry;
- the competitive nature of our business and the nutritional supplement industry;
- regulatory matters governing our products, ingredients, the nutritional supplement industry, our direct selling program, or the direct selling market in which we operate;
- legal challenges to our direct selling program or to the classification of our independent Distributors;
- risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third party importers, governmental sanctions, ongoing Ukraine and Russia political conflict, pricing and currency devaluation risks, especially in countries such as Ukraine, Russia and Belarus;
- uncertainties relating to the application of transfer pricing, duties, value-added taxes, and other tax regulations, and changes thereto;
- our dependence on increased penetration of existing markets;

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- our reliance on our information technology infrastructure;
- the sufficiency of trademarks and other intellectual property rights;
- changes in tax laws, treaties or regulations, or their interpretation;
- taxation relating to our independent Distributors;
- product liability claims;
- share price volatility related to, among other things, speculative trading; and
- the full implementation of our joint venture for operations in China with Fosun Industrial Co., Ltd., as well as the legal complexities, unique regulatory environment and challenges of doing business in China generally.

All forward-looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in or incorporated by reference into this report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report. Throughout this report, we refer to Nature's Sunshine Products, Inc., together with its subsidiaries, as we, us, our Company or the Company.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 50,065	\$ 58,699
Accounts receivable, net of allowance for doubtful accounts of \$812 and \$849, respectively	8,086	6,732
Investments available for sale	2,569	2,546
Inventories	41,928	40,438
Deferred income tax assets	4,901	4,950
Prepaid expenses and other	9,653	7,884
Total current assets	117,202	121,249
Property, plant and equipment, net	56,939	51,343
Investment securities - trading	1,118	1,038
Intangible assets, net	667	704
Deferred income tax assets	14,509	14,495
Other assets	7,862	7,970
	\$ 198,297	\$ 196,799
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 8,297	\$ 5,237
Accrued volume incentives	18,142	16,867
Accrued liabilities	22,336	28,957
Deferred revenue	4,256	4,717
Income taxes payable	1,908	2,131
Revolving credit facility payable	348	
Total current liabilities	55,287	57,909
Liability related to unrecognized tax benefits	6,776	6,598
Deferred compensation payable	1,118	1,038
Other liabilities	2,334	2,297
Total liabilities	65,515	67,842
Commitments and contingencies		

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Shareholders' equity:			
Common stock, no par value, 50,000 shares authorized, 18,709 and 18,662 shares issued and outstanding as of March 31, 2015, and December 31, 2014, respectively		125,663	125,489
Retained earnings		14,693	10,891
Noncontrolling interests		3,629	3,781
Accumulated other comprehensive loss		(11,203)	(11,204)
Total shareholders' equity		132,782	128,957
	\$	198,297	\$ 196,799

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)

	Three Months Ended March 31,	
	2015	2014
Net sales revenue	\$ 83,878	\$ 93,467
Cost of sales	(21,881)	(22,581)
Gross profit	61,997	70,886
Operating expenses:		
Volume incentives	30,337	34,893
Selling, general and administrative	26,330	29,152
Operating income	5,330	6,841
Other income (loss), net	(318)	(262)
Income before provision (benefit) for income taxes	5,012	6,579
Provision (benefit) for income taxes	809	(3,657)
Net income from continuing operations	4,203	10,236
Income (loss) from discontinued operations	1,312	(571)
Net income	5,515	9,665
Net loss attributable to noncontrolling interests	(152)	
Net income attributable to common shareholders	\$ 5,667	\$ 9,665
Basic and diluted net income per common share attributable to common shareholders		
Basic:		
Net income from continuing operations	\$ 0.23	\$ 0.63
Income (loss) from discontinued operations	\$ 0.07	\$ (0.03)
Net income attributable to common shareholders	\$ 0.30	\$ 0.60
Diluted:		
Net income from continuing operations	\$ 0.22	\$ 0.61
Income (loss) from discontinued operations	\$ 0.07	\$ (0.03)
Net income attributable to common shareholders	\$ 0.30	\$ 0.58
Weighted average basic common shares outstanding	18,621	16,179
Weighted average diluted common shares outstanding	19,192	16,618
Dividends declared per common share	\$ 0.10	\$ 0.10

See accompanying notes to condensed consolidated financial statements.

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NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income	\$ 5,515	\$ 9,665
Foreign currency translation gain (loss) (net of tax)	(21)	178
Net unrealized gains on investment securities (net of tax)	22	3
Total comprehensive income	\$ 5,516	\$ 9,846

See accompanying notes to condensed consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in thousands)

(Unaudited)

	Common Stock Shares	Common Stock Value	Retained Earnings	Noncontrolling Interests	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2015	18,662	\$ 125,489	\$ 10,891	\$ 3,781	\$ (11,204)	\$ 128,957
Share-based compensation expense		1,339				1,339
Proceeds from the exercise of stock options, and issuance of restricted stock units	249	1,640				1,640
Tax benefit from exercise of stock options		52				52
Repurchase of common stock	(202)	(2,857)				(2,857)
Cash dividends (0.10 per share)			(1,865)			(1,865)
Net income			5,667	(152)		5,515
Other comprehensive income					1	1
Balance at March 31, 2015	18,709	\$ 125,663	\$ 14,693	\$ 3,629	\$ (11,203)	\$ 132,782

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)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,515	\$ 9,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	30	39
Depreciation and amortization	996	1,237
Share-based compensation expense	1,339	1,094
Tax benefit from the exercise of stock options	(52)	
(Gain) loss on sale of property and equipment	(1,312)	13
Deferred income taxes	50	(3,823)
Amortization of bond discount		1
Purchase of trading investment securities	(112)	(67)
Proceeds from sale of trading investment securities	55	49
Realized and unrealized gains on investments	(46)	(15)
Foreign exchange losses	351	980
Changes in assets and liabilities:		
Accounts receivable	(1,411)	(1,170)
Inventories	(1,989)	707
Prepaid expenses and other current assets	(1,837)	(2,011)
Other assets	74	(390)
Accounts payable	3,010	(274)
Accrued volume incentives	1,539	1,513
Accrued liabilities	(6,707)	(6,156)
Deferred revenue	(461)	58
Income taxes payable	(268)	(940)
Liability related to unrecognized tax benefits	230	(53)
Deferred compensation payable	80	33
Net cash provided (used) by operating activities	(926)	490
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(6,019)	(4,614)
Proceeds from sale of property, plant and equipment	1,312	
Purchase of investments available for sale	(15)	(6)
Proceeds from investments available for sale		33
Net cash used in investing activities	(4,722)	(4,587)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of cash dividends	(1,865)	
Borrowings on revolving credit facility	348	
Principal payments of long-term debt and revolving credit facility		(847)
Proceeds from the exercise of stock options	1,640	
Tax benefit from stock option exercise	52	
Repurchase of common stock	(2,857)	
Net cash used in financing activities	(2,682)	(847)
Effect of exchange rates on cash and cash equivalents	(304)	(836)

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Net decrease in cash and cash equivalents		(8,634)		(5,780)
Cash and cash equivalents at the beginning of the period		58,699		77,247
Cash and cash equivalents at the end of the period	\$	50,065	\$	71,467
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for income taxes	\$	2,608	\$	2,236
Cash paid for interest		25		30

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., together with its subsidiaries (hereinafter referred to collectively as the Company), is a natural health and wellness company primarily engaged in the manufacturing and direct selling of nutritional and personal care products. The Company is a Utah corporation with its principal place of business in Lehi, Utah, and sells its products to a sales force of independent Managers and Distributors who use the products themselves or resell them to other independent 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 Australia, Austria, Belarus, Canada, Colombia, Costa Rica, the Czech Republic, Denmark, the Dominican Republic, Ecuador, El Salvador, Finland, Germany, Guatemala, Honduras, Hong Kong, Iceland, Indonesia, Ireland, Italy, Japan, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Moldova, Mongolia, the Netherlands, New Zealand, Nicaragua, Norway, Panama, the Philippines, Poland, Russia, Singapore, Slovenia, South Korea, Spain, Sweden, Taiwan, Thailand, Ukraine, the United Kingdom, the United States and Vietnam. The Company also exports its products to Argentina, Australia, Chile, Israel, New Zealand, Norway, Peru and the United Kingdom. The Company has announced it will discontinue operations in Vietnam, which were approximately 0.3 percent and 0.4 percent of consolidated net sales during the three month periods ended March 31, 2015 and 2014, respectively.

Principles of Consolidation

The accompanying unaudited condensed 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 condensed 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 condensed 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 March 31, 2015, and for the three-month periods ended March 31, 2015 and 2014. 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, 2015.

It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014.

Classification of Belarus as a Highly Inflationary Economy and Devaluation of Its Currency

Since June 30, 2012, Belarus has been designated as a highly inflationary economy. The U.S. dollar is the Company's functional currency for this market. As a result, there were no resulting gains or losses from a re-measurement of the financial statements using official rates of the Company's Belarusian subsidiary. However, as a result of the weakening of the Belarusian ruble, the purchasing power of the Company's independent Distributors in this market has diminished. During the three months ended March 31, 2015 and 2014, the Company's Belarusian subsidiary's net sales revenue represented approximately 2.1 percent and 2.5 percent of consolidated net sales revenue, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (Topic 606). This update requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. As such, this update affects an entity that either enters into contracts with customers or transfers goods and services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This update will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606. The amendments in this update are effective for interim and annual periods

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beginning after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements and footnote disclosures.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The purpose of this ASU is to incorporate into U.S. GAAP management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued, and to provide related footnote disclosures. This update is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial statements and footnote disclosures.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which eliminates the concept of an extraordinary item from GAAP. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, this ASU will still retain the presentation and disclosure guidance for items that are unusual in nature and occur infrequently. This ASU is effective for annual periods ending after December 15, 2015, and interim periods thereafter. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this ASU is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In February 2015, the FASB issued ASU No. 2015-02, Consolidations (Topic 810): Amendments to the Consolidation Analysis. This update makes amendments to the current consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. Under this analysis, limited partnerships and other similar entities will be considered a variable interest entity unless the limited partners hold substantive kick-out rights or participating rights. This update is effective for interim and annual periods beginning after December 15, 2015. The Company is currently evaluating both methods of adoption, as well as the effect this ASU will have on its consolidated financial statements and footnote disclosures.

(2) Discontinued operations

In November 2014, the Company ceased its operations in Venezuela due to the difficulties and uncertainties related to import controls, difficulties associated with repatriating cash and high inflation. This market was part of the Company's NSP Americas segment and all of the income (loss) from discontinued operations is related to the common shareholders of the Company.

The following table summarizes the operating results of the Company's discontinued operations:

	March 31, 2015	March 31, 2014
Net sales revenue	\$	\$ 2,286

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Income (loss) before income tax provision	\$	1,312	\$	(522)
Income tax provision				49
Income (loss) from discontinued operations	\$	1,312	\$	(571)

During the three months ended March 31, 2015, the Company received \$1,312 in net proceeds from the sales of its fixed assets in Venezuela, which is included in the results from discontinued operations. The income (loss) from discontinued operations did not have a material impact on the Company's operating cash flows during the three months ended March 31, 2014.

(3) Inventories

The composition of inventories is as follows:

		March 31, 2015		December 31, 2014
Raw materials	\$	12,298	\$	11,206
Work in progress		743		534
Finished goods		28,887		28,698
Total inventory	\$	41,928	\$	40,438

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At March 31, 2015, and December 31, 2014, intangibles for product formulations had a gross carrying amount of \$1,763 and \$1,763, accumulated amortization of \$1,096 and \$1,059, and a net amount of \$667 and \$704, respectively. The estimated useful lives of the product formulations range from 9 to 15 years.

Amortization expense for intangible assets for the three months ended March 31, 2015, and 2014, was \$37 and \$37, respectively.

(5) Investments

The amortized cost and estimated fair values of available-for-sale securities by balance sheet classification are as follows:

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
As of March 31, 2015							
Municipal obligations	\$	100	\$		\$		\$ 100
U.S. government securities funds		1,791				(8)	1,783
Equity securities		227		472		(13)	686
Total short-term investment securities	\$	2,118	\$	472	\$	(21)	\$ 2,569

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
As of December 31, 2014							
Municipal obligations	\$	100					