

NATURES SUNSHINE PRODUCTS INC
Form 10-12G
February 12, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10

**GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

NATURE'S SUNSHINE PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Utah
(State of incorporation or organization)

87-0327982
(I.R.S. Employer Identification No.)

**75 East 1700 South
Provo, Utah 84606**

(Address and telephone number of principal executive offices, including zip code)

(801) 342-4300

Registrant's telephone number, including area code:

Securities to be registered pursuant to Section 12(b) of the Act: **None**

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

Common Stock, no par value
Title of class

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

The Commission is respectfully requested to send copies of all notices, orders and communications to:

David A. Sirignano
Morgan, Lewis & Bockius LLP
1111 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

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EXPLANATORY NOTE

Revocation of Registration

On January 21, 2009, in a proceeding commenced under Section 12(j) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the U.S. Securities and Exchange Commission (the "SEC") revoked the registration of Nature's Sunshine Products, Inc.'s common stock. See Securities Exchange Act of 1934 Release No. 59268 (January 21, 2009) (Admin. Proc. File No. 3-12684). The Company is filing this registration statement to re-register its common stock under the Exchange Act.

Internal Investigation

The Company's failure to file required reports with the SEC related back to an internal investigation commenced in October 2005 by the Audit Committee of our Board of Directors (our "Audit Committee") regarding certain sales and commission activities involving certain of our foreign operations. The investigation was subsequently expanded to include other matters related to our consolidated financial statements. The Audit Committee engaged a nationally-recognized independent law firm to assist in the investigation and the law firm, in turn, engaged a nationally-recognized independent public accounting firm to provide further assistance. The internal investigation was overseen by a Special Committee comprised of one independent member of the Audit Committee and an outside independent consultant, who later became a director and independent member of the Audit Committee. On March 15, 2006, the Audit Committee and the Board of Directors received an oral preliminary report on the findings of the investigation through that date (the "Preliminary Report"). The Preliminary Report indicated that the Company had certain internal control weaknesses and outlined potential violations of law. The Preliminary Report also included a series of recommendations, including the termination of certain employees and senior officers. Based on issues raised in the Preliminary Report, on March 15, 2006, the Audit Committee determined that the financial statements filed with the SEC in connection with the following previously issued reports of the Company should not be relied upon:

- (i) Quarterly Reports on Form 10-Q for each of the first three fiscal quarters of 2005;
- (ii) Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (which includes financial statements as of December 31, 2004 and 2003 and for the fiscal years ended December 31, 2004, 2003 and 2002); and
- (iii) Quarterly Reports on Form 10-Q for each of the first three fiscal quarters of 2004, 2003 and 2002.

Change in Certifying Accountant

On March 31, 2006, we received a letter from KPMG LLP ("KPMG") pursuant to which KPMG resigned as our independent registered public accounting firm. In its letter, KPMG stated that it had determined that our Board of Directors and Audit Committee had been adequately informed with respect to likely illegal acts that came to the attention of KPMG during the course of its audit of the Company's financial statements and that also were the subject of the internal investigation overseen by the Special Committee. KPMG also concluded that these illegal acts appear to have had a material effect on the financial statements of the Company. KPMG further concluded that its resignation was necessary because the Board of Directors had not taken timely and appropriate remedial actions with respect to the illegal acts. In particular, KPMG objected to the following decisions by the Board of Directors in response to recommendations contained in the Preliminary Report:

1. The failure to terminate Mr. Douglas Faggioli as an employee of the Company (rather than only removing him from his positions as President and Chief Executive Officer and from the Board of Directors pending completion of the internal investigation). KPMG believed the evidence

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indicated that he made misrepresentations to KPMG on at least two occasions in the form of management representation letters that failed to disclose that he was aware of alleged fraud in the international operations of the Company, and had approved a payment in violation of the Foreign Corrupt Practices Act of 1977, as amended.

2. The failure to remove Mr. Franz Cristiani from its Audit Committee and the Board of Directors (Mr. Cristiani was replaced as the Chair of the Audit Committee), even though he was found to have known of the alleged misrepresentation and understood that they "could be considered material from an auditing standpoint and could pose a significant problem to our company," yet failed to bring the matter to the attention of the auditors or correct the misrepresentations.

KPMG's statements are set forth in full in Exhibits 99.1 and 99.2 to the Company's Form 8-K filed on April 3, 2006 and Exhibit 99.1 to the Company's Form 8-K filed on April 18, 2006.

Following KPMG's resignation, we began the process of engaging a new independent registered public accounting firm. On February 2, 2007, our Audit Committee engaged Deloitte & Touche LLP ("Deloitte") to serve as our independent registered public accounting firm. See Item 14, "Changes in and Disagreements with Accountants on Accounting and Financial Disclosure."

In August 2006, following the completion of the Special Committee's internal investigation, the Board of Directors reinstated Mr. Faggioli as the Company's President and Chief Executive Officer. In connection with the private class actions and government investigations discussed below under Item 8, "Legal Proceedings," the Board of Directors has determined to vigorously contest allegations of illegal conduct and misrepresentations that are or may be based upon the events that led to the resignation of KPMG.

Failure to Report and Delisting

Due primarily to the dedication of a substantial amount of our resources to the review and assessment of information we received in the course of the internal investigation described above, prior to October 7, 2008, we had not filed any periodic reports for periods ending on or after December 31, 2005 as required by the Exchange Act. As a result of our inability to file our periodic reports, on April 5, 2006, the Nasdaq Listing Qualifications Panel determined to delist our common stock from The Nasdaq National Market. We subsequently filed with the SEC our Annual Reports on Form 10-K for the fiscal years ended December 31, 2006 and 2007 (in October 2008) and Quarterly Reports on Form 10-Q for each of the first three quarters of 2008 (in December 2008).

Internal Control Matters

Management identified certain material weaknesses which are described in our annual report on Form 10-K/A for the year ended December 31, 2007. During 2008 management has been focused on remediating these material weaknesses. We have provided an overview of these matters and our efforts to remediate the identified material weaknesses in Item 2 of this Form 10 titled Internal Control Matters.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This registration statement and the documents incorporated herein by reference may contain "forward-looking statements." Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies. All statements (other than statements of historical fact) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as "believe," "hope," "may," "anticipate," "should," "intend," "plan," "will," "expect," "estimate," "project," "positioned," "strategy" and similar expressions, and are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Forward-looking statements are not guarantees of future performance and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements.

Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in our forward-looking statements include, among others, the following:

illiquidity of our common stock due to the January 2009 revocation of registration;

our relationship with and our ability to influence the actions of our independent Distributors and Managers;

our ability to attract and retain a sufficient number of independent Distributors and Managers;

changes in laws and regulations regarding network marketing that may prohibit or restrict our ability to sell our products in new or existing markets;

determinations regarding tax liabilities and required tax obligations in U.S. and foreign jurisdictions;

our products and manufacturing activities are subject to extensive government regulations and restrictions;

general economic conditions;

an economic slowdown in the markets in which we do business could reduce consumer demand for our products;

currency and exchange rates fluctuations could lower our revenue and net income;

the availability and integrity of raw materials could be compromised;

geopolitical issues and conflicts could adversely affect our business;

our business is subject to the effects of adverse publicity and negative public perception;

changes in taxation and transfer pricing affect our operations;

our business is subject to intellectual property risks;

product and liability claims;

changing consumer preferences and demands;

inventory obsolescence due to finite shelf lives and changing product demand;

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product concentration;

system failures;

changes in key management; and

the competitive nature of our business.

Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth under Item 1A, "Risk Factors" below.

Forward-looking statements in this registration statement speak only as of the date hereof, and forward-looking statements in documents attached that are incorporated by reference speak only as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

Item 1. Business

The Company

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

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

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

Our principal executive office is located at 75 East 1700 South, Provo, Utah 84606. Our telephone number is (801) 342-4300 and our Internet website address is <http://www.natr.com>. We make available free of charge on our website our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as practicable after we electronically file these documents with, or furnish them to, the SEC.

Business Segments

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

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regarding identifiable assets, are set forth in Note 12 of the Notes to Consolidated Financial Statements set forth in Item 13 of this registration statement.

Products and Manufacturing

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

Herbal Products

We manufacture a wide selection of herbal products, which are sold in the form of capsules or tablets. These capsules or tablets contain herb powder or a combination of two or more herb powders. We also produce both single herbs and herb combinations in the form of liquid herbs and extracts. Liquid herbs are manufactured by concentrating herb constituents in a vegetable glycerin base. Extracts are created by dissolving powdered herbs into liquid solvents that separate the key elements of the herbs from the fibrous plant material. For the years ended December 31, 2007, 2006, and 2005, herbal products accounted for approximately 52.9, 54.0, and 53.7 percent of net sales revenue for NSP United States, respectively. We do not believe these percentages would be materially different on a consolidated basis.

Vitamins and Mineral Supplements

We manufacture a wide variety of single vitamins, which are sold in the form of chewable or non-chewable tablets. We also manufacture several multiple vitamins and mineral supplements, including a line containing natural antioxidants. Generally, mineral supplements are sold in the form of tablets; however, certain minerals are offered only in liquid form. For the years ended December 31, 2007, 2006, and 2005, vitamin and mineral supplements accounted for approximately 41.6, 40.3, and 40.5 percent of net sales revenue for NSP United States, respectively. We do not believe these percentages would be materially different on a consolidated basis.

Personal Care Products

We manufacture or contract with independent manufacturers to supply a variety of personal care products for external use, including oils and lotions, aloe vera gel, herbal shampoo, herbal skin treatment, toothpaste, and skin cleanser. For the years ended December 31, 2007, 2006, and 2005, personal care products accounted for approximately 2.3, 2.4, and 2.5 percent of net sales revenue for NSP United States, respectively. We do not believe these percentages would be materially different on a consolidated basis.

Other Products

We manufacture or contract with independent manufacturers to supply a variety of other products, including a variety of nutritional drinks, homeopathic products, and powders. For the years ended December 31, 2007, 2006, and 2005, other products accounted for approximately 3.2, 3.3, and 3.3 percent of net sales revenue for NSP United States, respectively. We do not believe these percentages would be materially different on a consolidated basis.

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Distribution and Marketing

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

Our products sold in the United States are shipped directly from our manufacturing and warehouse facilities located in Spanish Fork, Utah, as well as from our regional warehouses located in Columbus, Ohio; Dallas, Texas; and Atlanta, Georgia. Each international business segment maintains warehouse facilities with inventory to supply its customers.

Demand for our products is created primarily from our independent Distributors. As of September 30, 2008, we had approximately 713,200 active Distributors worldwide, which included approximately 230,100 Distributors in the United States. A person who joins our independent sales force begins as a "Distributor." An individual can become a Distributor by signing up under the sponsorship of someone who is already a Distributor. Each Distributor is required to renew his or her distributorship on a yearly basis; our experience indicates that, on average, approximately 45 percent of our Distributors renew annually. Many Distributors sell our products on a part-time basis to friends or associates, or use the products themselves. A Distributor interested in earning additional income by committing more time and effort to selling our products may earn "Manager" status. Manager status is contingent upon attaining certain purchase volume levels, recruiting additional Distributors, and demonstrating leadership abilities. As of September 30, 2008, we had approximately 26,200 Managers worldwide, including approximately 6,600 Managers in the United States. Managers resell our products to Distributors within their sales group, sell our products directly to consumers, or use the products themselves. Historically, on average, approximately 60 percent of Distributors appointed as Managers have continued to maintain that status annually.

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

We pay sales commissions ("Volume Incentives") to our Managers and Distributors based upon the amount of their sales group product purchases. Generally, a portion of these Volume Incentives are paid to the applicable Manager as a rebate for product purchases made by the Manager and the Manager's down-line Distributors. The remaining portion of these Volume Incentives is paid in the form of commissions for purchases made by the Manager's down-line Distributors. Volume Incentives are recorded as an expense in the year earned. The amounts of Volume Incentives that we paid during the years ended December 31, 2007, 2006, and 2005 are set forth in our Consolidated Financial Statements in Item 13 of this registration statement. In addition to the opportunity to receive Volume Incentives, Managers who qualify by attaining certain levels of monthly product purchases are eligible for additional incentive programs, including automobile allowances, sales convention privileges, and travel awards.

Source and Availability of Raw Materials

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

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Trademarks and Trade Names

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

Seasonality

Our business does not reflect significant seasonality.

Inventories

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

Dependence upon Customers

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

Backlog

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

Competition

Our products are sold in competition with other companies, some of which have greater sales volumes and financial resources than we do, and sell brands that are, through advertising and promotions, better known to consumers. We compete in the nutritional and personal care industry against companies that sell through retail stores, as well as against other direct selling companies. For example, we compete against manufacturers and retailers of nutritional and personal care products, which are distributed through supermarkets, drug stores, health food stores, discount stores, etc. In addition to competition with these manufacturers and retailers, we compete for product sales and independent distributors with many other direct sales companies, including Herbalife, Pharmanex (NuSkin), USANA, Shaklee, Mannatech and Amway. The principal competitors in the retail encapsulated and tableted herbal products market include Nature's Way, NOW, Rexall Sundown, and Nutraceuticals. We believe that the principal components of competition in the direct sales marketing of nutritional and personal care products are quality, price, and brand recognition. In addition, the recruitment, training, travel, and financial incentives for the independent sales force are important factors.

Research and Development

We conduct research and development activities at our manufacturing facility located in Spanish Fork, Utah. Our principal emphasis in our research and development activities is the development of new products and the enhancement of existing products. The amount, excluding capital expenditures,

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spent on research and development activities was approximately \$1.9 million in each of 2007 and 2006, and \$1.8 million in 2005. During the three years in the period ended December 31, 2007, we did not contract for any third-party research and development.

Compliance with Environmental Laws and Regulations

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

Regulation

The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of each of our major product groups are subject to regulation by one or more governmental agencies. The most active of these is the Food and Drug Administration ("FDA"), which regulates our products under the Federal Food, Drug and Cosmetic Act ("FDCA") and regulations promulgated thereunder. The FDCA defines the terms "food" and "dietary supplement" and sets forth various conditions that, unless complied with, may constitute adulteration or misbranding of such products. The FDCA has been amended several times with respect to dietary supplements, most recently by the Nutrition Labeling and Education Act of 1990 (the "NLEA") and the Dietary Supplement Health and Education Act of 1994 (the "DSHEA").

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

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

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

Employees

The number of individuals we employed as of December 31, 2008 was 1,183. We believe that our relations with our employees are satisfactory.

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A significant portion of our net sales are concentrated within the United States, which represents 41.7 percent of net sales in 2007. Outside of the United States, Japan continues to be our largest market, representing 12.4 percent of net sales during 2007. As we continue to expand internationally, our operating results will likely become more sensitive to economic and political conditions in foreign markets, as well as to foreign currency fluctuations. A breakdown of sales revenue by region in 2007, 2006 and 2005 is set forth below.

(Dollar amounts in thousands)

Year Ended December 31,	2007		2006		2005	
Sales Revenue:						
United States	\$ 152,943	41.7%	\$ 157,132	43.4%	\$ 158,052	44.9%
Foreign						
Japan	45,554	12.4	52,301	14.4	55,540	15.8
Russia	34,314	9.4	28,394	7.8	23,710	6.8
Other	133,836	36.5	124,395	34.4	114,382	32.5
Total Foreign	213,704	58.3	205,090	56.6	193,632	55.1
	\$ 366,647	100.0%	\$ 362,222	100.0%	\$ 351,684	100.0%

Our sales of nutritional and personal care products are established internationally in Japan, Mexico, Central America, Canada, Venezuela, South Korea, Dominican Republic, Ecuador, the United Kingdom, Colombia, Thailand, Peru, Singapore, Israel, Brazil, Taiwan, Malaysia, Indonesia, Philippines, Hong Kong, China, Poland, Russia, Ukraine, Latvia, Lithuania, Kazakhstan, Mongolia, Belarus, Germany, the Netherlands, Austria, and Australia. We also export our products to numerous other countries, including Argentina, Chile, New Zealand, and Norway.

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

Our international operations are subject to many of the same risks faced by our United States operations, including competition and the strength of the local economy. In addition, our international operations are subject to certain risks inherent in carrying on business abroad, including foreign regulatory restrictions, fluctuations in monetary exchange rates, import-export controls and the economic and political policies of foreign governments. The significance of these risks increases as our international operations continue to expand. A significant portion of our long-lived assets are located in the United States, Mexico and Venezuela.

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Item 1A. Risk Factors

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

Risk Factors Related to Delayed Financial Reporting and Revocation of the Registration of Our Common Stock under the Securities Exchange Act

The delay in reporting our financial statements and related events has had, and will continue to have, a material adverse effect on us.

Because of the delay in completing our financial statements for the years ended December 31, 2007, 2006, and 2005, and our restatement of prior period financial statements, we were unable to timely file our required periodic reports with the SEC from March 2006 until December 2008. Prior to December 31, 2008, we had not filed any Quarterly Reports on Form 10-Q since November 2005. We did not timely file our Annual Reports on Form 10-K for the year ended December 31, 2007 or December 31, 2006 or our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008, June 30, 2008, and September 30, 2008. As a result of these events, the registration of our common stock under the Securities Exchange Act was revoked on January 21, 2009. We have become subject to significant risks and occurrences relating to the following matters:

Illiquidity of our common stock;

Limitations on access to public capital markets;

Inability of our common stock to trade on a recognized exchange and potential inability to re-list on a recognized exchange;

Inability of registered broker-dealers to effect trades in our outstanding stock;

Impact of material weaknesses in internal controls over financial reporting;

Potential changes in tax liabilities; and

Outcome of civil litigation.

The revocation of the registration of our common stock could continue to adversely affect the liquidity of our common stock.

On January 21, 2009, the SEC revoked the registration of Nature's Sunshine Products, Inc.'s common stock. See Securities Exchange Act of 1934 Release No. 59268 (January 21, 2009) (Admin. Proc. File No. 3-12684). Given that broker-dealers are not permitted to effect transactions in shares of our common stock until the Company files a new registration with the SEC under the Exchange Act that becomes effective, the liquidity of our common stock could continue to be adversely affected.

Once the common stock has been registered, the liquidity will depend on the extent to which brokers apply to make a market in our stock. There can be no assurance as to if or when an active market will exist. It is our intention to apply to list the common stock on a recognized securities

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exchange. However, there can be no assurance that this effort will be successful or when such a listing might be effective.

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

As discussed in Item 9A of our Annual Report on Form 10-K/A for the period ended December 31, 2007, Controls and Procedures, our management team for financial reporting, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our internal controls. Management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2007 because of the continued existence of material weaknesses related to the control environment, application of generally accepted accounting principles ("GAAP"), accounting for income taxes, the financial reporting process, monitoring of a service provider, and information technology systems. A "material weakness" is defined under SEC rules as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis by the company's internal controls.

The Company has taken, or anticipates taking, various steps to remediate these material weaknesses. For example, with respect to the application of GAAP, we have implemented procedures to address revenue recognition issues; with respect to accounting for income taxes, we have hired a new Tax Director and Tax Accountant and have utilized various outsourced service providers for tax consulting services to assist in our accounting for income taxes. Although we have made and are continuing to make improvements in our internal controls, if we are unsuccessful in our focused effort to permanently and effectively remediate the weaknesses in our internal controls over financial reporting over time, it may adversely impact our ability to report our financial condition and results of operations in the future accurately and in a timely manner, and may potentially adversely impact our reputation with stakeholders.

We are subject to ongoing investigations by the SEC and the United States Department of Justice.

In March 2006, we voluntarily disclosed to the SEC certain information related to the independent investigation by the Company's Audit Committee. Since that time, the SEC has subpoenaed certain documents and voluntarily requested other information in connection with its subsequent investigation related to these events, which the Company has provided. We are cooperating fully with this investigation. We cannot predict what impact, if any, and the materiality of such impact, if any, the conclusion of this matter may have on our financial statements.

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

Taxing authorities may determine that we owe additional taxes from previous years.

As a result of the restatement and delay in our financial reporting, we will likely have to amend previously filed tax returns and reports. Where legal, regulatory or administrative rules require or allow us to amend our previous tax filings, we intend to comply with our obligations under applicable law. To the extent that tax authorities do not accept our conclusions about the tax effects of the restatement, liabilities for taxes could differ from those which have been recorded in our consolidated financial

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statements. If it is determined that we have additional tax liabilities, there could be an adverse effect on our financial condition, results of operations and cash flows.

In early 2006, the Internal Revenue Service began an audit of the Company's income tax returns. This audit is ongoing and covers income tax returns for the years 2003 through 2005. We cannot predict what impact, if any, and the materiality of such impact, if any, the conclusion of these matters may have on our financial statements.

Litigation arising in connection with our internal investigation and the restatement of our financial statements could adversely affect our financial condition or operations.

As of December 31, 2008, we had one securities class action lawsuit pending against us, former members of our Board of Directors and present and former members of management that relate to the internal investigation and the restatement of our financial statements. The lawsuit and other legal matters in which we have become involved following the announcement of the restatement are described in Item 8, "Legal Proceedings." The securities class action lawsuit is currently in the early stages of discovery. The court granted in part the plaintiffs' motion to certify the class on September 25, 2008. The trial is not scheduled to commence until April 19, 2010. We are not able to predict the outcome of the litigation; however, if we are unsuccessful in our efforts to defend against the allegations raised in the litigation, our business and financial condition would likely be negatively impacted. Among other consequences of a negative outcome of the litigation, we could become obligated to pay damages in an amount that would adversely affect our financial condition or our operations.

The Company has also received a demand from a shareholder seeking to require the Company to take action against current and former officers and directors of the Company to recover all damages sustained by the Company as a result of their alleged misconduct, and threatening to commence a derivative action if the Company fails to act. The Company is vigorously defending against these allegations, but there can be no assurances that these defenses will be successful.

In addition to the possibility that we could become subject to damages resulting from the matter described above, the current lawsuit and other legal matters could have a disruptive effect upon the operation of our business and consume the time and attention of our senior management. In addition, we are likely to incur substantial expenses in connection with such matters, including substantial fees for attorneys.

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

The matters relating to the internal investigation by our Audit Committee and the restatement of our consolidated financial statements have required us to incur substantial expenses.

Our Audit Committee conducted an internal investigation, which initially focused on certain of our foreign operations, but subsequently expanded to include other matters related to our financial statements and financial reporting. The internal investigation and related activities have required us to incur substantial expenses for legal, accounting, tax and other professional services, and has diverted

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management's attention from our business. If the Company incurs substantial expenses related to the internal investigation in the future, it could have an adverse effect on our cash flows.

Risk Factors Related to Our Business

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

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

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

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

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

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

We rely on our independent Distributors to market and sell our products through direct marketing techniques, as well as sponsoring other Distributors. Many Distributors sell our product on a part-time basis to friends or associates or use the products for themselves. Our Distributors may terminate their service at any time, and, like most direct selling companies, we experience high turnover among

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Distributors from year to year. As a result, we need to continue to retain existing Distributors and recruit additional Distributors in order to maintain and/or increase sales in the future.

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

any adverse publicity regarding us, our products, our distribution channels or our competitors;

on-going motivation of our independent Distributors;

public's perceptions about the value and efficacy of our products;

public's perceptions and acceptance of network-marketing;

general and economic business conditions;

changes to our compensation arrangements with our independent Distributors; and

competition in recruiting and retaining independent Distributors and or market saturation.

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

An economic slowdown in the markets in which we do business could reduce consumer demand for our products.

Consumer spending habits, including spending for our products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, consumer confidence and consumer perception of economic conditions. The current general economic slowdown in the markets in which we do business and an uncertain economic outlook may adversely affect consumer spending habits and customer traffic, which may result in lower net sales of our products. A prolonged global economic downturn could have a material negative impact on our financial position, results of operation, and liquidity.

Currency exchange rate fluctuations could lower our revenue and net income.

In 2007, we recognized approximately 58.3 percent of our revenue in markets outside the United States in each market's respective local currency. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenues and expenses in foreign countries from their local currencies into U.S. dollars using weighted-average exchange rates. Because a significant portion of our sales is in foreign countries, exchange rate fluctuations may have a significant effect on our sales and earnings. Our reported net earnings may be significantly affected by fluctuations in currency exchange rates, with earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. These fluctuations had a generally positive effect on our revenue in 2008 as compared to 2007. However, if exchange rates were to change in future periods relative to those experienced in 2008, it could have a disproportionate impact on our revenue in these future periods. As operations expand in countries where foreign currency transactions may be made, our operating results will increasingly be subject to the risks of exchange rate fluctuations and we may not be able to accurately estimate the impact that these changes may have on our future results of operations or financial condition.

Availability and integrity of raw materials could become compromised.

We depend on outside suppliers for raw materials. We acquire all of our raw materials for the manufacture of our products from third-party suppliers. We have some agreements for the supply of materials used in the manufacture of our products. We also contract with third-party

manufacturers and suppliers for the production of some of our products. In the event we were to lose any significant

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suppliers and experience any difficulties in finding or transitioning to alternative suppliers, it could result in product shortages or product back orders, which could harm our business. There can be no assurance that suppliers will be able to provide us the raw materials in the quantities we request or at a price we are willing to pay. We are also subject to the delays caused by any interruption in the production of these materials including weather, crop conditions, transportation interruptions, and natural disasters or other catastrophic events.

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

Geopolitical issues and conflicts could adversely affect our business.

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

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

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

Taxation and transfer pricing affect our operations.

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

We collect and remit sales tax in states in which we have determined that nexus exists, which results in the collection of sales tax. Other states may, from time to time, claim we have state related activities constituting a sufficient nexus to require such collection. A successful assertion by one or more states that we should collect sales tax on the sale of merchandise could result in substantial tax liabilities related to past sales.

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

Our business is subject to intellectual property risks.

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

Product liability claims could harm our business.

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

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

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

System failures could harm our business.

Like many companies, our business is highly dependent upon our information technology infrastructure to effectively and efficiently manage our operations, including order entry, customer billing, accurately tracking purchases and volume incentives, and managing accounting, finance, and manufacturing operations. The occurrences of natural disasters or other unanticipated problems could result in interruptions in our day-to-day business that could adversely affect our business. We have a

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disaster recovery plan in place to mitigate the risk. Nevertheless, there can be no assurance that a long-term failure or impairment of any of our information systems would not adversely affect our ability to conduct our day-to-day business.

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

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