

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended
December 31, 2001

Commission File Number
0-8707



NATURE'S SUNSHINE PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

Utah
(State or other jurisdiction of
incorporation or organization)

87-0327982
(IRS Employer
Identification No.)

75 East 1700 South
Provo, Utah 84606
(Address of principal executive offices and zip code)

(801) 342-4300
(Registrant's telephone number)

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

None

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

Common Stock, without par value

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on March 13, 2002 was approximately \$204,964,200.

The number of shares of Common Stock, no par value, outstanding on March 13, 2002 was 16,267,000 shares.

Documents Incorporated by Reference:

Proxy Statement for the May 24, 2002 Annual Meeting of Shareholders (Part III of this Report).

PART I

Item 1. Business

The Company

Nature's Sunshine Products, Inc., incorporated in Utah in 1976, and its subsidiaries (hereinafter referred to collectively as the "Company") are primarily engaged in the manufacturing and marketing of nutritional and personal care products. The Company, founded in 1972, sells its products worldwide to a sales force of independent Distributors who use the products themselves or resell them to other Distributors or consumers.

The Company's operations are conducted in the United States as well as in certain other countries. The Company's subsidiaries are located in South Korea, Mexico, Venezuela, Japan, Brazil, Canada, Central America, Colombia, Ecuador, Peru, the United Kingdom, Israel, Taiwan and Chile. The Company also exports its products to several other countries, including Argentina, Australia, Malaysia, New Zealand, Norway and the Russian Federation.

Financial Information by Business Segment

The Company is principally engaged in one line of business, namely, the manufacturing and marketing of nutritional and personal care products. Information for each of the Company's last three fiscal years, with respect to the amounts of sales revenue, operating income and the last two years of identifiable assets by geographical business segment, is set forth in Note 13 of the Notes to Consolidated Financial Statements appearing in Item 8 of this Report.

Products and Manufacturing

The Company's line of over 500 products includes herbal products, vitamins, mineral supplements and homeopathic products. The Company purchases herbs and other raw materials in bulk and, after quality control testing, formulates, encapsulates, tablets or concentrates and packages them for shipment. Most of the Company's products are manufactured at its facility in Spanish Fork, Utah. Contract manufacturers produce certain of the personal care and homeopathic products for the Company in accordance with the Company's specifications and standards. The Company has implemented stringent quality control procedures to verify that the contract manufacturers have complied with the Company's specifications and standards. The Company's product lines are described below.

Herbal Products

The Company manufactures 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. The Company also produces 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. Sales of the Company's herbal products accounted for approximately 67 percent of total sales revenue in 2001, 69 percent in 2000 and 65 percent in 1999.

Vitamins and Mineral Supplements

The Company manufactures a wide variety of single vitamins, which are sold in the form of chewable or non-chewable tablets. The Company also manufactures 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. Combined sales of the Company's vitamins and mineral supplements were approximately 27 percent of total sales revenue in 2001, 23 percent in 2000 and 26 percent in 1999.

Personal Care Products

The Company manufactures or contracts 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. Sales of personal care products accounted for approximately 2 percent of the Company's total sales revenue in 2001 and 2000 and 3 percent in 1999.

Homeopathic Products

The Company markets a line of more than 40 distinctive homeopathic products designed for the treatment of certain common ailments, including several items designed especially for various allergies and common childhood maladies. Sales of homeopathic products accounted for approximately 1 percent of total sales revenue in 2001, 2000 and 1999.

Distribution and Marketing

The Company's independent Distributors market the Company's products to consumers through direct-selling techniques as well as sponsor other Distributors. The Company motivates and provides incentives to its independent Distributors through a combination of high quality products, product support, financial benefits, sales conventions, travel programs and a variety of training seminars.

The Company's products that are sold domestically are shipped directly from its manufacturing and warehouse facilities located in Spanish Fork, Utah, as well as from its regional warehouses located in Columbus, Ohio; Dallas, Texas and Atlanta, Georgia. Each international operation maintains warehouse facilities with inventory to supply its customers.

Demand for the Company's products is created from approximately 596,000 active Distributors at December 31, 2001, which include approximately 217,000 in the United States. A person who wishes to join the Company's independent sales force begins as a "Distributor". An individual can become a Distributor by applying to the Company under the sponsorship of someone who is already a Distributor. Each Distributor is required to renew his/her distributorship on a yearly basis; approximately 30 percent renew annually. Many Distributors sell the Company's products on a part-time basis to friends or associates or consume the products themselves. A Distributor interested in earning additional income by committing more time and effort to selling the Company's products may be appointed to "Manager" status. Appointment as a Manager is contingent upon attaining certain purchase volume levels, recruiting additional Distributors and demonstrating leadership abilities. Managers numbered approximately 18,000 at December 31, 2001, including approximately 6,000 in the United States. Managers resell the products they purchase from the Company to Distributors within their sales group, to consumers or use the products themselves. Once a Distributor is appointed to the status of Manager, approximately 70 percent continue to maintain that status.

Domestically, the Company generally sells its products on a cash or credit card basis. From time to time, the Company's domestic operation extends short-term credit associated with product promotions. For certain of the Company's international operations, the Company uses independent distribution centers and offers credit terms consistent with industry standards within each respective country.

The Company pays sales commissions and volume discounts (collectively, "Volume Incentives") to its Managers and Distributors based upon the amount of personal and sales group product purchases. Reference is made to Item 8 contained herein for Volume Incentives paid by the Company for the years ended December 31, 2001, 2000 and 1999. In addition, Managers who qualify by attaining certain levels of monthly product purchases are eligible for additional incentive programs including automobile allowances, sales conventions and travel.

Source and Availability of Raw Materials

Raw materials used in the manufacture of the Company's products are available from a number of suppliers. To date, the Company has not experienced any major difficulty in obtaining adequate sources of supply. The Company attempts to assure the availability of many of its raw materials by contracting, in advance, for its annual requirements. In the past, the Company has found alternative sources of raw materials when needed. Although there can be no assurance the Company will be successful in locating such sources in the future, the Company believes it will be able to do so.

Trademarks and Trade Names

The Company has obtained trademark registrations of its basic trademarks, "Nature's Sunshine", and the landscape logo for all of its product lines. The Company also owns numerous trademark registrations in the United States and in many other countries.

Seasonality

The business of the Company does not reflect significant seasonality.

Working Capital

The Company maintains a considerable inventory of raw materials and finished goods in order to provide a high level of product availability to its independent Distributors and Managers.

Dependence Upon Customers

The Company is not dependent upon a single customer or a few customers, the loss of which would have a material adverse effect on its business.

Backlog

Orders for the Company's products are typically shipped within 24 hours after receipt. As a result, there is no significant backlog at any time.

Competition

The Company's products are sold in competition with other companies, some of which have greater sales volumes and financial resources than the Company, and which sell brands that are, through advertising and promotions, better known to consumers. The Company competes in the nutritional and personal care industry against companies, which sell through retail stores as well as against other direct selling companies. For example, the Company competes against manufacturers and retailers of nutritional and personal care products, which are distributed through supermarkets, drug stores, health food stores, discount stores, beauty salons, etc. In addition to its competition with these manufacturers and retailers, the Company competes for product sales and independent Distributors with many other direct sales companies, including Shaklee, NuSkin, Unicity and Amway. The principal competitors in the encapsulated and tableted herbal products market include TwinLab, Nature's Way, USANA, Nutraceuticals and NBTY. The Company believes that the principal components of competition in the direct sales marketing of nutritional and personal care products are quality, price and brand name. In addition, the recruitment, training, travel and financial incentives for the independent sales force are important factors.

Research and Development

The Company conducts its research and development activities at its manufacturing facility located in Spanish Fork, Utah. The principal emphasis of the Company's research and development activities is the development of new products and enhancement of existing products. The amount, excluding capital expenditures, spent on research and development activities was approximately \$1.9 million, \$1.8 million and \$1.7 million in 2001, 2000 and 1999, respectively. During the three years in the period ended December 31, 2001, the Company did not have any third-party-sponsored research.

Compliance with Environmental Laws and Regulations

The nature of the Company's 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 the Company's earnings or competitive position.

Regulation

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 most active of these is the Food and Drug Administration ("FDA") which regulates the Company's 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 for human use are set forth in Title 21 of the Code of Federal Regulations. These regulations include basic food labeling requirements and Good Manufacturing Practices ("GMPs") for foods. Detailed dietary supplement GMPs have been proposed; however, no regulations establishing such GMPs have been adopted. Additional regulations to implement the specific DSHEA requirements for dietary supplement labeling have also been proposed, and final regulations should be implemented over a period of time upon final publication.

The Company's 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"). The Company's activities, including its multi-level distribution activities, are also regulated by various agencies of the states, localities and foreign countries in which the Company's products are sold.

In the future, the Company 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 the Company considers favorable and/or more stringent interpretations of current laws or regulations. The Company 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 its 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 adverse effect on the Company's results of operations, liquidity and financial position.

Employees

The number of individuals employed by the Company as of December 31, 2001, was 1,109. The Company believes that its relations with its employees are satisfactory.

International Operations

The Company's sales of nutritional and personal care products are established internationally in South Korea, Mexico, Venezuela, Japan, Brazil, Canada, Central America, Colombia, Ecuador, Peru, the United Kingdom, Israel, Taiwan and Chile. The Company also exports its products to numerous other countries, including Argentina, Australia, Malaysia, New Zealand, Norway and the Russian Federation. Information for each of the last three years with respect to the amounts of sales revenue and operating income and the last two years of identifiable assets attributable to the United States and international segments is set forth in Note 13 of the Notes to Consolidated Financial Statements appearing in Item 8 of this Report.

The Company's international operations are conducted in a manner 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 may exist in the products and in the distribution and marketing programs.

The Company's international operations are subject to many of the same risks faced by the United States operations, including competition and the strength of the local economy. In addition, 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 importance of these risks increases as the Company's international operations grow and expand.

Item 2. Properties

The Company's corporate offices are located in two adjacent office buildings in Provo, Utah. The facilities consist of approximately 63,000 square feet and are leased from an unaffiliated third party through lease agreements, which expire as early as six months but are renewable upon expiration.

The Company's principal warehousing and manufacturing facilities are housed in a building of approximately 265,000 square feet owned by the Company and located on approximately ten acres in Spanish Fork, Utah. On March 2, 2000, the Company announced its plans to complete an expansion of the manufacturing portion of the warehouse and manufacturing facility completed in 1998. The cost of this project is expected to be approximately \$14.0 million of which \$13.0 million had been paid as of December 31, 2001. Construction began during the fourth quarter of 2000, and the expansion should be completed in the second quarter of 2002.

The Company owns approximately 60,000 square feet of office and warehouse space in Mexico and approximately 10,800 square feet of office space in Venezuela.

The Company leases properties used primarily as distribution warehouses located in Columbus, Ohio; Dallas, Texas and Atlanta, Georgia, as well as offices and distribution warehouses in South Korea, Mexico, Venezuela, Japan, Brazil, Canada, Colombia, Ecuador, El Salvador, Honduras, Guatemala, Costa Rica, Panama, Nicaragua, Peru, the United Kingdom, Israel, Taiwan and Chile. Management believes these facilities are suitable for their respective uses and are, in general, adequate for the Company's present needs. During 2001, 2000 and 1999, the Company spent approximately \$3.9 million, \$3.6 million and \$3.1 million, respectively, for all of its leased facilities.

Item 3. Legal Proceedings

The Company is a defendant in various lawsuits which are incidental to the Company's business. Management, after consultation with legal counsel, believes that any liability as a result of these matters will not have a material effect upon the Company's results of operations, liquidity or financial position.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock is traded on the NASDAQ National Market System (symbol NATR). The information in the table below reflects the actual high and low sales prices of the Company's stock for 2001 and 2000.

2001	Market Prices		2000	Market Prices	
	High	Low		High	Low
First Quarter	\$ 9.44	\$ 5.69	First Quarter	\$ 10.63	\$ 7.75
Second Quarter	13.00	6.75	Second Quarter	9.13	6.63
Third Quarter	14.25	8.15	Third Quarter	8.28	6.69
Fourth Quarter	14.75	7.43	Fourth Quarter	7.38	6.38

There were approximately 1,540 shareholders of record as of March 13, 2002. During 2001 and 2000, the Company paid quarterly cash dividends of $\frac{3}{3}$ cents per common share. On February 14, 2002, the Company declared a cash dividend of $3\frac{1}{3}$ cents per common share to shareholders of record on February 28, 2002. On March 7, 2002, the Company paid approximately \$.5 million related to this declared dividend. The Company expects to continue to pay equivalent cash dividends in the future.

Item 6. Selected Financial Data

(Dollar and Share Amounts in Thousands, Except for Per Share Information)

Income Statement Data

	Sales Revenue	Cost of Goods Sold	Volume Incentives	Selling, General & Administrative	Operating Income	Income Before Income Taxes	Net Income
2001	\$ 318,722	\$ 57,659	\$ 140,540	\$ 96,625	\$ 23,898	\$ 25,333	\$ 16,659
2000	314,820	55,448	139,441	93,303	26,628	27,920	17,131
1999	294,779	51,138	132,268	84,263	27,110	28,991	17,796
1998	301,665	52,191	136,490	76,917	36,067	38,373	23,278
1997	285,900	51,608	130,709	72,578	31,005	33,203	20,133

Balance Sheet Data

	Working Capital	Current Ratio	Inventories	Property, Plant & Equipment, Net	Total Assets	Long-Term Debt	Shareholders' Equity
2001	\$ 40,561	2.24:1	\$ 26,834	\$ 35,294	\$ 131,428	\$ —	\$ 95,798
2000	43,570	2.48:1	26,043	25,293	118,447	—	84,884
1999	35,594	2.28:1	26,660	25,193	107,435	—	77,537
1998	35,557	2.30:1	22,494	25,896	103,699	—	73,967
1997	38,571	2.40:1	19,555	23,711	95,796	—	66,857

Common Share Summary

	Cash Dividends Per Share	Basic Net Income Per Share	Diluted Net Income Per Share	Book Value Per Share ¹	Basic Weighted Average Shares	Diluted Weighted Average Shares
2001	\$ 0.133	\$ 1.02	\$ 0.99	\$ 5.83	16,283	16,851
2000	0.133	1.02	1.02	5.17	16,830	16,875
1999	0.133	1.01	1.00	4.53	17,585	17,745
1998	0.133	1.27	1.25	4.10	18,383	18,639
1997	0.133	1.08	1.06	3.60	18,653	19,070

Other Information

	Return on Shareholders' Equity ²	Return on Assets ³	Number of Managers	Square Footage of Property in Use	Number of Employees
2001	18.4%	13.3%	18,038	866,219	1,109
2000	21.1	15.2	16,081	719,884	1,080
1999	23.5	16.9	14,462	621,252	1,013
1998	33.1	23.3	14,006	631,430	971
1997	31.0	21.4	13,776	522,373	994

¹ Year end shareholders' equity divided by actual shares outstanding at the end of each year.

² Net income divided by average shareholders' equity.

³ Net income divided by average total assets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Sales Revenue

Consolidated sales revenue for the year ended December 31, 2001, was \$318.7 million compared to \$314.8 million in 2000, an increase of approximately 1 percent. Sales revenue increased approximately 7 percent in 2000 compared to \$294.8 million in 1999. The change in sales revenue is related to the increase in the number of independent Distributors and Managers and the growth of the Company's international operations.

The Company distributes its products to consumers through an independent sales force comprised of Managers and Distributors. Active Managers totaled approximately 18,000, 16,100, and 14,500 at December 31, 2001, 2000 and 1999, respectively. Active Distributors totaled approximately 596,000, 589,000 and 530,000 at December 31, 2001, 2000 and 1999, respectively. The Company anticipates the number of active Distributors to increase as the Company expands its existing operations, enters new international markets and as current Distributors grow their businesses.

Sales revenue related to the United States operations increased slightly in 2001 to \$177.8 million compared to \$177.2 million in 2000. Sales revenue decreased approximately 6 percent for 2000 compared to \$188.8 million in 1999. The increase in sales revenue for the year ended December 31, 2001, is primarily the result of increased marketing incentives to attract new distributors. Price increases of 1 percent in the Company's domestic market went into effect in both 2001 and 2000, and resulted in greater sales revenue for these years. A price increase of approximately 1 percent, primarily associated with increased raw material costs, is scheduled to become effective on April 1, 2002. Management believes this price increase in its domestic market will be acceptable to its sales force and will result in increased sales revenue.

International sales revenue increased to \$140.9 million in 2001 compared to \$137.6 million in 2000, an increase of approximately 2 percent. Sales revenue increased approximately 30 percent in 2000 compared to \$106.0 million in 1999. Price increases are planned in various international markets to adjust for foreign currency devaluations and increases in the cost of finished products. Management believes the price increases will be acceptable to its sales force and will result in increased sales revenue. During 2001, the Company's operation in Brazil experienced a 57 percent decrease in sales revenue to \$9.6 million compared to \$22.1 million in 2000. The decrease in sales revenue was due to import regulations imposed by the Brazilian government. The Company expects these new regulations to continue to adversely impact sales revenue and operating results during 2002. Further information related to the United States and international segments is set forth in Note 13 of Notes to Consolidated Financial Statements appearing in Item 8 of this Report.

Costs and Expenses

The Company's costs and expenses, which include cost of goods sold, volume incentives, and selling, general and administrative, are identified as a percent of sales in the table below:

Year ended December 31	2001	2000	1999
Cost of goods sold	18.1%	17.6%	17.3%
Volume incentives	44.1	44.3	44.9
Selling, general and administrative	30.3	29.6	28.6
	92.5%	91.5%	90.8%

Cost of Goods Sold

Cost of goods sold as a percent of sales increased in 2001 as compared to 2000 and 1999, primarily as a result of the increase in international sales revenue where cost of goods sold was slightly higher than in the United States, as well as increased cost of goods sold in the Company's Brazilian operation.

Management believes that cost of goods sold as a percent of sales will decrease slightly during 2002 as compared to 2001 due to the Company's ability to lower importation costs in its Brazilian operation.

Volume Incentives

Volume incentives are a significant part of the Company's direct sales marketing program and represent payments made to its independent Distributors and Managers. These payments are designed to provide incentives for reaching higher sales levels and for recruiting additional Distributors. Volume incentives as a percent of sales decreased slightly during 2001 as compared to 2000 and 1999, primarily as a result of the increase in international sales revenue where volume incentives are slightly lower than in the Company's domestic operation.

Management expects volume incentives as a percent of sales to decrease slightly during 2002 as compared to 2001 due to the growth of the Company's international operations.

Selling, General and Administrative

Selling, general and administrative increased \$3.3 million in 2001 compared to an increase of \$9.0 million in 2000 and an increase of \$7.4 million in 1999, primarily as the result of continued expansion in the Company's international operations as well as additional selling, general and administrative expenses associated with Synergy. During 2001, selling, general and administrative associated with Synergy totaled \$4.4 million. Selling, general and administrative as a percent of sales increased to 30.3 percent in 2001 compared to 29.6 percent in 2000 and 28.6 percent in 1999. This category includes costs for research and development, distribution as well as incentive programs such as the Company's conventions.

Management believes that selling, general and administrative as a percent of sales will decrease slightly during 2002 as compared to 2001 due to cost-control measures in the United States operations. In the Company's international operations planned selling, general and administrative reductions are anticipated in the Company's Synergy and Brazilian operations.

Income Taxes

The effective income tax rate was 34.2 percent for 2001, compared to 38.6 percent reported in 2000 and 1999. Due to significant political and economic difficulties in Argentina, the Company dissolved its operations in that country and liquidated its assets. Through this process, the Company realized a tax deduction in the United States for the corresponding loss, arising from the write-off of its investment in Argentina. The Company anticipates its effective tax rate to return to its historical rates during 2002.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, the Company generated cash from operating activities of \$25.8 million compared to \$29.1 million in 2000. The decrease in cash generated from operating activities was primarily due to reduced net income in 2001 compared to 2000 as well as an increase in inventory and decreases in accrued expenses due to the timing of payments.

Capital expenditures were \$15.5 million and \$5.0 million for the years ended December 31, 2001 and 2000, respectively. The increase in capital expenditures was primarily due to the construction of the manufacturing, research and development and quality assurance areas of its manufacturing facility expansion. Construction began during the fourth quarter of 2000 and should be completed in the second quarter of 2002. Capital expenditures related to this project were \$11.7 million and \$1.3 million for the years ended December 31, 2001 and 2000, respectively, bringing total capital expenditures relating to this project of \$13.0 million. The total cost of the project is expected to be approximately \$14.0 million. Residual capital expenditures not related to this expansion were primarily for equipment, computer systems and software, office furniture and leasehold improvements made to enhance existing operations as well as the expansion of international markets.

During 2001, the Company entered into an exclusive, marketing agreement with HealtheTech, Inc., to make available personal health monitoring devices and personalized, diet and nutrition software to its distributors. As part of this agreement, the Company purchased approximately \$2.0 million worth of HealtheTech, Inc. common stock at fair market value.

During 2001, the Company's wholly owned subsidiary, Innovative Botanical Solutions, Inc., entered into an exclusive agreement with Cetalon Corporation to manufacture a proprietary line of Cetalon-branded herbs and vitamins. Additionally, Innovative Botanical Solutions purchased approximately \$2.0 million in Cetalon common stock. A loan of \$1.0 million was also provided to Cetalon Corporation, and an option obtained for Innovative Botanical Solutions to purchase additional shares of Cetalon common stock.

The majority of the Company's unrealized losses are due to the investments made in Cetalon Corporation, which are carried at fair market value and classified as available for sale. Cetalon's stock price has continued to decline since the Company made its initial investment, however, Cetalon has taken steps to secure additional funding and has restructured its management team. The Company is monitoring this investment on an ongoing basis.

For the year ended December 31, 2000, the Company used cash of approximately \$4.8 million to purchase certain assets of Synergy Worldwide, Inc. ("Synergy"). Additional information related to the purchase of certain assets of Synergy is set forth in Note 2 of the Notes to Consolidated Financial Statements appearing in Item 8 of this Report.

In October 1999, the Board of Directors authorized the repurchase of 1,000,000 shares of the Company's common stock. The repurchase of these shares was completed in January 2001, and in February 2001, the Board of Directors authorized the repurchase of an additional 1,000,000 shares of the Company's common stock. As of December 31, 2001, \$1.6 million was spent to purchase approximately 142,000 shares under this plan. As of March 8, 2002, approximately 719,000 shares were available to be repurchased under this authorization. Under these two board-approved authorizations of 1,000,000 shares each, the Company spent approximately \$2.7 million and \$5.5 million in cash to repurchase common stock for the years ended December 31, 2001 and 2000, respectively.

The Company has certain commitments related to operating leases as set forth in Note 12 of the Notes to Consolidated Financial Statements appearing in Item 8 of this Report.

Management believes that working capital requirements can be met through the Company's available cash and cash equivalents and cash generated from operating activities for the foreseeable future; however, a prolonged economic downturn or a decrease in the demand for the Company's products could adversely affect the long-term liquidity of the Company. In the event of a significant decrease in cash provided by the Company's operating activities, it might be necessary for the Company to obtain external sources of funding. The Company does not currently maintain a credit facility or any other external sources of long-term funding; however, management believes that such funding could be obtained on competitive terms in the event additional sources of funds become necessary.

Key Accounting Policies

The Company's accounting policies are more fully described in Note 1 of Notes to Consolidated Financial Statements appearing in Item 8 of this Report. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates associated with its evaluation of impairment of long-lived assets as well as those used in the determination of liabilities related to convention costs, other travel incentives and taxation. In addition, significant estimates form the basis for the Company's reserves with respect to the collection of accounts receivable, inventory valuations and certain benefits provided to current employees. Various assumptions and other factors prompt the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience and current and expected economic conditions. The Company constantly re-evaluates these significant factors and makes adjustments

where facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the estimates described above.

Forward-Looking Information

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations and other items in this Form 10-K 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. Such statements may relate but not be limited to projections of revenues, costs and expenses, income or loss, capital expenditures, the expected development schedule of existing real estate projects, plans for growth and future operations, financing needs, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. When used in "Management's Discussion and Analysis of Financial Condition and Results of Operations", and elsewhere in this Form 10-K the words "estimates", "expects", "anticipates", "forecasts", "plans", "intends" and variations of such words and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties. Future events and actual results could differ materially from that set forth in, contemplated by or underlying the forward-looking statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company conducts its business in several countries and intends to continue to expand its foreign operations. Sales revenue, operating income and net income are affected by fluctuations in currency exchange rates, interest rates and other uncertainties inherent in doing business and selling product in more than one currency. In addition, the Company's operations are exposed to risks associated with changes in social, political and economic conditions inherent in foreign operations, including changes in the laws and policies that govern foreign investment in countries where it has operations as well as, to a lesser extent, changes in United States laws and regulations relating to foreign trade and investment.

Foreign Currency Risk

During the year ended December 31, 2001, approximately 44 percent of the Company's revenue and approximately 46 percent of the Company's expenses were realized outside of the United States. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency of each international subsidiary is considered the functional currency, and all revenue and expenses are translated at average exchange rates for the periods reported. Therefore, the Company's reported sales and expenses will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Given the uncertainty of exchange rate fluctuations, the Company cannot estimate the effect of these fluctuations on the Company's future business, product pricing, results of operations or financial condition. Changes in currency exchange rates affect the relative prices at which the Company sells its products. The Company regularly monitors its foreign currency risks and periodically takes measures to reduce the impact of foreign exchange rate fluctuations on the Company's operating results. The Company does not use derivative instruments for hedging, trading or speculating on foreign exchange rate fluctuations.

The following table sets forth average currency exchange rates of one U.S. dollar into local currency for each of the countries in which sales revenue exceeded \$10.0 million during any of the years presented.

Year ended December 31	2001	2000	1999
Brazil	2.3	1.8	1.8
Japan	121.4	107.8	113.0
Mexico	9.3	9.4	9.5
South Korea	1,288.6	1,129.9	1,186.2
Venezuela	723.6	679.3	605.3

Subsequent to December 31, 2001, Venezuela experienced a significant devaluation in the Bolivar, which could adversely effect the result of operations in future periods.

Interest Rate Risk

The primary objectives of the Company's investment activities are to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by purchasing investment grade securities; substantially all of which either mature within the next twelve months or have characteristics of marketable securities. At December 31, 2001, the Company had investments of \$17.1 million of which \$6.9 million were held as municipal obligations, carry an average fixed interest rate of 5.25 percent and mature between one and five years. A hypothetical 1 percent change in interest rates would not have had a material effect on the Company's liquidity, financial condition or results of operations.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Nature's Sunshine Products, Inc.:

We have audited the accompanying consolidated balance sheets of Nature's Sunshine Products, Inc. (a Utah corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Nature's Sunshine Korea, Ltd. and Nature's Sunshine Products N.S.P. de Venezuela, C.A., wholly owned subsidiaries, as of December 31, 2001 and 2000 and for the years then ended. Additionally, we did not audit the financial statements of Nature's Sunshine, Japan Co., Ltd., a wholly owned subsidiary, as of December 31, 2000 and for the year then ended. Those statements collectively reflect 14 percent of total consolidated assets and 15 percent of total consolidated revenues in 2001, and 17 percent of both total consolidated assets and total consolidated revenues in 2000. The statements of Nature's Sunshine Korea, Ltd. and Nature's Sunshine Products N.S.P. de Venezuela, C.A. for 2001 and 2000, and Nature's Sunshine, Japan Co., Ltd. for 2000 were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors described above provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Nature's Sunshine Products, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Amounts In Thousands, Except Per Share Information)

Year Ended December 31	2001	2000	1999
Sales Revenue	\$ 318,722	\$ 314,820	\$ 294,779
Costs and Expenses:			
Cost of goods sold	57,659	55,448	51,138
Volume incentives	140,540	139,441	132,268
Selling, general and administrative	96,625	93,303	84,263
	<u>294,824</u>	<u>288,192</u>	<u>267,669</u>
Operating Income	23,898	26,628	27,110
Other Income (Expense):			
Interest and other income	1,666	1,935	2,585
Interest expense	(4)	(20)	(39)
Foreign exchange loss	(227)	(623)	(665)
	<u>1,435</u>	<u>1,292</u>	<u>1,881</u>
Income Before Provision for Income Taxes	25,333	27,920	28,991
Provision for Income Taxes	8,674	10,789	11,195
Net Income	<u>16,659</u>	<u>17,131</u>	<u>17,796</u>
Other Comprehensive Loss, net of tax:			
Foreign currency translation adjustments	(1,448)	(1,962)	(2,736)
Net unrealized gains (losses) on marketable securities	(860)	(23)	109
Net realized (gains) losses on marketable securities included in net income	7	(111)	(136)
	<u>(2,301)</u>	<u>(2,096)</u>	<u>(2,763)</u>
Comprehensive Income	\$ 14,358	\$ 15,035	\$ 15,033
Basic Net Income Per Common Share	\$ 1.02	\$ 1.02	\$ 1.01
Diluted Net Income Per Common Share	\$ 0.99	\$ 1.02	\$ 1.00

The accompanying notes are an integral part of these consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts In Thousands)

As of December 31	2001	2000
Assets		
Current Assets:		
Cash and cash equivalents	\$ 29,788	\$ 28,803
Accounts receivable, net of allowance for doubtful accounts of \$1,066 and \$1,208, respectively	6,327	7,326
Inventories	26,834	26,043
Deferred income tax assets	1,188	2,174
Prepaid expenses and other	9,209	8,631
	<u>73,346</u>	<u>72,977</u>
Total current assets	73,346	72,977
Property, plant and equipment, net	35,294	25,293
Long-term investments	12,973	10,715
Intangible and other assets, net	9,815	9,462
	<u>\$ 131,428</u>	<u>\$ 118,447</u>

Liabilities and Shareholders' Equity

Current Liabilities:

Line of credit	\$	—	\$	385
Accounts payable		4,814		4,961
Accrued volume incentives		12,005		9,807
Accrued liabilities		11,978		12,060
Income taxes payable		3,988		2,194
		<u>32,785</u>		<u>29,407</u>

Long-Term Liabilities:

Deferred income tax liabilities		1,220		2,814
Deferred compensation		1,625		1,342
		<u>2,845</u>		<u>4,156</u>

Commitments and Contingencies (Notes 10 and 12)

Shareholders' Equity:

Common stock, no par value; 20,000 shares authorized, 19,446 shares issued		36,308		37,435
Retained earnings		116,836		102,347
Treasury stock, at cost, 3,180 and 3,020 shares, respectively		(43,538)		(43,391)
Accumulated other comprehensive loss		(13,808)		(11,507)
		<u>95,798</u>		<u>84,884</u>
	\$	<u>131,428</u>	\$	<u>118,447</u>

The accompanying notes are an integral part of these consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts In Thousands)

Year Ended December 31	2001	2000	1999
Common Stock:			
Balance at beginning of year	\$ 37,435	\$ 37,659	\$ 37,528
Tax benefit related to exercise of stock options	226	36	—
Issuance of stock options	—	—	132
Issuance of 143, 17 and 0 shares of treasury stock, respectively	(1,353)	(260)	(1)
	<u>36,308</u>	<u>37,435</u>	<u>37,659</u>
Balance at end of year	36,308	37,435	37,659
Retained Earnings:			
Balance at beginning of year	102,347	87,463	72,013
Net income	16,659	17,131	17,796
Cash dividends	(2,170)	(2,247)	(2,346)
	<u>116,836</u>	<u>102,347</u>	<u>87,463</u>
Balance at end of year	116,836	102,347	87,463
Treasury Stock:			
Balance at beginning of year	(43,391)	(38,174)	(28,926)
Purchase of 303, 719 and 897 shares of common stock, respectively	(2,705)	(5,509)	(9,249)
Issuance of 143, 17 and 0 shares of treasury stock, respectively	2,558	292	1
	<u>(43,538)</u>	<u>(43,391)</u>	<u>(38,174)</u>
Balance at end of year	(43,538)	(43,391)	(38,174)
Accumulated Other Comprehensive Loss:			
Balance at beginning of year	(11,507)	(9,411)	(6,648)
Other comprehensive loss	(2,301)	(2,096)	(2,763)
	<u>(13,808)</u>	<u>(11,507)</u>	<u>(9,411)</u>
Balance at end of year	(13,808)	(11,507)	(9,411)
Total Shareholders' Equity	\$ 95,798	\$ 84,884	\$ 77,537

The accompanying notes are an integral part of these consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts In Thousands)

Increase (Decrease) in Cash and Cash Equivalents

Year Ended December 31	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 16,659	\$ 17,131	\$ 17,796
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase (Decrease) in allowance for doubtful accounts	(142)	(83)	472
Depreciation and amortization	6,827	6,926	6,060
Tax benefit from stock option exercise	226	36	—
Loss on sale of property and equipment	145	110	68
Deferred income taxes	(608)	2,089	(1,046)
Deferred compensation	283	290	794
Changes in assets and liabilities, net of effects of acquisition:			
Accounts receivable	1,141	(153)	2,377
Inventories	(791)	2,291	(4,166)
Prepaid expenses and other	(578)	(683)	(3,848)
Accounts payable	(147)	(318)	876
Accrued volume incentives	2,198	(878)	1,047
Accrued liabilities	(304)	3,581	89
Income taxes payable	1,794	(74)	(1,011)
Cumulative currency translation adjustments	(911)	(1,119)	(1,943)
Net cash provided by operating activities	25,792	29,146	17,565
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(15,491)	(5,005)	(4,459)
Proceeds from (Purchase of) investments, net	(3,111)	1,519	(720)
Purchase of other assets	(872)	(1,357)	(2,811)
Payments received (Advances on) long-term receivables, net	(681)	23	(229)
Proceeds from sale of property and equipment	39	72	86
Cash paid for acquisition	—	(4,824)	—
Net cash used in investing activities	(20,116)	(9,572)	(8,133)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of treasury stock	(2,705)	(5,509)	(9,249)
Payments of cash dividends	(2,170)	(2,247)	(2,346)
Proceeds from exercise of stock options	1,106	29	—
Repayments of short-term debt	(385)	(634)	(710)
Net cash used in financing activities	(4,154)	(8,361)	(12,305)
Effect of Exchange Rates on Cash and Cash Equivalents	(537)	(843)	(793)
Net Increase (Decrease) in Cash and Cash Equivalents	985	10,370	(3,666)
Cash and Cash Equivalents at Beginning of the Year	28,803	18,433	22,099
Cash and Cash Equivalents at End of the Year	\$ 29,788	\$ 28,803	\$ 18,433
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 6,970	\$ 9,668	\$ 13,682
Cash paid for interest	4	20	37
Supplemental disclosure of non-cash investing and financing activities:			
Cost in excess of fair value of assets acquired	\$ 418	\$ —	\$ —
Disposition of assets in exchange for note receivable	120	—	—
Acquisition of minority interest	—	—	1,131
Issuance of stock options	—	—	132

The accompanying notes are an integral part of these consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share information)

NOTE 1: OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Nature's Sunshine Products, Inc., and its subsidiaries (hereinafter referred to collectively as the "Company") are primarily engaged in the manufacturing and marketing of herbal products, vitamin and mineral supplements, personal care and homeopathic products. The Company 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 the United States, South Korea, Brazil, Mexico, Venezuela, Japan, Canada, Central America, Colombia, Peru, the United Kingdom, Ecuador, Chile and Israel. The Company also exports its products to several other countries, including Argentina, Australia, Malaysia, New Zealand, Norway and the Russian Federation.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and transactions of Nature's Sunshine Products, Inc. and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Prior to 1999, the Company's subsidiary in Japan was majority-owned. During 1999, the Company forgave receivables due from minority shareholders totaling \$1,131 in exchange for their minority interest. At December 31, 2001 and 2000, all of the Company's subsidiaries were wholly owned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in these financial statements and accompanying notes. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid short-term investments to be cash equivalents, which generally include only investments with original maturities of three months or less.

Investments

A substantial portion of the Company's investments are categorized as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income (loss) in shareholders' equity. The cost of the securities sold is based on the specific identification method. Realized gains and losses on sales of available-for-sale securities are included in interest and other income.

The Company has certain investments classified as trading securities. The Company maintains its trading securities portfolio to generate returns that offset changes in certain liabilities related to the Company's deferred compensation arrangements (see Note 10). The trading securities portfolio consists of marketable securities, which are recorded at fair value. Both realized and unrealized gains and losses on trading securities are included in interest and other income.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, cash equivalents, trade and notes receivable, long-term investments, trade payables and debt instruments. The carrying values of these financial instruments approximate their fair values. The estimated fair values have been determined using appropriate market information and valuation methodologies.

Inventories

Inventories are stated at the lower of cost (using the first-in, first-out method) or market value. At December 31, 2001, management believes the Company had incurred no material impairments in the carrying value of its inventories, other than impairments for which a provision has been made.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives for buildings and improvements range from 20 to 30 years, and equipment, furniture and fixtures range from 3 to 10 years. Leasehold improvements are amortized over the lesser of the life of the lease or the estimated useful life of the asset. Maintenance and repairs are expensed as incurred, and major improvements are capitalized. Gains or losses on sales or retirements are included in the consolidated statement of income in the year of disposition.

Intangible Assets

Intangible assets include trademarks, customer lists and goodwill associated with the acquisition of Synergy Worldwide, Inc. ("Synergy") (see Note 2) and the acquisition of the minority interest of the Company's subsidiary in Japan. Goodwill is being amortized using the straight-line method over periods from five to ten years. Other intangibles are amortized using the straight-line method over their estimated useful lives ranging from three to five years. Amortization expense associated with intangible assets was \$1,384, \$1,036 and \$499 in 2001, 2000 and 1999, respectively. Intangible assets, net of accumulated amortization, totaled \$4,644 and \$5,297 at December 31, 2001 and 2000, respectively. Accumulated amortization totaled \$2,724 and \$1,655 at December 31, 2001 and 2000, respectively.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the remaining life in measuring whether the assets are recoverable. At December 31, 2001, the Company did not consider any of its long-lived assets impaired. See "Recent Accounting Pronouncements".

Translation of Foreign Currencies

The local currency of the international subsidiaries is used as the functional currency in translation, except for subsidiaries operating in highly inflationary economies. The

financial statements of foreign subsidiaries, where the local currency is the functional currency, are translated into U.S. dollars using exchange rates in effect at the year end for assets and liabilities and average exchange rates during each year for the results of operations. Adjustments resulting from translation of financial statements are reflected in accumulated other comprehensive loss.

Countries considered having highly inflationary economies were Venezuela during 2001, and Venezuela and Ecuador during 2000 and 1999. Venezuela ceased to be considered highly inflationary at the end of the third quarter 2001. The functional currency in these highly inflationary economies is the U.S. dollar and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The re-measurement of local currencies into U.S. dollars creates translation adjustments which are included in the consolidated statements of income and comprehensive income.

Revenue Recognition

For domestic sales, the Company generally receives its product sales price in the form of cash or credit card accompanying the orders from independent Distributors and Managers. From time to time, the Company's domestic operation extends short-term credit associated with product promotions. For certain of the Company's international operations, the Company offers credit terms consistent with industry standards within each respective country. Sales revenue and related volume incentives are recorded when the merchandise is shipped. Amounts received for unshipped merchandise are recorded as customer deposits and are included in accrued liabilities. Payments of volume incentives related to product orders are made in the month following the sale.

The Company accounts for shipping and handling fees in accordance with Emerging Issues Task Force ("EITF") No. 00-10, "Accounting for Shipping and Handling Fees and Costs" ("EITF 00-10"). Under EITF 00-10 guidelines, amounts billed to a customer for shipping and handling should be classified as revenue. Shipping and handling revenue of approximately \$7,446, \$5,571 and \$5,590, was classified as sales revenue for the years ended December 31, 2001, 2000 and 1999, respectively. The corresponding shipping and handling expenses are classified in selling, general and administrative expenses and were approximately equivalent to the amounts classified as sales revenue.

Selling Expenses

Independent Distributors and Managers may earn Company-paid attendance at conventions as well as other travel awards by achieving the required levels of product purchases within a specified qualification period. Convention costs and other travel expenses are accrued over the qualification period as they are earned. Accordingly, the Company has accrued convention costs of approximately \$4,531 and \$3,724 at December 31, 2001 and 2000, respectively.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$0, \$0 and \$1,441 in 2001, 2000 and 1999, respectively.

Research and Development

All research and development costs are expensed as incurred and classified in selling, general and administrative expense. Total research and development costs were approximately \$1,912, \$1,830 and \$1,657 in 2001, 2000 and 1999, respectively,

Income Taxes

The Company recognizes a liability or asset for the deferred income tax consequences of temporary differences between the tax basis of assets or liabilities and their reported amounts in the financial statements. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. The deferred income tax assets are reviewed for recoverability and valuation allowances are provided as necessary. Foreign and other tax credits are accounted for using the liability method, which reduces income tax expense in the year in which these credits are generated.

Net Income Per Common Share

Basic net income per common share (Basic EPS) excludes dilution and is computed by dividing net income by the weighted-average number of common shares outstanding during the year. 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 income per common share.

Following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for all years:

	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
December 31, 2001			
Basic EPS	\$ 16,659	16,283	\$ 1.02
Effect of options	—	568	
Diluted EPS	\$ 16,659	16,851	\$ 0.99
December 31, 2000			
Basic EPS	\$ 17,131	16,830	\$ 1.02
Effect of options	—	45	
Diluted EPS	\$ 17,131	16,875	\$ 1.02
December 31, 1999			
Basic EPS	\$ 17,796	17,585	\$ 1.01
Effect of options	—	160	
Diluted EPS	\$ 17,796	17,745	\$ 1.00

At December 31, 2001, 2000 and 1999, there were outstanding options to purchase 494, 1,103 and 557 shares of common stock, respectively, that were not included in the computation of Diluted EPS because the options' exercise prices were greater than the average market price of the common shares during the year.

Reclassifications

Certain reclassifications have been made in the prior years' consolidated financial statements to conform to the current year presentation.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations" ("SFAS 141"), which requires all business

combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. As a result, use of the pooling-of-interests method is prohibited for business combinations initiated thereafter. SFAS 141 also establishes criteria for the separate recognition of intangible assets acquired in a business combination. The adoption of SFAS 141 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In July 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which requires that goodwill and certain other intangible assets having indefinite lives no longer be amortized to earnings, but instead be subject to periodic testing for impairment. Intangible assets determined to have definite lives will continue to be amortized over their useful lives. However, goodwill and intangible assets acquired after June 30, 2001, are subject immediately to the non-amortization and amortization provisions of this Statement. This Statement is effective for the Company's 2002 fiscal year. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in amounts initially recorded as goodwill being separately identified and recognized apart from goodwill. The adoption of SFAS 142 is not expected to have a material impact on the Company's consolidated results of operations, liquidity, financial position or cash flows.

In August 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. This Statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This Statement is effective for the Company's 2002 fiscal year. The adoption of SFAS 143 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which excludes from the definition of long-lived assets goodwill and other intangibles that are not amortized in accordance with SFAS 142. SFAS 144 requires that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business. This Statement is effective for the Company's 2002 fiscal year. The adoption of SFAS 144 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

NOTE 2: ACQUISITIONS AND DISPOSITIONS

On December 31, 2001, the Company sold the assets of Nature's Sunshine Products S.A., a wholly owned subsidiary of Nature's Sunshine Products, Inc. with operations in Argentina, for \$120. The \$120 consideration for the assets purchased under the terms of the agreement will be paid over a five-year period in equal monthly installments at a market interest rate. The assets sold are collateral for the note receivable.

On October 31, 2000, the Company acquired certain assets of Synergy, a direct marketing company involved in the distribution and sale of high quality nutritional, personal care and other products with an emphasis on the Asian markets. The total consideration paid in connection with this transaction was approximately \$4,824 in cash. The acquisition was accounted for as a purchase. The excess of the purchase price over the fair value of the net identifiable assets acquired was approximately \$3,128. This amount was recorded as goodwill and is being amortized using the straight-line method over a period of 10 years. See "Recent Accounting Pronouncements" in Note 1.

NOTE 3: INVENTORIES

The composition of inventories is as follows:

As of December 31	2001	2000
Raw materials	\$ 6,571	\$ 6,400
Work in process	928	1,345
Finished goods	19,335	18,298
	<u>\$ 26,834</u>	<u>\$ 26,043</u>

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

The composition of property, plant and equipment is as follows:

As of December 31	2001	2000
Buildings and improvements	\$ 28,355	\$ 18,975
Machinery and equipment	17,045	13,758
Furniture and fixtures	18,252	17,155
	<u>63,652</u>	<u>49,888</u>
Accumulated depreciation and amortization	(29,642)	(25,864)
Land	1,284	1,269
	<u>\$ 35,294</u>	<u>\$ 25,293</u>

NOTE 5: INVESTMENTS

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

As of December 31, 2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Cash equivalents:				
Municipal obligations	\$ 5,779	\$ —	\$ —	\$ 5,779
Total cash equivalents	<u>5,779</u>	<u>—</u>	<u>—</u>	<u>5,779</u>
Long-term investments:				
Municipal obligations	6,789	166	(8)	6,947

Equity securities	5,617	243	(1,460)	4,400
Total long-term investments	12,406	409	(1,468)	11,347
Total available-for-sale securities	\$ 18,185	\$ 409	\$ (1,468)	\$ 17,126
As of December 31, 2000	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Cash equivalents:				
Municipal obligations	\$ 4,408	\$ —	\$ —	\$ 4,408
Total cash equivalents	4,408	—	—	4,408
Long-term investments:				
Municipal obligations	8,457	95	(50)	8,502
Equity securities	588	360	(77)	871
Total long-term investments	9,045	455	(127)	9,373
Total available-for-sale securities	\$ 13,453	\$ 455	\$ (127)	\$ 13,781

Contractual maturities of long-term debt securities at market value at December 31, 2001, are as follows:

Mature after one year through five years	\$ 6,947
Mature after five years	—
Total long-term investments	\$ 6,947

During 2001, 2000 and 1999, the proceeds from the sales of available-for-sale securities were \$1,721, \$1,786 and \$1,689, respectively. The gross realized gains on sales of available-for-sale securities were \$99, \$159 and \$165 for each of the years ended December 31, 2001, 2000 and 1999, respectively. The gross realized losses on the sales of available-for-sale securities were \$106, \$48 and \$29 for the years ended December 31, 2001, 2000 and 1999, respectively.

The Company's trading securities portfolio totaled \$1,625 and \$1,342 at December 31, 2001 and 2000, respectively, including losses of \$143 and gains of \$43, respectively.

NOTE 6: LINE OF CREDIT

During 2001 and 2000, the Company had an operating line of credit in Japan with an interest rate of 2 percent payable in local currency to facilitate payment of operating expenses. The line of credit was unsecured, matured during 2001 and was not renewed. The outstanding borrowings under the line of credit at December 31, 2001 and 2000, were \$0 and \$385, respectively. The weighted average amounts outstanding under this line of credit were \$148 and \$662 for 2001 and 2000, respectively.

NOTE 7: ACCUMULATED OTHER COMPREHENSIVE LOSS

The composition of accumulated other comprehensive loss, net of tax, is as follows:

	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Available-For-Sale Securities	Total Accumulated Other Comprehensive Loss
Balance as of December 31, 1999	\$ (9,748)	\$ 337	\$ (9,411)
Period Change	(1,962)	(134)	(2,096)
Balance as of December 31, 2000	(11,710)	203	(11,507)
Period Change	(1,448)	(853)	(2,301)
Balance as of December 31, 2001	\$ (13,158)	\$ (650)	\$ (13,808)

NOTE 8: INCOME TAXES

The domestic and foreign components of income before provision for income taxes are as follows:

Year Ended December 31	2001	2000	1999
Domestic	\$ 14,594	\$ 17,227	\$ 26,751
Foreign	10,739	10,693	2,240
Total	\$ 25,333	\$ 27,920	\$ 28,991

The provision (benefit) for income taxes consists of the following:

Year Ended December 31	2001	2000	1999
Current:			

Federal	\$ 3,531	\$ 4,913	\$ 8,778
State	975	1,324	1,638
Foreign	4,776	2,463	2,031
	<u>9,282</u>	<u>8,700</u>	<u>12,447</u>
Deferred:			
Federal	(1,385)	1,169	(889)
State	(38)	415	(163)
Foreign	815	505	(200)
	<u>(608)</u>	<u>2,089</u>	<u>(1,252)</u>
Total provision for income taxes	\$ <u>8,674</u>	\$ <u>10,789</u>	\$ <u>11,195</u>

The income tax benefit associated with the nonqualified stock option plan decreased the income tax payable by \$226, \$36 and \$0 in 2001, 2000 and 1999, respectively. These benefits were recorded as an increase to common stock.

The provision for income taxes, as a percentage of income before provision for income taxes, differs from the statutory Federal income tax rate due to the following:

Year Ended December 31	2001	2000	1999
Statutory Federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	2.1	2.9	3.4
Foreign and other tax credits	(11.4)	(10.8)	(4.3)
Net effect of foreign subsidiaries' tax attributes	18.2	10.4	6.3
Write-off of Argentina subsidiary investment	(8.1)	—	—
Other	(1.6)	1.1	(1.8)
Effective income tax rate	<u>34.2%</u>	<u>38.6%</u>	<u>38.6%</u>

The significant components of the deferred income tax assets and liabilities are as follows:

Year Ended December 31	2001	2000
Deferred income tax assets:		
Inventory	\$ 449	\$ 397
Accrued liabilities	1,490	1,125
State income taxes	341	464
Foreign tax credits	126	126
Deferred compensation	682	518
Amortization of intangibles	533	359
Bad debts	126	152
Other	535	892
Total deferred income tax assets	<u>4,282</u>	<u>4,033</u>
Deferred income tax liabilities:		
Accelerated depreciation	(2,435)	(3,550)
Unrealized gain on investments	—	(141)
Prepaid expenses	(1,295)	(560)
Other	(584)	(422)
Total deferred income tax liabilities	<u>(4,314)</u>	<u>(4,673)</u>
Net deferred income tax liabilities	\$ <u>(32)</u>	\$ <u>(640)</u>

Although realization of the net deferred tax assets is not assured, management believes it is more likely than not that all of the net deferred income tax assets will be realized. The amount of net deferred tax assets considered realizable could be reduced based on changing conditions.

At December 31, 2001, the Company had available net operating losses for foreign income tax purposes of \$9,536 and for financial reporting purposes of \$9,950. The tax net operating losses will expire in 2002 through 2006. Certain of these net operating losses may be limited by the extent of foreign taxable income in future years. Due to the uncertainty regarding the utilization of these net operating loss carry-forwards, management has provided valuation allowances of \$2,806, which are equal to the amount of the deferred income tax assets related to the net operating loss carry-forwards of the foreign subsidiaries.

NOTE 9: CAPITAL TRANSACTIONS

Treasury Stock

During 2001, 2000 and 1999, the Company repurchased 303, 719 and 897 shares of common stock for a total of \$2,705, \$5,509 and \$9,249, respectively. On February 6, 2001, the Board of Directors authorized the repurchase of an additional 1,000 shares of its common stock. As of December 31, 2001, the Company had repurchased 142 shares of stock under this authorization.

Stock Options

The Company maintains a stock option plan, which provides for the granting or awarding of certain nonqualified stock options to officers, directors and employees. The term, not to exceed 10 years, and the vesting and exercise period of each stock option awarded under the plan are determined by the Company's Board of Directors. All grants were made at the fair market value of the stock at the date of grant. At December 31, 2001, the Company had approximately 339 shares available to be granted under the plan. At December 31, 2001, the Company had reserved approximately 3,180 treasury shares to accommodate the exercise of outstanding options.

Stock option activity for 2001, 2000 and 1999 consisted of the following:

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at December 31, 1998	1,129	\$ 14.15
Issued	2,945	8.42
Forfeited or canceled	(667)	18.15
Exercised	—	—
Options outstanding at December 31, 1999	3,407	8.65
Issued	175	8.63
Forfeited or canceled	(68)	8.99
Exercised	(16)	1.79
Options outstanding at December 31, 2000	3,498	8.67
Issued	1,028	7.87
Forfeited or canceled	(570)	11.65
Exercised	(133)	7.74
Options outstanding at December 31, 2001	3,823	\$ 8.04

Shares related to the exercise of stock options were issued from treasury stock during 2001 and 2000. Options for 2,008, 1,216 and 452 shares of common stock with weighted average exercise prices of \$8.19, \$8.08 and \$8.14, were exercisable on December 31, 2001, 2000 and 1999, respectively.

The following table summarizes information about options outstanding and options exercisable at December 31, 2001.

Range of Option Prices Per Share	Options Outstanding			Options Exercisable	
	Shares Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price Per Share	Shares Exercisable	Weighted-Avg. Exercise Price Per Share
\$ 4.03 to \$9.95	3,621	4.1 years	\$ 7.77	1,828	\$ 7.71
\$ 10.00 to \$16.88	200	7.0 years	12.88	178	12.99
\$ 20.00 to \$22.25	2	4.8 years	21.50	2	21.50
\$ 4.03 to \$22.25	3,823	4.2 years	8.04	2,008	8.19

The Company accounts for stock-based compensation plans under Accounting Principles Board Opinion No. 25, under which no compensation cost has been recognized in the accompanying consolidated statements of income for the years ended December 31, 2001, 2000 and 1999. Had compensation costs been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company's net income and earnings per share would have been reduced to the following proforma amounts:

Year ended December 31		2001	2000	1999
Net Income	As reported	\$ 16,659	\$ 17,131	\$ 17,796
	Proforma	14,432	14,579	15,612
Basic Earnings Per Share	As reported	\$ 1.02	\$ 1.02	\$ 1.01
	Proforma	.89	.87	.89
Diluted Earnings Per Share	As reported	\$.99	\$ 1.02	\$ 1.00
	Proforma	.86	.86	.88

The weighted average fair value of options granted was \$7.87, \$8.63 and \$8.42 for 2001, 2000 and 1999, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants: risk-free interest rate of 3 percent in 2001 with an expected life of 5 years, 6.5 percent in 2000 with an expected life of six years and 6.5 percent in 1999 with an expected life of 7 years. The expected dividend yield was approximately 1 percent in 2001, and 1.5 percent in 2000 and 1999, respectively, and expected volatility of 63, 46 and 63 percent in 2001, 2000 and 1999, respectively. The estimated fair value of options granted is subject to the assumptions made, and if the assumptions were to change, the estimated fair value amounts could be significantly different.

NOTE 10: EMPLOYEE BENEFIT PLANS

Deferred Compensation Plans

The Company sponsors a qualified deferred compensation plan, which qualifies under Section 401(k) of the Internal Revenue Code. The Company makes matching contributions of 100 percent of employee contributions up to a maximum of five percent of the employee's compensation. The Company's contributions to the plan vest after a period of four years. During 2001, 2000 and 1999, the Company contributed to the plan approximately \$743, \$623 and \$640, respectively.

During 1998, the Company established a nonqualified deferred compensation plan for its officers and certain key employees. Under this plan, participants may defer up to 100 percent of their annual salary and bonus (less the participant's share of employment taxes). The deferrals become an obligation owed to the participant by the Company under the plan. At the end of each year and at other times provided under the plan, the Company adjusts its obligation to a participant by the investment return or loss on the funds selected by the participant under rules established in the plan. The plan is not qualified under Section 401 of the Internal Revenue Code. Upon separation of the participant from the service of the Company, the obligation owed to the participant under the plan will be paid over a period of either three or five years (and will continue to be adjusted by the applicable investment return or loss during the period of pay-out.) At December 31, 2001 and 2000, the amounts payable under the plan are valued at the fair market value of the related assets and total \$1,625 and \$1,342, respectively.

Management and Employee Bonus Plan

The Company has a bonus plan that provides for participants to receive payments based upon the achievement of specified annual increases in revenue and operating income as set by the Board of Directors as well as individual objectives. The expense related to the bonus plan was approximately \$1,454, \$2,065 and \$160 for 2001, 2000 and 1999, respectively, and was included in accrued liabilities at year-end. All domestic employees as well as key international employees participate in the bonus plan.

NOTE 11: RELATED-PARTY TRANSACTION

During 2001, the Company's wholly owned subsidiary, Innovative Botanical Solutions, Inc., entered into an exclusive agreement with Cetalon Corporation to manufacture a proprietary line of Cetalon-branded herbs and vitamins. Additionally, Innovative Botanical Solutions, Inc., purchased approximately \$2,000 in Cetalon common stock. This investment is recorded using the cost method, carried at fair market value and classified as available for sale. The Company assesses this investment on a quarterly basis for impairment. A loan of \$1,000 with a market rate of interest was also provided to Cetalon Corporation, and in connection therewith, Innovative Botanical Solutions, Inc., obtained an option to purchase additional shares of Cetalon common stock. Two officers of the Company are on the Board of Directors of Cetalon. These officers are not compensated for serving in this capacity.

During 1999, as part of the Company's marketing efforts, the Company spent approximately \$410 for the services of an outside advertising agency. The president and chief executive officer of the advertising agency is a relative of an executive officer and director of the Company. The terms for these services were comparable to third-party rates.

NOTE 12: COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities and equipment used in its operations. The Company incurred expenses of approximately \$3,883, \$3,640 and \$3,123 in connection with operating leases during 2001, 2000 and 1999, respectively. The approximate aggregate commitments under non-cancelable operating leases in effect at December 31, 2001, were as follows:

Year Ending December 31

2002	\$	2,569
2003		1,477
2004		811
2005		500
2006		111
Thereafter		385
	\$	<u>5,853</u>

The Company is a defendant in various lawsuits which are incidental to the Company's business. Management, after consultation with legal counsel, believes that any liability as a result of these matters will not have a material adverse effect upon the Company's results of operations, liquidity or financial position.

NOTE 13: OPERATING SEGMENT AND INTERNATIONAL OPERATION INFORMATION

The Company has four operating segments. These operating segments are components of the Company for which separate information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. The Company evaluates performance based on operating income (loss).

The Company's operating segments are based on geographic operations and include a domestic segment (United States) and three international segments (Latin America, Asia Pacific and other regions). The segments have similar business characteristics and each offers similar products through similar methods of distribution as described in Note 1. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. Inter-segment sales, eliminated in consolidation, are not material.

Operating segment information for the years ended December 31, 2001, 2000 and 1999 is as follows:

Year Ended December 31	2001	2000	1999
Sales Revenue:			
United States	\$ 177,807	\$ 177,228	\$ 188,786
International:			
Latin America	71,930	79,089	69,805
Asia Pacific	45,740	39,659	19,406
Other	23,245	18,844	16,782
	<u>318,722</u>	<u>314,820</u>	<u>294,779</u>
Operating Expenses:			
United States	160,212	156,845	163,942
International:			
Latin America	68,457	76,094	67,332
Asia Pacific	44,014	37,086	20,941
Other	22,141	18,167	15,454
	<u>294,824</u>	<u>288,192</u>	<u>267,669</u>

Operating Income (Loss):			
United States	17,595	20,383	24,844
International:			
Latin America	3,473	2,995	2,473
Asia Pacific	1,726	2,573	(1,535)
Other	1,104	677	1,328
	23,898	26,628	27,110
Unallocated Amounts			
Other Income	1,435	1,292	1,881
Income Before Provision for Income Taxes	\$ 25,333	\$ 27,920	\$ 28,991
Year Ended December 31	2001	2000	1999
Capital Expenditures:			
United States	\$ 13,554	\$ 3,205	\$ 2,699
International:			
Latin America	606	903	830
Asia Pacific	1,186	573	770
Other	145	324	160
	\$ 15,491	\$ 5,005	\$ 4,459
Depreciation and Amortization:			
United States	\$ 4,250	\$ 4,513	\$ 4,084
International:			
Latin America	1,118	1,594	1,453
Asia Pacific	1,189	642	416
Other	270	177	107
	\$ 6,827	\$ 6,926	\$ 6,060

Revenues by classes of principal product lines for the years ended December 31, 2001, 2000 and 1999 are as follows:

Year Ended December 31	2001	2000	1999
Sales Revenue by Product Lines:			
Herbal Products	\$ 213,227	\$ 217,202	\$ 188,816
Vitamins and Mineral Supplements	85,313	71,680	75,190
Personal Care Products	6,730	7,511	7,488
Homeopathic	2,174	2,163	2,483
Other	11,278	16,264	20,802
	\$ 318,722	\$ 314,820	\$ 294,779

Individual countries, which comprise 10 percent or more of consolidated sales revenue for the years ended December 31, 2001, 2000 and 1999 are as follows:

Year Ended December 31	2001	2000	1999
Sales Revenue:			
United States	\$ 177,807	\$ 177,228	\$ 188,786
Other	140,915	137,592	105,993
	\$ 318,722	\$ 314,820	\$ 294,779

Individual countries that comprise 10 percent or more of consolidated long-lived assets, consisting of property, plant and equipment and intangible assets are as follows:

As of December 31	2001	2000
Long-Lived Assets:		
United States	\$ 29,079	\$ 19,492
Other	10,859	11,098
	\$ 39,938	\$ 30,590

As of December 31	2001	2000
Assets:		
United States	\$ 81,736	\$ 66,232
International:		
Latin America	25,402	29,434
Asia Pacific	20,424	17,858
Other	3,866	4,923
Total Assets	\$ 131,428	\$ 118,447

NOTE 14: SUMMARY OF QUARTERLY OPERATIONS—UNAUDITED

2001	Sales Revenue	Cost of Goods Sold	Volume Incentives	Selling, General and Admin.	Operating Income	Other Income (Expense)	Income Before Income Taxes	Net Income	Basic Net Income Per Share	Diluted Net Income Per Share
First Qtr	\$ 81,694	\$ 14,613	\$ 36,283	\$ 24,393	\$ 6,405	\$ (41)	\$ 6,364	\$ 4,022	\$ 0.25	\$ 0.25
Second Qtr	81,760	14,655	35,929	24,395	6,781	695	7,476	4,696	0.29	0.28
Third Qtr	77,944	14,146	34,006	23,231	6,561	200	6,761	4,219	0.26	0.25
Fourth Qtr	77,324	14,245	34,322	24,606	4,151	581	4,732	3,722	0.23	0.22
	\$ 318,722	\$ 57,659	\$ 140,540	\$ 96,625	\$ 23,898	\$ 1,435	\$ 25,333	\$ 16,659	\$ 1.02	\$ 0.99
2000										
First Qtr	\$ 81,426	\$ 14,365	\$ 36,567	\$ 23,559	\$ 6,935	\$ 404	\$ 7,339	\$ 4,496	\$ 0.26	\$ 0.26
Second Qtr	79,689	13,797	35,325	22,869	7,698	357	8,055	4,891	0.29	0.29
Third Qtr	77,145	13,696	33,940	22,186	7,323	20	7,343	4,472	0.27	0.27
Fourth Qtr	76,560	13,590	33,609	24,689	4,672	511	5,183	3,272	0.20	0.20
	\$ 314,820	\$ 55,448	\$ 139,441	\$ 93,303	\$ 26,628	\$ 1,292	\$ 27,920	\$ 17,131	\$ 1.02	\$ 1.02

Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information called for by Item 10 is omitted because the Company intends to file with the Securities and Exchange Commission, not later than 120 days after the close of the fiscal year ended December 31, 2001, a definitive Proxy Statement pursuant to Regulation 14A of the Commission.

Item 11. Executive Compensation

Information called for by Item 11 is omitted because the Company intends to file with the Securities and Exchange Commission, not later than 120 days after the close of the fiscal year ended December 31, 2001, a definitive Proxy Statement pursuant to Regulation 14A of the Commission.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information called for by Item 12 is omitted because the Company intends to file with the Securities and Exchange Commission, not later than 120 days after the close of the fiscal year ended December 31, 2001, a definitive Proxy Statement pursuant to Regulation 14A of the Commission.

Item 13. Certain Relationships and Related Transactions

Information called for by Item 13 is omitted because the Company intends to file with the Securities and Exchange Commission, not later than 120 days after the close of the fiscal year ended December 31, 2001, a definitive Proxy Statement pursuant to Regulation 14A of the Commission.

PART IV

Item 14. Financial Statement Schedules, Exhibits and Reports on Form 8-K

The following are filed as part of this Report:

Report of Independent Public Accountants

Consolidated balance sheets as of December 31, 2001 and 2000.

Consolidated statements of income and comprehensive income for the years ended December 31, 2001, 2000 and 1999.

Consolidated statements of shareholders' equity for the years ended December 31, 2001, 2000 and 1999.

Consolidated statements of cash flows for the years ended December 31, 2001, 2000 and 1999.

Notes to Consolidated Financial Statements

(a)(2) List of Financial Statement Schedules]

Report of Independent Public Accountants on Consolidated Financial Statement Schedule.

Schedule II—Valuation and Qualifying Accounts.

Financial statement schedules other than the one listed are omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto, or contained in this Report.

(a)(3) List of Exhibits

3.1 ¹	Restated Articles of Incorporation
3.2 ²	By-laws, as amended
10.2 ³	Form of Employment Agreement between the Registrant and its executive officers together with a schedule identifying the agreements omitted and setting forth the material differences between the filed agreement and the omitted agreements
10.3 ⁴	1995 Stock Option Plan
10.4 ⁴	Form of Stock Option Agreement (1995 Stock Option Plan)
10.5 ⁵	1998 Employee Incentive Compensation Plan
10.6 ⁶	Supplemental Elective Deferral Plan
10.7 ⁶	Executive Loan Program
21	List of Subsidiaries of Registrant
23.1	Consent of Independent Public Accountants (Arthur Andersen LLP)
23.2	Report of Independent Public Accountants (Kinoshita CPA Office)
23.3	Consent of Independent Public Accountants (Kinoshita CPA Office)
23.4	Report of Independent Public Accountants (Lara Marambio & Asociados)
23.5	Consent of Independent Public Accountants (Lara Marambio & Asociados)
23.6	Report of Independent Public Accountants (Daesung Accounting Corporation)
23.7	Consent of Independent Public Accountants (Daesung Accounting Corporation)

¹ Previously filed with the Commission as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 1988 and is incorporated herein by reference.

² Previously filed with the Commission as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 1985 and is incorporated herein by reference.

³ Previously filed with the Commission as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 1994 and is incorporated herein by reference.

⁴ Previously filed with the Commission as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 1995 and is incorporated herein by reference.

⁵ Previously filed with the Commission as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 1997 and is incorporated herein by reference.

⁶ Previously filed with the Commission as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 1998 and is incorporated herein by reference.

(b) Reports on Form 8-K

The Registrant did not file any reports on Form 8-K during the last quarter of the year ended December 31, 2001.

(c) Exhibits

Exhibits required to be filed in respect to this paragraph of Item 14 are listed above in subparagraph (a)(3).

(d) **Financial Statement Schedules**

See subparagraph (a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Nature's Sunshine Products, Inc.
(Registrant)

Date: March 14, 2002

By: /s/ DANIEL P. HOWELLS

Daniel P. Howells, President, C.E.O. and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
_____ /s/ DANIEL P. HOWELLS Daniel P. Howells	President, Chief Executive Officer and Director	March 14, 2002
_____ /s/ CRAIG D. HUFF Craig D. Huff	Vice President of Finance, Treasurer, Chief Financial Officer, Chief Accounting Officer	March 14, 2002
_____ /s/ DOUGLAS FAGGIOLI Douglas Faggioli	Chief Operating Officer and Director	March 14, 2002
_____ /s/ KRISTINE F. HUGHES Kristine F. Hughes	Chairman of the Board and Director	March 14, 2002
_____ /s/ EUGENE L. HUGHES Eugene L. Hughes	Vice President and Director	March 14, 2002
_____ /s/ PAULINE T. HUGHES Pauline T. Hughes	Director	March 14, 2002
_____ /s/ RICHARD HINCKLEY Richard Hinckley	Director	March 14, 2002

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON CONSOLIDATED FINANCIAL STATEMENT SCHEDULE**

To Nature's Sunshine Products, Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Nature's Sunshine Products, Inc. and subsidiaries appearing in Item 8 in this Annual Report on Form 10-K, and have issued our report thereon dated February 7, 2002. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Item 14(a)(2) is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
February 7, 2002

NATURE'S SUNSHINE PRODUCTS, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(Dollar Amounts in Thousands)

Description	Balance at Beginning of Year	Provisions	Amounts Written Off	Amounts Recovered	Balance at End of Year
Year ended December 31, 2001					
Allowance for doubtful accounts receivable	\$ 1,208	\$ 476	\$ (622)	\$ 4	\$ 1,066

Allowance for obsolete inventory	1,155	1,145	(1,318)	—	982
Allowance for notes receivable	14	—	—	—	14
Year ended December 31, 2000					
Allowance for doubtful accounts receivable	\$ 1,291	\$ 206	\$ (293)	\$ 4	\$ 1,208
Allowance for obsolete inventory	422	1,232	(499)	—	1,155
Allowance for notes receivable	14	—	—	—	14
Year ended December 31, 1999					
Allowance for doubtful accounts receivable	\$ 819	\$ 625	\$ (157)	\$ 4	\$ 1,291
Allowance for obsolete inventory	627	506	(711)	—	422
Allowance for notes receivable	14	—	—	—	14

LIST OF EXHIBITS

Item No.	Exhibit	Located At Sequentially Numbered Page
3.11	Restated Articles of Incorporation	—
3.22	By-laws, as amended	—
10.23	Form of Employment Agreement between the Registrant and its executive officers together with a schedule identifying the agreements omitted and setting forth the material differences between the filed agreement and the omitted agreements.	—
10.34	1995 Stock Option Plan	—
10.44	Form of Stock Option Agreement (1995 Stock Option Plan)	—
10.55	1998 Employee Incentive Compensation Plan	—
10.66	Supplemental Elective Deferral Plan	—
10.76	Executive Loan Program	—
21	List of Subsidiaries of Registrant	40
23.1	Consent of Independent Public Accountants (Arthur Andersen LLP)	41
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QuickLinks

[PART I](#)

- [Item 1. Business](#)
- [Item 2. Properties](#)
- [Item 3. Legal Proceedings](#)
- [Item 4. Submission of Matters to a Vote of Security Holders](#)

[PART II](#)

- [Item 5. Market for Registrant's Common Equity and Related Stockholder Matters](#)
- [Item 6. Selected Financial Data](#)
- [Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)
- [Item 7A. Quantitative and Qualitative Disclosures about Market Risk](#)
- [Item 8. Financial Statements and Supplementary Data](#)

Thousands, Except Per Share Information)

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Amounts In Thousands)

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Amounts In Thousands)

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Amounts In Thousands)

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands, except per share information)

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

PART IV

Item 14. Financial Statement Schedules, Exhibits and Reports on Form 8-K

SIGNATURES

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

NATURE'S SUNSHINE PRODUCTS, INC. SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (Dollar Amounts in Thousands)

LIST OF EXHIBITS

[QuickLinks](#) -- Click here to rapidly navigate through this document

EXHIBIT 21
SUBSIDIARIES

Set forth below is a list of all active subsidiaries of the Registrant, the state or other jurisdiction of incorporation or organization of each, and the names under which such subsidiaries do business.

Name	Jurisdiction of Incorporation
Nature's Sunshine Products of Canada, Ltd.	Canada
Nature's Sunshine Products de Mexico, S.A. de C.V.	Mexico
Nature's Sunshine Products de Colombia, S.A.	Colombia
Nature's Sunshine Produtos Naturais Ltda.	Brazil
Nature's Sunshine, Japan Co., Ltd.	Japan
Nature's Sunshine Korea, Ltd.	South Korea
Nature's Sunshine Products N.S.P. de Venezuela, C.A.	Venezuela
Nature's Sunshine Products de Centroamérica	Costa Rica
Nature's Sunshine Products de Panamá, S.A.	Panama
Nature's Sunshine Products de Guatemala, S.A.	Guatemala
Nature's Sunshine Products de El Salvador, S.A. de C.V.	El Salvador
Nature's Sunshine Products del Peru, S.A.	Peru
Comercializadora Nature's Sunshine Chile Ltda.	Chile
Nature's Sunshine Products del Ecuador, S.A.	Ecuador
Nature's Sunshine Products de Honduras, S.A.	Honduras
Nature's Sunshine Products de Nicaragua, S.A.	Nicaragua
Nature's Sunshine Products (Israel) Ltd.	Israel

Each subsidiary listed above is doing business under its corporate name.

QuickLinks

[EXHIBIT 21 SUBSIDIARIES](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Form S-8 Registration Statements File Nos. 33-38621, 33-80582, 33-59497 and 333-08139.

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
March 13, 2002

QuickLinks

[EXHIBIT 23.1 CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

EXHIBIT 23.2

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Nature's Sunshine Japan Co., Ltd.:

We have audited the balance sheets of Nature's Sunshine Japan Co., Ltd. as of December 31, 1999 and 2000 and the related statements of income, and shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nature's Sunshine Japan Co., Ltd. as of December 31, 1999 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

KINOSHITA CPA OFFICE
TOKYO, JAPAN

January 26, 2001

[QuickLinks](#)

[EXHIBIT 23.2 REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

EXHIBIT 23.3

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Form S-8 Registration Statements File Nos. 33-38621, 33-80582, 33-59497 and 333-08139.

KINOSHITA CPA OFFICE
TOKYO, JAPAN

March 13, 2002

QuickLinks

[EXHIBIT 23.3 CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

EXHIBIT 23.4

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholder and Board of Directors
Nature's Sunshine Products N.S.P. de Venezuela, C.A.:

We have audited the accompanying balance sheet of Nature's Sunshine Products N.S.P. de Venezuela, C.A. as of December 31, 2001, and the related statements of operations, stockholders' equity and cash flows for the year then ended, restated in historical bolivars which, as described in Note 1 to the financial statements, have been prepared in accordance with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements are stated in historical bolivars, the currency of the country in which the Company was incorporated and in which it operates. Said financial statements were prepared on a historical cost basis and, therefore, do not disclose the effects for changes in the currency's purchasing power. In our opinion, said changes in the bolivar's purchasing power affect the results of the financial statements and the possibility of their comparison between said periods; consequently, the financial statements should be considered in the light of these circumstances.

The financial statements were carried out for the purpose of their inclusion in the financial statements of the Nature's Sunshine Products Inc.'s group and, therefore, except for the explanation given in the following, said statements were prepared in conformity with the accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America establish the Financial Accounting Standard No. 52, that requires the restatement of the financial statements of Nature's Sunshine Products de Venezuela N.S.P., C.A. from historical bolivars to American dollars. In accordance with instructions from Head Office, the Company has not restated its financial statements in American dollars, and the effects that could result from such restatement process have not been determined.

In our opinion, except for the effect in the financial statements of not having restated the financial statements in bolivars into American dollars as indicated in the previous paragraph, the aforementioned financial statements stated in historical bolivars fairly present, in all material respects, the financial position of Nature's Sunshine Products N.S.P. de Venezuela, C.A. as of December 31, 2001 and 2000, the results from its operations and its cash flows for the years ended at those dates, in conformity with Accounting Principles Generally Accepted in the United States of America.

The Company is a member of Nature's Sunshine Products, a group of related companies and, as indicated in Note 7 to the financial statements, the Company has balances and carries out transactions with companies that are members of said group and these are the sole suppliers of its products. As a consequence of said relationships, said transactions could result in terms that would not be similar to transactions between non-related companies.

LARA MARAMBIO & ASOCIADOS

Tomás Pueyo Acosta
Public Accountant
C.P.C. N° 15.841

Caracas—Venezuela, January 18, 2002

[QuickLinks](#)

[EXHIBIT 23.4 REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

EXHIBIT 23.5

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Form S-8 Registration Statements File Nos. 33-38621, 33-80582, 33-59497 and 333-08139.

LARA MARAMBIO & ASOCIADOS

Tomás Pueyo Acosta
Public Accountant
C.P.C. N° 15.841

Caracas—Venezuela, March 13, 2002

QuickLinks

[EXHIBIT 23.5 CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

EXHIBIT 23.6

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To The Shareholder and Board of Directors
Nature' Sunshine Korea, Ltd.

We have audited the accompanying balance sheets of Nature's Sunshine Korea, Ltd. as of December 31, 2001 and 2000 and the related statements of income, shareholder's equity and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion, as independent accountants, on these financial statements as to whether they have been prepared in conformity with financial accounting principles generally accepted in the United States, based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nature's Sunshine Korea, Ltd. as of December 31, 2001 and 2000 and the result of its operation, the change in its retained earnings and its cash flows for the years then ended in conformity with financial accounting principles generally accepted in the United States.

DAESUNG ACCOUNTING CORPORATION

Correspondent Firm of
GRANT THORNTON International

January 16, 2002
Seoul, Korea

[QuickLinks](#)

[EXHIBIT 23.6 REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

EXHIBIT 23.7

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Form S-8 Registration Statements File Nos. 33-38621, 33-80582, 33-59497 and 333-08139.

DAESUNG ACCOUNTING CORPORATION

Correspondent Firm of
GRANT THORNTON International

March 13, 2002

QuickLinks

[EXHIBIT 23.7 CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS](#)