

NATURES SUNSHINE PRODUCTS INC
Form 10-Q
November 06, 2014
Table of Contents

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 September 30, 2014

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

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

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

Smaller reporting company

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

The number of shares of Common Stock, no par value, outstanding on October 31, 2014, was 18,741,816 shares.

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC.

FORM 10-Q

For the Quarter Ended September 30, 2014

Table of Contents

Part I. Financial Information

<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	4
	<u>Condensed Consolidated Balance Sheets</u>	4
	<u>Condensed Consolidated Statements of Operations</u>	5
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
	<u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u>	7
	<u>Condensed Consolidated Statements of Cash Flows</u>	8
	<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	38
<u>Item 4.</u>	<u>Controls and Procedures</u>	41

Part II. Other Information

<u>Item 1.</u>	<u>Legal Proceedings</u>	41
<u>Item 1A.</u>	<u>Risk Factors</u>	41
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
<u>Item 3.</u>	<u>Default Upon Senior Securities</u>	42
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	42
<u>Item 5.</u>	<u>Other Information</u>	42
<u>Item 6.</u>	<u>Exhibits</u>	42

Table of Contents

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, 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, is included from time to time in our reports filed with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for the year ended December 31, 2013, as well as our quarterly reports on Form 10-Q, particularly under the captions Forward-Looking Statements and Risk Factors. but include the following:

- any negative consequences resulting from the economy, including the availability of liquidity to us, our 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 Distributors, and other third parties with whom we do business;
- improper action by our employees or Distributors;
- negative publicity related to our products 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;
- the competitive nature of our business;
- regulatory matters governing our products, our direct selling program, or the direct selling market in which we operate;
- legal challenges to our direct selling program;
- 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, Ukraine and Russia political conflict, pricing and currency devaluation risks, especially in countries such as Venezuela, 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;
- our reliance on our information technology infrastructure;

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

- the sufficiency of trademarks and other intellectual property rights;
- changes in tax laws, treaties or regulations, or their interpretation;
- taxation relating to our 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 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)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 70,456	\$ 77,247
Accounts receivable, net of allowance for doubtful accounts of \$860 and \$1,087, respectively	9,184	10,206
Investments available for sale	1,820	2,006
Inventories	41,406	41,910
Deferred income tax assets	5,752	5,711
Income tax receivable	5,743	6,665
Prepaid expenses and other	5,177	4,849
Total current assets	139,538	148,594
Property, plant and equipment, net	45,373	32,022
Investment securities	1,012	971
Intangible assets, net	742	853
Deferred income tax assets	13,848	9,928
Other assets	8,613	7,244
	\$ 209,126	\$ 199,612
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,834	\$ 5,664
Accrued volume incentives	19,251	19,206
Accrued liabilities	30,128	34,893
Deferred revenue	4,121	4,173
Current installments of long-term debt and revolving credit facility		2,267
Income taxes payable	1,668	2,366
Total current liabilities	60,002	68,569
Liability related to unrecognized tax benefits	8,852	12,402
Long-term debt and revolving credit facility		10,000
Deferred compensation payable	1,012	971
Other liabilities	2,657	2,411
	72,523	94,353

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Commitments and contingencies

Shareholders' equity:

Common stock, no par value, 50,000 shares authorized, 18,901 and 16,179 shares issued and outstanding as of September 30, 2014, and December 31, 2013, respectively	130,078	83,122
Retained earnings	16,659	36,100
Noncontrolling interests	3,974	
Accumulated other comprehensive loss	(14,108)	(13,963)
Total shareholders' equity	136,603	105,259
	\$ 209,126	\$ 199,612

See accompanying notes to condensed consolidated financial statements.

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share information)

(Unaudited)

	Three Months Ended September 30,	
	2014	2013
Net sales revenue	\$ 94,876	\$ 92,458
Cost of sales	(23,315)	(23,655)
Gross profit	71,561	68,803
Operating expenses:		
Volume incentives	35,457	33,920
Selling, general and administrative	33,476	28,170
Operating income	2,628	6,713
Other income (loss), net	(1,279)	(269)
Income before provision for income taxes	1,349	6,444
Provision for income taxes	358	1,594
Net income	\$ 991	\$ 4,850
Net income (loss) attributable to noncontrolling interests	(26)	
Net income attributable to common shareholders	\$ 1,017	\$ 4,850
Basic and diluted net income per common share attributable to common shareholders		
Basic:		
Net income attributable to common shareholders	\$ 0.06	\$ 0.30
Diluted:		
Net income attributable to common shareholders	\$ 0.06	\$ 0.29
Weighted average basic common shares outstanding	17,310	16,068
Weighted average diluted common shares outstanding	17,812	16,490
Dividends declared per common share	\$ 1.60	\$ 1.60

See accompanying notes to condensed consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

	Three Months Ended September 30,	
	2014	2013
Net income	\$ 991	\$ 4,850
Foreign currency translation gain (loss) (net of tax)	(1,124)	1,128
Net unrealized gains (losses) on investment securities (net of tax)	(3)	36
Total comprehensive income (loss)	\$ (136)	\$ 6,014

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

(Amounts in thousands, except per share information)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Net sales revenue	\$ 284,954	\$ 282,612
Cost of sales	(69,793)	(70,730)
Gross profit	215,161	211,882
Operating expenses:		
Volume incentives	106,008	103,420
Selling, general and administrative	93,539	86,996
Operating income	15,614	21,466
Other income (loss), net	(2,772)	1,543
Income before provision for income taxes	12,842	23,009
Provision (benefit) for income taxes	(1,048)	7,243
Net income	\$ 13,890	\$ 15,766
Net income (loss) attributable to noncontrolling interests	(26)	
Net income attributable to common shareholders	\$ 13,916	\$ 15,766
Basic and diluted net income per common share attributable to common shareholders		
Basic:		
Net income attributable to common shareholders	\$ 0.84	\$ 0.99
Diluted:		
Net income attributable to common shareholders	\$ 0.82	\$ 0.97
Weighted average basic common shares outstanding	16,563	15,930
Weighted average diluted common shares outstanding	17,068	16,327
Dividends declared per common share	\$ 1.80	\$ 1.80

See accompanying notes to condensed consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

	Nine Months Ended September 30,		
	2014		2013
Net income	\$	13,890	\$ 15,766
Foreign currency translation loss (net of tax)		(153)	(2,798)
Net unrealized gains on investment securities (net of tax)		8	66
Total comprehensive income	\$	13,745	\$ 13,034

See accompanying notes to condensed consolidated financial statements.

Table of Contents

NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Amounts in thousands)

(Unaudited)

	Common Stock		Retained	Noncontrolling	Accumulated	Total
	Shares	Value	Earnings	Interests	Other Comprehensive Income (Loss)	
Balance at January 1, 2014	16,179	\$ 83,122	\$ 36,100	\$	\$ (13,963)	\$ 105,259
Share-based compensation expense		3,034				3,034
Net proceeds from the issuance of shares to noncontrolling interests	2,855	46,216				46,216
Proceeds from the exercise of stock options	44	437				437
Repurchase of common stock	(177)	(2,731)				(2,731)
Cash dividends (1.80 per share)			(33,357)			(33,357)
Net income			13,916	(26)		13,890
Noncontrolling interests investment in Nature s Sunshine Hong Kong Limited				4,000		4,000
Other comprehensive loss					(145)	(145)
Balance at September 30, 2014	18,901	\$ 130,078	\$ 16,659	\$ 3,974	\$ (14,108)	\$ 136,603

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 13,890	\$ 15,766
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	130	322
Impairment of Venezuela property, plant and equipment, net	2,947	
Depreciation and amortization	3,510	3,279
Share-based compensation expense	3,034	2,599
Loss (gain) on sale of property and equipment	36	(127)
Deferred income taxes	(3,961)	52
Amortization of bond discount	3	1
Purchase of trading investment securities	(133)	(62)
Proceeds from sale of trading investment securities	125	308
Realized and unrealized gains on investments	(33)	(78)
Foreign exchange losses (gains)	2,724	(1,057)
Changes in assets and liabilities:		
Accounts receivable	827	(1,781)
Inventories	181	(678)
Prepaid expenses and other current assets	455	(1,083)
Other assets	(1,478)	(97)
Accounts payable	(598)	878
Accrued volume incentives	235	2,047
Accrued liabilities	(3,989)	1,284
Deferred revenue	(52)	(491)
Income taxes payable	(803)	199
Liability related to unrecognized tax benefits	(3,550)	915
Deferred compensation payable	41	(167)
Net cash provided by operating activities	13,541	22,029
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(19,973)	(4,590)
Proceeds from sale of property, plant and equipment	7	233
Purchase of investments available for sale	(18)	(278)
Proceeds from investments available for sale	247	100
Net cash used in investing activities	(19,737)	(4,535)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of cash dividends	(33,357)	(28,797)
Principal payments of long-term debt and revolving credit facility	(12,267)	(2,509)
Borrowings of long-term debt and revolving credit facility		10,000
Repurchase of common stock	(2,731)	(1,945)
Net proceeds from the issuance of shares to noncontrolling interests	46,216	
Investment by noncontrolling interests	4,000	
Proceeds from the exercise of stock options	437	4,300
Net cash provided by (used in) financing activities	2,298	(18,951)

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Effect of exchange rates on cash and cash equivalents		(2,893)		(1,161)
Net decrease in cash and cash equivalents		(6,791)		(2,618)
Cash and cash equivalents at the beginning of the period		77,247		79,241
Cash and cash equivalents at the end of the period	\$	70,456	\$	76,623
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for income taxes	\$	5,996	\$	7,068
Cash paid for interest		155		95

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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 Managers and Distributors who use the products themselves or resell them to other Distributors or consumers. The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of each of the Company s major product groups are subject to regulation by one or more governmental agencies.

The Company markets its products in 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, Peru, the Philippines, Poland, Russia, Singapore, Slovenia, South Korea, Spain, Sweden, Taiwan, Thailand, Ukraine, the United Kingdom, the United States, Venezuela and Vietnam. The Company also exports its products to Argentina, Australia, Chile, Israel, New Zealand, Norway, and the United Kingdom.

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 September 30, 2014, and for the three-month and nine-month periods ended September 30, 2014 and 2013. 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, 2014.

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, 2013.

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

Since January 1, 2010, Venezuela has been designated as a highly inflationary economy. Accordingly, the U.S. dollar became the functional currency for the Company's subsidiary in Venezuela. On February 11, 2013, the Venezuelan government's currency control agency (CADIVI), announced the further devaluation of the bolivar to 6.3 bolivars per U.S. dollar. In addition, the CADIVI enacted a new currency exchange mechanism, the First Complementary System for Foreign Currency Administration (SICAD 1), and mandated foreign entities domiciled in Venezuela to formally apply and be approved by the CADIVI to obtain U.S. dollars through banking institutions approved by the Venezuelan government at the official CADIVI exchange rate of 6.3 bolivars per U.S. dollar or at the official SICAD 1 exchange rate of 11.3 bolivars per U.S. dollar. On a weekly basis, the CADIVI determined how many U.S. dollars would be sold and which previously approved companies would be authorized to obtain them. Companies were approved to obtain U.S. dollars based on the individual products that they imported and sold in Venezuela. Products that are considered to be more beneficial to consumers in Venezuela, such as medicinal products, were approved for payment at the official CADIVI exchange rate of 6.3, while other beneficial products, such as dietary supplements, were approved for payment at the official SICAD 1 exchange rate of 11.3. Foreign entities domiciled in Venezuela pay bolivars to the Venezuela Central Bank, which then pays U.S. dollars directly to the foreign entities to limit the amount of U.S. dollars available within Venezuela.

Table of Contents

Effective January 24, 2014, additional changes to the country's foreign exchange system were enacted by the Venezuelan government that expanded the types of products that could be subject to the weekly SICAD 1 auction process. In addition, a new currency control agency (CENCOEX) was established to replace the CADIVI. The CENCOEX official exchange rate was maintained at the CADIVI official exchange rate of 6.3 bolivars per U.S. dollar. The CENCOEX also enacted a new currency exchange mechanism, the Second Complementary System for Foreign Currency Administration (SICAD 2) that supplements and coexists with the SICAD 1 currency exchange mechanism. The SICAD 2 is expected to provide a greater supply of U.S. dollars from sources other than the Venezuelan government and to allow all sectors and companies to participate. SICAD 2 is intended to more closely resemble a market-driven exchange rate than the official CENCOEX and SICAD 1 exchange rates of 6.3 and 11.3, respectively. As of September 30, 2014, the SICAD 2 exchange rate was approximately 50.0 bolivars per U.S. dollar.

The Company is currently monitoring the currency exchange mechanisms in place and the potential for currency exchange transactions. However, due to the difficulties encountered obtaining U.S. dollars at the official CENCOEX and SICAD 1 exchange rates, as of September 30, 2014, the Company re-measured its assets and liabilities in Venezuela at the SICAD 2 exchange rate of 50.0 bolivars to the U.S. dollar. This re-measurement resulted in a foreign exchange loss of \$1,224. The Company also incurred an impairment charge of \$2,947 on the fixed assets of the Venezuelan subsidiary that is included in selling, general and administrative expenses. Going forward the Company will report all of its transactions in Venezuela at the SICAD 2 exchange rate of 50.0 bolivars to the U.S. dollar.

During the three months ended September 30, 2014, and 2013, the Company's Venezuelan subsidiary's net sales revenue represented approximately 1.5 percent and 2.2 percent of consolidated net sales revenue, respectively. During the nine months ended September 30, 2014 and 2013, the Company's Venezuelan subsidiary's net sales revenue represented approximately 1.8 percent and 2.1 percent of consolidated net sales revenue, respectively. As of September 30, 2014, and December 31, 2013, the Company's Venezuelan subsidiary held cash and cash equivalents of \$795 and \$3,922, respectively. As of September 30, 2014, and December 31, 2013, the Company's Venezuelan subsidiary held net assets of \$804 and \$5,721, respectively, of which property, plant and equipment was \$0 and \$3,207, respectively.

In November the Company decided to exit the Venezuela market due to the difficulties and uncertainties related to import controls, difficulties associated with repatriating cash and high inflation. As a result, the Company expects to incur additional exit costs of \$600 to \$800 in the fourth quarter of 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 Distributors in this market has diminished. During the three months ended September 30, 2014 and 2013, the Company's Belarusian subsidiary's net sales revenue represented approximately 2.1 percent and 2.1 percent of consolidated net sales revenue, respectively. During the nine months ended September 30, 2014 and 2013, the Company's Belarusian subsidiary's net sales revenue represented approximately 2.3 percent and 2.1 percent of consolidated net sales revenue, respectively.

Strategic Alliance with Fosun Pharma

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

On August 25, 2014, Nature's Sunshine and Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Fosun Pharma), closed a transaction pursuant to which, the parties entered into a joint venture for operations in the People's Republic of China (China) that is owned 80 percent by Nature's Sunshine and 20 percent by a wholly-owned subsidiary of Fosun Pharma and completed a concurrent investment by Fosun Pharma of \$46,216 in Nature's Sunshine common stock issued pursuant to a private placement transaction. Nature's Sunshine used the net proceeds of the private placement transaction to fund its 80 percent share of the initial \$20,000 capitalization of the China joint venture, or \$16,000, and to pay its shareholders a cash dividend of \$1.50 per share, or \$28,501. The Company consolidated the joint venture in its consolidated financial statements, with Fosun Pharma's interest presented as a noncontrolling interest.

The joint venture, known as Nature's Sunshine Hong Kong Limited, expects to market and distribute Nature's Sunshine products in China. Nature's Sunshine Hong Kong Limited currently anticipates deploying a multi-brand, multi-channel go-to-market strategy that will offer select Nature's Sunshine-branded products through certain of Fosun Pharma's existing retail locations across China, and select Synergy-branded products through a direct selling model. The time to market will be dependent upon regulatory processes, including product registration, permit and license approvals.

Pursuant to a concurrent private placement transaction, Nature's Sunshine issued 2,855 shares of unregistered common stock to Fosun Pharma at a price of \$16.19 per share, representing aggregate proceeds to Nature's Sunshine of \$46,216. The purchase price represented a 10 percent premium to Nature's Sunshine's average stock price over the trailing 30 business day period as of June 26, 2014. As a result of the private placement transaction, Fosun Pharma owns approximately 15% of Nature's Sunshine outstanding

Table of Contents

common shares with respect to which the Company has granted Fosun Pharma certain registration rights. In addition, Nature's Sunshine appointed one director designated by Fosun Pharma to its board of directors.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08 Presentation of Financial Statements (Topic 740) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity . This update changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The amendments in this update are effective for interim and annual periods beginning after December 15, 2014. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

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 beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-12 Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period . This update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation costs should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this update are effective for interim and annual periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

(2) Inventories

The composition of inventories is as follows:

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

	September 30, 2014		December 31, 2013	
Raw materials	\$	11,980	\$	10,848
Work in progress		957		740
Finished goods		28,469		30,322
Total inventory	\$	41,406	\$	41,910

Table of Contents**(3) Intangible Assets**

At September 30, 2014, and December 31, 2013, intangibles for product formulations had a gross carrying amount of \$1,763 and \$1,763, accumulated amortization of \$1,021 and \$910, and a net amount of \$742 and \$853, 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 September 30, 2014, and 2013, was \$37 and \$37, respectively. Amortization expense for intangible assets for the nine months ended September 30, 2014, and 2013, was \$111 and \$111, respectively.

(4) 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 September 30, 2014							
Municipal obligations	\$	201	\$	1	\$		\$ 202
U.S. government securities funds		1,000				(12)	988
Equity securities		227		412		(9)	630
Total short-term investment securities	\$	1,428	\$	413	\$	(21)	\$ 1,820

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
As of December 31, 2013							
Municipal obligations	\$	403	\$	12	\$		\$ 415
U.S. government securities funds		997				(14)	983
Equity securities		227		386		(5)	608
Total short-term investment securities	\$	1,627	\$	398	\$	(19)	\$ 2,006

The municipal obligations held at a fair value of \$202 at September 30, 2014, all mature in less than one year.

During the nine-month periods ended September 30, 2014, and 2013, the proceeds from the sales of available-for-sale securities were \$247 and \$100, respectively. There were no gross realized gains (losses) on sales of available-for-sale securities (net of tax) for the nine-month periods ended September 30, 2014 and 2013, respectively.

The Company's trading securities portfolio totaled \$1,012 at September 30, 2014, and \$971 at December 31, 2013, and generated gains of \$33 and \$45 for the nine months ended September 30, 2014 and 2013.

As of September 30, 2014, and December 31, 2013, the Company had unrealized losses of \$12 and \$14, respectively, in its U.S. government securities funds. These losses are due to the interest rate sensitivity of the municipal obligations and the performance of the overall stock market for the equity securities.

(5) Long-Term Debt

The Company's revolving credit agreement with Wells Fargo Bank, N.A., permits the Company to borrow up to \$25,000 through September 1, 2016, bearing interest at LIBOR plus 1.25 percent (1.50 percent as of September 30, 2014 and December 31, 2013). The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. Currently, the revolving credit agreement matures on September 1, 2016. At September 30, 2014 and December 31, 2013, the outstanding balance under the revolving credit agreement was \$0 and \$10,000, respectively. The revolving credit facility is collateralized by the Company's manufacturing facility in Spanish Fork, Utah.

The revolving credit agreement contains restrictions on liquidity, leverage, minimum net income and consecutive quarterly net losses. In addition, the agreement restricts capital expenditures, lease expenditures, other indebtedness, liens on assets, guaranties, loans and advances, and the merger, consolidation and the transfer of assets except in the ordinary course of business. The Company remains in compliance with these debt covenants as of September 30, 2014.

(6) Net Income Per Share

Basic net income per common share (Basic EPS) is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share (Diluted EPS) reflects the potential dilution

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Table of Contents

that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income per common share.

Following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income attributable to common shareholders	\$ 1,017	\$ 4,850	\$ 13,916	\$ 15,766
Basic weighted average shares outstanding	17,310	16,068	16,563	15,930
Basic per common share:				
Net income per common share attributable to shareholders	\$ 0.06	\$ 0.30	\$ 0.84	\$ 0.99
Diluted weighted average shares outstanding				
Basic weighted average shares outstanding	17,310	16,068	16,563	15,930
Weighted average stock options outstanding	502	422	505	397
Diluted weighted average shares outstanding	17,812	16,490	17,068	16,327
Diluted per common share:				
Net income per common share attributable to shareholders	\$ 0.06	\$ 0.29	\$ 0.82	\$ 0.97
Potentially dilutive shares excluded from diluted per share amounts:				
Stock options	133	140	133	140
Potentially anti-dilutive shares excluded from diluted per share amounts:				
Stock options	210	20	210	45

Potentially dilutive shares excluded from diluted-per-share amounts include performance-based options to purchase shares of common stock for which certain earnings metrics have not been achieved. Potentially anti-dilutive shares excluded from diluted-per-share amounts include both non-qualified stock options and unearned performance-based options to purchase shares of common stock with exercise prices greater than the weighted-average share price during the period and shares that would be anti-dilutive to the computation of diluted net income per share for each of the years presented.

(7) Capital Transactions

Dividends

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

The declaration of future dividends is subject to the discretion of the Company's Board of Directors and will depend upon various factors, including the Company's earnings, financial condition, restrictions imposed by any indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by its Board of Directors.

On March 17, 2014, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1,618 that was paid on April 7, 2014, to shareholders of record on March 28, 2014. On May 7, 2014, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1,619 that was paid on June 2, 2014, to shareholders of record on May 21, 2014. On August 6, 2014, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1,619 that was paid on August 29, 2014, to shareholders of record on August 18, 2014. On August 27, 2014, the Company announced a special non-recurring cash dividend of \$1.50 per common share in an aggregate amount of \$28,501 that was paid on September 19, 2014, to shareholders of record on September 8, 2014.

Share Repurchase Program

On August 8, 2013, the Board of Directors authorized a \$10,000 share repurchase program to be implemented over two years. Such purchases may be made in the open market, through block trades, in privately negotiated transactions or otherwise. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors and the program may be discontinued or suspended at any time. At September 30, 2014, the remaining balance available for repurchases under the program was \$4,723.

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Table of Contents

The following is a summary of the Company's repurchases of common shares during the three and nine months ended September 30, 2014:

Period	Number of Shares	Average Price Paid per Share	Program Balance Used for Repurchases
July 1 - September 30, 2014	177	\$ 15.49	\$ 2,731

Share-Based Compensation

Stock option activity for the period ended September 30, 2014, is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at December 31, 2013	1,926	\$ 12.54
Granted	258	15.38
Expired	(18)	13.55
Exercised	(44)	7.32
Options outstanding at September 30, 2014	2,122	12.97

The Company's outstanding stock options include time-based stock options, which vest over differing periods ranging from the date of issuance up to 48 months from the option grant date; performance-based stock options, which have already vested upon achieving operating income margins of six, eight and ten percent as reported in four of five consecutive quarters over the term of the options; performance-based stock options, which vest upon achieving cumulative annual net sales revenue growth targets over a rolling two-year period, subject to the Company maintaining at least an eight percent operating income margin during the applicable period; and performance-based stock options, which vest upon achieving annual net sales targets over a rolling one-year period.

During the nine-month period ended September 30, 2014, the Company issued time-based stock options to purchase 258 shares of common stock under the 2012 Stock Incentive Plan to the Company's executive officers and other employees. These options were issued with a weighted-average exercise price of \$15.38 per share and a weighted-average grant date fair value of \$6.53 per share. All of the options issued have an option termination date of ten years from the option grant date.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the nine-month period ended September 30, 2014:

	2014
Expected life (in years)	6.0
Risk-free interest rate	1.5
Expected volatility	56.7
Dividend yield	2.6

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Expected option lives and volatilities are based on historical data of the Company. The risk-free interest rate is calculated as the average U.S. Treasury bill rate that corresponds with the option life. The dividend yield is based on the Company's historical and expected amount of dividend payouts, at the time of grant. On August 29, 2013, and September 19, 2014, the Company paid special non-recurring cash dividends of \$1.50 per common share. The Company has excluded these special non-recurring cash dividends from the dividend yield used in the Black-Scholes option-pricing model calculations as it is not representative of future dividends to be declared by the Company.

Share-based compensation expense from time-based stock options for the three-month periods ended September 30, 2014, and 2013, was approximately \$691 and \$620, respectively; the related tax benefit was approximately \$273 and \$245, respectively. Share-based compensation expense from time-based stock options for the nine-month periods ended September 30, 2014, and 2013, was approximately \$2,307 and \$2,423, respectively; the related tax benefit was approximately \$911 and \$957, respectively. As of September 30, 2014, and December 31, 2013, the unrecognized share-based compensation expense related to the grants described above was \$2,627 and \$3,294, respectively. As of September 30, 2014, the remaining compensation cost is expected to be recognized over the weighted-average period of approximately 1.8 years.

The Company has not recognized any share-based compensation expense related to the net sales revenue performance-based stock options for the nine-month period ended September 30, 2014. Should the Company attain all of the net sales revenue metrics

Table of Contents

related to the net sales revenue performance-based stock option grants, the Company would recognize up to \$800 of potential share-based compensation expense.

At September 30, 2014, the aggregate intrinsic value of outstanding stock options to purchase 2,212 shares of common stock, exercisable stock options to purchase 1,095 shares of common stock and stock options to purchase 849 shares of common stock that are expected to vest was \$7,546, \$5,656 and \$1,795, respectively. At December 31, 2013, the aggregate intrinsic value of outstanding options to purchase 1,926 shares of common stock, the exercisable options to purchase 838 shares of common stock, and options to purchase 905 shares of common stock expected to vest was \$9,415, \$6,069 and \$3,179, respectively.

Restricted stock unit activity for the period ended September 30, 2014 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Units outstanding at December 31, 2013	32	\$ 12.47
Granted	156	10.65
Issued		
Forfeited	(7)	15.38
Units outstanding at September 30, 2014	181	12.16

During the nine-month period ended September 30, 2014, the Company issued 156 restricted stock units (RSUs) of common stock under the 2012 Incentive Plan to the Company's Board of Directors, executive officers and other employees. The RSUs were issued with a weighted-average grant date fair value of \$10.65 per share and vest in annual installments over a four year period from the grant date.

RSUs are valued at the market value on the date of grant, which is the grant date share price discounted for expected dividend payments during the vesting period. For RSUs with post-vesting restrictions, a Finnerty Model was utilized to calculate a valuation discount from the market value of common shares reflecting the restriction embedded in the RSUs preventing the sale of the underlying shares over a certain period of time. The Finnerty Model proposes to estimate a discount for lack of marketability such as transfer restrictions by using an option pricing theory. This model has gained recognition through its ability to address the magnitude of the discount by considering the volatility of a company's stock price and the length of restriction. The concept underpinning the Finnerty Model is that restricted stock cannot be sold over a certain period of time. Using assumptions previously determined for the application of the option pricing model at the valuation date, the Finnerty Model discount for lack of marketability is approximately 17.5 percent for a common share.

Share-based compensation expense from RSUs for the three-month periods ended September 30, 2014, and 2013, was approximately \$261 and \$49, respectively; the related tax benefit was approximately \$103 and \$19, respectively. Share-based compensation expense from RSUs for the nine-month periods ended September 30, 2014, and 2013, was approximately \$727 and \$176, respectively; the related tax benefit was approximately \$287 and \$70, respectively. As of September 30, 2014, and December 31, 2013, the unrecognized share-based compensation expense related to the grants described above was \$1,117 and \$62, respectively. As of September 30, 2014, the remaining compensation expense is expected to be recognized over the weighted average period of approximately 2.0 years.

(8) Segment Information

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

The Company has two business segments that operate under the Nature's Sunshine Products brand and are divided based on the characteristics of their Distributor base, similarities in compensation plans, as well as the internal organization of NSP's officers and their responsibilities (NSP Americas, Asia Pacific and Europe and NSP Russia, Central and Eastern Europe). The Company's third business segment operates under the Synergy WorldWide brand, which distributes its products through different selling and Distributor compensation plans and has products with formulations that are sufficiently different from those of the NSP Americas, Asia Pacific and Europe and NSP Russia, Central and Eastern Europe to warrant accounting for these operations as a separate business segment. Net sales revenues for each segment have been reduced by intercompany sales as they are not included in the measure of segment profit or loss reviewed by the chief executive officer. The Company evaluates performance based on contribution margin (loss) by segment before consideration of certain inter-segment transfers and expenses.

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Table of Contents

Reportable business segment information is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales revenue:				
NSP Americas, Asia Pacific and Europe	\$ 48,391	\$ 50,560	\$ 148,064	\$ 157,113
NSP Russia, Central and Eastern Europe	11,753	14,577	39,628	45,695
Synergy WorldWide	34,732	27,321	97,262	79,804
Total net sales revenue	94,876	92,458	284,954	282,612
Contribution margin (1):				
NSP Americas, Asia Pacific and Europe	19,908	19,973	60,554	64,234
NSP Russia, Central and Eastern Europe	4,186	5,409	14,145	16,915
Synergy WorldWide	12,010	9,501	34,454	27,313
Total contribution margin	36,104	34,883	109,153	108,462
Selling, general and administrative	33,476	28,170	93,539	86,996
Total operating income	2,628	6,713	15,614	21,466
Other income (loss), net	(1,279)	(269)	(2,772)	1,543
Income before provision for income taxes	\$ 1,349	\$ 6,444	\$ 12,842	\$ 23,009

(1) Contribution margin consists of net sales revenue less cost of sales and volume incentives expense.

From an individual country perspective, only the United States and South Korea comprise 10 percent or more of consolidated net sales revenue for the three and nine-month periods ended September 30, 2014 and 2013, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales revenue:				
United States (NSP and Synergy)	\$ 36,960	\$ 37,209	\$ 112,507	\$ 116,552
South Korea (Synergy)	16,252	9,465	42,959	23,080
Other	41,664	45,784	129,488	142,980
	\$ 94,876	\$ 92,458	\$ 284,954	\$ 282,612

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Table of Contents

Revenue generated by each of the Company's product lines is set forth below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NSP Americas, Asia Pacific and Europe:				
General health	\$ 21,133	\$ 22,048	\$ 64,535	\$ 66,832
Immune	5,907	5,511	17,877	18,431
Cardiovascular	3,270	3,482	10,033	10,729
Digestive	14,143	14,699	43,210	45,717
Personal care	1,014	1,275	3,124	4,137
Weight management	2,924	3,545	9,285	11,267
	48,391	50,560	148,064	157,113
NSP Russia, Central and Eastern Europe:				
General health	\$ 4,507	\$ 5,344	\$ 14,883	\$ 16,603
Immune	1,492	1,801	4,960	5,636
Cardiovascular	730	966	2,457	3,206
Digestive	3,093	3,625	10,491	11,691
Personal care	1,410	2,282	4,746	6,395
Weight management	521	559	2,091	2,164
	11,753	14,577	39,628	45,695
Synergy WorldWide:				
General health	\$ 12,367	\$ 9,438	\$ 34,809	\$ 27,214
Immune	243	415	710	1,223
Cardiovascular	11,500	9,925	33,596	30,594
Digestive	6,069	4,001	16,039	12,823
Personal care	1,981	2,022	5,451	5,295
Weight management	2,572	1,520	6,657	2,655
	34,732	27,321	97,262	79,804
	\$ 94,876	\$ 92,458	\$ 284,954	\$ 282,612

From an individual country perspective, only the United States and Venezuela comprise 10 percent or more of consolidated property, plant and equipment as follows:

	September 30, 2014	December 31, 2013
Property, plant and equipment:		
United States	\$ 42,176	\$ 25,713
Venezuela		3,207
Other	3,197	3,102
Total property, plant and equipment	\$ 45,373	\$ 32,022

Due to the continual currency devaluation of the Venezuelan bolivar (50.0 bolivars to to the U.S. dollar), as of September 30, 2014, the Company incurred a \$2,947 impairment charge to write down the value of its fixed assets in Venezuela to \$0.

(9) Income Taxes

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, adjusted for discrete tax items in the period in which they occur. For the three months ended September 30, 2014 and 2013, the Company's provision (benefit) for income taxes, as a percentage of income before income taxes was 26.5 percent and 24.7 percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent. For the nine months ended September 30, 2014 and 2013, the Company's provision (benefit) for income taxes, as a percentage of income before income taxes was (8.2) percent and 31.5 percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended September 30, 2014, was primarily attributed to a decrease in tax liabilities associated with uncertain tax positions.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended September 30, 2013 was primarily attributed to foreign tax credit benefits, net favorable foreign items related to foreign tax rate differences, the

Table of Contents

impact of unremitted earnings, and adjustments to foreign valuation allowances, offset by an increase in tax liabilities associated with uncertain tax positions.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the nine months ended September 30, 2014 was primarily attributed to a decrease in tax liabilities associated with uncertain tax positions and foreign tax credits arising from intercompany dividends of \$32,800 paid by foreign subsidiaries to the U.S. corporation.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the nine months ended September 30, 2013 was primarily attributed to foreign tax credit benefits, net favorable foreign items related to foreign tax rate differences, the impact of unremitted earnings, and adjustments to foreign valuation allowances, offset by an increase in tax liabilities associated with uncertain tax positions.

Changes to the effective rate due to dividends received from foreign subsidiaries and the impact of foreign tax credits are expected to be recurring, although it is unlikely that it will again have an impact as large as what occurred in the nine months ended September 30, 2014. Depending on various factors, changes from the foregoing items may be favorable or unfavorable in a particular period.

The Company's U.S. federal income tax returns for 2009 through 2013 are open to examination for federal tax purposes. The Internal Revenue Service (IRS) is currently concluding an audit of the Company's U.S. federal income tax returns for the 2009 through 2011 tax years. The Company has received Notices of Proposed Adjustments from the IRS as a result of this audit and is currently analyzing those adjustments. The Company has several foreign tax jurisdictions that have open tax years from 2007 through 2013.

As of September 30, 2014, the Company had accrued \$8,852 related to unrecognized tax positions compared with \$12,402 as of December 31, 2013. This net decrease was primarily attributed to decreases in contingencies not related to statute expirations.

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

(10) Commitments and Contingencies

Legal Proceedings

The Company is party to various legal proceedings. 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 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.

Non-Income Tax Contingencies

The Company has reserved for certain state sales and use tax and foreign non-income tax contingencies based on the likelihood of an obligation in accordance with accounting guidance for probable loss contingencies. Loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. The Company provides provisions for potential payments of tax to various tax authorities for contingencies related to non-income tax matters, including value-added taxes and sales tax. The Company provides provisions for U.S. state sales taxes in each of the states where the Company has nexus. As of September 30, 2014, and December 31, 2013, accrued liabilities include \$3,462 and \$6,312, respectively, related to non-income tax contingencies. While management believes that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of those matters cannot presently be determined. The Company is not able at this time to predict the ultimate outcomes of those matters or to estimate the effect of the ultimate outcomes, if greater than the amounts accrued, would have on the financial condition, results of operations or cash flows of the Company.

Table of Contents**Other Litigation**

The Company is party to various other legal proceedings in several foreign jurisdictions related to value-added tax assessments and other civil litigation. While there is a reasonable possibility that a loss may be incurred, either the losses are not considered to be probable or the Company cannot at this time estimate the loss, if any; therefore, no provision for losses has been provided. The Company believes future payments related to these matters could range from \$0 to approximately \$500.

(11) Fair Value Measurements

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values of each financial instrument. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table presents the Company's hierarchy for its assets, measured at fair value on a recurring basis, as of September 30, 2014:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Investments available-for-sale				
Municipal obligations	\$	\$ 202	\$	\$ 202
U.S. government security funds	988			988
Equity securities	630			630
Investment securities	1,012			1,012
Total assets measured at fair value on a recurring basis	\$ 2,630	\$ 202	\$	\$ 2,832

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

The following table presents the Company's hierarchy for its assets, measured at fair value on a recurring basis, as of December 31, 2013:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Investments available-for-sale				
Municipal obligations	\$	\$	415	\$ 415
U.S. government security funds	983			983
Equity securities	608			608
Investment securities	971			971
Total assets measured at fair value on a recurring basis	\$ 2,562	\$ 415	\$	\$ 2,977

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

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

Table of Contents

For the nine months ended September 30, 2014, and for the year ended December 31, 2013, there were no fair value measurements using the significant unobservable inputs (Level 3).

The carrying amounts reflected on the consolidated balance sheet for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to their short-term nature. The carrying amount reflected in the consolidated balance sheet for long-term debt approximates fair value due to the interest rate on the debt being variable based on current market rates. During the three and nine months ended September 30, 2014 and 2013, the Company did not have any re-measurements of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

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

The following Management's Discussion and Analysis should be read in conjunction with the unaudited consolidated financial statements and notes thereto included in this report, as well as the consolidated financial statements, the notes thereto, and management's discussion and analysis included in our Annual Report on Form 10-K for the year ended December 31, 2013, our Quarterly Report on Form 10-Q for the periods ended March 31, 2014, and June 30, 2014, and our Reports on Form 8-K filed since the date of such Form 10-K.

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

OVERVIEW

Nature's Sunshine Products, Inc., together with its subsidiaries, 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 Managers and Distributors who use the products themselves or resell them to other Distributors or customers. 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 Company has three business segments that are divided based on the different characteristics of their Distributor bases, selling and Distributor compensation plans and product formulations, as well as the internal organization of our officers and their responsibilities and business operations. Two business segments operate under the Nature's Sunshine Products brand (NSP Americas, Asia Pacific and Europe and NSP Russia, Central and Eastern Europe), and one operates under the Synergy WorldWide brand.

We market our 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, Peru, the Philippines, Poland, Russia, Singapore, Slovenia, South Korea, Spain, Sweden, Taiwan, Thailand, Ukraine, the United Kingdom, the United States, Venezuela and Vietnam. We export our products to Argentina, Australia, Chile, Israel, New Zealand, Norway and the United Kingdom.

During the third quarter of 2014, we experienced an increase in our consolidated net sales of 2.6 percent compared to the third quarter of 2013 (or 3.2 percent in local currencies). Synergy WorldWide net sales increased approximately 27.1 percent compared to the same period in 2013 (or 24.1 percent in local currencies). NSP Russia, Central and Eastern Europe net sales decreased approximately 19.4 percent compared to the same period in 2013. NSP Americas, Asia Pacific and Europe net sales decreased approximately 4.3 percent compared to the same period in 2013 (or 1.6 percent in local currencies). Our most significant sales revenue growth was from our Synergy South Korea market during the third quarter of 2014. Gains in this market were partially offset by the decrease in our NSP Russia, Central and Eastern Europe market.

The Company must caution that near-term sales in NSP Russia, Central and Eastern Europe will undoubtedly continue to be affected by the political unrest in Ukraine and Russia, possible sanctions in Russia and the impact of currency devaluation.

Over the same period, selling, general and administrative costs as a percentage of net sales revenue for 2014, increased to 35.3 percent from 30.4 percent in 2013. The increase in selling, general and administrative expenses was primarily related to a \$2.9 million impairment charge for our Venezuela fixed assets incurred in connection with currency devaluation, \$0.8 million in one-time restructuring costs in certain markets, \$0.6 million of increased health insurance and other benefit costs, and \$0.4 million in start-up costs for the China joint venture.

In November, the Company decided to exit the Venezuela market due to the difficulties and uncertainties related to import controls, difficulties associated with repatriating cash and high inflation. As a result, the Company expects to incur additional exit costs of \$0.6 million to \$0.8 million in the fourth quarter of 2014.

Table of Contents

We distribute our products to consumers through an independent sales force comprised of Managers and Distributors, some of whom also consume our products. Typically, a person who joins our independent sales force begins as a Distributor. A Distributor may earn Manager status by committing more time and effort to selling our products, recruiting productive Distributors and attaining certain product sales levels. On a worldwide basis, active Managers were approximately 16,100 and 16,900, and active Distributors and customers were approximately 299,300 and 324,900, at September 30, 2014 and 2013, respectively.

Net sales revenue represents net sales including shipping and handling revenues offset by volume rebates given to Managers, Distributors and customers. Volume rebates as a percentage of retail sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict rebates. We also offer reduced volume rebates with respect to certain products and promotions worldwide.

Our gross profit consists of net sales less cost of sales, which represents our manufacturing costs, the price we pay to our raw material suppliers and manufacturers of our products, and duties and tariffs, as well as shipping and handling costs related to product shipments and distribution to our Managers, Distributors and customers.

Volume incentives are a significant part of our direct sales marketing program, and represent commission payments made to our independent Managers and Distributors. These payments are designed to provide incentives for reaching higher sales levels and for recruiting additional Distributors. Volume incentives vary slightly, on a percentage basis, by product due to our pricing policies and commission plans in place in our various operations.

Selling, general and administrative expenses represent our operating expenses, components of which include labor and benefits, sales events, professional fees, travel and entertainment, Distributor marketing, occupancy costs, communication costs, bank fees, depreciation and amortization, and other miscellaneous operating expenses.

Most of our sales to Distributors outside the United States are made in the respective local currencies. In preparing our financial statements, we translate revenues into U.S. dollars using average exchange rates. Additionally, the majority of our purchases from our suppliers generally are made in U.S. dollars. Consequently, a strengthening of the U.S. dollar versus a foreign currency can have a negative impact on our reported sales and contribution margins and can generate transaction losses on intercompany transactions.

Table of Contents**RESULTS OF OPERATIONS**

The following table summarizes our unaudited consolidated operating results in U.S. dollars and as a percentage of net sales revenue for the three months ended September 30, 2014 and 2013 (dollar amounts in thousands).

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013		Change	
	Total dollars	Percent of net sales	Total dollars	Percent of net sales	Total dollars	Percentage
Net sales revenue	\$ 94,876	100.0%	\$ 92,458	100.0%	\$ 2,418	2.6%
Cost of sales	(23,315)	(24.6)	(23,655)	(25.6)	340	1.4
	71,561	75.4	68,803	74.4	2,758	4.0
Volume incentives	35,457	37.4	33,920	36.7	1,537	4.5
SG&A expenses	33,476	35.3	28,170	30.4	5,306	18.8
Operating income	2,628	2.7	6,713	7.3	(4,085)	(60.9)
Other income (loss), net	(1,279)	(1.3)	(269)	(0.3)	(1,010)	(375.5)
Income before provision for income taxes	1,349	1.4	6,444	7.0	(5,095)	(79.1)
Provision for income taxes	358	0.4	1,594	1.7	(1,236)	(77.5)
Net income	\$ 991	1.0%	\$ 4,850	5.3%	\$ (3,859)	(79.6)%

The following table summarizes our unaudited consolidated operating results in U.S. dollars and as a percentage of net sales revenue for the nine months ended September 30, 2014 and 2013 (dollar amounts in thousands).

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013		Change	
	Total dollars	Percent of net sales	Total dollars	Percent of net sales	Total dollars	Percentage
Net sales revenue	\$ 284,954	100.0%	\$ 282,612	100.0%	\$ 2,342	0.8%
Cost of sales	(69,793)	(24.5)	(70,730)	(25.0)	937	1.3
	215,161	75.5	211,882	75.0	3,279	1.5
Volume incentives	106,008	37.2	103,420	36.6	2,588	2.5
SG&A expenses	93,539	32.8	86,996	30.8	6,543	7.5
Operating income	15,614	5.5	21,466	7.6	(5,852)	(27.3)
Other income (loss), net	(2,772)	(1.0)	1,543	0.5	(4,315)	(279.7)
Income before provision for income taxes	12,842	4.5	23,009	8.1	(10,167)	(44.2)
Provision (benefit) for income taxes	(1,048)	(0.4)	7,243	2.5	(8,291)	(114.5)
Net income	\$ 13,890	4.9%	\$ 15,766	5.6%	\$ (1,876)	(11.9)%

Table of Contents*Net Sales Revenue*

Our international operations have provided and are expected to continue to provide, a significant portion of our total net sales. As a result, total net sales will continue to be affected by fluctuations in the U.S. dollar against foreign currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, in addition to comparing the percent change in net sales from one period to another in U.S. dollars, we compare the percentage change in net sales from one period to another period by excluding the effects of foreign currency exchange as shown below. Net sales excluding the impact of foreign exchange fluctuations is not a U.S. GAAP financial measure. Net sales in local currency removes from net sales in U.S. dollars the impact of changes in exchange rates between the U.S. dollar and the functional currencies of our foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. We believe presenting the impact of foreign currency fluctuations is useful to investors because it allows a more meaningful comparison of net sales of our foreign operations from period to period. However, net sales excluding the impact of foreign currency fluctuations should not be considered in isolation or as an alternative to net sales in U.S. dollar measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP. Throughout the last five years, foreign currency exchange rates have fluctuated significantly. See Item 3. *Quantitative and Qualitative Disclosures about Market Risk*.

The following table summarizes the changes in our net sales revenue by operating segment with a reconciliation to net sales revenue excluding the impact of currency fluctuations for the three months ended September 30, 2014 and 2013;

Net Sales Revenue by Operating Segment						
	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency	
NSP Americas, Asia Pacific and Europe:						
NSP North America	\$ 36,228	\$ 35,987	0.7%	\$ (140)	1.1%	
NSP Latin America	11,333	12,038	(5.9)	(1,237)	4.4	
NSP Other	830	2,535	(67.3)		(67.3)	
	48,391	50,560	(4.3)	(1,377)	(1.6)	
NSP Russia, Central and Eastern Europe						
	11,753	14,577	(19.4)	7	(19.4)	
Synergy WorldWide:						
Synergy North America	3,768	4,238	(11.1)		(11.1)	
Synergy Asia Pacific	23,426	15,724	49.0	821	43.8	
Synergy Europe	7,538	7,359	2.4	14	2.2	
	34,732	27,321	27.1	835	24.1	
	\$ 94,876	\$ 92,458	2.6%	\$ (535)	3.2%	

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Table of Contents

The following table summarizes the changes in our net sales revenue by operating segment with a reconciliation to net sales revenue excluding the impact of currency fluctuations for the nine months ended September 30, 2014 and 2013;

Net Sales Revenue by Operating Segment					
	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency
NSP Americas, Asia Pacific and Europe:					
NSP North America	\$ 109,971	\$ 113,588	(3.2)%	\$ (642)	(2.6)%
NSP Latin America	34,650	36,016	(3.8)	(3,138)	4.9
NSP Other	3,443	7,509	(54.1)	69	(55.1)
	148,064	157,113	(5.8)	(3,711)	(3.4)
NSP Russia, Central and Eastern Europe					
	39,628	45,695	(13.3)	28	(13.3)
Synergy WorldWide:					
Synergy North America	11,867	13,007	(8.8)		(8.8)
Synergy Asia Pacific	62,602	42,994	45.6	1,169	42.9
Synergy Europe	22,793	23,803	(4.2)	653	(7.0)
	97,262	79,804	21.9	1,822	19.6
	\$ 284,954	\$ 282,612	0.8%	\$ (1,861)	1.5%

Consolidated net sales revenue for the three and nine months ended September 30, 2014, was \$94.9 million and \$285.0 million compared to \$92.5 million and \$282.6 million for the same periods in 2013, or an increase of approximately 2.6 percent and 0.8 percent, respectively. We experienced a \$0.5 million and \$1.9 million unfavorable impact in foreign currency exchange rate fluctuations in the three and nine months ended September 30, 2014 and 2013, respectively, and our consolidated net sales revenue would have increased by 3.2 percent and 1.5 percent from 2013, excluding the negative impact. The increase in local currency net sales revenue for the three and nine months ended September 30, 2014, compared to the same periods in 2013, is primarily due to an increase of net sales in our Synergy WorldWide segment and was partially offset by a decline of net sales in our NSP Americas, Asia Pacific and Europe and NSP Russia, Central and Eastern Europe segments.

NSP Americas, Asia Pacific and Europe

Net sales revenue related to NSP Americas, Asia Pacific and Europe for the three and nine months ended September 30, 2014, was \$48.4 million and \$148.1 million, compared to \$50.6 million and \$157.1 million for the same periods in 2013, or decreases of 4.3 percent and 5.8 percent, respectively. In local currency, net sales decreased 1.6 percent and 3.4 percent, compared to the same periods in 2013, respectively. Fluctuations in foreign exchange rates had a \$1.4 million and \$3.7 million unfavorable impact on net sales for the three and nine months ended September 30, 2014, respectively. Active Managers within NSP Americas, Asia Pacific and Europe totaled approximately 7,700 and 8,500 at September 30, 2014 and 2013, respectively. Active Distributors and customers within NSP Americas, Asia Pacific and Europe totaled approximately 141,800 and 153,200 at September 30, 2014 and 2013, respectively. Segment net sales revenue and the number of Managers, Distributors and customers decreased primarily due to combining our NSP Japan business with our Synergy Japan business, the transition of the NSP United Kingdom business to an export market, and lower net sales in the United States for the nine months ended September 30, 2014. Excluding Japan and the United Kingdom, Managers were down 1.5 percent, and active Distributors and customers were down 4.1 percent, compared to the prior year

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

quarter. Managers and Distributors within NSP Americas, Asia Pacific and Europe are predominantly practitioners, retailers and consumers of our products. The Active Managers category includes Managers under our various compensation plans that have achieved and maintained certain product sales levels. As such, all Managers are considered to be active Managers. The Active Distributors and customers category includes our Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous three months.

Notable activity in the following markets contributed to the results of NSP Americas, Asia Pacific and Europe:

In the United States, net sales revenues increased approximately \$0.2 million and decreased \$2.9 million, or an increase of 0.7 percent and a decrease of 2.8 percent, for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013; this was the first quarter of growth since the second quarter of 2013 in the NSP US market. In the third quarter, we continued to see our new sales programs gain traction. We have seen increased adoption of the IN.FORM sales method, focused on

Table of Contents

weight management, and the building of a daily Habit of Health, our retail sales tools. Our August Leaders Conference held in Salt Lake City focused on this program as well as on sharing our business opportunity more effectively. In addition, in time for the winter season, we re-launched our Silver immune product line, improving the formula to provide even greater efficacy, as well as rebranding our packaging, which has generated a positive uptake.

In Canada, net sales revenues was flat and decreased approximately \$0.7, or 7.1 percent, for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. In local currency, net sales increased 5.1 percent and decreased 0.7 percent, respectively, compared to the same periods in 2013. Currency devaluation had a \$0.1 and \$0.6 million unfavorable impact on net sales for the three and nine months ended September 30, 2014, respectively. In NSP Canada, we are following the same strategy as in our NSP United States market, and we saw a growth in the third quarter in local currency sales, (the first growth quarter of growth since the first quarter of 2012), as we saw the uptake from the launch of weight management product line, ahead of our IN.FORM program launch in October.

In Venezuela, net sales revenues decreased approximately \$0.6 million and \$0.8 million, or 28.4 percent and 13.2 percent, for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. In local currency, net sales increased 26.6 percent and 27.3 percent, respectively, compared to the same periods in 2013. Currency devaluation had a \$1.1 and \$2.5 million unfavorable impact on net sales for the three and nine months ended September 30, 2014, respectively, as the Company began reporting its results at the higher SICAD 1 exchange rate of 11.3 effective March 31, 2014. The Company will begin to report its results at the less favorable SICAD 2 exchange rate of 50.0 bolivars to the U.S. dollar beginning in the fourth quarter of 2014. The increase in local currency net sales is due to price increases designed to offset the inflationary environment.

Due to the continued challenges in returning the NSP Japan business to growth, we made the decision to cease operating under the NSP brand and to merge our NSP Japan business with our Synergy Japan business to create one unified approach to the market with a common product offering and business opportunity model. As part of this transition, we allowed NSP Japan Distributors to transfer their businesses to our Synergy Japan brand. The combined businesses began operating as Synergy Japan in January 2014, and provide a greater opportunity for a return to profitable growth. We therefore had no net sales revenue from NSP Japan for the three and nine months ended September 30, 2014, compared to approximately \$0.8 million and \$2.5 million of net sales revenue for the same periods in 2013, respectively.

Due to the size of the NSP United Kingdom market, lack of net sales growth, and continuing operating losses, we made the decision to transition our NSP United Kingdom market to an export market, in which we sell our products to a locally managed entity independent of the Company that has distribution rights for the market, effective April 1, 2014. As a result of this change to a wholesale model, our net sales revenue declined by \$1.2 million and \$1.9 million for the three and nine months ended September 30, 2014, respectively, as compared to the same periods in 2013.

With the discontinuance of our NSP Japan and United Kingdom markets in 2014, we no longer have any NSP affiliates in the Asia Pacific and Europe regions.

NSP Russia, Central and Eastern Europe

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Net sales revenue related to NSP Russia, Central and Eastern Europe markets (primarily Russia, Ukraine, and Belarus) for the three and nine months ended September 30, 2014, was \$11.8 million and \$39.6 million, respectively, compared to \$14.6 million and \$45.7 million for the same periods in 2013, or decreases of 19.4 percent and 13.3 percent, respectively. Active Managers within NSP Russia, Central and Eastern Europe totaled approximately 4,400 and 5,200 at September 30, 2014 and 2013, respectively. Active Distributors and customers within NSP Russia, Central and Eastern Europe totaled approximately 99,500 and 119,400 at September 30, 2014 and 2013, respectively. Net sales and the number of Managers, Distributors and customers buying and distributing our products decreased primarily as a result of the current political uncertainty in Ukraine and across the region, and the market decline in the value of the Ukrainian hryvnia and Russian ruble against the U.S. dollar. Although changes in exchange rates between the U.S. dollar and Ukrainian hryvnia do not result in currency fluctuations within our financial statements, the Company's products in Ukraine and Russia are priced in U.S. dollars and therefore become more expensive when the local currency declines in value. We remain strongly supportive and engaged with our distributors in the region, and are supporting their activity with additional promotions and training, which seems to be stabilizing sales in certain areas. At this time, we cannot estimate what effect this unrest may have on our future results. Should the situation in the region escalate or additional sanctions be imposed on Russia, our results could experience some weakness as a result. Nevertheless, our strong and renewed partnership with our local partner should provide a solid foundation to reignite growth once the situation stabilizes.

Synergy WorldWide

Net sales revenue related to Synergy WorldWide for the three and nine months ended September 30, 2014, was \$34.7 million, and \$97.3 million, respectively, compared to \$27.3 million and \$79.8 million for the same periods in 2013, or increases of 27.1

Table of Contents

percent and 21.9 percent, respectively. Fluctuations in foreign exchange rates had a \$0.8 million and \$1.8 million favorable impact on net sales for the three and nine months ended September 30, 2014, respectively, and net sales revenue would have increased by 24.1 percent and 19.6 percent from 2013, excluding the positive impact, respectively. Active Managers within Synergy WorldWide totaled approximately 4,000 and 3,200 at September 30, 2014 and 2013, respectively. Active Distributors and customers within Synergy WorldWide totaled approximately 58,000 and 52,300 at September 30, 2014 and 2013, respectively. Synergy WorldWide's business model is operating under a traditional direct selling approach. Synergy WorldWide reported a growth of net sales revenue due to improvements in South Korea and Japan, partially offset by lower net sales in Europe and North America.

Notable activity in the following markets contributed to the results of Synergy WorldWide:

In South Korea, net sales revenues increased approximately \$6.8 million and \$19.9 million, or increases of 71.7 percent and 86.1 percent, for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. In local currency, net sales increased 59.5 percent and 75.1 percent, respectively, compared to the same periods in 2013. Fluctuations in foreign exchange rates had a \$1.2 and \$2.5 million favorable impact on net sales for the three and nine months ended September 30, 2014, respectively. Momentum has been sustained since September 2013 due to the Synergy WorldWide global summit held in South Korea and the launch of the SLMsmart weight-management program, which further contributed to sustained growth in combination with the continued strong Distributor leadership in this market.

In Japan, net sales revenues increased approximately \$0.6 million and \$2.2 million, or increases of 26.4 percent and 34.7 percent, for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. In local currency, net sales increased 33.3 percent and 43.7 percent, respectively, compared to the same periods in 2013. Fluctuations in foreign exchange rates had a \$0.2 and \$0.6 million unfavorable impact on net sales for the three and nine months ended September 30, 2014, respectively. In the second half of 2013, we introduced new products and implemented programs to stimulate activity, which had a positive impact in this market. In addition, as referenced above, in order to provide a more stable platform for growth, we made the decision to cease to operate under the NSP brand in Japan and to combine the NSP Japan and Synergy Japan businesses, and operate as a single entity from January 2014 forward. As part of this transition, we provided certain NSP products, a business opportunity and encouraged NSP Japan Distributors to transfer their businesses to our Synergy Japan brand. Net sales revenue of \$0.4 million and \$1.1 million attributable NSP Japan's historical sales force was included within these results for the three and nine months ended September 30, 2014, respectively.

In Europe, net sales revenues increased approximately \$0.2 million and decreased \$1.0 million, or an increase of 2.4 percent and a decrease of 4.2 percent, for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. In local currency, net sales increased 2.2 percent and decreased 7.0 percent, respectively, compared to the same periods in 2013. Fluctuations in foreign exchange rates had a nominal impact and a \$0.7 million favorable impact on net sales for the three and nine months ended September 30, 2014, respectively. The temporary shipping restrictions imposed by the Norwegian Food Authority adversely impacted net sales in 2012 and our Synergy Norway market has not yet returned to its previous growth rate thus resulting in a decline in net sales for the nine months ended September 30, 2014. However, we are seeing growth across several other markets, which led to our first quarterly net sales growth in local currencies since the fourth quarter of 2013. The growth has been driven by the investment in additional sales resources in the second half of 2013. In addition, momentum was created in the third quarter of 2014 as Distributors qualified for promotions ahead of our European Summit held in Barcelona at the end of September.

In North America, net sales revenues decreased approximately \$0.5 million and \$1.1 million, or decreases of 11.1 percent and 8.8 percent, for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The decline in sales is primarily driven by lower Distributor recruiting. Growth initiatives have been developed and implemented to more effectively support recruiting and Distributor training and motivation.

Further information related to NSP Americas, Asia Pacific and Europe, NSP Russia, Central and Eastern Europe, and Synergy WorldWide business segments is set forth in Note 8 to the Unaudited Condensed Consolidated Financial Statements in Part 1, Item 1 of this report.

Cost of Sales

Cost of sales as a percent of net sales revenue decreased to 24.6 percent and 24.5 percent for the three and nine months ended September 30, 2014, respectively, compared to 25.6 percent and 25.0 percent for the same periods in 2013. The decrease in the cost of sales percentage was primarily due to changes in product mix between markets, lower raw material costs as well as lower in market distribution costs, partially offset by the impact of product discounting.

Table of Contents

Volume Incentives

Volume incentives as a percent of net sales revenue increased to 37.4 and 37.2 percent for the three and nine months ended September 30, 2014, compared to 36.7 and 36.6 percent for the same periods in 2013, respectively. The increase was primarily due to net sales increases in markets such as South Korea and Japan that pay a higher sales commission in our Synergy WorldWide segment.

Selling, General and Administrative

Selling, general and administrative expenses increased by approximately \$5.3 million and \$6.5 million to \$33.5 million and \$93.5 million for the three and nine months ended September 30, 2014 and 2013, respectively. Selling, general and administrative expenses were 35.3 percent and 32.8 percent of net sales revenue for the three and nine months ended September 30, 2014 and 2013, compared to 30.4 percent and 30.8 percent for the same periods in 2013, respectively. The increase in selling, general and administrative expenses for the three months ended September 30, 2014, was primarily related to an impairment charge of \$2.9 million for our Venezuela fixed assets, \$0.8 million of one-time restructuring costs in certain markets, \$0.6 million of increased health insurance and other benefit costs, and \$0.4 million in start-up costs for the China joint venture. In addition to these costs, the increase in selling, general and administrative expenses for the nine months ended September 30, 2014, also included professional fees of \$0.8 million related to the strategic alliance with Fosun Pharma and \$1.1 million associated with the evaluation of and negotiation with a company with an alternative distribution channel, which we ultimately declined to pursue.

Other Income (Expense), Net

Other income (expense), net for the three and nine months ended September 30, 2014, decreased \$1.0 million and \$4.3 million compared to the same periods in 2013, respectively, due to foreign exchange rate losses, principally due to losses of \$1.2 million and \$2.4 million incurred in Venezuela for the three and nine months ended September 30, 2014.

Income Taxes

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, adjusted for discrete tax items in the period in which they occur. For the three months ended September 30, 2014 and 2013, the Company's provision (benefit) for income taxes, as a percentage of income before income taxes was 26.5 percent and 24.7 percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent. For the nine months ended September 30, 2014 and 2013, the Company's provision (benefit) for income taxes, as a percentage of income before income taxes was (8.2) percent and 31.5 percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended September 30, 2014, was primarily attributed to a decrease in tax liabilities associated with uncertain tax positions.

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended September 30, 2013 was primarily attributed to foreign tax credit benefits, net favorable foreign items related to foreign tax rate differences, the impact of unremitted earnings, and adjustments to foreign valuation allowances, offset by an increase in tax liabilities associated with uncertain tax positions.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the nine months ended September 30, 2014 was primarily attributed to a decrease in tax liabilities associated with uncertain tax positions and foreign tax credits arising from intercompany dividends of \$32.8 million paid by foreign subsidiaries to the U.S. corporation.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the nine months ended September 30, 2013 was primarily attributed to foreign tax credit benefits, net favorable foreign items related to foreign tax rate differences, the impact of unremitted earnings, and adjustments to foreign valuation allowances, offset by an increase in tax liabilities associated with uncertain tax positions.

Changes to the effective rate due to dividends received from foreign subsidiaries and the impact of foreign tax credits are expected to be recurring, although it is unlikely that it will again have an impact as large as what occurred in the nine months ended September 30, 2014. Depending on various factors, changes from the foregoing items may be favorable or unfavorable in a particular period.

The Company's U.S. federal income tax returns for 2009 through 2013 are open to examination for federal tax purposes. The Internal Revenue Service (IRS) is currently concluding an audit of the Company's U.S. federal income tax returns for the 2009 through 2011 tax years. The Company has received Notices of Proposed Adjustments from the IRS as a result of this audit and is currently analyzing those adjustments. The Company has several foreign tax jurisdictions that have open tax years from 2007 through 2013.

Table of Contents

As of September 30, 2014, the Company had accrued \$8.9 million related to unrecognized tax positions compared with \$12.4 million as of December 31, 2013. This net decrease was primarily attributed to decreases in contingencies not related to statute expirations.

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

Product Categories

Our line of over 700 products includes several different product classifications, such as immune, cardiovascular, digestive, personal care, weight management and other general health 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 products 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.

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Table of Contents

Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of general health, immune, cardiovascular, digestive, personal care and weight management products for the three and nine months ended September 30, 2014 and 2013, by business segment.

	2014		Three Months Ended September 30,		2013	
NSP Americas, Asia Pacific and Europe:						
General health	\$	21,133	43.7%	\$	22,048	43.6%
Immune		5,907	12.2		5,511	10.9
Cardiovascular		3,270	6.8		3,482	6.9
Digestive		14,143	29.2		14,699	29.1
Personal care		1,014	2.1		1,275	2.5
Weight management		2,924	6.0		3,545	7.0
Total NSP Americas, Asia Pacific and Europe		48,391	100.0%		50,560	100.0%
NSP Russia, Central and Eastern Europe:						
General health	\$	4,507	38.4%	\$	5,344	36.7%
Immune		1,492	12.7		1,801	12.4
Cardiovascular		730	6.2		966	6.6
Digestive		3,093	26.3		3,625	24.9
Personal care		1,410	12.0		2,282	15.6
Weight management		521	4.4		559	3.8
Total NSP Russia, Central and Eastern Europe		11,753	100.0%		14,577	100.0%
Synergy WorldWide:						
General health	\$	12,367	35.6%	\$	9,438	34.6%
Immune		243	0.7		415	1.5
Cardiovascular		11,500	33.1		9,925	36.3
Digestive		6,069	17.5		4,001	14.6
Personal care		1,981	5.7		2,022	7.4
Weight management		2,572	7.4		1,520	5.6
Total Synergy WorldWide		34,732	100.0%		27,321	100.0%
Consolidated:						
General health	\$	38,007	40.1%	\$	36,830	39.8%
Immune		7,642	8.3		7,727	8.4
Cardiovascular		15,500	16.2		14,373	15.6
Digestive		23,305	24.5		22,325	24.1
Personal care		4,405	4.6		5,579	6.0
Weight management		6,017	6.3		5,624	6.1
Total Consolidated	\$	94,876	100.0%	\$	92,458	100.0%

Table of Contents

	2014		Nine Months Ended September 30,		2013	
NSP Americas, Asia Pacific and Europe:						
General health	\$	64,535	43.6%	\$	66,832	42.5%
Immune		17,877	12.0		18,431	11.7
Cardiovascular		10,033	6.8		10,729	6.9
Digestive		43,210	29.2		45,717	29.1
Personal care		3,124	2.1		4,137	2.6
Weight management		9,285	6.3		11,267	7.2
Total NSP Americas, Asia Pacific and Europe		148,064	100.0%		157,113	100.0%
NSP Russia, Central and Eastern Europe:						
General health	\$	14,883	37.5%	\$	16,603	36.3%
Immune		4,960	12.5		5,636	12.3
Cardiovascular		2,457	6.2		3,206	7.0
Digestive		10,491	26.5		11,691	25.6
Personal care		4,746	12.0		6,395	14.0
Weight management		2,091	5.3		2,164	4.8
Total NSP Russia, Central and Eastern Europe		39,628	100.0%		45,695	100.0%
Synergy WorldWide:						
General health	\$	34,809	35.8%	\$	27,214	34.1%
Immune		710	0.7		1,223	1.5
Cardiovascular		33,596	34.6		30,594	38.4
Digestive		16,039	16.5		12,823	16.1
Personal care		5,451	5.6		5,295	6.6
Weight management		6,657	6.8		2,655	3.3
Total Synergy WorldWide		97,262	100.0%		79,804	100.0%
Consolidated:						
General health	\$	114,227	40.1%	\$	110,649	39.2%
Immune		23,547	8.1		25,290	8.9
Cardiovascular		46,086	16.3		44,529	15.8
Digestive		69,740	24.6		70,231	24.8
Personal care		13,321	4.6		15,827	5.6
Weight management		18,033	6.3		16,086	5.7
Total Consolidated	\$	284,954	100.0%	\$	282,612	100.0%

Table of Contents

The following table summarizes our product lines by category:

Category	Description	Selected Representative Products
General health	We manufacture or contract with independent manufacturers to supply a wide selection of general health products. The general health line is a combination of assorted health products related to blood sugar support, bone health, cellular health, cognitive function, essential oils, joint health, mood, sexual health, sleep, sports and energy, and vision.	<p><i>NSP Americas, Asia Pacific and Europe; and NSP Russia, Central and Eastern Europe:</i> Adrenal Support, CurcuminBP, Everflex®, Ionic Minerals, Mind-Max, Nutri-Calm®, Perfect Eyes®, Skeletal Strength®, Super Supplemental Vitamin and Mineral, Super Trio, Tai-Go®, Tei-Fu®, Vitamin B-Complex, Vitamin D3</p> <p><i>Synergy WorldWide:</i></p> <p>Core Greens®, Mistica®, Noni Plus, NutriBurst, Spirulina Vegi-Cap</p>
Immune	We manufacture or contract with independent manufacturers to supply immune products. The immune line has been designed to offer products that support and strengthen the human immune system.	<p><i>NSP Americas, Asia Pacific and Europe; and NSP Russia, Central and Eastern Europe:</i> ALJ®, Elderberry D3fense, HistaBlock®, Immune Stimulator, Silver Shield, VS-C®</p> <p><i>Synergy WorldWide:</i></p> <p>BodyGuard, Colostrum</p>
Cardiovascular	We manufacture or contract with independent manufacturers to supply cardiovascular products. The cardiovascular line has been designed to offer products that combine a variety of superior heart health ingredients to give the cardiovascular system optimum support.	<p><i>NSP Americas, Asia Pacific and Europe; and NSP Russia, Central and Eastern Europe:</i> Blood, Pressurex, Co-Q10, Flax Seed Oil, Mega-Chel®, Red Yeast Rice, Super Omega-3 EPA</p> <p><i>Synergy WorldWide:</i></p> <p>E-9, ProArgi-9 Plus®</p>
Digestive	We manufacture or contract with independent manufacturers to supply digestive products. The digestive line has been designed to offer products that regulate intestinal and digestive functions in support of the human digestive system.	<p><i>NSP Americas, Asia Pacific and Europe; and NSP Russia, Central and Eastern Europe:</i> Bifidophilus Flora Force®, CleanStart®, Food Enzymes, LBS II®, Liquid Chlorophyll, Milk Thistle, Proactazyme®, Probiotic Eleven®</p> <p><i>Synergy WorldWide:</i></p> <p>Detox Plus, Liquid Chlorophyll</p>
Personal care	We manufacture or contract with independent manufacturers to supply a variety of personal care	<p><i>NSP Americas, Asia Pacific and Europe; and NSP Russia, Central and Eastern Europe:</i> EverFlex® Cream , HSN-W®,</p>

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

products for external use, including oils and lotions, aloe vera gel, herbal shampoo, herbal skin treatment, toothpaste and skin cleanser.

Pau-D Arco Lotion, Pro-G Yam® Cream, Tei-Fu® Lotion, Vari-Gone®

Synergy WorldWide:

Bright Renewal Serum, Hydrating Toner, 5 in 1 Shampoo, Repair Complex

Weight management

We manufacture or contract with independent manufacturers to supply a variety of weight management products. The weight management line has been designed to simplify the weight management process by providing healthy meal replacements and products that increase caloric burn rate.

NSP Americas, Asia Pacific and Europe; and NSP Russia, Central and Eastern Europe: Fat Grabbers®, Garcinia Combination, Love and Peas, MetaboMax, Nature's Harvest, Nutri-Burn®, SmartMeal, Stixated , Ultra Therm

Synergy WorldWide:

Double Burn, SLMSmart

Table of Contents

Distribution and Marketing

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

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 Georgia, Ohio and Texas. Many of our international operations maintain warehouse facilities with inventory to supply their Managers, Distributors and customers. However, in foreign markets that we do not maintain warehouse facilities, we have contracted with third-parties to distribute our products and provide support services to our independent sales force of Managers and Distributors.

As of September 30, 2014, we had approximately 299,300 active Distributors and customers worldwide who purchase our products directly from the Company. In addition, our products can be purchased directly from our Distributors. 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 Distributor as a sponsor. Many Distributors sell our products on a part-time basis to friends or associates or use the products themselves. A Distributor may earn Manager status by committing more time and effort to selling our products, recruiting productive Distributors and attaining certain product sales levels. Managers resell our products to Distributors within their sales group or directly to customers, or use the products themselves. As of September 30, 2014, we had approximately 16,100 active Managers worldwide. In many of our markets, our Managers and Distributors are primarily retailers of our products, including practitioners, proprietors of retail stores and other health and wellness specialists.

In the United States, we generally sell our products on a cash or credit card basis. From time to time, our U.S. operations extend 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, or volume incentives to our Managers and Distributors based upon the amount of their sales group product purchases. These volume incentives are recorded as an expense in the year earned. The amounts of volume incentives that we expensed during the quarters ended September 30, 2014 and 2013, are set forth in our Consolidated Financial Statements in Item 1 of this report. In addition to the opportunity to receive volume incentives, Managers who attain certain levels of monthly product sales are eligible for additional incentive programs including automobile allowances, sales convention privileges and travel awards.

Distributor Information

Our revenue is highly dependent upon the number and productivity of our Managers, Distributors and customers. Growth in sales volume requires an increase in the productivity and/or growth in the total number of Managers, Distributors and customers.

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Within the Company, we have a number of different distributor compensation plans and qualifications, which generate active Distributors & Managers with different sales values in our different business segments. Within our NPS Americas, Asia and Europe and NSP Russia, Central and Eastern Europe segments the declines in active Distributor and Managers are indicative of the declines in sales revenues. Within Synergy WorldWide, the sales qualifications required for active Distributors & Managers varies by market according to local economic factors. As sales grow in markets with higher qualification values, and decline in those with lower qualification values, the resultant mix change influences the active Distributor & Manager counts. As a result, from time-to-time, changes in overall active Distributor & Manager counts may not be indicative of actual sales trends for the segment.

The following table provides information concerning the number of total Managers, Distributors and customers by segment, as of the dates indicated;

Total Managers, Distributors and Customers by Segment as of September 30,

	2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas, Asia Pacific and Europe	306,700	7,700	329,300	8,500
NSP Russia, Central and Eastern Europe	246,100	4,400	257,800	5,200
Synergy WorldWide	117,600	4,000	118,500	3,200
	670,400	16,100	705,600	16,900

Table of Contents

Total Managers includes independent Managers under our various compensation plans that have achieved and maintained specified and personal groups sale volumes as of the date indicated.

Total Distributors and customers includes our independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous twelve months ended as of the date indicated. This includes Manager, Distributor and customer accounts that may have become inactive since such respective dates.

The following table provides information concerning the number of active Distributors and customers by segment, as of the dates indicated;

Active Distributors and Customers by Segment as of September 30,

	2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas, Asia Pacific and Europe	141,800	7,700	153,200	8,500
NSP Russia, Central and Eastern Europe	99,500	4,400	119,400	5,200
Synergy WorldWide	58,000	4,000	52,300	3,200
	299,300	16,100	324,900	16,900

Active Distributors and customers includes our independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous three months ended as of the date indicated.

The following tables provide information concerning the number of new Managers, Distributors and customers by segment, as of the dates indicated;

New Managers, Distributors and Customers by Segment for the Quarter Ended September 30,

	2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas, Asia Pacific and Europe	33,500	800	37,600	900
NSP Russia, Central and Eastern Europe	11,100	300	21,500	300
Synergy WorldWide	20,300	800	16,900	600
	64,900	1,900	76,000	1,800

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

New Managers includes independent Managers under our various compensation plans that first achieved the rank of Manager during the previous three months ended as of the date indicated.

New Distributors and Customers include our independent Distributors and customers who have made their initial product purchase directly from us for resale and/or personal consumption during the previous three months ended as of the date indicated.

The following tables provide information concerning the number of new Managers, Distributors and customers by segment, as of the dates indicated;

New Managers, Distributors and Customers by Segment for the Twelve Months Ended September 30,

	2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas, Asia Pacific and Europe	138,400	3,600	148,900	3,900
NSP Russia, Central and Eastern Europe	75,100	1,400	86,300	1,600
Synergy WorldWide	71,200	2,300	73,400	1,800
	284,700	7,300	308,600	7,300

Table of Contents

New Managers includes independent Managers under our various compensation plans that first achieved the rank of Manager during the previous twelve months ended as of the date indicated.

New Distributors and customers include our independent Distributors and customers who have made their initial product purchase directly from us for resale and/or personal consumption during the previous twelve months ended as of the date indicated.

LIQUIDITY AND CAPITAL RESOURCES

Our principal use of cash is to pay for operating expenses, including volume incentives, inventory and raw material purchases, capital assets and funding of international expansion. As of September 30, 2014, working capital was \$79.5 million, compared to \$80.0 million as of December 31, 2013. At September 30, 2014, we had \$70.5 million in cash and cash equivalents, of which \$54.6 million was held in our foreign markets and may be subject to various withholding taxes and other restrictions related to repatriation, and \$1.8 million in unrestricted short-term investments, which were available to be used along with our normal cash flows from operations to fund any unanticipated shortfalls in future cash flows. During the nine months ended September 30, 2014, we repatriated \$32.8 million of foreign cash through intercompany dividends.

Our net consolidated cash inflows (outflows) are as follows (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Operating activities	\$ 13,541	\$ 22,029
Investing activities	(19,737)	(4,535)
Financing activities	2,298	(18,951)

For the nine months ended September 30, 2014, operating activities provided cash in the amount of \$13.5 million, compared to \$22.0 million for the same period in 2013. Operating cash flows decreased due to the decrease in net income and the timing of payments and receipts for other assets, accounts payable, accrued volume incentives, accrued liabilities, liabilities related to unrecognized tax benefits and income taxes payable, and were partially offset by the timing of payments and receipts for accounts receivable, inventories and prepaid expenses and other current assets.

The decrease in accrued liabilities is primarily due to the timing of employee bonus payments, salary and other payroll accruals, and the payment of a one-time customs audit assessment in our Synergy South Korea market (accrued in the prior year). Prepaid expenses and other current assets, which includes income tax receivable, increased as a result of the repatriation of \$32.8 million in cash from foreign affiliates, which created foreign tax credit carryforwards in addition to the one-time income tax benefit in the consolidated statement of operations for the nine months ended September 30, 2014.

Capital expenditures related to the purchase of equipment, computer systems and software for the nine months ended September 30, 2014 and 2013, were \$20.0 million and \$4.6 million, respectively. In 2013, the Company began to significantly reinvest in its information technology systems. Included within this plan is an Oracle ERP implementation program to provide the Company with a single integrated software solution

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

that will integrate the Company's business process on a worldwide basis. During the nine months ended September 30, 2014, the Company had capital expenditures of \$15.6 million related to the Oracle ERP implementation. The Company anticipates completion of this project by mid-2016.

During the nine months ended September 30, 2014 and 2013, we used cash to pay dividends in an aggregate amount of \$33.4 and \$28.8 million, respectively.

The Board of Directors authorized a \$10 million share repurchase program to be implemented over two years. Such purchases may be made in the open market, through block trades, in privately negotiated transactions or otherwise. The timing and amount of any shares repurchases will be determined based on the Company's evaluation of market conditions and other factors and the program may be discontinued or suspended at any time. The Company will fund the share repurchase program through available cash on hand, future cash flows from operations and borrowings under its revolving credit facility. During the nine months ended September 30, 2013, the Company repurchased 177 shares of its common stock under the share repurchase program for \$2.7 million. At September 30, 2014, the remaining balance available for repurchases under the program was \$4.7 million.

On August 25, 2014, Nature's Sunshine and Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Fosun Pharma), closed a transaction pursuant to which, the parties entered into a joint venture in the People's Republic of China (China) that is owned 80 percent by Nature's Sunshine and 20 percent by a wholly-owned subsidiary of Fosun Pharma, and completed a concurrent investment by Fosun Pharma of \$46.2 million in Nature's Sunshine common stock issued pursuant to a private placement transaction. Nature's Sunshine used the net proceeds of the private placement transaction to fund its 80 percent share of the initial \$20.0 million

Table of Contents

capitalization of the China joint venture, or \$16.0 million, and to pay its shareholders a cash dividend of \$1.50 per share, or \$28.5 million. The Company consolidated the joint venture in its consolidated financial statements, with the Fosun Pharma's interest presented as a noncontrolling interest.

The joint venture, known as Nature's Sunshine Hong Kong Limited, expects to market and distribute Nature's Sunshine products in China. Nature's Sunshine Hong Kong Limited currently anticipates deploying a multi-brand, multi-channel go-to-market strategy that will offer select Nature's Sunshine-branded products through certain of Fosun Pharma's existing retail locations across China, and select Synergy-branded products through a direct selling model. The time to market will be dependent upon regulatory processes including product registration, permit and license approvals.

Pursuant to a concurrent private placement transaction, Nature's Sunshine issued 2.9 million shares of unregistered common stock to Fosun Pharma at a price of \$16.19 per share, representing aggregate proceeds to Nature's Sunshine of \$46.2 million. The purchase price represented a 10 percent premium to Nature's Sunshine's average stock price over the trailing 30 business day period as of June 26, 2014. As a result of the private placement transaction, Fosun Pharma owns approximately 15% of Nature's Sunshine outstanding common shares with respect to which the Company has granted Fosun Pharma certain registration rights. In addition, Nature's Sunshine appointed one director designated by Fosun Pharma to its board of directors.

During the nine months ended September 30, 2014 and 2013, we used cash to make principal payments of \$12.3 million and \$2.5 million on our revolving credit facility, respectively. The revolving credit facility is secured by the Company's manufacturing facility in Spanish Fork, Utah.

The Company has a revolving credit agreement with Wells Fargo Bank, N.A. with a borrowing limit of \$25.0 million that matures September 1, 2016. The Company pays an annual commitment fee of 0.25 percent on the unused portion of the commitment and LIBOR plus 1.25 percent on any borrowings on the agreement (1.50 percent as of September 30, 2014). The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. The Company retains ample capital capacity to continue making long-term investments in its sales, marketing, science and product development initiatives and overall operations, as well as pursue strategic opportunities as they may arise. As of September 30, 2014, the Company had no outstanding balance under the revolving credit agreement.

The revolving credit agreement contains restrictions on liquidity, leveraging, minimum net income and consecutive quarterly net losses. In addition, the agreement restricts capital expenditures, lease expenditures, other indebtedness, liens on assets, guaranties, loans and advances, and the merger, consolidation and the transfer of assets except in the ordinary course of business. As of September 30, 2014, the Company was in compliance with these debt covenants.

We believe that cash generated from operations, along with available cash and cash equivalents will be sufficient to fund our normal operating needs, including dividends, share repurchases, and capital expenditures, as well as potential business development activity. However, among other things, a prolonged economic downturn, a decrease in demand for our products, an unfavorable settlement of our unrecognized tax positions or non-income tax contingencies could adversely affect our long-term liquidity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP and form the basis for the following discussion and analysis on critical accounting policies and estimates. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates and those differences could have a material effect on our financial position and results of operations. Management has discussed the development, selection and disclosure of these estimates with the Board of Directors and its Audit Committee.

A summary of our significant accounting policies is provided in Note 1 of the Notes to Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2013. We believe the critical accounting policies and estimates described below reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements. The impact and any associated risks on our business that are related to these policies are also discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect reported and expected financial results.

Table of Contents

Revenue Recognition

Net sales revenue and related volume incentive expenses are recorded when persuasive evidence of an arrangement exists, collectability is reasonably assured, the amount is fixed and determinable, and title and risk of loss have passed. The amount of the volume incentive is determined based upon the amount of qualifying purchases in a given month. It is necessary for the Company to make estimates about the timing of when merchandise has been delivered. These estimates are based upon the Company's historical experience related to time in transit, timing of when shipments occurred and shipping volumes. Amounts received for undelivered merchandise are recorded as deferred revenue.

From time to time, the Company's U.S. operations extend short-term credit associated with product promotions. In addition, for certain of the Company's international operations, the Company offers credit terms consistent with industry standards within the country of operation. Payments to Managers and Distributors for sales incentives or rebates are recorded as a reduction of revenue. Payments for sales incentives and rebates are calculated monthly based upon qualifying sales. Membership fees are deferred and amortized as revenue over the life of the membership, primarily one year. Prepaid event registration fees are deferred and recognized as revenues when the related event is held.

A reserve for product returns is recorded based upon historical experience. The Company allows Managers or Distributors to return the unused portion of products within ninety days of purchase if they are not satisfied with the product. In some of the Company's markets, the requirements to return product are more restrictive.

Accounts Receivable Allowances

Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. This estimated allowance is based primarily on the aging category, historical trends and management's evaluation of the financial condition of the customer. This reserve is adjusted periodically as information about specific accounts becomes available.

Investments

The Company's available-for-sale investment portfolio is recorded at fair value and consists of various securities such as state and municipal obligations, U.S. government security funds, short-term deposits and various equity securities. These investments are valued using (a) quoted prices for identical assets in active markets or (b) from significant inputs that are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset. The Company's trading portfolio is recorded at fair value and consists of various marketable securities that are valued using quoted prices in active markets.

For available-for-sale debt securities with unrealized losses, the Company performs an analysis to assess whether it intends to sell or whether it would be more likely than not required to sell the security before the expected recovery of the amortized cost basis. Where the Company intends to sell a security, or may be required to do so, the security's decline in fair value is deemed to be other-than-temporary, and the full amount of the unrealized loss is recorded within earnings as an impairment loss.

For all other debt securities that experience a decline in fair value that is determined to be other-than-temporary and not related to credit loss, the Company records a loss, net of any tax, in accumulated other comprehensive income (loss). The credit loss is recorded within earnings as an impairment loss when sold. Management judgment is involved in evaluating whether a decline in an investment's fair value is other-than-temporary.

Regardless of the Company's intent to sell a security, the Company performs additional analysis on all securities with unrealized losses to evaluate losses associated with the creditworthiness of the security. Credit losses are identified where the Company does not expect to receive cash flows sufficient to recover the amortized cost basis of a security.

For equity securities, when assessing whether a decline in fair value below the Company's cost basis is other-than-temporary, the Company considers the fair market value of the security, the length of time and extent to which market value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and the Company's intent and ability to hold the investment for a sufficient time in order to enable recovery of the cost. New information and the passage of time can change these judgments. Where the Company has determined that it lacks the intent and ability to hold an equity security to its expected recovery, the security's decline in fair value is deemed to be other-than-temporary and is recorded within earnings as an impairment loss.

Inventories

Inventories are stated at the lower-of-cost-or-market, using the first-in, first-out method. The components of inventory cost include raw materials, labor and overhead. To estimate any necessary obsolescence or lower-of-cost-or-market adjustments, various assumptions are made in regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning and market conditions.

Table of Contents

Self-Insurance Liabilities

Similar to other manufacturers and distributors of products that are ingested, the Company faces an inherent risk of exposure to product liability claims in the event that, among other things, the use of its products results in injury. The Company carries insurance in the types and amounts it considers reasonably adequate to cover the risks associated with its business. The Company has a wholly-owned captive insurance company to provide it with product liability insurance coverage. The Company has accrued an amount that it believes is sufficient to cover probable and reasonably estimable liabilities related to product liability claims based on the Company's history of such claims. However, 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 the Company's business prospects, financial position, results of operations or cash flows.

The Company self-insures for certain employee medical benefits. The recorded liabilities for self-insured risks are calculated using actuarial methods and are not discounted. The liabilities include amounts for actual claims and claims incurred but not reported. Actual experience, including claim frequency and severity as well as health care inflation, could result in actual liabilities being more or less than the amounts currently recorded.

Incentive Trip Accrual

We accrue for expenses associated with our direct sales program, which rewards Managers and Distributors with paid attendance for incentive trips, including Company conventions and meetings. Expenses associated with incentive trips are accrued over qualification periods as they are earned. We specifically analyze incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could generate liabilities more or less than the amounts recorded.

Impairment of Long-Lived Assets

We review our long-lived assets, such as property, plant and equipment and intangible assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We use an estimate of future undiscounted net cash flows of the related assets or groups of assets over their remaining lives in measuring whether the assets are recoverable. An impairment loss is calculated by determining the difference between the carrying values and the fair values of these assets. As of September 30, 2014, we recorded an impairment charge of \$2.9 million related to our Venezuela fixed assets due to continual currency devaluation of the Venezuelan bolivar (50.0 bolivars to the U.S. dollar).

Contingencies

We are involved in certain legal proceedings. When a loss is considered probable in connection with litigation or non-income tax contingencies and when such loss can be reasonably estimated with a range, we record our best estimate within the range related to the contingency. If there is no best estimate, we record the minimum of the range. As additional information becomes available, we assess the potential liability related to the contingency and revise the estimates. Revision in estimates of the potential liabilities could materially affect our results of operations in the

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

period of adjustment. Our contingencies are discussed in further detail in Note 10, Commitments and Contingencies, to the Notes of our Condensed Consolidated Financial Statements, of Item 1, Part 1 of this report.

Income Taxes

Our income tax expense, deferred tax assets and liabilities and contingent reserves reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the Company's consolidated income tax expense.

Table of Contents

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating the Company's ability to recover its deferred tax assets, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, the Company develops assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income, and are consistent with the plans and estimates that the Company is using to manage the underlying businesses. Valuation allowances are recorded as reserves against net deferred tax assets by the Company when it is determined that net deferred tax assets are not likely to be realized in the foreseeable future.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows or financial position.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across its global operations. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized.

Share-Based Compensation

We recognize all share-based payments to Directors and employees, including grants of stock options and restricted stock units, to be recognized in the statement of operations based on their grant-date fair values. We record compensation expense, net of an estimated forfeiture rate, over the vesting period of the stock options based on the fair value of the stock options on the date of grant. We estimated forfeiture rate is based upon historical experience.

Item 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

We conduct business in several countries and intend to continue to grow our international operations. Net sales revenue, operating income and net income are affected by fluctuations in currency exchange rates, interest rates and other uncertainties inherent in doing business and selling product in more than one currency. In addition, our operations are exposed to risks associated with changes in social, political and economic conditions inherent in international operations, including changes in the laws and policies that govern international investment in countries where we have operations, as well as, to a lesser extent, changes in U.S. laws and regulations relating to international trade and investment.

Foreign Currency Risk

During the nine months ended September 30, 2014, approximately 60.5 percent of our net sales revenue and approximately 57.4 percent of our operating expenses were realized outside of the United States. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency of each international subsidiary is generally the functional currency. We conduct business in multiple currencies with exchange rates that are not on a one-to-one relationship with the U.S. dollar. All revenues and expenses are translated at average

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

exchange rates for the periods reported. Therefore, our operating results will be positively or negatively affected by a weakening or strengthening of the U.S. dollar in relation to another fluctuating currency. Given the uncertainty and diversity of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations or financial condition, but we have provided consolidated sensitivity analyses below of functional currency/reporting currency exchange rate risks. Changes in various currency exchange rates affect the relative prices at which we sell our products. We regularly monitor our foreign currency risks and periodically take measures to reduce the risk of foreign exchange rate fluctuations on our operating results. We do not use derivative instruments for hedging, trading or speculating on foreign exchange rate fluctuations. Additional discussion of the impact on the effect of currency fluctuations has been included in our management's discussion and analysis included in Part I, Item 2 of this report.

The following table sets forth a composite sensitivity analysis of our net sales revenue, costs and expenses and operating income in connection with the strengthening of the U.S. dollar (our reporting currency) by 10%, 15% and 25% against every other fluctuating functional currency in which we conduct business. We note that our individual net sales revenue, cost and expense components and our operating income were equally sensitive to increases in the strength of the U.S. dollar against every other fluctuating currency in which we conduct business.

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Table of Contents

Exchange rate sensitivity for the three months ended September 30, 2014 (dollar amounts in thousands)

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Net sales revenue	\$ 94,876	(3,891)	(4.1)%	\$ (5,583)	(5.9)%	\$ (8,561)	(9.0)%
Cost and expenses							
Cost of sales	23,315	(1,063)	(4.6)	(1,522)	(6.5)	(2,333)	(10.0)
Volume incentives	35,457	(1,484)	(4.2)	(2,131)	(6.0)	(3,268)	(9.2)
Selling, general and administrative	33,476	(976)	(2.9)	(1,400)	(4.2)	(2,146)	(6.4)
Operating income	\$ 2,628	(368)	(14.0)%	\$ (530)	(20.2)%	\$ (814)	(31.0)%

Exchange rate sensitivity for the nine months ended September 30, 2014 (dollar amounts in thousands)

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Net sales revenue	\$ 284,954	(11,112)	(3.9)%	\$ (15,944)	(5.6)%	\$ (24,447)	(8.6)%
Cost and expenses							
Cost of sales	69,793	(2,982)	(4.3)	(4,276)	(6.1)	(6,555)	(9.4)
Volume incentives	106,008	(4,209)	(4.0)	(6,040)	(5.7)	(9,262)	(8.7)
Selling, general and administrative	93,539	(2,742)	(2.9)	(3,934)	(4.2)	(6,032)	(6.4)
Operating income	\$ 15,614	(1,179)	(7.6)%	\$ (1,694)	(10.8)%	\$ (2,598)	(16.6)%

Certain of our operations, including Russia and Ukraine, are served by a U.S. subsidiary through third-party entities, for which all business is conducted in U.S. dollars. Although changes in exchange rates between the U.S. dollar and the Russian ruble or the Ukrainian hryvnia do not result in currency fluctuations within our financial statements, a weakening or strengthening of the U.S. dollar in relation to these other currencies can significantly affect the prices of our products and the purchasing power of our Managers, Distributors and customers within these markets. As a result of the current tension between Russia and Ukraine, the Ukrainian hryvnia and the Russian ruble have weakened significantly against the U.S. dollar, impacting net sales in this market. Should the conflict continue to escalate, exchanges rates for the Ukrainian hryvnia, as well as the Russian ruble, could weaken further against the U.S. dollar, further impacting net sales in these markets.

The following table sets forth a composite sensitivity analysis of our assets and liabilities by those balance sheet line items that are subject to exchange rate risk, together with the total gain or loss from the strengthening of the U.S. dollar in relation to our various fluctuating functional currencies. The sensitivity of our assets and liabilities, taken by balance sheet line items, is somewhat less than the sensitivity of our operating income to increases in the strength of the U.S. dollar in relation to other fluctuating currencies in which we conduct business.

Exchange rate sensitivity of the Balance Sheet financial instruments as of September 30, 2014 (dollar amounts in thousands)

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

With Strengthening of U.S. Dollar by:

		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Cash and cash equivalents	\$ 70,456	(1,922)	(2.7)%	\$ (3,016)	(4.3)%	\$ (4,942)	(7.0)%
Accounts receivable, net	9,184	(265)	(2.9)	(380)	(4.1)	(582)	(6.3)
Accounts payable	4,834	(103)	(2.1)	(148)	(3.1)	(228)	(4.7)
Net Financial Instruments							
Subject to Exchange Rate Risk	\$ 74,806	(2,084)	(2.8)%	\$ (3,248)	(4.3)%	\$ (5,296)	(7.1)%

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

Table of Contents

The following table sets forth the local currencies other than the U.S. dollar in which our assets that are subject to exchange rate risk were denominated as of September 30, 2014, and exceeded \$1 million upon translation into U.S. dollars. None of our liabilities that are denominated in a local currency other than the U.S. dollar and that are subject to exchange rate risk exceeded \$1 million upon translation into U.S. dollars. We use the spot exchange rate for translating balance sheet items from local currencies into our reporting currency. The respective spot exchange rate for each such local currency meeting the foregoing thresholds is provided in the table as well.

Translation of Balance Sheet Amounts Denominated in Local Currency as of September 30, 2014 (dollar amounts in thousands).

	Translated into U.S. Dollars	At Spot Exchange Rate per One U.S. Dollar as of September 30, 2014
Cash and cash equivalents		
South Korea (Won)	\$ 7,497	1,055.2
European Markets (Euro)	3,922	0.8
Japan (Yen)	2,295	109.4
Canada (Dollar)	2,193	1.1
Colombia (Peso)	1,316	2,056.0
Indonesia (Rupiah)	1,155	12,195.1
United Kingdom (Pound Sterling)	1,197	0.6
Thailand (Baht)	1,092	32.4
Other	7,060	Varies
Total foreign denominated cash and cash equivalents	27,727	
U.S. dollars held by foreign subsidiaries	26,823	
Total cash and cash equivalents held by foreign subsidiaries	\$ 54,550	

During the nine months ended September 30, 2014, we repatriated \$32.8 million of foreign cash through intercompany dividends.

Finally, the following table sets forth the annual weighted average of fluctuating currency exchange rates of each of the local currencies per one U.S. dollar for each of the local currencies in which sales revenue exceeded \$10.0 million during any of the two years presented. We use the annual average exchange rate for translating items from the statement of operations from local currencies into our reporting currency.

Nine months ended September 30,	2014	2013
Canada (Dollar)	1.1	1.0
European Markets (Euro)	0.7	0.8
Japan (Yen)	102.9	96.5
South Korea (Won)	1,043.9	1,101.0
Mexico (Peso)	13.1	12.7

The local currency of the foreign subsidiaries is used as the functional currency, except for subsidiaries operating in highly inflationary economies or where the Company's operations are served by a U.S. based subsidiary (for example, Russia and Ukraine). The financial statements of foreign subsidiaries, where the local currency is the functional currency, are translated into U.S. dollars using exchange rates in effect at year-end for assets and liabilities and average exchange rates during each year for the results of operations. Adjustments resulting from translation of financial statements are reflected in accumulated other comprehensive loss, net of income taxes. Foreign currency transaction gains and losses are included in other income (expense) in the consolidated statements of operations.

The functional currency in highly inflationary economies is the U.S. dollar and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The re-measurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three-year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation and other pertinent economic factors. During the three and nine months ended September 30, 2014, Venezuela and Belarus were considered to be highly inflationary. During the three months ended September 30, 2014 and 2013, the Company's Venezuelan subsidiary's net sales revenue represented approximately 1.5 percent and 2.2 percent of consolidated net sales revenue, respectively. During the nine months ended September 30, 2014 and 2013, the Company's Venezuelan subsidiary's net sales revenue represented

Table of Contents

approximately 1.8 percent and 2.1 percent of consolidated net sales revenue, respectively. Effective September 30, 2014, the Company will begin to report its results at the SICAD 2 exchange rate of 50.0 bolivars to the U.S. dollar. During the three months ended September 30, 2014 and 2013, the Company's Belarusian subsidiary's net sales revenue represented approximately 2.1 percent and 2.1 percent of consolidated net sales revenue, respectively. During the nine months ended September 30, 2014 and 2013, the Company's Belarusian subsidiary's net sales revenue represented approximately 2.3 percent and 2.1 percent of consolidated net sales revenue, respectively.

Interest Rate Risk

The primary objectives of our investment activities are to preserve principal while maximizing yields without significantly increasing risk. These objectives are accomplished by purchasing investment grade securities. On September 30, 2014, we had investments of \$1.8 million of which \$0.2 million were municipal obligations, which carry an average fixed interest rate of 5.1 percent and mature over a two-year period. A hypothetical 1.0 percent change in interest rates would not have had a material effect on our liquidity, financial position or results of operations.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are designed to provide reasonable assurance that the information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in rules and forms adopted by the SEC, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2014, at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Please refer to Note 10 to the Unaudited Condensed Consolidated Financial Statements in Part 1, Item 1 of this report, as well as our recent SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2013, for information regarding the status of certain legal proceedings that have been previously reported.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risks discussed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business or our consolidated financial statements, results of operations, and cash flows. Additional risks not currently known to us, or risks that we currently believe are not material, may also impair our business operations. There have been no material changes to our risk factors since the filing of our Annual Report on Form 10-K for the year ended December 31, 2013.

Table of Contents**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Issuer Purchases of Equity Securities*

On August 8, 2013, the Board of Directors authorized a \$10,000 share repurchase program to be implemented over two years. Such purchases may be made in the open market, through block trades, in privately negotiated transactions or otherwise. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors and the program may be discontinued or suspended at any time. At September 30, 2014, the remaining balance available for repurchases under the program was \$4,723.

The following is a summary of the Company's repurchases of common shares during the three and nine months ended September 30, 2014:

Period	Number of Shares	Average Price Paid per Share	Program Balance Used for Repurchases
July 1 - September 30, 2014	177	\$ 15.49	\$ 2,731

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Edgar Filing: NATURES SUNSHINE PRODUCTS INC - Form 10-Q

a) Index to Exhibits

Item No.	Exhibit
3.1(1)	Amended and Restated Articles of Incorporation
3.2(2)	Third Amended and Restated Bylaws
10.5(2)	Nondisclosure and Standstill Agreement, dated August 25, 2014, by and between Nature's Sunshine Products, Inc. and Prescott Group Capital Management, LLC
10.6(2)	Nondisclosure and Standstill Agreement, dated August 25, 2014, by and between Nature's Sunshine Products, Inc. and Red Mountain Capital Partners LLC
10.7(2)	Operating Agreement dated August 25, 2014, among Nature's Sunshine Products, Inc., Fosun Industrial Co., and Nature's Sunshine Hong Kong Limited
10.8(3)	Employment Agreement, dated October 13, 2014, by and between the Company and Paul Noack
31.1(3)	Certification of Chief Executive Officer under SEC Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934
31.2(3)	Certificate of Chief Financial Officer under SEC Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934
32.1(3)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2(3)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101	The following financial information from the quarterly report on Form 10-Q of Nature's Sunshine Products, Inc. for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

Table of Contents

-
- (1) Previously filed with the SEC on May 19, 2013, as an exhibit to Form 8-K and is incorporated herein by reference.
 - (2) Previously filed with the SEC on August 29, 2014, as an exhibit to Form 8-K and is incorporated herein by reference.
 - (3) Filed currently herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATURE S SUNSHINE PRODUCTS, INC.

Date: November 6, 2014

/s/ Gregory L. Probert
Gregory L. Probert, Chairman of the Board and Chief Executive Officer

Date: November 6, 2014

/s/ Stephen M. Bunker
Stephen M. Bunker, Executive Vice President, Chief Financial Officer
and Treasurer