NATURES SUNSHINE PRODUCTS INC
Form 10-Q
May 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to .

Commission File Number: 0-8707

NATURE S SUNSHINE PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

Utah	**87-0327982**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

75 East 1700 South

Provo, Utah 84606

(Address of principal executive offices and zip code)

(801) 342-4300

(Registrant s telephone number including area code)

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

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 x No o

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 o	Accelerated filer x

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

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

The number of shares of Common Stock, no par value, outstanding on April 30, 2012 was 15,601,676 shares.

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NATURE S SUNSHINE PRODUCTS, INC.

FORM 10-Q

For the Quarter Ended March 31, 2012

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PART I FINANCIAL INFORMATION

Item 1. *FINANCIAL STATEMENTS*

NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	March 31, 2012	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 61,342	$ 58,969
Accounts receivable, net of allowance for doubtful accounts of $630 and $647, respectively	13,149	9,868
Investments available for sale	2,392	5,677
Inventories	41,468	41,611
Deferred income tax assets	4,263	4,395
Prepaid expenses and other	5,566	4,583
Total current assets	128,180	125,103
Property, plant and equipment, net	25,076	25,137
Investment securities	1,444	1,429
Intangible assets, net	1,114	1,151
Deferred income tax assets	16,259	16,576
Other assets	5,809	6,415
	$ 177,882	$ 175,811
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 4,745	$ 5,980
Accrued volume incentives	21,470	19,326
Accrued liabilities	25,222	27,938
Deferred revenue	3,535	2,603
Current installments of long-term debt	3,308	3,296
Income taxes payable	5,706	8,655
Total current liabilities	63,986	67,798
Liability related to unrecognized tax benefits	9,165	10,426
Long-term debt	5,066	5,894
Deferred compensation payable	1,444	1,429
Other liabilities	2,428	2,826
Total long-term liabilities	18,103	20,575

Commitments and Contingencies (Note 10)

Shareholders Equity:				
Common stock, no par value, 50,000 shares authorized, 15,602 and 15,569 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		72,602		71,628
Retained earnings		33,107		25,879
Accumulated other comprehensive loss		(9,916)		(10,069)
Total shareholders equity		95,793		87,438
	$	177,882	$	175,811

See accompanying notes to condensed consolidated financial statements.

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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share information)

(Unaudited)

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
Net sales revenue (net of the rebate portion of volume incentives of $11,591 and $11,582, respectively)	$	92,868	$	92,844
Cost and expenses:				
Cost of goods sold		18,360		18,552
Volume incentives		33,581		34,298
Selling, general and administrative		31,753		32,373
		83,694		85,223
Operating income		9,174		7,621
Other income (loss), net		(110)		265
Income before provision for income taxes		9,064		7,886
Provision for income taxes		1,836		1,264
Net income	$	7,228	$	6,622
Basic and diluted net income per common share				
Basic:				
Net income per common share	$	0.46	$	0.43
Diluted:				
Net income per common share	$	0.46	$	0.43
Weighted average basic common shares outstanding		15,578		15,533
Weighted average diluted common shares outstanding		15,846		15,561

See accompanying notes to condensed consolidated financial statements.

NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands, except per share information)

(Unaudited)

	Three Months Ended March 31, 2012	2011
Net income	$ 7,228	$ 6,622
Foreign currency translation gain (net of tax)	109	499
Net unrealized gains on investment securities (net of tax)	44	10
Total comprehensive income	$ 7,381	$ 7,131

See accompanying notes to condensed consolidated financial statements.

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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,228	$ 6,622
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	5	(61)
Depreciation and amortization	1,084	1,054
Share-based compensation expense	636	88
Loss on sale of property and equipment	13	
Deferred income taxes	449	22
Amortization of bond discount	3	5
Purchase of trading investment securities	(19)	(20)
Proceeds from sale of trading investment securities	92	107
Realized and unrealized gains on investments	(42)	(72)
Foreign exchange losses	553	589
Changes in assets and liabilities:		
Accounts receivable	(3,279)	(4,660)
Inventories	281	713
Prepaid expenses and other current assets	(884)	(733)
Other assets	578	(152)
Accounts payable	(1,250)	(298)
Accrued volume incentives	2,038	3,340
Accrued liabilities	(3,597)	530
Deferred revenue	933	(245)
Income taxes payable	(2,988)	1,231
Liability related to unrecognized tax benefits	(1,261)	(799)
Deferred compensation payable	15	(8)
Net cash provided by operating activities	588	7,253
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(917)	(209)
Proceeds from sale of property, plant and equipment	15	
Proceeds from sale of investments available for sale	3,499	686
Purchase of investments available for sale	(217)	
Net cash provided by investing activities	2,380	477
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments of long-term debt	(816)	
Proceeds from the exercise of stock options	337	
Net cash used in financing activities	(479)	
Effect of exchange rates on cash and cash equivalents	(116)	84
Net increase in cash and cash equivalents	2,373	7,814
Cash and cash equivalents at the beginning of the period	58,969	47,604
Cash and cash equivalents at end of the period	$ 61,342	$ 55,418
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 6,327	$ 650

Cash paid for interest	33

See accompanying notes to condensed consolidated financial statements.

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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share information)

(Unaudited)

(1) Basis of Presentation

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

The Company markets its products in Australia, Austria, Belarus, Canada, Colombia, Costa Rica, the Czech Republic, Denmark, the Dominican Republic, Ecuador, El Salvador, Finland, Germany, Guatemala, Honduras, Hong Kong, Indonesia, Ireland, Japan, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Moldova, Mongolia, the Netherlands, Nicaragua, Norway, Panama, Peru, the Philippines, Poland, Russia, Singapore, Spain, South Korea, Sweden, Taiwan, Thailand, the Ukraine, the United Kingdom, the United States, Venezuela and Vietnam. The Company also exports its products to several other countries, including Argentina, Australia, Chile, Israel, New Zealand and Norway.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company s financial information as of March 31, 2012 and 2011, and for the three-month periods ended March 31, 2012 and 2011. 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, 2012.

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, 2011.

Recent Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update No. 2011-05 for Comprehensive Income (Topic 220): *Presentation of Comprehensive Income*. This update improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. This update is effective for interim and annual periods beginning after December 15, 2011. The Company adopted ASU 2011-05 effective January 1, 2012 and it did not have a material impact on the Company s consolidated statements of operations and financial condition.

In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-12 for Comprehensive Income (Topic 220): *Presentation of Comprehensive Income*. This update supersedes certain pending paragraphs in Accounting Standards Update No. 2011-05 for Comprehensive Income (Topic 220) to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The deferral will be temporary to allow the Board time to redeliberate the presentation requirements for reclassification adjustments out of accumulated comprehensive income for annual and interim financial statements for public, private and non-profit entities. The adoption of this ASU is not expected to have a material impact on the Company s consolidated financial statements.

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(2) Inventories

Inventories consist of the following:

	March 31, 2012	December 31, 2011
Raw Materials	$ 12,529	$ 12,992
Work in Progress	1,392	1,230
Finished Goods	27,547	27,389
	$ 41,468	$ 41,611

(3) Intangible Assets

At March 31, 2012 and December 31, 2011, intangibles for product formulations had a gross carrying amount of $1,763 and $1,763, accumulated amortization of $649 and $612, and a net amount of $1,114 and $1,151, respectively. The estimated useful lives of the product formulations range from 9 to 15 years.

Amortization expense for intangible assets for the three months ended March 31, 2012 and 2011 was $37 and $37, respectively. Estimated amortization expense for each of the five succeeding fiscal years thereafter is $149.

(4) Investments

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

As of March 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal obligations	$ 904	$ 45	$	$ 949
U.S. government securities funds	990		(8)	982
Equity securities	227	238	(4)	461
Total short-term investment securities	$ 2,121	$ 283	$ (12)	$ 2,392

As of December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

Municipal obligations	$	1,158	$	51	$		$	1,209
U.S. government securities funds		988				(5)		983
Short-term deposits		3,104						3,104
Equity securities		227		159		(5)		381
Total short-term investment securities	$	5,477	$	210	$	(10)	$	5,677

The municipal obligations held at a fair value of $949 at March 31, 2012 all mature in less than five years.

During the three-month period ended March 31, 2012 and 2011, the proceeds from the sales of available-for-sale securities were $3,499 and $686, respectively. There were no gross realized gains (losses) on sales of available-for-sale securities (net of tax) for the three-month period ended March 31, 2012 and 2011, respectively.

The Company s trading securities portfolio totaled $1,444 at March 31, 2012 and $1,429 at December 31, 2011, and generated gains of $86 and $81 for the three months ended March 31, 2012 and 2011.

As of March 31, 2012 and December 31, 2011, the Company had unrealized losses of $8 and $5, respectively, in its U.S. government securities funds. These losses are due to the interest rate sensitivity of the U.S. government securities funds.

(5) Long-Term Debt

On August 9, 2011, the Company entered into a Revolving Credit Agreement with Wells Fargo Bank, N. A., that permits the Company to borrow up to $15,000 through August 9, 2013, bearing interest at LIBOR plus 1.25 percent. The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. At March 31, 2012 and December 31, 2011, the Company had $15,000 available under this facility.

A term loan of $10,000 was obtained in conjunction with the Revolving Credit Agreement with Wells Fargo Bank, N. A., and has a maturity date of August 9, 2014, a variable interest rate of LIBOR plus 1.25 percent (1.625 percent as of March 31, 2012) and monthly amortization of principal. The term loan is collateralized by the Company s manufacturing facility in Spanish Fork, Utah.

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Long-term debt at March 31, 2012 and December 31, 2011 consists of the following:

	March 31, 2012	December 31, 2011
Term loan in monthly installments of approximately $285, including interest, secured by real estate	$ 8,374	$ 9,190
Less current installments	(3,308)	(3,296)
Long-term debt less current installments	$ 5,066	$ 5,894

The various debt agreements contain restrictions on liquidity, leveraging, minimum net income and consecutive quarterly net losses. In addition, the agreements restrict 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 is currently in compliance with these debt covenants.

The aggregate maturities of long-term debt for each of the next three years are: $2,476 in 2012, $3,346 in 2013 and $2,552 in 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 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 loss per common share.

The following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income available to common stockholders		
Net income	$ 7,228	$ 6,622
Basic weighted average shares outstanding	15,578	15,533
Basic net income per common share:		
Net income	$ 0.46	$ 0.43
Diluted shares outstanding		
Basic weighted average shares outstanding	15,578	15,533
Stock options	268	28
Diluted weighted average shares outstanding	15,846	15,561

Diluted net income per common share:		
Net income	$ 0.46	$ 0.43
Potentially dilutive shares excluded from diluted per share amounts:		
Stock options	251	
Potentially anti-dilutive shares excluded from diluted per share amounts:		
Stock options	135	995

Potentially dilutive shares excluded from diluted per share amounts include performance-based options to purchase shares of common stock which will not vest until certain earnings metrics have been achieved. Potentially anti-dilutive shares excluded from diluted per share amounts include both time-based 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 dilutive net income per share for the three months ended March 31, 2012 and 2011.

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(7) Share-Based Compensation

Stock option activity for the three months ended March 31, 2012 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at December 31, 2011	1,374	$ 9.88
Granted	217	15.65
Expired	(4)	9.16
Exercised	(33)	10.26
Options outstanding at March 31, 2012	1,554	10.68

During the three-month period ended March 31, 2012, the Company issued options to purchase 217 shares of common stock under the 2009 Incentive Plan to the Company s new executive officers. These options were issued with a weighted-average exercise price of $15.65 per share and a weighted-average grant date fair value of $7.66 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 three-month period ended March 31, 2012:

	2012
Expected life (in years)	4.0
Risk-free interest rate	0.3 to 0.4
Expected volatility	63.2 to 66.0
Dividend yield	0.0

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 obligation rate that corresponds with the option life.

The Company s outstanding stock options include both time-based stock options, which vest over differing periods ranging from the date of issuance up to 36 months from the option grant date, and performance-based stock options, which vest 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.

Share-based compensation expense from time-based stock options for the three-month period ended March 31, 2012 and 2011 was approximately $313 and $88, respectively; the related tax benefit was approximately $125 and $34, respectively. As of March 31, 2012 and December 31, 2011, the unrecognized share-based compensation expense related to the grants described above was $1,856 and $607, respectively. As of March 31, 2012, the remaining compensation cost is expected to be recognized over the weighted-average period of approximately 2.27 years.

The Company recorded shared-based compensation expense of $323 and a related tax benefit of approximately $128 for the three months ended March 31, 2012 for the performance-based stock options. No share-based compensation costs for performance-based stock options were recorded for the same period in 2011. As of March 31, 2012 and December 31, 2011, the unrecognized share-based compensation expense related to these options was approximately $329 and $652, respectively. As of March 31, 2012, the remaining compensation cost is expected to be recognized over a weighted-average period of approximately 0.25 years.

At March 31, 2012, the aggregate intrinsic value of outstanding time-based and performance-based stock options to purchase 1,554 shares of common stock, exercisable time-based and performance-based stock options to purchase 786 shares of common stock and time-based and performance-based stock options to purchase 723 shares of common stock that are expected to vest was $8,803, $5,616 and $2,985, respectively. At December 31, 2011, the aggregate intrinsic value of outstanding options to purchase 1,374 shares of common stock, the exercisable options to purchase 772 shares of common stock, and options to purchase 602 shares of common stock expected to vest was $7,757, $4,819 and $2,732, respectively.

(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 their geographic operations in the United States (NSP United States) and in countries outside the United States (NSP

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International). The Company s third business segment operates under the Synergy Worldwide brand, which distributes its products through different marketing and distributor compensation plans and products with formulations that are sufficiently different from those of NSP United States and NSP International to warrant accounting for these operations as a separate business segment. Net sales revenues and operating income 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.

Reportable business segment information is as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net sales revenue:		
Nature s Sunshine Products:		
United States	$ 34,836	$ 35,645
International	34,689	36,547
	69,525	72,192
Synergy Worldwide	23,343	20,652
Total net sales revenue	92,868	92,844
Operating expenses:		
Nature s Sunshine Products:		
United States	31,908	31,887
International	30,093	34,493
	62,001	66,380
Synergy Worldwide	21,693	18,843
Total operating expenses	83,694	85,223
Operating income:		
Nature s Sunshine Products:		
United States	2,928	3,758
International	4,596	2,054
	7,524	5,812
Synergy Worldwide	1,650	1,809
Total operating income	9,174	7,621
Other income (loss), net	(110)	265
Income before provision for income taxes	$ 9,064	$ 7,886

From an individual country perspective, only the United States comprises 10 percent or more of consolidated net sales revenue for the three-month periods ended March 31, 2012 and 2011 as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net sales revenue:		
United States	$ 39,737	$ 40,787
Other	53,131	52,057
	$ 92,868	$ 92,844

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
NSP United States:		
Herbal Products	$ 18,747	$ 18,593
Vitamin, Mineral and Other Nutritional Supplements	14,363	14,608
Personal Care Products	1,001	1,171
Other Products	725	1,273
	34,836	35,645
NSP International:		
Herbal Products	$ 18,677	$ 20,181
Vitamin, Mineral and Other Nutritional Supplements	13,067	13,603
Personal Care Products	2,514	2,306
Other Products	431	457
	34,689	36,547
Synergy WorldWide:		
Herbal Products	$ 8,447	$ 7,687
Vitamin, Mineral and Other Nutritional Supplements	13,037	10,867
Personal Care Products	1,438	1,644
Other Products	421	454
	23,343	20,652
	$ 92,868	$ 92,844

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

	March 31, 2012	December 31, 2011
Property, plant and equipment:		
United States	$ 18,110	$ 18,119
Venezuela	3,839	3,939
Other	3,127	3,079
Total property, plant and equipment	$ 25,076	$ 25,137

(9) Income Taxes

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, pro forma for discrete tax items in the period in which they occur. For the three months ended March 31, 2012 and 2011, the Company s provision for income taxes, as a percentage of income before income taxes was 20.3 percent and 16.0 percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent.

The differences between the effective tax rates and the U.S. federal statutory tax rate for the three months ended March 31, 2012 was primarily attributed to foreign deductible items, including a favorable inflation adjustment, and a decrease in tax liabilities associated with uncertain tax positions due to the expiration of the statute of limitations on certain liabilities in various foreign jurisdictions, in addition to a valuation allowance release related to the utilization of foreign tax credits.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended March 31, 2011 was primarily attributed to net decreases in tax liabilities associated with uncertain tax positions due to the expiration of the statute of limitations on certain liabilities in various foreign jurisdictions, which resulted in a tax benefit of approximately $1,200.

The Company s U.S. federal income tax returns for 2003 through 2010 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions that have open tax years from 2004 through 2010. The Internal Revenue Service (IRS) is currently conducting an audit of the Company s U.S. federal income tax returns for the 2009 through 2010 tax years.

In October 2009, the IRS issued an examination report formally proposing adjustments with respect to the 2003 through 2005 taxable years, which primarily relate to the prices that were charged in intra-group transfers of property and the disallowance of related deductions. The Company challenged the IRS proposals, and took the matter before the Office of Appeals of the Internal Revenue Service. A settlement was reached with IRS Appeals and a proposed settlement agreement was signed by NSP in early January 2012. The Company has made all required payments and, as of March 31, 2012, the outstanding accrual was $500 related to this matter.

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Also during 2011, the IRS issued an examination report formally proposing adjustments with respect to the 2006 through 2008 taxable years. As with the previous examination cycle discussed above, the adjustments relate primarily to the prices that were charged in intra-group transfers of property and the disallowance of related deductions. The Company reached a settlement of the issues with the IRS examination team and an agreement was signed by the Company in January 2012. On March 7, 2012, the Company received a letter from the IRS examination team stating that they accepted the examination report and do not plan to make additional changes. The Company has made all required payments and, as of March 31, 2012, the outstanding accrual was $1,200 related to this matter.

As of March 31, 2012, the Company had accrued $9,165 related to unrecognized tax positions compared with $10,426 as of December 31, 2011. This net decrease was primarily attributed to the expiration of the statute of limitations on certain liabilities in various foreign jurisdictions.

Although the Company believes its estimates related to its unrecognized tax benefits are reasonable, the Company can provide no assurances 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. Any difference in the final tax outcome of these matters 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 related to value-added tax assessments and other civil litigation. 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. Therefore, no provision for losses has been provided. The Company believes future payments related to these matters could range from $0 to approximately $1,000. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the business, financial position, results of operations, or cash flows for the period in which the ruling occurs and/or future periods. The Company maintains directors and officers liability, product liability, general liability and excess liability insurance coverage. However, no assurances can be given that such insurance will continue to be available at an acceptable cost to the Company, that such coverage will be sufficient to cover one or more large claims, or that the insurers will not successfully disclaim coverage as to a pending or future claim.

Non-Income Tax Contingencies

The Company has reserved for certain 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. As of March 31, 2012 and December 31, 2011, accrued liabilities include $7,117 and $6,921, respectively, related to non-income tax contingencies. While management believes that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of those matters cannot presently be determined. The Company is not able at this time to predict the ultimate outcomes of those matters or to estimate the effect the ultimate outcomes, if greater than the amounts accrued, would have on the financial condition, results of operations or cash flows of the Company.

Government Regulations

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

(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 March 31, 2012:

	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	$	$ 949	$	$ 949
U.S. government security funds	982			982
Equity securities	461			