

NATURES SUNSHINE PRODUCTS INC
Form 10-K
March 16, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the fiscal year ended December 31, 2009

OR

o Transition report under 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)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

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Indicate by check mark whether the registrant has (1) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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 aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2009 was approximately \$36,116,631 based on the closing price of \$5.25 as quoted by Nasdaq Capital Market on June 30, 2009.

The number of shares of Common Stock, no par value, outstanding on March 5, 2010 is 15,510,159 shares.

EXPLANATORY NOTES

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year ended December 31, 2009, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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NATURE'S SUNSHINE PRODUCTS, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2009

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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. 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 described in this report, including the risks set forth under Risk Factors in Item 1A.

Throughout this report, we refer to Nature's Sunshine Products, Inc., together with its subsidiaries, as we, us, our Company or the Company.

PART 1

Item 1. Business

The Company

Nature's Sunshine Products, Inc., founded in 1972 and incorporated in Utah in 1976, together with our subsidiaries, is primarily engaged in the manufacturing and marketing of nutritional and personal care products. We sell our products worldwide to a sales force of independent Distributors (as defined below) who use the products themselves or resell them to other Distributors or consumers.

Our operations are conducted in the United States as well as in various other countries. Our subsidiaries are located in 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 export our products to several other countries, including Argentina, Australia, Chile, New Zealand and Norway.

We also sell our products through a separate division, Synergy Worldwide. Synergy Worldwide sells products in the United States, Japan, South Korea, Singapore, Thailand, Taiwan, Malaysia, Hong Kong, the Philippines, Indonesia, the United Kingdom, Germany, Austria, the Netherlands, Norway, Sweden, Australia, Canada, Mexico, and the Czech Republic.

Business Segments

We are principally engaged in one line of business: the manufacturing and marketing of nutritional and personal care products. We conduct our business through three reportable business segments. Two of the reportable business segments operate under the *Nature's Sunshine Products* name and are divided based on geographic operations: a United States segment (NSP United States) and an international segment (NSP International). Our third reportable business segment operates under the *Synergy Worldwide* name, a division that was acquired by us in 2000. Synergy Worldwide offers products with formulations that are sufficiently different from those of the Nature's Sunshine Products offerings to warrant its treatment as a separate reportable segment . In addition, Synergy Worldwide's marketing and Distributor compensation plans are sufficiently different from those of Nature's Sunshine Products. Information by business segment for each of our last three fiscal years regarding net sales revenue and operating income, and information by business segment as of the end of our last two fiscal years regarding identifiable assets, are set forth in Note 12 of the Notes to Consolidated Financial Statements set forth in Item 8 of this report.

Products and Manufacturing

Our line of over 700 products includes herbal products, vitamins and mineral supplements, personal care products, nutritional drinks, and miscellaneous other products. We purchase herbs and other raw materials in bulk and, after quality control testing, we formulate, encapsulate, tablet or concentrate them, and package them for shipment. Most of our products are manufactured at our facility in Spanish Fork, Utah. Contract manufacturers produce some of our personal care and other miscellaneous products for us in accordance with our specifications and standards. We have implemented stringent quality control procedures to verify that our contract manufacturers have complied with our specifications and standards. Our product lines are described below.

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Herbal Products

We manufacture a wide selection of herbal products, which are sold in the form of capsules or tablets. These capsules or tablets contain herb powder or a combination of two or more herb powders. We also produce both single herbs and herb combinations in the form of liquid herbs and extracts. Liquid herbs are manufactured by concentrating herb constituents in a vegetable glycerin base. Extracts are created by dissolving powdered herbs into liquid solvents that separate the key elements of the herbs from the fibrous plant material. For the years ended December 31, 2009, 2008 and 2007, herbal products accounted for approximately 48.5, 49.6 and 52.9 percent of net sales revenue for NSP United States, respectively. We believe these percentages reasonably reflect the proportions experienced by the Company on a consolidated basis.

Vitamins and Mineral Supplements

We manufacture a wide variety of single vitamins, which are sold in the form of chewable or non-chewable tablets. We also manufacture several multiple vitamins and mineral supplements, including a line containing natural antioxidants. Generally, mineral supplements are sold in the form of tablets; however, certain minerals are offered only in liquid form. For the years ended December 31, 2009, 2008, and 2007, vitamins and mineral supplements accounted for approximately 44.1, 44.4, and 41.6 percent of net sales revenue for NSP United States, respectively. We believe these percentages reasonably reflect the proportions experienced by the Company on a consolidated basis.

Personal Care Products

We manufacture or contract with independent manufacturers to supply a variety of personal care products for external use, including oils and lotions, aloe vera gel, herbal shampoo, herbal skin treatment, toothpaste, and skin cleanser. For the years ended December 31, 2009, 2008, and 2007, personal care products accounted for approximately 3.1, 2.8, and 2.3 percent of net sales revenue for NSP United States, respectively. We believe these percentages reasonably reflect the proportions experienced by the Company on a consolidated basis.

Other Products

We manufacture or contract with independent manufacturers to supply a variety of other products, including a variety of nutritional drinks, homeopathic products, and powders. For the years ended December 31, 2009, 2008, and 2007, other products accounted for approximately 4.3, 3.2, and 3.2 percent of net sales revenue for NSP United States, respectively. We believe these percentages reasonably reflect the proportions experienced by the Company on a consolidated basis.

Distribution and Marketing

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Our independent Distributors market our products to consumers through direct-selling techniques, as well as sponsoring other Distributors. We seek to motivate and provide incentives to our independent Distributors by offering high quality products and providing our Distributors with product support, training seminars, sales conventions, travel programs, and financial benefits.

Our products sold in the United States are shipped directly from our manufacturing and warehouse facilities located in Spanish Fork, Utah, as well as from our regional warehouses located in Columbus, Ohio; Dallas, Texas; and Atlanta, Georgia. Most of our international operations maintain warehouse facilities with inventory to supply their customers.

Demand for our products is created primarily from our independent Distributors. As of December 31, 2009, we had approximately 697,200 active Distributors worldwide, which included approximately 253,400 Distributors in the United States. A person who joins our independent sales force begins as a Distributor. An individual can become a Distributor by signing up under the sponsorship of someone who is already a Distributor or by signing up through the Company, where they will then be assigned a sponsor. Each Distributor is required to renew his or her distributorship on a yearly basis; our experience indicates that, on average, approximately 45 percent of our Distributors renew annually. Many Distributors sell our products on a part-time basis to friends or associates or use the products themselves. An independent Distributor interested in earning additional income by committing more time and effort to selling our products may earn Manager status. Manager status is contingent upon attaining certain purchase volume levels, recruiting additional Distributors, and demonstrating leadership abilities. As of December 31, 2009, we had approximately 28,700 independent Managers worldwide, including approximately 6,900 independent Managers in the United States. Managers resell our products to Distributors within their sales group, sell our products directly to consumers, or use the products themselves. Historically, on average, approximately 63 percent of Distributors appointed as Managers have continued to maintain that status annually.

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In the United States, we generally sell our products on a cash or credit card basis. From time to time, our United States operation extends short-term credit associated with product promotions. For certain of our international operations, we use independent distribution centers and offer credit terms that are generally consistent with industry standards within each respective country.

We pay sales commissions (Volume Incentives) to our independent Managers and Distributors based upon the amount of sales group product purchases. Generally, a portion of these Volume Incentives are paid to the applicable Manager as a rebate for product purchases made by the Manager and the Manager's down-line Distributors. Volume Incentives are recorded as an expense in the year earned. The remaining portion of these Volume Incentives is paid in the form of commissions for purchases made by the Manager's down-line Distributors. The amounts of Volume Incentives that we paid during the years ended December 31, 2009, 2008, and 2007 are set forth in our Consolidated Financial Statements in Item 8 of this report. In addition to the opportunity to receive Volume Incentives, Managers who qualify by attaining certain levels of monthly product purchases are eligible for additional incentive programs including automobile allowances, sales convention privileges, and travel awards.

Source and Availability of Raw Materials

Raw materials used in the manufacture of our products are generally available from a number of suppliers. To date, we have not experienced any major difficulty in obtaining adequate sources of supply. We attempt to ensure the availability of many of our raw materials by contracting, in advance, for our annual requirements. In the past, we have found alternative sources of raw materials when needed. Although there can be no assurance we will be successful in locating such sources in the future, we believe we will be able to do so.

Trademarks and Trade Names

We have obtained trademark registrations of our basic trademark, Nature's Sunshine®, and the landscape logo for all of our Nature's Sunshine Products product lines. We have also obtained trademark registrations for Synergy® for all of our Synergy Worldwide product lines. We hold trademark registrations in the United States and in many other countries. Our customers' recognition and association of our brands and trademarks with quality is an important element of our operating strategy.

Seasonality

Our business does not reflect significant seasonality.

Inventories

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In order to provide a high level of product availability to our independent Distributors and Managers, we maintain a considerable inventory of raw materials in the United States and of finished goods in most countries in which we sell our products. Due to different regulatory requirements across the countries in which we sell our products, our finished goods inventories reflect product labels and sometimes product formulations specific for each country. Our inventories are subject to obsolescence due to finite shelf lives.

Dependence upon Customers

We are not dependent upon a single customer or a few customers, the loss of which we believe would have a material adverse effect on our business.

Backlog

We typically ship orders for our products within 24 hours after receipt. As a result, we have not historically experienced significant backlogs.

Competition

Our products are sold in competition with other companies, some of which have greater sales volumes and financial resources than we do, and sell brands that are, through advertising and promotions, better known to consumers. We compete in the nutritional and personal care industry against companies that sell through retail stores as well as against other direct selling companies. For example, we compete against manufacturers and retailers of nutritional and personal care products, which are distributed through supermarkets, drug stores, health food stores, discount stores, etc. In addition to competition with these manufacturers and retailers, we compete for product sales and independent distributors with many other direct sales companies, including Herbalife, Pharmanex

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(NuSkin), USANA, Shaklee, Mannatech and Amway, among others. The principal competitors in the retail encapsulated and tableted herbal products market include Nature's Way, NOW, Rexall Sundown, and Nutraceuticals. We believe that the principal components of competition in the direct sales marketing of nutritional and personal care products are quality, price, and brand recognition. In addition, the recruitment, training, travel, and financial incentives for the independent sales force are important factors.

Research and Development

We conduct research and development activities at our manufacturing facility located in Spanish Fork, Utah. Our principal emphasis in our research and development activities is the development of new products and the enhancement of existing products. The amount, excluding capital expenditures, spent on research and development activities was approximately \$2.0 million in 2009, \$2.0 million in 2008, and \$1.9 million in 2007. During the three years in the period ended December 31, 2009, we did not contract for any third-party research and development.

Compliance with Environmental Laws and Regulations

The nature of our business has not required any material capital expenditures to comply with federal, state, or local provisions enacted or adopted regulating the discharge of materials into the environment. No material expenditures to meet such provisions are anticipated. Such regulatory provisions have not had any material effect upon our results of operations or competitive position.

Regulation

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. The most active of these is the Food and Drug Administration (FDA), which regulates our products under the Federal Food, Drug and Cosmetic Act (FDCA) and regulations promulgated there under. The FDCA defines the terms food and dietary supplement and sets forth various conditions that, unless complied with, may constitute adulteration or misbranding of such products. The FDCA has been amended several times with respect to dietary supplements, most recently by the Nutrition Labeling and Education Act of 1990 (the NLEA) and the Dietary Supplement Health and Education Act of 1994 (the DSHEA).

FDA regulations relating specifically to foods and dietary supplements for human use are set forth in Title 21 of the Code of Federal Regulations. These regulations include basic labeling requirements for both foods and dietary supplements. Additionally, FDA regulations require us to meet relevant good manufacturing practice regulations for the preparation, packaging and storage of our food and dietary supplements.

Our products are also regulated by the Federal Trade Commission (FTC), the Consumer Product Safety Commission (CPSC), the United States Department of Agriculture (USDA), and the Environmental Protection Agency (EPA). Our activities, including our multi-level distribution activities, are also regulated by various agencies of the states, localities, and foreign countries in which our products are sold.

In foreign markets, prior to commencing operations and prior to making or permitting sales of our products in the market, we may be required to obtain an approval, license or certification from the country's ministry of health or comparable agency. Prior to entering a new market in which a formal approval, license or certificate is required, we work extensively with local authorities in order to obtain the requisite approvals. We must also comply with product labeling and packaging regulations that vary from country to country. Our failure to comply with these regulations can result in a product being removed from sale in a particular market, either temporarily or permanently.

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A significant portion of our net sales are concentrated within the United States, which represented 45.0 percent of net sales in 2009. Outside of the United States, Russia is our largest market, representing 8.8 percent of net sales during 2009, while Japan follows close behind, representing 8.2 percent of net sales during 2009. As we continue to expand internationally, our operating results will likely become more sensitive to economic and political conditions in foreign markets, as well as to foreign currency fluctuations. A breakdown of net sales revenue by region in 2009, 2008, and 2007 is set forth below.

(Dollar amounts in thousands)

Year Ended December 31,	2009		2008		2007		
Net Sales Revenue:							
United States	\$	154,217	45.0%	\$ 151,332	40.6%	\$ 152,943	42.4%
Foreign							
Russia		30,097	8.8	40,419	10.8	31,023	8.6
Japan		28,125	8.2	38,972	10.4	45,554	12.6
Other		130,584	38.0	142,511	38.2	131,354	36.4
Total Foreign		188,806	55.0	221,902	59.4	207,931	57.6
	\$	343,023	100.0%	\$ 373,234	100.0%	\$ 360,874	100.0%

Our sales of nutritional and personal care products are established internationally in 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, Brazil, South Korea, Singapore, Thailand, Taiwan, Malaysia, Hong Kong, the Philippines, Indonesia, Germany, Austria, the Netherlands, Norway, Sweden, and the Czech Republic. We also export our products to several other countries, including Argentina, Australia, Chile, New Zealand, and Norway.

Our international operations are conducted in a manner we believe is comparable with those conducted in the United States; however, in order to conform to local variations, economic realities, market customs, consumer habits, and regulatory environments, differences often exist in the products and in the distribution and marketing programs.

Our international operations are subject to many of the same risks faced by our United States operations, including competition and the strength of the local economy. In addition, our international operations are subject to certain risks inherent in carrying on business abroad, including foreign regulatory restrictions, fluctuations in monetary exchange rates, import-export controls and the economic and political policies of foreign governments. The significance of these risks increases as our international operations continue to expand. A significant portion of our long-lived assets are located in the United States and Venezuela. Information by region for each of our last two fiscal years regarding our long-lived assets is set forth in Note 12 of the Notes to the Consolidated Financial Statements set forth in Item 8 of this report.

Executive Officers

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The Company's executive officers, as of the date of this report, are as follows:

Name	Age	Position	Served in Position Since
Douglas Faggioli	55	President and Chief Executive Officer	2003
Stephen M. Bunker	51	Executive Vice President, Chief Financial Officer and Treasurer	2006
Jamon Jarvis	43	Executive Vice President, General Counsel, Chief Compliance Officer and Secretary	2007
Greg Halliday	45	President U.S. Sales, Nature's Sunshine Products	2006
Bryant J. Yates	36	President International, Nature's Sunshine Products	2007
John R. DeWyze	53	Executive Vice President Operations, Nature's Sunshine Products	2002
William J. Keller	67	Vice President Health Sciences and Educational Services	2001
Lynda Marie Hammons	55	Vice President Quality and Regulatory Affairs	2001

Douglas Faggioli. Mr. Faggioli is the President and Chief Executive Officer of our Company. Prior to his appointment as President and Chief Executive Officer in November 2003, Mr. Faggioli served as Executive Vice President and Chief Operating

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Officer of our Company. He began his employment with us in 1983 and has served as one of our officers since 1989 and currently serves as a director of our Company. He is a Certified Public Accountant. On March 12, 2010, Mr. Faggioli informed the Board of Directors of his intent to step down as President and Chief Executive Officer, as well as a Member of the Company's Board of Directors effective June 30, 2010.

Stephen M. Bunker. Mr. Bunker has served as Executive Vice President, Chief Financial Officer and Treasurer since March 27, 2006. Mr. Bunker served as Vice President of Finance and Treasurer of Geneva Steel Holdings Corporation from July 2001 until March 2006. Prior to July 2001 Mr. Bunker served as Corporate Controller for Geneva Steel Corporation. Mr. Bunker is a Certified Public Accountant, and worked for Arthur Andersen for six years.

Jamon Jarvis. Mr. Jarvis is the Executive Vice President, General Counsel, Chief Compliance Officer and Secretary of our Company. He has served in this position since March 2007. Prior to his appointment, Mr. Jarvis served as General Counsel and Chief Financial Officer of InterNetwork, Inc., in San Francisco, California, from January 2004 to November 2006, and as Executive Vice President Finance, General Counsel and Corporate Secretary at Spontaneous Technology, Inc., in Salt Lake City, Utah, from September 2001 to October 2003. Mr. Jarvis received his B.A. in History in 1990 from Brigham Young University and his J.D. in 1993 from Cornell Law School.

Greg Halliday. Mr. Halliday is the President U.S. Sales for Nature's Sunshine Products. He has served in this position since April 2006 and previously served as Vice President Nature's Sunshine Products U.S. Sales from May 2001 to March 2006. Mr. Halliday received his B.S. in 1989 and M.B.A. with an emphasis in Marketing in 1991 from the Marriott School of Management at Brigham Young University.

Bryant J. Yates. Mr. Yates is the President International of our Company. Mr. Yates, has served as Executive Director International of the Company, Director International Europe/Middle East and General Manager of Nature's Sunshine Products of Russia, an affiliate of the Company. Mr. Yates has been employed by the Company since 1999.

John R. DeWyze. Mr. DeWyze is the Executive Vice President Operations for Nature's Sunshine Products and has served in this position since 2002. Mr. DeWyze received his B.S. in Chemistry in 1981 from Grand Valley State University and his M.B.A. in 1994 from the University of Southern Indiana.

William J. Keller. Dr. Keller is the Vice President Health Sciences and Educational Services for Nature's Sunshine Products. He was appointed to serve in this capacity in April 2001. Prior to joining our Company, Dr. Keller was the Department Chair/Professor in the School of Pharmacy at Samford University and Northeast Louisiana University. Dr. Keller received his B.S. in Pharmacy and M.S. in Pharmaceutical Sciences from Idaho State University. In 1972, the University of Washington awarded him a Ph.D. in Pharmacognosy.

Lynda Marie Hammons. Ms. Hammons is the Vice President Quality and Regulatory Affairs for Nature's Sunshine Products. She has served in this capacity since June 2001. Ms. Hammons received her B.S. in Chemistry and Microbiology from Bowling Green State University and her M.B.A. with an emphasis on Quality Management from the University of Cincinnati. Ms. Hammons is also a Certified Quality Engineer, a Certified Quality Technician and a Certified Quality Auditor American Society for Quality.

Employees

The number of individuals we employed as of December 31, 2009 was 1,191. We believe that our relations with our employees are satisfactory.

Available Information

Our principal executive office is located at 75 East 1700 South, Provo, Utah 84606. Our telephone number is (801) 342-4300 and our Internet website address is <http://www.natr.com>. We make available free of charge on our website our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) as soon as practicable after we electronically file these documents with, or furnish them to, the Securities and Exchange Commission (the SEC). The SEC also maintains an Internet website that contains reports, and other information regarding issuers that file electronically with the SEC at www.sec.gov. We also make available free of charge on our website our Corporate Governance Guidelines, our Code of Business Conduct and Ethics, and the Charters of our Audit Committee, Corporate Governance and Nominating Committee, and Compensation Committee.

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Item 1A. Risk Factors

You should carefully consider the following risks in evaluating our Company and our business. The risks described below are the risks that we currently believe are material to our business. However, additional risks not presently known to us, or risks that we currently believe are not material, may also impair our business operations. You should also refer to the other information set forth in this report, including the information set forth in Business and Management's Discussion and Analysis of Financial Condition and Results of Operations as well as our consolidated financial statements and the related notes. Our business prospects, financial condition, or results of operations could be adversely affected by any of the following risks. If we are adversely affected by such risks, then the trading price of our common stock could decline.

Changes in laws and regulations regarding network marketing may prohibit or restrict our ability to sell our products in some markets.

Network marketing systems are frequently subject to laws and regulations by various government agencies throughout the world. These laws and regulations are generally intended to prevent fraudulent or deceptive practices and ensure that sales are made to consumers of the products and that compensation, recognition, and advancement within the marketing organization are based upon sales of the product. Failure to comply with these laws and regulations could result in significant penalties. Violations could result from misconduct by an associate, ambiguity in statutes, changes or new laws and regulations affecting our business, and court related decisions. Furthermore, we may be restricted or prohibited from using network marketing plans in some foreign countries.

Our products and manufacturing activities are subject to extensive government regulations and could be subject to additional laws and regulations.

The formulation, manufacturing, packaging, labeling, advertising, distribution and sales of each of our major product groups are subject to regulation by numerous domestic and foreign governmental agencies and authorities. These include the FDA, the FTC, the CPSC, the USDA, and state regulatory agencies as well as regulatory agencies in the foreign markets in which we operate. The markets in which we operate have varied regulations which often require us to reformulate products for specific markets, conform product labeling to market regulations, and register or qualify products or obtain necessary approvals with the applicable governmental authorities in order to market our products in these markets. Failure to comply with the regulatory requirements of these various governmental agencies and authorities could result in enforcement actions including: cease and desist orders, injunctions, limits on advertising, consumer redress, divestitures of assets, rescission of contracts, or such other relief as may be deemed necessary. Violation of these orders could result in substantial financial or other penalties. Any action against us could materially affect our ability to successfully market our products.

In the future, we may be subject to additional laws or regulations administered by the FDA or other federal, state, local, or foreign regulatory authorities, the repeal or amendment of laws or regulations which we consider favorable and/or more stringent interpretations of current laws or regulations. We can neither predict the nature of such future laws, regulations, interpretations, or applications, nor what effect additional governmental regulations or administrative orders, when and if promulgated, would have on our business. They could, however, require reformulation of certain products to meet new standards, recall or discontinuance of certain products not able to be reformulated, imposition of additional record-keeping requirements, expanded documentation of the properties of certain products, expanded or altered labeling and/or scientific substantiation. Any or all such requirements could have a material negative impact on our financial position, results of operations, or cash flows.

If we are unable to attract and retain independent Distributors, our business could suffer.

We rely on our independent Distributors to market and sell our products through direct marketing techniques, as well as sponsoring other Distributors. Many Distributors sell our products on a part-time basis to friends or associates or use the products for themselves. Our Distributors

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may terminate their service at any time, and, like most direct selling companies, we experience high turnover among Distributors from year to year. Each Distributor is required to renew his or her distributorship on a yearly basis; our experience indicates that, on average, approximately 45 percent of our Distributors renew annually. As a result, we need to continue to retain existing Distributors and recruit additional Distributors in order to maintain and/or increase sales in the future.

Several factors affect our ability to attract and retain independent Distributors, including:

- any adverse publicity regarding us, our products, our distribution channels or our competitors;
- on-going motivation of our independent Distributors;
- public's perceptions about the value and efficacy of our products;
- public's perceptions and acceptance of network-marketing;

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- general and economic business conditions;
- changes to our compensation arrangements with our independent Distributors; and
- competition in recruiting and retaining independent Distributors and or market saturation.

We cannot provide any assurance that our independent Distributors will continue to maintain their current levels of productivity or that we will be able to continue to attract and retain Distributors in sufficient numbers to sustain future growth or to maintain present growth levels.

The economic slowdown in the markets in which we do business has reduced consumer demand for our products.

Consumer spending habits, including spending for our products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, consumer confidence and consumer perception of economic conditions. For instance, in the last fiscal quarter of 2008, we began to see changes in our consumer spending habits in the United States, Russia, Asian and Latin American markets due to the current general economic slowdown, which has resulted in lower net sales of our products. The current general economic slowdown in the markets in which we do business and an uncertain economic outlook may continue to adversely affect consumer spending habits and customer traffic, which may result in lower net sales of our products. A prolonged global economic downturn could have a material negative impact on our financial position, results of operation, or cash flows.

Currency exchange rate fluctuations have lowered our revenue and net income.

In 2009, we recognized approximately 55.0 percent of our revenue in markets outside the United States, of which 36.2 percent was recognized in each market's respective local currency (other than the U.S. dollar). We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenues and expenses in foreign countries from their local currencies into U.S. dollars using weighted-average exchange rates. Because a significant portion of our sales is in foreign countries, exchange rate fluctuations may have a significant effect on our sales and earnings. Our reported net earnings have in the past and are likely to continue to be significantly affected by fluctuations in currency exchange rates, with earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. These fluctuations had a generally negative effect on our revenue in 2009 as compared to 2008 beginning in the fourth quarter 2008.

During the fourth quarter for the year ended December 31, 2008, we began to see a decline in our global net sales of our products of approximately 4.7 percent as a result of changes in global economic conditions in the markets in which our business segments operate. The decline was primarily driven by strengthening of the U.S. dollar against most major currencies of the markets in which we operate. During 2009, we have experienced a continuing decline in our global net sales as a result of the U.S. dollar strengthening against most major currencies, which is a reversal of the trend for prior years. For instance, the U.S. dollar increased approximately 26.2 percent from the end of the third quarter of 2008 to the end of the fourth quarter 2008 against the Mexican peso and the weighted average exchange rate used to translate revenues and expenses from Mexico has also weakened 22.7 percent for the year ended December 31, 2009 compared to 2008 as a result of the U.S. dollar strengthening against the Mexican peso. However, during 2009, we began to see some stabilization in the average exchange rates used to translate revenues and expenses over the course of the year for most of the markets in which we operate. If exchange rates were to change in future periods relative to those experienced during the end of 2008 and the beginning of 2009, it could have a significant impact on our revenue

in future periods. As operations expand in countries where foreign currency transactions may be made, our operating results will increasingly be subject to the risks of exchange rate fluctuations and we may not be able to accurately estimate the impact that these changes may have on our future results of operations or financial condition.

Some of the markets in which we operate may become highly inflationary.

Inflation is another risk associated with our international operations. For example, as of January 1, 2010, Venezuela has been designated as a highly inflationary economy under generally accepted accounting principles in the United States of America (U.S. GAAP). As a result, beginning January 1, 2010, the U.S. dollar will be the functional currency for our subsidiaries in Venezuela. Going forward, currency remeasurement adjustments for this subsidiary s financial statements and other transactional foreign exchange gains and losses will be reflected in earnings, which could result in volatility within our earnings, rather than as a component of comprehensive income within shareholders equity.

Some of the markets in which we operate have currency controls in place which may restrict the repatriation of cash.

The possibility that foreign governments may impose currency remittance restrictions is another risk faced by our international operations. Due to the possibility of government restrictions on transfers of cash out of the country and control of exchange rates, we

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may not be able to repatriate cash at exchange rates beneficial to the Company, which could have a material adverse effect on our financial position, results of operations, or cash flows.

For example, as of December 31, 2009, we had approximately \$2.0 million in cash denominated in Venezuelan bolivar fuertes. Currency restrictions enacted by the government of Venezuela require approval from the government's currency control organization for our subsidiary in Venezuela to obtain U.S. dollars at an official exchange rate to pay for imported products or to repatriate dividends back to the Company. While to date we have been able to receive approval from the government of Venezuela to obtain U.S. dollars at the official exchange rate, no assurances can be given that we will continue to receive such approval, or that other markets in which we operate will enact similar restrictions.

Availability and integrity of raw materials could become compromised.

We depend on outside suppliers for raw materials. We acquire all of our raw materials for the manufacture of our products from third-party suppliers. We have many agreements for the supply of materials used in the manufacture of our products in order to hedge against shortages or potential spikes in material costs. We also contract with third-party manufacturers and suppliers for the production of some of our products. In the event we were to lose any significant suppliers and experience any difficulties in finding or transitioning to alternative suppliers, it could result in product shortages or product back orders, which could harm our business. There can be no assurance that suppliers will be able to provide us the raw materials in the quantities and at the appropriate level of quality we request or at a price we are willing to pay. We are also subject to the delays caused by any interruption in the production of these materials including weather, crop conditions, climate change, transportation interruptions, and natural disasters or other catastrophic events.

Occasionally, our suppliers have experienced production difficulties with respect to our products, including the delivery of materials or products that do not meet our quality control standards. These quality problems have in the past resulted in, and in the future could result in, stock outages or shortages of our products, and could harm our sales and create inventory write-offs for unusable product.

Geopolitical issues and conflicts could adversely affect our business.

Because a substantial portion of our business is conducted outside of the United States, our business is subject to global political issues and conflicts. If these conflicts or issues escalate, it could harm our foreign operations. In addition, changes and actions by governments in foreign markets could harm our business.

Our business is subject to the effects of adverse publicity and negative public perception.

Our ability to attract and retain Distributors, as well as their ability to maintain or grow sales in the future, can be affected by either adverse publicity or negative public perception in regards to our industry, our competition, our direct marketing model, the quality or efficacy of nutritional product supplements and ingredients, and our business generally. There can be no assurance we will not be subject to adverse publicity or negative public perception in the future or that it would not have an adverse or material negative impact on our financial position, results of operations, or cash flows.

Taxation and transfer pricing affect our operations.

As a U.S. company doing business in many international markets, we are subject to foreign tax and intercompany pricing laws, including those relating to the flow of funds between our parent Company and our subsidiaries. These pricing laws are designed to ensure that appropriate levels of income and deductions are reported by our U.S. and foreign entities and that they are taxed appropriately. Regulators in the United States and in foreign markets closely monitor our corporate structures, intercompany transactions, and how we effectuate intercompany fund transfers. If regulators challenge our corporate structures, transfer pricing methodologies or intercompany transfers, our operations may be harmed, and our effective tax rate may increase. We are eligible to receive foreign tax credits in the United States for certain foreign taxes actually paid abroad. In the event any audits or assessments are concluded adversely to us, we may not be able to offset the consolidated effect of foreign income tax assessments through the use of U.S. foreign tax credits. Because the laws and regulations governing U.S. foreign tax credits are complex and subject to periodic legislative amendment, we cannot be sure that we would in fact be able to take advantage of any foreign tax credits in the future. The various customs, exchange control and transfer pricing laws are continually changing and are subject to the interpretation of governmental agencies.

In early 2006, the Internal Revenue Service began an audit of the Company's income tax returns. This audit is ongoing and covers income tax returns for the years 2003 through 2008. See Item 3, Legal Proceedings - Audit of U.S. Federal Tax Return 2003-2008 . We cannot predict what impact, if any, and the materiality of such impact, if any, the conclusion of these matters may have on our financial statements.

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We collect and remit sales tax in states in which we have determined that nexus exists. Other states may, from time to time, claim we have state-related activities constituting a sufficient nexus to require such collection.

Despite our best efforts to be aware of and comply with such laws and changes to the interpretations thereof, there is a risk that we may not continue to operate in compliance with such laws. We may need to adjust our operating procedures in response to these changes, and such changes could have a material negative impact on our financial position, results of operation, or cash flows.

Our business is subject to intellectual property risks.

Most of our products are not protected by patents. Restrictive regulations governing the precise labeling of ingredients and percentages for nutritional supplements, the large number of manufacturers who produce products with many active ingredients in common, and the rapid change and frequent reformulation of products make patent protection impractical. As a result, we enter into confidentiality agreements with certain of our employees in our research and development activities, our independent associates, suppliers, directors, officers, and consultants to help protect our intellectual property, investment in research and development activities and trade secrets. We have also obtained trademarks for the Nature's Sunshine Products name and logo as well as the Synergy Worldwide name. There can be no assurance that our efforts to protect our intellectual property and trademarks will be successful. Nor can there be any assurance that third parties will not assert claims against us for infringement of intellectual property rights, which could result in our business being required to obtain licenses for such rights, payment of royalties, or the termination of our manufacturing of infringing products, all of which could have a material negative impact on our financial position, results of operations, or cash flows.

Product liability claims could harm our business.

As a manufacturer and distributor of products that are ingested, we face an inherent risk of exposure to product liability claims in the event that, among other things, the use of our products results in alleged injury to consumers due to tampering by unauthorized third parties or product contamination and/or other causes. We have historically had a very limited number of product claims or reports from individuals who have asserted that they have suffered adverse consequences as a result of using our products. We have established a wholly-owned captive insurance company to provide us with product liability insurance coverage and have accrued an amount that we believe is sufficient to cover probable and reasonably estimable liabilities related to product liability claims based upon our history. There can be no assurance that these estimates will prove to be sufficient nor can there be any assurance that the ultimate outcome of any litigation for product liability will not have a material negative impact on our business prospects, financial position, results of operations, or cash flows.

Inventory obsolescence due to finite shelf lives could adversely affect our business.

In order to provide a high level of product availability to our independent Distributors and Managers, we maintain a considerable inventory of raw materials in the United States and of finished goods in most countries in which we sell our products. Our inventories of both raw materials and finished goods have finite shelf lives. If we overestimate the demand for our products, we could experience significant write-downs on our inventory due to obsolescence. Such write-downs could have a material negative impact on our financial position, results of operations, or cash flows.

System failures could harm our business.

Like many companies, our business is highly dependent upon our information technology infrastructure to effectively and efficiently manage our operations, including order entry, customer billing, accurately tracking purchases and volume incentives, and managing accounting, finance, and manufacturing operations. The occurrences of natural disasters or other unanticipated problems could result in interruptions in our day-to-day business that could adversely affect our business. We have a disaster recovery plan in place to mitigate the risk. Nevertheless, there can be no assurance that a long-term failure or impairment of any of our information systems would not adversely affect our ability to conduct our day-to-day business.

The Company could incur obligations relating to the activities of our Distributors.

We sell our products worldwide to a sales force of independent Distributors who use the products themselves or resell them to other independent Distributors or consumers. In the event that local laws and regulations or the interpretation of local laws and regulations change and require us to treat our independent Distributors as employees, or if our Distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors, under existing laws and interpretations, we may be held responsible for a variety of obligations that are imposed upon employers relating to their employees, including employment related taxes and penalties. Our Distributors also operate in jurisdictions where

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local legislation and governmental agencies require us to collect and remit taxes such as sales tax or value-added taxes. In addition, there is the possibility that some jurisdictions could seek to hold the Company responsible for false product claims or the negligent actions of an independent Distributor. However, to date the Company has had no such occurrences. In addition, we believe we have strong legal defenses if such a claim were to arise. If the Company were found to be responsible for any of these issues related to our Distributors, it could have a material negative impact on our financial position, results of operations, or cash flows.

Changes in key management could materially adversely affect the Company.

We believe our success depends in part on our ability to retain our executive officers, and to continue to attract additional qualified individuals to our team. We have entered into employment agreements with each of our named executive officers, which we believe achieves two important goals crucial to our long-term financial success: the long-term retention of our senior executives and their commitment to the attainment of our strategic objectives. However, we cannot guarantee the continued service by our key officers. The loss or limitation of any of our executive officers or the inability to attract additional qualified management personnel could have a material negative impact on our financial position, results of operations, or cash flows. We do not carry key man insurance on the lives of any of our executive officers.

Our business is involved in an industry with intense competition.

Our business operates in an industry with numerous manufacturers, distributors, and retailers of nutritional products. The market for our products is intensely competitive. Many of our competitors are significantly larger, have greater financial resources and have better name recognition than we do. We also rely on our independent Distributors to market and sell our products through direct marketing techniques, as well as sponsoring other Distributors. Our ability to compete with other direct marketing companies depends greatly on our ability in attracting and retaining our Distributors. In addition, we currently do not have significant patent or other proprietary protection, and our competitors may introduce products with the same or similar ingredients that we use in our products. As a result, we may have difficulty differentiating our products from our competitors' products, and competing products entering the nutritional market. There can be no assurance that our future operations would not be harmed as a result of changing market conditions and future competition.

We have had material weaknesses in our internal controls over financial reporting.

As discussed in Item 9A of this report, Controls and Procedures, our management team for financial reporting, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our internal controls. Management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2009, because of the continued existence of material weakness related to accounting for taxes. A material weakness is defined under auditing rules as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis by the company's internal controls.

The Company has taken various steps to remediate this remaining material weakness. With respect to our accounting for taxes, we hired a new Tax Director during 2008 and have utilized various outsourced service providers for tax consulting services to assist in our accounting for income taxes. Although we have made and are continuing to make improvements in our internal controls, if we are unsuccessful in our focused

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effort to effectively remediate the weakness in our internal controls over financial reporting over time, it may adversely impact our ability to report our financial condition and results of operations in the future accurately and in a timely manner, and may adversely impact our reputation with stakeholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate offices are located in two adjacent office buildings in Provo, Utah. The facilities consist of approximately 63,000 square feet and are leased from an unaffiliated third party through lease agreements which expire in as early as three years but are renewable upon expiration at our option.

Our principal warehousing and manufacturing facilities are housed in a building consisting of approximately 270,000 square feet owned by us and located on approximately ten acres in Spanish Fork, Utah. These facilities support all of our business segments.

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We own approximately 60,000 square feet of office and warehouse space in Mexico and approximately 13,000 square feet of office and warehouse space in Venezuela. These facilities support NSP International.

We also own approximately 53 acres of undeveloped land in Springville, Utah and approximately 8 acres of undeveloped land in Provo, Utah.

We lease properties used primarily as distribution warehouses located in Columbus, Ohio; Dallas, Texas; Atlanta, Georgia; and Spanish Fork, Utah; as well as offices and distribution warehouses in Pleasant Grove, Utah; Japan; Mexico; Central America; Canada; Venezuela; South Korea; the Dominican Republic; Ecuador; the United Kingdom; Colombia; Thailand; Peru; Singapore; Israel; Brazil; Taiwan; Indonesia; Malaysia; the Philippines; Poland; China; and Australia. We believe these facilities are suitable for their respective uses and are, in general, adequate for our present and near-term future needs. During our fiscal years 2009, 2008, and 2007, we spent approximately \$5.7 million, \$5.9 million, and \$5.2 million, respectively, for all of our leased facilities.

Item 3. Legal Proceedings

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The Company is 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 cash flows 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 cash flows for the period in which the ruling occurs and/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 (the Consolidated Complaint) against the Company, the Company's Chief Executive Officer and a 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 Exchange Act, alleging that the individual defendants have control person liability for the 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 Rule 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.

On September 14, 2009, the parties and the Company's directors' and officers' liability insurer signed a Stipulation of Settlement (Stipulation), which was filed with the Court on September 14, 2009. The Stipulation set forth the complete terms of the parties' proposed settlement. The basic terms of the settlement were that the Company's insurer would pay the settlement class, which is defined as all persons (except for defendants and specified related persons and entities) who purchased the Company's common stock during the period from April 23, 2002 through April 5, 2006, \$6 million in exchange for a dismissal with prejudice of the lawsuit and a release of all claims held by members of the settlement class. As set forth in the Stipulation, the proposed settlement would not

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become final until a number of conditions were satisfied, including the Stipulation receiving both preliminary and final approval from the Court. On October 8, 2009, the Court entered an order (i) granting preliminary approval of the Stipulation, (ii) requiring that notice of the proposed settlement and the proposed plan of allocation of the settlement proceeds be mailed to members of the settlement class by October 26, 2009, and (iii) setting a February 9, 2010 hearing. At this hearing the Court considered, among other issues, (i) whether the Stipulation should receive final approval, (ii) whether the proposed plan of allocation for the settlement proceeds should be approved, (iii) whether the settlement class counsel's application for an award of attorneys' fees and reimbursement of costs and expenses should be approved, and (iv) whether the settlement class counsel's application for incentive awards to the settlement class representatives should be approved. The Court's October 8, 2009 order also set January 19, 2010 as the deadline by which settlement class members must submit a valid proof of claim, if they wanted to share in the settlement proceeds, or a proper opt-out request, if they wanted to be excluded from the settlement class and thereby not be bound by the terms of the Stipulation.

On February 10, 2010, the day after it held the final approval hearing, the Court formally entered an Order and Final Judgment dated February 9, 2010 (Final Judgment), which gave final approval to the Stipulation and approved the proposed plan of allocation of the settlement proceeds, the application for an award of attorneys' fees and reimbursement of costs and expenses by the settlement class counsel, and the application for incentive awards to the settlement class representatives. Among other things, the Final Judgment also included findings by the Court that notice of the action and of the proposed settlement had been properly given to the class members and that no one had opted out of the class or objected to any of the terms of the Stipulation. Furthermore, the Final Judgment provides that the Company and the individual defendants are released from all of the Released Claims, as defined by the Stipulation, and that the Consolidated Complaint is dismissed with prejudice.

Unless a party appeals the Final Judgment within 30 days following the entry of the Final Judgment, which the Company does not anticipate happening given the lack of any objection being filed to the Stipulation, the case will then be formally concluded and the Claims Administrator will proceed to distribute the settlement proceeds in accordance with the Stipulation.

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.

On May 21, 2008, the 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, and the shareholder has taken no action since then to prosecute the case or otherwise pursue any derivative claim.

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 with the litigation, or to estimate the effect such outcome would have on the financial condition, results of operations, or cash flows of the Company.

SEC and DOJ Investigations

On July 31, 2009, the SEC filed a settled enforcement action against the Company, Douglas Faggioli, and Craig Huff, the Company's former chief financial officer, relating to alleged violations of the Foreign Corrupt Practices Act (FCPA) by one of the Company's foreign subsidiaries in 2000 and 2001. This settlement resolved an SEC investigation previously disclosed by the Company related to an independent investigation conducted by the Company's Audit Committee.

Under the terms of the settlement with the SEC, without admitting or denying the allegations in the Commission's complaint, the Company agreed to pay a civil penalty of \$600,000 and to consent to the entry of an injunction against future violations of the FCPA as well as the antifraud, issuer reporting, books and records, and internal controls provisions of the federal securities laws. No additional undertakings are required of the Company under the terms of the settlement.

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In addition, Messrs. Faggioli and Huff, without admitting or denying the allegations in the Commission's complaint, each agreed to pay a civil penalty of \$25,000 and to consent to the entry of injunctions against future violations relating only to the books and records and internal control provisions of the federal securities laws.

The SEC's complaint alleged that, in 2000 and 2001, former employees in the Company's Brazilian subsidiary made undocumented cash payments to customs brokers, some of which were later paid to Brazilian customs officials in order to allow unregistered products to be imported and sold in Brazil. The complaint further alleged that, in doing so, NSP's subsidiary falsified its books, records and accounts to hide the nature of the payments and failed to disclose those payments to Brazilian customs agents in its filings with the Commission. The complaint also alleged that the Company, during the time period in question, failed to implement an adequate system of internal controls to ensure proper reporting of the alleged payments. No current officers, directors, or employees of the Company are alleged to have participated in or had knowledge of these actions.

The complaint further alleged that, in 2000 and 2001, Mr. Faggioli, the Company's then chief operating officer (and current chief executive officer), and Mr. Huff, the Company's then chief financial officer, as control persons, failed to adequately supervise the Company's management and other personnel who were directly responsible for the Company's books and records and internal controls related to the registration of product in one foreign subsidiary. As part of the settlement, the Company and the individual parties agreed to neither admit nor deny the allegations in the complaint.

The Company believes that all government investigations relating to potential FCPA violations by the Company or related persons have been resolved. The Company anticipates no additional action by the Department of Justice in relation to these events.

SEC Section 12(j) Proceeding

On July 12, 2007, the Company announced that the SEC had instituted administrative proceedings pursuant to Section 12 (j) of the Exchange Act to suspend or revoke the registration of its common stock under Section 12 of the Exchange Act. 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 because of its failure to file required periodic reports. Shortly thereafter, the Company filed a petition for review with the SEC. On December 5, 2007, the SEC granted the Company's petition for review. The SEC heard oral argument from both the Company and the SEC staff on January 7, 2009. On January 21, 2009, the SEC issued a final order revoking the registration of the Company's common stock. On February 12, 2009, the Company filed a registration statement on Form 10 to reregister its common stock under the Exchange Act. The Company's registration statement became effective as a result of the passage of time on April 13, 2009. On May 26, 2009, the Company cleared all comments from the SEC related to its registration statement on Form 10. On October 12, 2009, the Company began trading its common stock on the NASDAQ Capital Market under the symbol NATR.

Prescott Matter

In April 2009, Prescott Group Aggressive Small Cap Master Fund, G.P. (Prescott) filed, but did not serve, a complaint in the Fourth Judicial District Court for Utah County, Utah, (Prescott Group Aggressive Small Cap Master Fund, G.P. v. Nature's Sunshine Products, Inc, Civil No. 090401518). Prescott's filed complaint requested that the court compel the Company to hold an annual meeting of the Company's

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shareholders. The complaint did not request that the court award monetary damages other than the payment of attorneys' fees. On May 22, 2009, the Company and Kristine F. Hughes, Eugene L. Hughes and Pauline Hughes Francis in their capacity as shareholders of the Company (collectively, the Hughes Parties) entered into a settlement and voting agreement (the Prescott Agreement) with Prescott. Contemporaneously with the Prescott Agreement, the Company and the Hughes Parties entered into voting agreements (collectively with the Prescott Agreement, the Voting Agreements) with each of the following shareholders of the Company: Red Mountain Capital Partners II, L.P., Red Mountain Capital Partners III, L.P. and Paradigm Capital Management, Inc. (collectively with Prescott, the Shareholder Parties). As a result of the Prescott Agreement, the filed complaint was withdrawn.

Pursuant to the Voting Agreements, effective as of June 7, 2009, (i) the authorized number of directors of the Board was increased from six to eight directors in accordance with Section 3.2 of the Bylaws of the Company, creating two additional vacancies in addition to one previously unfilled vacancy on the Board, (ii) with the exception of Kristine F. Hughes, all of the current members of the Company's Board of Directors (the Board) resigned as members of the Board, resulting in a total of seven vacancies on the Board and (iii) Michael D. Dean, Albert R. Dowden, Douglas Faggioli, Pauline Hughes Francis, Willem Mesdag, Jeffrey D. Watkins and Candace K. Weir were appointed, without any specific Board class designation, to fill such vacancies on the Board to serve as directors until the next annual meeting of shareholders at which directors are elected and until their respective successors are duly elected and qualified, unless they resign, are removed or are otherwise disqualified from serving as a director of the Company.

The Voting Agreements also provide that, at the next annual meeting of shareholders, which was held on November 6, 2009, the Company would nominate, and the Shareholder Parties and the Hughes Parties will vote all of the shares of Common Stock

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beneficially owned by them in favor of, each of the following individuals, with such nominees serving in the Board class set forth opposite his or her name:

Name	Class
Jeffrey D. Watkins	Class I
Willem Mesdag	Class I
Michael D. Dean	Class II
Douglas Faggioli	Class II
Candace K. Weir	Class II
Kristine F. Hughes	Class III
Pauline Hughes Francis	Class III
Albert R. Dowden	Class III

The voting arrangement set forth in the Voting Agreements terminated on November 6, 2009, immediately following the annual meeting of shareholders of the Company, and the election of the new Board of Directors as slated above.

Audit of U.S. Federal Tax Returns, 2003 - 2008

The IRS is currently conducting a civil examination with respect to the 2006 through 2008 taxable years. The examination is in process.

In October 2009, the Internal Revenue Service (IRS) issued an examination report formally proposing adjustments with respect to the 2003 through 2005 taxable year