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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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, 2011

OR

**Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934**  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number **0-8707**



**NATURE'S SUNSHINE PRODUCTS, INC.**

(Exact name of Registrant as specified in its charter)

**Utah**  
(State or other jurisdiction of  
incorporation or organization)

**87-0327982**  
(IRS Employer  
Identification No.)

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

**(801) 342-4300**  
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act:  
**Common Stock, no par value.**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2011 was approximately \$303,089,000 based on the closing price of \$19.48 as quoted by Nasdaq Capital Market on June 30, 2011.

The number of shares of Common Stock, no par value, outstanding on February 29, 2012 is 15,576,802 shares.

**EXPLANATORY NOTES**

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year ended December 31, 2011, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain information included or incorporated herein by reference in this report may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies. All statements (other than statements of historical fact) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as “believe,” “hope,” “may,” “anticipate,” “should,” “intend,” “plan,” “will,” “expect,” “estimate,” “project,” “positioned,” “strategy” and similar expressions, and are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are described in this report, including the risks set forth under “Risk Factors” in Item 1A.

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

**PART 1**

**Item 1. Business**

**The Company**

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

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

**Business Segments**

The Company has two reportable business segments that operate under the Nature’s Sunshine Products brand and are divided based on their geographic operations in the United States (NSP United States) and in countries outside the United States (NSP International). The Company’s third reportable business segment operates under the Synergy Worldwide brand, which offers marketing plans, Distributor compensation plans and product formulations that are sufficiently different from those of NSP United States and NSP International to warrant accounting for these operations as a separate business segment. Information by business segment regarding net sales revenue and operating income for each of our last three fiscal years and identifiable assets as of the end of our last two fiscal years is set forth in Note 14 of the Notes to Consolidated Financial Statements in Item 8 of this report.

**Product Categories**

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

Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of herbal products, vitamins, mineral and other nutritional supplements, personal care products, and other complementary products for the years ended December 31, 2011, 2010, and 2009, by business segment. The Company has two business segments that operate under the Nature's Sunshine Products brand and are divided based on their geographic operations in the United States (NSP United States) and in countries outside the United States (NSP International). The Company's third business segment operates under the Synergy Worldwide brand, which distributes its products through different marketing and distributor compensation plans and products with formulations that are sufficiently different from those of the NSP United States and NSP International to warrant accounting for these operations as a

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separate business segment. This table should be read in conjunction with the information presented in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," which discusses the factors impacting revenue trends and the costs associated with generating the aggregate revenue presented (in thousands).

| Year Ended December 31,                                | 2011      |                | 2010          |           | 2009           |               |
|--|-----------|----------------|---------------|-----------|----------------|---------------|
| <b>NSP United States:</b>                              |           |                |               |           |                |               |
| Herbal Products  | \$        | 73,467         | 53.1%         | \$        | 67,792         | 47.9%         |
| Vitamins and Mineral and Other Nutritional Supplements |           | 56,442         | 40.8          |           | 64,441         | 45.5          |
| Personal Care Products                                 |           | 4,361          | 3.2           |           | 4,324          | 3.1           |
| Other Products   |           | 3,967          | 2.9           |           | 4,986          | 3.5           |
| <b>Total NSP United States</b>                         |           | <b>138,237</b> | <b>100.0%</b> |           | <b>141,543</b> | <b>100.0%</b> |
| <b>NSP International:</b>                              |           |                |               |           |                |               |
| Herbal Products  | \$        | 73,560         | 54.2%         | \$        | 77,606         | 55.5%         |
| Vitamins and Mineral and Other Nutritional Supplements |           | 49,734         | 36.7          |           | 51,827         | 37.1          |
| Personal Care Products                                 |           | 10,621         | 7.8           |           | 8,238          | 5.9           |
| Other Products   |           | 1,746          | 1.3           |           | 2,140          | 1.5           |
| <b>Total NSP International</b>                         |           | <b>135,661</b> | <b>100.0%</b> |           | <b>139,811</b> | <b>100.0%</b> |
| <b>Nature's Sunshine Products:</b>                     |           |                |               |           |                |               |
| Herbal Products  | \$        | 147,027        | 53.7%         | \$        | 145,398        | 51.7%         |
| Vitamins and Mineral and Other Nutritional Supplements |           | 106,176        | 38.8          |           | 116,268        | 41.3          |
| Personal Care Products                                 |           | 14,982         | 5.4           |           | 12,562         | 4.5           |
| Other Products   |           | 5,713          | 2.1           |           | 7,126          | 2.5           |
| <b>Total Nature's Sunshine Products</b>                |           | <b>273,898</b> | <b>100.0%</b> |           | <b>281,354</b> | <b>100.0%</b> |
| <b>Synergy WorldWide:</b>                              |           |                |               |           |                |               |
| Herbal Products  | \$        | 33,563         | 35.7%         | \$        | 28,045         | 40.9%         |
| Vitamins and Mineral and Other Nutritional Supplements |           | 50,936         | 54.3          |           | 32,296         | 47.1          |
| Personal Care Products                                 |           | 7,526          | 8.0           |           | 6,542          | 9.5           |
| Other Products   |           | 1,890          | 2.0           |           | 1,681          | 2.5           |
| <b>Total Synergy Worldwide</b>                         |           | <b>93,915</b>  | <b>100.0%</b> |           | <b>68,564</b>  | <b>100.0%</b> |
| <b>Consolidated:</b>                                   |           |                |               |           |                |               |
| Herbal Products  | \$        | 180,590        | 49.1%         | \$        | 173,443        | 49.6%         |
| Vitamins and Mineral and Other Nutritional Supplements |           | 157,112        | 42.7          |           | 148,564        | 42.5          |
| Personal Care Products                                 |           | 22,508         | 6.1           |           | 19,104         | 5.4           |
| Other Products   |           | 7,603          | 2.1           |           | 8,807          | 2.5           |
| <b>Total Consolidated</b>                              | <b>\$</b> | <b>367,813</b> | <b>100.0%</b> | <b>\$</b> | <b>349,918</b> | <b>100.0%</b> |

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The following table summarizes our product lines by category:

| Category               | Description   | Selected Representative Products  |
|------------------------|---|---|
| <b>Herbal Products</b> | We manufacture a wide selection of herbal products, some of which are sold in the form of capsules or tablets. These capsules or tablets contain herb powder or a combination of two or more herb powders. We also produce both single herbs and herb combinations in the form of liquid herbs and extracts. Liquid herbs are manufactured by concentrating herb constituents in a vegetable glycerin base. Extracts are created by dissolving powdered herbs into liquid solvents that separate the key elements of the herbs from the fibrous plant material. | <i>Nature's Sunshine Products (NSP U.S. and NSP International):</i><br>ALJ®, Cardio Assurance®, Blood Pressurex, LBS II®, CleanStart®<br><br><i>Synergy Worldwide:</i><br>Mistica®, Liquid Chlorophyll, Noni Plus, Core Greens® |

|   |   |   |
|---|---|---|
| <b>Vitamins and Mineral and Other Nutritional Supplements</b> | We manufacture a wide variety of single vitamins, some of which are sold in the form of chewable or non-chewable tablets. We manufacture several multiple vitamins and mineral supplements, including a line containing natural antioxidants. Generally, mineral supplements are sold in the form of tablets; however, certain minerals are offered only in liquid form. We also manufacture several other products containing enzymes and pro-biotics which are sold in the form of capsules and amino-acid based products that are sold in the form of capsules or powders. | <i>Nature's Sunshine Products (NSP U.S. and NSP International):</i><br>EverFlex®, Super Supplemental, Vitamin B Complex, Probiotic Eleven®, Food Enzymes<br><br><i>Synergy Worldwide:</i><br>ProArgi-9 Plus®, SyneMax®, Vitazone®                     |
| <b>Personal Care Products</b>                                 | We manufacture or contract with independent manufacturers to supply a variety of personal care products for external use, including oils and lotions, aloe vera gel, herbal shampoo, herbal skin treatment, toothpaste, and skin cleanser.  | <i>Nature's Sunshine Products (NSP U.S. and NSP International):</i><br>Tei-Fu® Lotion, Pau-D Arco Lotion, EverFlex® Cream, Pro-G Yam® Cream<br><br><i>Synergy Worldwide:</i><br>Hydrating Toner, 5 in 1 Shampoo, Repair Complex, Bright Renewal Serum |
| <b>Other Products</b>   | We manufacture or contract with independent manufacturers to supply a variety of other products, including a variety of homeopathic products, powders, sales aids, and other miscellaneous products.  | <i>Nature's Sunshine Products (NSP U.S. and NSP International):</i><br>Lavender Oil, Tei-Fu® Oil, Peppermint Oil, Flower Essences<br><br><i>Synergy Worldwide:</i><br>Lavender Oil, Massage Oil   |

### Distribution and Marketing

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

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

Demand for our products is created primarily from our independent Distributors. As of December 31, 2011, we had approximately 668,400 active Distributors and customers worldwide, which included approximately 210,300 Distributors and customers in the United States. A person who joins our independent sales force begins as a Distributor. An individual can become a Distributor by signing up under the sponsorship of someone who is already a Distributor or by signing up through the Company, where they will then be assigned a sponsor. Our experience indicates that, on average, approximately 45 percent of our Distributors and customers renew annually. Many Distributors sell our products on a part-time basis to friends or associates or use the products themselves. An independent Distributor interested in earning additional income by committing more time and effort to selling our products may earn Manager status, which is contingent upon attaining certain purchase volume levels, recruiting additional Distributors or customers, and demonstrating leadership abilities. As of December 31, 2011, we had approximately 27,800 independent Managers worldwide, including approximately 5,200 independent Managers in the United States. Managers resell our products to Distributors within their sales group or directly to consumers, or use the products themselves. Historically, on average, approximately 63 percent of Distributors appointed as Managers have continued to maintain that status annually.

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

We pay sales commissions, or “volume incentives” to our independent Managers and Distributors based upon the amount of sales group product purchases. Generally, a portion of these volume incentives are paid to the applicable Manager as a rebate for product purchases made by the Manager and the Distributors and customers on their personal purchases. Volume incentives are recorded as an expense in the year earned. The remaining portion of these volume incentives is paid in the form of commissions for purchases made by Distributors in a Manager’s sales group. The amounts of volume incentives that we paid during the years ended December 31, 2011, 2010 and 2009 are set forth in our Consolidated Financial Statements in Item 8 of this report. In addition to the opportunity to receive volume incentives, Managers who attain certain levels of monthly product purchases are eligible for additional incentive programs including automobile allowances, sales convention privileges and travel awards.

### Source and Availability of Raw Materials

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

### Trademarks and Trade Names

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

### Seasonality

We operate in many regions around the world and, as a result, are affected by seasonal factor and trends such as holidays and cultural traditions and vacation patterns throughout the world. For instance, in North America and Europe we typically see a decrease in the activity during the third quarter due to the summer vacation season, while we see a decrease in activity in many of our Asia Pacific markets during the first quarter due to cultural events such as the Chinese New Year. As a result, there is some seasonality to our revenues and expense reflect in our reported quarterly results. Generally, reductions in one region of the world due to seasonality are offset by increases in another, minimizing the impact on our reported consolidated revenues. Changes in the relative size of our revenues in one region of the world compared to another could cause seasonality to more significantly affect our reported quarterly results.

### Inventories

In order to provide a high level of product availability to our independent Distributors and customers, we maintain a considerable inventory of raw materials in the United States and of finished goods in most countries in which we sell our products. Due to different regulatory requirements across the countries in which we sell our products, our finished goods inventories have

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product labels and sometimes product formulations specific for each country. Our inventories are subject to obsolescence due to finite shelf lives.

#### **Dependence upon Customers**

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

#### **Backlog**

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

#### **Competition**

Our products are sold in competition with other companies, some of which have greater sales volumes and financial resources than we do, and sell brands that are, through advertising and promotions, better known to consumers. We compete in the nutritional and personal care industry against companies that sell through retail stores, as well as against other direct network marketing companies. For example, we compete against manufacturers and retailers of nutritional and personal care products, which are distributed through supermarkets, drug stores, health food stores and discount stores. We compete for product sales and independent distributors with many other direct marketing companies, including Amway, Herbalife, Pharmanex (NuSkin), Shaklee and USANA, among others. Our products also compete with those sold through retail channels such as GNC, Whole Foods Market, mass market retailers and vitamin outlets, among others. We believe that the principal components of competition in the direct marketing of nutritional and personal care products are quality, price and brand recognition. In addition, the recruitment, training, travel and financial incentives for the independent distributors are important factors.

#### **Research and Development**

We conduct research and development activities at our manufacturing facility located in Spanish Fork, Utah. Our principal emphasis in our research and development activities is the development of new products and the enhancement of existing products. The amount, excluding capital expenditures, spent on research and development activities was approximately \$1.6 million in 2011, \$2.0 million in 2010 and \$2.0 million in 2009. During the three years in the period ended December 31, 2011, we did not contract for any third-party research and development.

#### **Compliance with Environmental Laws and Regulations**

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

#### **Regulation**

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

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

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

In foreign markets, prior to commencing operations and prior to making or permitting sales of our products in the market, we may be required to obtain an approval, license or certification from the country's ministry of health or comparable agency.

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Prior to entering a new market in which a formal approval, license or certificate is required, we work extensively with local authorities in order to obtain the requisite approvals. We must also comply with product labeling and packaging regulations that vary from country to country. Our failure to comply with these regulations can result in a product being removed from sale in a particular market, either temporarily or permanently.

#### **International Operations**

A significant portion of our net sales are concentrated within the United States, which represented 43.4 percent of net sales in 2011. Outside of the United States, no one country accounted for 10.0 percent or more of sales revenue in any year in the last three years. As we continue to grow our international business, our operating results will likely become more sensitive to economic and political conditions in foreign markets, as well as to foreign currency fluctuations. A breakdown of net sales revenue by region in 2011, 2010 and 2009 is set forth below.

(Dollar amounts in thousands)

| <b>Year Ended December 31,</b> | <b>2011</b> | <b>2010</b>      | <b>2009</b>      |
|--------------------------------|-------------|------------------|------------------|
| <b>Net Sales Revenue:</b>      |             |                  |                  |
| North America                  | \$ 203,945  | 55.4% \$ 204,609 | 58.5% \$ 201,692 |
|                                |             |                  | 59.0%            |

|               |                   |               |                   |               |                   |               |
|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| Europe        | 83,312            | 22.7          | 72,176            | 20.6          | 62,954            | 18.4          |
| Asia Pacific  | 57,857            | 15.7          | 50,544            | 14.4          | 50,858            | 14.8          |
| South America | 22,699            | 6.2           | 22,589            | 6.5           | 26,607            | 7.8           |
|               | <u>\$ 367,813</u> | <u>100.0%</u> | <u>\$ 349,918</u> | <u>100.0%</u> | <u>\$ 342,111</u> | <u>100.0%</u> |

Our sales of nutritional and personal care products are established internationally in Australia, Austria, Belarus, Canada, the Czech Republic, Colombia, Costa Rica, Denmark, the Dominican Republic, Ecuador, El Salvador, Finland, Germany, Guatemala, Honduras, Hong Kong, Indonesia, Ireland, Japan, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Mongolia, the Netherlands, Nicaragua, Norway, Panama, Peru, the Philippines, Poland, Russia, Singapore, South Korea, Spain, Sweden, Taiwan, Thailand, the Ukraine, the United Kingdom, the United States, Venezuela and Vietnam. We also export our products to several other countries, including Argentina, Australia, Chile, Israel, New Zealand and Norway.

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

Our international operations are subject to many of the same risks faced by our U.S. operations, including competition and the strength of the local economy. In addition, our international operations are subject to certain risks inherent in doing business abroad, including foreign regulatory restrictions, fluctuations in monetary exchange rates, import-export controls and the economic and political policies of foreign governments. The significance of these risks will increase as we grow our international operations.

A significant portion of our long-lived assets are located in Venezuela. Information regarding our long-lived assets by region for each of our last two fiscal years is set forth in Note 14 of the Notes to the Consolidated Financial Statements in Item 8 of this report.

#### Executive Officers

In 2011 and 2012, Gregory L. Probert and D. Wynne Roberts joined the Company in senior executive positions and, in connection with their employment, the Company has reorganized its executive officer structure. Accordingly, the Company's current executive officers, as of the date of this report, are as follows:

| Name               | Age | Position  | Served in Position Since |
|--------------------|-----|---|--------------------------|
| Michael D. Dean    | 48  | Chief Executive Officer   | 2010                     |
| Gregory L. Probert | 55  | Executive Vice Chairman   | 2011                     |
| D. Wynne Roberts   | 57  | President and Chief Operating Officer   | 2012                     |
| Stephen M. Bunker  | 53  | Executive Vice President, Chief Financial Officer and Treasurer                   | 2006                     |
| Jamon Jarvis       | 45  | Executive Vice President, General Counsel, Chief Compliance Officer and Secretary | 2007                     |

*Michael D. Dean.* Mr. Dean is the Chief Executive Officer of our Company and serves as a member of the Company's Board of Directors. Prior to his appointment as President and Chief Executive Officer in July 2010, he served as the Chief Executive Officer of Mediaur Technologies from 2003. Previously, he was Executive Vice President of ABC Cable Networks, Senior Vice President of Corporate Strategic Planning and Development at the Walt Disney Company and a strategy consultant

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with Bain & Company. Mr. Dean received his B.A. in Business Administration from the University of California, Berkeley in 1986 and his M.B.A. from Harvard Business School in 1992.

*Gregory L. Probert.* Mr. Probert is a member of the Company's Board of Directors and is employed as the Executive Vice Chairman. Prior to his appointment in June 2011, he served as an independent consultant to the Company from 2010. Previously, he was Chairman of the Board and Chief Executive Officer of Penta Water Company, President and Chief Operating Officer of Herbalife International of America, Chief Executive Officer of DMX Music and Executive Vice President of Worldwide Home Entertainment at the Walt Disney Company. Mr. Probert received his B.A. from the University of Southern California in 1979.

*D. Wynne Roberts.* Mr. Roberts is the President and Chief Operating Officer of our Company. Prior to his appointment in February 2012, he served as Chairman of the Board for LifeCare Corporation, a Romanian direct selling company from May 2010. Previously, he was Senior Vice President, EMEA (Europe, Middle East and Africa) at Herbalife International Inc., President, International of DMX Music Corporation, and held senior international executive positions at XE Systems Incorporated (a subsidiary of Xerox Corp.) and NCR Corporation. He is a citizen of the U.K., and received his L.L.B., with honors, from the University of Manchester in 1975.

*Stephen M. Bunker.* Mr. Bunker is the Executive Vice President, Chief Financial Officer and Treasurer of our Company. Prior to his appointment in March 2006, he served as Vice President of Finance and Treasurer of Geneva Steel Holdings Corporation from 2001. Previously, he was Corporate Controller of Geneva Steel Corporation. Mr. Bunker is a Certified Public Accountant, and worked for Arthur Andersen for six years. Mr. Bunker received his B.A. in Accounting from Brigham Young University in 1983 and his Masters of Accountancy from Brigham Young University in 1984.

*Jamon Jarvis.* Mr. Jarvis is the Executive Vice President, General Counsel, Chief Compliance Officer and Secretary of our Company. Prior to his appointment in March 2007, he served as General Counsel and Chief Financial Officer of InterNetwork, Inc. 2004. Previously, he was Executive Vice President Finance, General Counsel and Corporate Secretary of Spontaneous Technology, Inc. Mr. Jarvis received his B.A. in History from Brigham Young University in 1990 and his J.D. from Cornell Law School in 1993.

#### Employees

We employed 1,003 individuals as of December 31, 2011. We believe that our relations with our employees are satisfactory.

#### Available Information

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

#### Item 1A. Risk Factors

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

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

Network marketing systems are frequently subject to laws and regulations by various government agencies throughout the world. These laws and regulations are generally intended to prevent fraudulent or deceptive practices and to ensure that sales are made to consumers of the products, and that compensation, recognition and advancement within the marketing organization are based upon sales of the products. Failure to comply with these laws and regulations could result in significant penalties. Violations could result from misconduct by an associate, ambiguity in statutes, changes or new laws and regulations affecting our business

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and court-related decisions. Furthermore, we may be restricted or prohibited from using network marketing plans in some foreign countries. In addition, changes in existing laws or additional regulations could make it difficult to register or sell our products in the countries in which we operate.

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

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

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

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

We rely on our independent Distributors to market and sell our products through direct marketing techniques, as well as sponsoring other Distributors. Many Distributors sell our products on a part-time basis to friends or associates or use the products for themselves. Our Distributors may terminate their service at any time, and, like most direct marketing companies, we experience high turnover among Distributors from year to year. On average, approximately 45 percent of our Distributors renew annually. As a result, we need to continue to retain existing Distributors and recruit additional Distributors in order to maintain and/or increase sales in the future.

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

- any adverse publicity regarding us, our products, our distribution channels or our competitors;
- on-going motivation of our independent Distributors;
- the public's perceptions about the value and efficacy of our products;
- the public's perceptions and acceptance of network marketing;
- general and economic business conditions;
- government regulations;
- changes to our compensation arrangements with our independent Distributors; and
- competition in recruiting and retaining independent Distributors and/or market saturation.

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

***Changes in the economies of the markets in which we do business may affect consumer demand for our products.***

Consumer spending habits, including spending for our products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, consumer confidence and consumer perception of economic conditions. For instance, in the last fiscal quarter of 2008 and throughout 2009, we experienced

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changes in our consumers' spending habits in the United States, Russian, Asian and Latin American markets due to the general economic slowdown at that time, which resulted in lower net sales of our products during that period. Economic slowdowns in the markets in which we do business and an uncertain economic outlook may adversely affect consumer spending habits and customer traffic, which may result in lower net sales of our products in future periods. A prolonged global economic downturn could have a material negative impact on our financial position, results of operation or cash flows.

***Currency exchange rate fluctuations affect our net revenue and net income.***

In 2011, we recognized approximately 56.6 percent of our revenue in markets outside the United States, the majority of which was recognized in each market's respective local currency. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenues and expenses in foreign countries from their local currencies into U.S. dollars using weighted-average exchange rates. Because a majority of our sales are in foreign countries, exchange rate fluctuations may have a significant effect on our sales and earnings. Our reported net earnings have in the past been and are likely to continue to be significantly affected by fluctuations in currency exchange rates, with net sales revenue and earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. These fluctuations had a generally positive effect on our revenue in 2011 and 2010 compared to 2009, when we experienced a decline in our global net sales as a result of the U.S. dollar strengthening against most major currencies. As our operations grow in countries where foreign currency transactions are made, our operating results will increasingly be subject to the risks of exchange rate fluctuations, and we may not be able to accurately estimate the impact of these changes on our future results of operations or financial condition.

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

Inflation is another risk associated with our international operations. For example, as of January 1, 2010, Venezuela has been designated as a highly inflationary economy under generally accepted accounting principles in the United States ("U.S. GAAP"). Accordingly, the U.S. dollar became the functional currency for our subsidiaries in Venezuela. All gains and losses resulting from the re-measurement of its financial statements and other transactional foreign exchange gains and losses are reflected in its earnings, which could result in volatility within the Company's earnings, rather than as a component of comprehensive income within shareholders' equity.

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

The possibility that foreign governments may impose currency remittance restrictions is another risk faced by our international operations. Due to the possibility of government restrictions on transfers of cash out of the country and control of exchange rates, we may not be able to repatriate cash at exchange rates beneficial to the Company, which could have a material adverse effect on our financial position, results of operations or cash flows.

For example, as of December 31, 2011, we had approximately \$0.8 million in cash denominated in Venezuelan bolivar fuertes ("bolivar"). Currency restrictions enacted by the government of Venezuela require approval from the government's currency control organization for our subsidiary in Venezuela to obtain U.S. dollars at an official exchange rate to pay for imported products or to repatriate dividends back to the Company. Although to date we have been able to receive approval from the government of Venezuela to obtain U.S. dollars at the official exchange rate of 5.3, no assurances can be given that we will continue to receive such approval, or that other markets in which we operate will not enact similar restrictions.

***Availability and integrity of raw materials could become compromised.***

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

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

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***Geopolitical issues and conflicts could adversely affect our business.***

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

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

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

***Taxation and transfer pricing affect our operations.***

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

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

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

***Our business is subject to intellectual property risks.***

Most of our products are not protected by patents. Restrictive regulations governing the precise labeling of ingredients and percentages for nutritional supplements, the large number of manufacturers that produce products with many active ingredients in common and the rapid change and frequent reformulation of products make patent



protection impractical. As a result, we enter into confidentiality agreements with certain of our employees in our research and development activities, our independent associates, suppliers, directors, officers and consultants to help protect our intellectual property, investment in research and development activities and trade secrets. We have also obtained trademarks for the *Nature's Sunshine Products* name and logo as well as the *Synergy Worldwide* name. There can be no assurance that our efforts to protect our intellectual property and trademarks will be successful, nor can there be any assurance that third parties will not assert claims against us for infringement of intellectual property rights, which could result in our business being required to obtain licenses for such rights, to pay royalties or to terminate our manufacturing of infringing products, all of which could have a material negative impact on our financial position, results of operations or cash flows.

***Product liability claims could harm our business.***

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

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

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

***System failures could harm our business.***

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

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

We sell our products worldwide to a sales force of independent Distributors who use the products themselves or resell them to other independent Distributors or consumers. In the event that local laws and regulations or the interpretation of local laws and regulations change and require us to treat our independent Distributors as employees, or if our Distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for a variety of obligations that are imposed upon employers relating to their employees, including employment related taxes and penalties. Our Distributors also operate in jurisdictions where local legislation and governmental agencies require us to collect and remit taxes such as sales tax or value-added taxes. In addition, there is the possibility that some jurisdictions could seek to hold the Company responsible for false product claims or the negligent actions of an independent Distributor. To date, the Company has had no such occurrences. In addition, we believe we have strong legal defenses if such a claim were to arise. If the Company were found to be responsible for any of these issues related to our Distributors, it could have a material negative impact on our financial position, results of operations or cash flows.

***Changes in key management could materially adversely affect the Company.***

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

***Our business is involved in an industry with intense competition.***

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

***Our share price has been and may continue to be volatile.***

Our share price has been volatile due, in part, to generally volatile securities markets and our history over the last few years. Factors other than our financial results that may affect our share price include, but are not limited to, market expectations of our performance, the activities of our Managers, Distributors and customers, and the level of perceived growth in the industry in which we participate.

**Item 1B. Unresolved Staff Comments**

None.

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**Item 2. Properties**

Our corporate offices are located in two adjacent office buildings in Provo, Utah, which consist of approximately 63,000 square feet. These facilities are leased from an unaffiliated third party through lease agreements which expire in 2012. At the end of our lease agreement, our corporate offices will be moved to a 56,000 square foot facility in Lehi, Utah, under a seventy-month lease agreement.

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

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

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

We lease properties used primarily as distribution warehouses located in Georgia, Ohio, Texas and Utah, as well as offices and distribution warehouses in Utah, Australia, Canada, China, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Hong Kong, Indonesia, Israel, Japan, Malaysia, Mexico, Nicaragua, Panama, Peru, the Philippines, Poland, Singapore, South Korea, Taiwan, Thailand, the United Kingdom, Venezuela, and Vietnam. We believe these facilities are suitable for their respective uses and are, in general, adequate for our present and near-term future needs. During our fiscal years 2011, 2010 and 2009, we spent approximately \$6.2 million, \$6.2 million and \$5.9 million, respectively, for all of our leased facilities.

### **Item 3. Legal Proceedings**

The Company is party to various legal proceedings, including those noted below. Management cannot predict the ultimate outcome of these proceedings, individually or in the aggregate, or their resulting effect on the Company's business, financial position, results of operations or cash flows as litigation and related matters are subject to inherent uncertainties, and unfavorable rulings could occur. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the business, financial position, results of operations or cash flows for the period in which the ruling occurs and/or future periods. The Company maintains directors' and officers' liability, product liability, general liability and excess liability insurance coverage. However, no assurances can be given that such insurance will continue to be available at an acceptable cost to the Company, that such coverage will be sufficient to cover one or more large claims, or that the insurers will not successfully disclaim coverage as to a pending or future claim.

#### **Audit of U.S. Federal Tax Returns, 2003-2010**

The Company's U.S. federal income tax returns for 2003 through 2010 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions which have open tax years from 2000 through 2010. The Internal Revenue Service ("IRS") is currently conducting an audit of the Company's U.S. federal income tax returns for 2009 and 2010. Furthermore, previous IRS exams for the periods 2003 through 2005 and 2006 through 2008 are nearing completion.

In October 2009, the IRS issued an examination report formally proposing adjustments with respect to the 2003 through 2005 taxable years, which primarily relate to the prices that were charged in intra-group transfers of property and the disallowance of related deductions. The Company challenged the IRS proposals, and took the matter before the Office of Appeals of the Internal Revenue Service. A verbal settlement was reached with IRS Appeals during 2011, and a proposed settlement agreement was signed by NSP in early January 2012. IRS Appeals sent a letter on January 30, 2012, indicating that the agreement with NSP had been approved and that they would complete the processing of these open years.

Also during 2011, the IRS issued an examination report formally proposing adjustments with respect to the 2006 through 2008 taxable years. As with the previous exam cycle discussed above, the adjustments relate primarily to the prices that were charged in intra-group transfers of property and the disallowance of related deductions. The Company was able to reach a verbal settlement of the issues with the IRS exam team during 2011, and an agreement was executed in January 2012.

Management believes that the Company has appropriately reserved for these matters at an amount which it believes will ultimately be due upon resolution of the administrative proceedings. These estimates are based upon a more-likely-than-not recognition threshold. The Company is currently unable to determine the precise outcome of these matters and their related impact if any, on the Company's financial condition, results of operations or cash flows.

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

#### **NutriPlus LLC Settlement**

In 1999 and 2000, the Company and NutriPlus LLC ("NutriPlus") entered into an Asset Purchase Agreement and subsequent Settlement Agreement (together the "Purchase Agreement") under which the Company acquired certain assets in order to establish its Russian business, and NutriPlus acquired rights to receive certain royalty payments from the Company expressed as a percentage of the Company's net sales in its Russian business.

On July 12, 2010, the Company submitted a demand for arbitration to the American Arbitration Association (the "AAA") naming NutriPlus as respondent. The Company sought a declaration of its rights and obligations, including with respect to royalty payments, and the calculation thereof, arising out of the Purchase Agreement.

On July 20, 2010, NutriPlus submitted its own demand for arbitration to the AAA naming the Company as respondent. NutriPlus alleged that the Company underpaid NutriPlus for royalties arising out of the Purchase Agreement. In arbitration, NutriPlus sought damages related to the alleged underpayment and a declaratory judgment with respect to the method the Company must use in determining the amount of royalties to pay NutriPlus in the future.

The arbitration demands were consolidated into a single proceeding, and the hearing was scheduled for July 2011.

On July 8, 2011, the Company and NutriPlus entered into a settlement agreement, wherein both parties settled all claims in the arbitration and bore their own costs associated with the arbitration. As a result of the settlement, the Company agreed to pay NutriPlus \$21.7 million for the release of all past and future obligations. Of the \$21.7 million, the Company applied \$7.0 million toward previously accrued and expensed but unpaid royalties, and \$14.7 million in exchange for the contract termination and extinguishment of future royalty obligations.

For the year ended December 31, 2010, the Company recorded and expensed royalty payments to NutriPlus of approximately \$5.6 million (included in selling, general and administrative expenses), which was approximately 4.0 percent of NSP International's revenue and 1.6 percent of the Company's consolidated revenue. For the year ended December 31, 2011, the Company recorded and expensed royalty payments to NutriPlus of approximately \$2.9 million, which was approximately 2.1 percent of NSP International's revenue and 0.8 percent of the Company's consolidated revenue.

As a result of the settlement, our operating costs for the year ended December 31, 2011, were reduced by \$2.7 million compared to what they would have been, which

resulted in a corresponding increase to operating income of \$2.7 million. Similarly, based on current sales from our Russian business, we expect the settlement will result in an annual reduction of \$5.6 to \$6.0 million in operating costs and a corresponding increase in operating income above the level the Company would otherwise achieve if the NutriPlus royalty obligation remained in effect. This positive impact on operating costs and operating income will fluctuate with sales volumes in our Russian business.

#### Other Litigation

The Company is party to various other legal proceedings in several foreign jurisdictions related to value-added tax assessments and other civil litigation. While there is a reasonable possibility that a material loss may be incurred, the Company cannot at this time estimate the loss, if any, and therefore no provision for losses has been provided. The Company believes that future payments related to these matters could range from \$0 to approximately \$0.7 million.

#### **Item 4. Reserved**

## PART II

#### **Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

##### Market and Share Prices

Our common stock is traded on the NASDAQ Stock Market (symbol "NATR").

The following table summarizes the quarterly high and low market prices of our common stock for the years ended December 31, 2011 and 2010:

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| 2011           | Market Prices |          |
|----------------|---------------|----------|
|                | High          | Low      |
| First Quarter  | \$ 9.25       | \$ 7.72  |
| Second Quarter | \$ 19.88      | \$ 8.17  |
| Third Quarter  | \$ 21.16      | \$ 13.80 |
| Fourth Quarter | \$ 18.51      | \$ 12.40 |

| 2010           | Market Prices |         |
|----------------|---------------|---------|
|                | High          | Low     |
| First Quarter  | \$ 9.18       | \$ 7.55 |
| Second Quarter | \$ 14.74      | \$ 8.05 |
| Third Quarter  | \$ 10.20      | \$ 8.05 |
| Fourth Quarter | \$ 9.40       | \$ 8.30 |

The market price of our common shares is subject to significant fluctuations in response to variations in our quarterly operating results, general trends in the markets for our products, economic and currency exchange issues in the foreign markets in which we operate and other factors, many of which are not within our control. In addition, broad market fluctuations, as well as general economic, business and political conditions may adversely affect the market for our common shares, regardless of our actual or projected performance.

The closing price of our common shares on February 29, 2012, was \$14.75. The approximate number of shareholders of record of our common shares as of February 29, 2012, was 927. This number of holders of record does not represent the actual number of beneficial owners of our common shares because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

##### Recent Sales of Unregistered Securities

None.

##### Dividends

There were 928 shareholders of record as of December 31, 2011. During the first quarter of fiscal year 2009, the Company paid cash dividends of \$0.05 per common share. The Company suspended payment of its quarterly cash dividends, effective the second quarter of 2009, in an effort to conserve cash in the United States.

##### Securities Authorized for Issuance Under Equity Compensation Plans

The following table contains information regarding the Company's equity compensation plans as of December 31, 2011:

| Plan category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted average exercise price of outstanding options, warrants and rights<br>(b) | Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|--|--|--|---|
| Equity compensation plans approved by security holders (1)     | 1,263,090  | \$ 9.70  | 238,350   |
| Equity compensation plans not approved by security holders (2) | 111,400  | 11.85  | —   |
| <b>Total</b>   | <b>1,374,490</b>   | <b>\$ 9.88</b>   | <b>238,350</b>  |

(1) Consists of two plans: The Nature's Sunshine Products, Inc. 2009 Stock Incentive Plan (the "2009 Incentive Plan") and the Nature's Sunshine Products, Inc. 1995 Stock Option Plan (the "1995 Option Plan"). The 2009 Incentive Plan was approved by shareholders on November 6, 2009. The terms of these plans are summarized in Note 10, "Capital Transactions", to the Notes of our Consolidated Financial Statements in Item 8, Part 2 of this report.

(2) During the year ended December 31, 2007, the Company issued nonqualified options to purchase shares of common stock outside of any shareholder approved stock incentive plan. The terms of these nonqualified options to purchase shares of common stock are summarized in Note 10, "Capital Transactions", to the Notes of our Consolidated Financial Statements, in Item 8, Part 2 of this report.

## Performance Graph

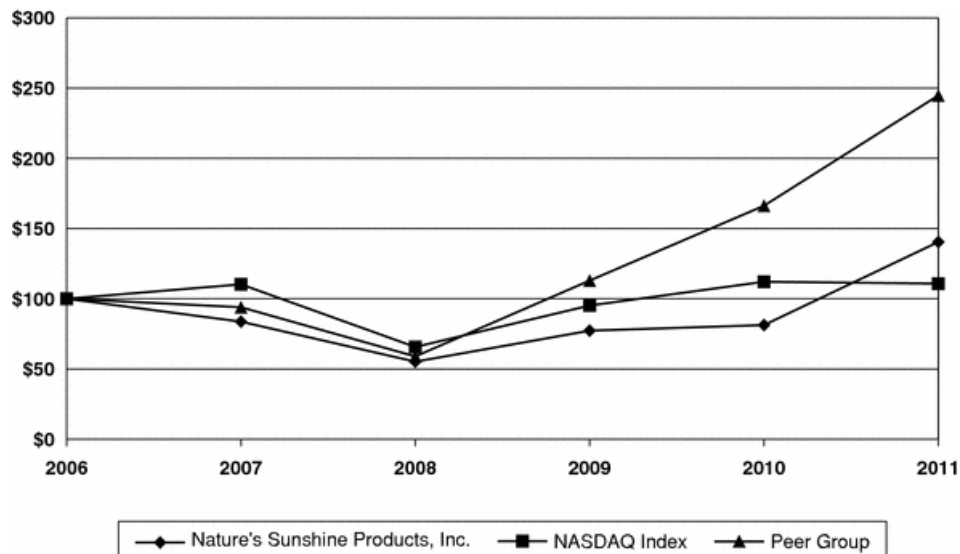
The graph below depicts our common stock as an index, assuming \$100.00 was invested on December 31, 2006, along with the composite prices of companies listed on the NASDAQ Stock Market and our peer group. Standard & Poor's Investment Services has provided us with this information. The comparisons in the graph are required by regulations of the SEC, and are not

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intended to forecast or be indicative of the possible future performance of our common stock. The publicly-traded companies in our peer group are Herbalife International, Inc., NuSkin Enterprises, Inc. and USANA Health Sciences, Inc.

Comparison of Cumulative Five Year Total Return



|                                  | 12/31/2006 | 12/31/2007 | 12/31/2008 | 12/31/2009 | 12/31/2010 | 12/31/2011 |
|----------------------------------|------------|------------|------------|------------|------------|------------|
| Nature's Sunshine Products, Inc. | \$ 100.00  | \$ 83.69   | \$ 55.20   | \$ 77.27   | \$ 81.26   | \$ 140.43  |
| NASDAQ Index                     | 100.00     | 110.26     | 65.65      | 95.19      | 112.10     | 110.81     |
| Peer Group                       | 100.00     | 93.96      | 58.93      | 112.96     | 166.23     | 244.78     |

## Item 6. Selected Financial Data

The selected financial data presented below is summarized from our results of consolidated operations for each of the five years in the period ended December 31, 2011, as well as selected consolidated balance sheet data as of December 31, 2011, 2010, 2009, 2008 and 2007.

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

### Consolidated Income Statement Data

|  | Year Ended December 31, |            |            |            |            |
|--|-------------------------|------------|------------|------------|------------|
|  | 2011                    | 2010       | 2009       | 2008       | 2007       |
| Net sales revenue                            | \$ 367,813              | \$ 349,918 | \$ 342,111 | \$ 372,065 | \$ 360,263 |
| Costs and expenses                           |                         |            |            |            |            |
| Cost of goods sold                           | 69,410                  | 69,040     | 68,512     | 71,611     | 70,711     |
| Volume incentives                            | 133,883                 | 130,367    | 126,105    | 139,689    | 138,002    |
| Selling, general and administrative          | 129,605                 | 139,248    | 135,061    | 153,942    | 146,337    |
| Contract termination costs                   | 14,750                  | —          | —          | —          | —          |
|  | 347,648                 | 338,655    | 329,678    | 365,242    | 355,050    |
| Operating income                             | 20,165                  | 11,263     | 12,433     | 6,823      | 5,213      |
| Other income, net                            | 1,847                   | 2,727      | 2,331      | 2,692      | 1,276      |
| Income before income taxes                   | 22,012                  | 13,990     | 14,764     | 9,515      | 6,489      |
| Provision for income taxes                   | 4,411                   | 5,521      | 8,210      | 8,306      | 12,625     |
| Net income (loss) from continuing operations | 17,601                  | 8,469      | 6,554      | 1,209      | (6,136)    |
| Loss from discontinued operations            | —                       | (9,702)    | (439)      | (3,047)    | (2,074)    |
| Net income (loss)                            | \$ 17,601               | \$ (1,233) | \$ 6,115   | \$ (1,838) | \$ (8,210) |

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### Consolidated Balance Sheet Data

|  | December 31, |      |      |      |      |
|--|--------------|------|------|------|------|
|  | 2011         | 2010 | 2009 | 2008 | 2007 |

|                                    |           |           |           |           |           |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Working capital                    | \$ 57,305 | \$ 41,370 | \$ 33,523 | \$ 30,200 | \$ 32,017 |
| Current ratio                      | 1.85      | 1.63      | 1.49      | 1.39      | 1.42      |
| Inventories                        | 41,611    | 36,235    | 40,623    | 39,558    | 35,249    |
| Property, plant and equipment, net | 25,137    | 27,391    | 28,757    | 30,224    | 28,282    |
| Total assets                       | 175,811   | 159,415   | 156,139   | 164,276   | 165,338   |
| Long-term liabilities              | 20,575    | 25,865    | 31,175    | 32,679    | 27,968    |
| Total shareholders' equity         | 87,438    | 68,382    | 57,095    | 53,677    | 60,392    |

## Common Share Summary

|  | December 31, |           |           |           |           |
|--|--------------|-----------|-----------|-----------|-----------|
|  | 2011         | 2010      | 2009      | 2008      | 2007      |
| Cash dividend per share                      | \$ —         | \$ —      | \$ 0.05   | \$ 0.20   | \$ 0.20   |
| Basic and diluted earnings per share         |              |           |           |           |           |
| Basic weighted average number of shares      | 15,550       | 15,515    | 15,510    | 15,510    | 15,495    |
| Diluted weighted average number of shares    | 15,695       | 15,605    | 15,512    | 15,510    | 15,495    |
| Basic  |              |           |           |           |           |
| Net income (loss) from continuing operations | \$ 1.13      | \$ 0.55   | \$ 0.42   | \$ 0.08   | \$ (0.40) |
| Loss from discontinued operations            | \$ —         | \$ (0.63) | \$ (0.03) | \$ (0.20) | \$ (0.13) |
| Net income (loss)                            | \$ 1.13      | \$ (0.08) | \$ 0.39   | \$ (0.12) | \$ (0.53) |
| Diluted                                      |              |           |           |           |           |
| Net income (loss) from continuing operations | \$ 1.12      | \$ 0.54   | \$ 0.42   | \$ 0.08   | \$ (0.40) |
| Loss from discontinued operations            | \$ —         | \$ (0.62) | \$ (0.03) | \$ (0.20) | \$ (0.13) |
| Net income (loss)                            | \$ 1.12      | \$ (0.08) | \$ 0.39   | \$ (0.12) | \$ (0.53) |

## Other Information

|  | December 31, |         |         |         |         |
|--|--------------|---------|---------|---------|---------|
|  | 2011         | 2010    | 2009    | 2008    | 2007    |
| Number of independent Managers                   | 27,763       | 28,327  | 28,726  | 26,002  | 24,115  |
| Number of independent Distributors and customers | 668,361      | 685,065 | 697,150 | 729,627 | 698,685 |
| Square footage of property in use                | 763,389      | 750,390 | 750,610 | 731,277 | 706,519 |
| Number of employees                              | 1,003        | 1,073   | 1,191   | 1,183   | 1,170   |

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

The following discussion highlights the principal factors that have affected our financial condition, results of operations, liquidity and capital resources for the periods described. This discussion should be read in conjunction with our consolidated financial statements and the related notes in Item 8 of this report. This discussion contains forward-looking statements. Please see "Cautionary Note Regarding Forward-Looking Statements" for the risks, uncertainties and assumptions associated with these forward-looking statements.

### OVERVIEW

#### *Our Business, Industry and Target Market*

Nature's Sunshine Products, Inc. together with its subsidiaries, is a natural health and wellness company primarily engaged in the manufacturing and direct selling of nutritional and personal care products. Nature's Sunshine Products, Inc. is a Utah corporation with its principal place of business in Provo, Utah. We sell our products to a sales force of independent Distributors and Managers who use the products themselves or resell them to other Distributors or customers. The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of each of our major product groups are subject to regulation by one or more governmental agencies. The Company has two reportable business segments that operate under the Nature's Sunshine Products brand and are divided based on their geographic operations in the United States (NSP United States) and in countries outside the United States (NSP International). We

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also sell our products through a separate division and operating business segment, Synergy Worldwide. Synergy Worldwide offers marketing plans, Distributor compensation plans and product formulations that are sufficiently different from those of NSP United States and NSP International to warrant its treatment as a separately reportable business segment.

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

In 2011, we experienced an increase in our consolidated net sales of 5.1 percent. Synergy Worldwide experienced an increase in net sales revenue of approximately 37.0 percent (or 31.5 percent in local currencies excluding the positive impact of foreign currency fluctuations). NSP International experienced a decrease in net sales of approximately 3.0 percent compared to the same period in 2010, and a decrease in local currency net sales of 3.6 percent (excluding the positive impact of foreign currency fluctuations), while NSP United States net sales decreased approximately 2.3 percent. The significant sales revenue growth was from our Synergy businesses in Europe, Korea, and the United States and our NSP Russian markets (excluding Belarus) during 2011. Gains in these markets were partially offset by decreases in our NSP Belarus, NSP Dominican Republic, NSP and Synergy Japan, and NSP Mexico markets.

On July 8, 2011, we entered into a settlement agreement with NutriPlus LLC ("NutriPlus"), from which we acquired certain assets in 1999 in order to establish our Russian business and to which we agreed to make royalty payments as a percentage of sales from our Russian business. As a result of the settlement, wherein both parties settled all claims in the arbitration and bore their own costs associated with the arbitration, the Company agreed to pay NutriPlus \$21.7 million for the release of all past and future royalty obligations. Of the \$21.7 million, the Company applied \$7.0 million toward previously accrued and expensed but unpaid royalties, and \$14.7 million in exchange for the contract termination and extinguishment of future royalty obligations.

For the year ended December 31, 2010, the Company recorded and expensed royalty payments to NutriPlus of approximately \$5.6 million (included in selling, general and administrative expenses), which was approximately 4.0 percent of NSP International's revenue and 1.6 percent of the Company's consolidated revenue. For the year

ended December 31, 2011, the Company recorded and expensed royalty payments to NutriPlus of approximately \$2.9 million, which was approximately 2.1 percent of NSP International's revenue and 0.8 percent of the Company's consolidated revenue.

As a result of the settlement, our operating costs for the year ended December 31, 2011, were reduced by \$2.7 million compared to what they would have been, which resulted in a corresponding increase to operating income of \$2.7 million. Similarly, based on current sales from our Russian business, we expect the settlement will result in an annual reduction of \$5.6 to \$6.0 million in operating costs and a corresponding increase in operating income above the level the Company would otherwise achieve if the NutriPlus royalty obligation remained in effect. This positive impact on operating costs and operating income will fluctuate with sales volumes in our Russian business.

Selling, general and administrative costs as a percentage of net sales revenue for the year decreased from 39.8 percent in the prior year to 35.2 percent in the current year as a result of revenue growth (primarily in Synergy Worldwide), the reduction of our royalty costs related to our Russian business as noted above, and our successful efforts to reduce operating costs in all of our operating segments.

As a result of our overall growth in net sales revenue and reductions in operating expenses, our consolidated operating income for the year increased from 3.2 percent of net sales revenue in the prior year to 5.5 percent of net sales revenue in the current year. Excluding the onetime contract termination costs of \$14.7 million due to the NutriPlus settlement, operating income would have been 9.5 percent of net sales revenue in 2011.

We distribute our products to consumers through an independent sales force comprised of Managers and independent Distributors. Typically a person who joins our independent sales force begins as a Distributor. A Distributor interested in earning additional income by committing more time and effort to selling our products may earn Manager status, which is contingent upon attaining certain purchase levels, recruiting additional Distributors and demonstrating leadership abilities. On a worldwide basis, active Managers totaled approximately 27,800 and 28,300 and active Distributors and customers totaled approximately 668,400 and 685,100 at December 31, 2011 and 2010, respectively. We anticipate that the number of active Distributors and customers will increase if our existing business grows and we enter new international markets, and if current Managers and Distributors grow their businesses.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with U.S. GAAP and form the basis for the following discussion and analysis on critical accounting policies and estimates. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate our estimates and assumptions. We base our

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estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates and those differences could have a material effect on our financial position and results of operations. Management has discussed the development, selection and disclosure of these estimates with the Board of Directors and its Audit Committee.

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

#### *Revenue Recognition*

Net sales revenue and related volume incentive expenses are recorded when persuasive evidence of an arrangement exists, collectability is reasonably assured, the amount is fixed and determinable, and title and risk of loss have passed (generally, when the merchandise has been delivered). The amount of the volume incentive is determined based upon the amount of qualifying purchases in a given month. It is necessary for us to make estimates about the timing of when merchandise has been delivered. These estimates are based upon our historical experience related to time in transit, timing of when shipments occurred and shipping volumes. Amounts received for undelivered merchandise are recorded as deferred revenue. From time to time, our U.S. operations extend short-term credit associated with product promotions. In addition for certain of our international operations, we offer credit terms consistent with industry standards within the country of operation. Payments to Distributors and Managers for sales incentives or rebates are recorded as a reduction of revenue. Payments for sales incentives and rebates are calculated monthly based upon qualifying sales. Membership fees are deferred and amortized as revenue over the life of the membership (primarily one year). Prepaid event registration fees are deferred and recognized as revenues when the related event is held.

A reserve for product returns is recorded based upon historical experience. We allow Distributors or Managers to return the unused portion of products within ninety days of purchase if they are not satisfied with the product. In some of our markets, the requirements to return product are more restrictive. Sales returns for the years 2011, 2010 and 2009, were approximately \$0.6 million, \$0.6 million and \$0.1 million, respectively.

#### *Accounts Receivable Allowances*

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

#### *Investments*

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

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

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

Regardless of our intent to sell a security, we perform additional analysis on all securities with unrealized losses to evaluate losses associated with the creditworthiness of the security. Credit losses are identified where we do not expect to receive cash flows sufficient to recover the amortized cost basis of a security.

For equity securities, when assessing whether a decline in fair value below our cost basis is other-than-temporary, we consider the fair market value of the security, the length of time and extent to which market value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and our intent and ability to hold the investment for a sufficient time in order to enable recovery of our

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cost. New information and the passage of time can change these judgments. Where we have determined that we lack the intent and ability to hold an equity security to its expected recovery, the security's decline in fair value is deemed to be other-than-temporary and is recorded within earnings as an impairment loss.

### *Inventories*

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

### *Self-Insurance Liabilities*

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

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

### *Impairment of Long-Lived Assets*

We review our long-lived assets, such as property, plant and equipment and intangible assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We use an estimate of future undiscounted net cash flows of the related assets or groups of assets over their remaining lives in measuring whether the assets are recoverable. An impairment loss is calculated by determining the difference between the carrying values and the fair values of these assets. We did not consider any of our long-lived assets to be impaired during the years ended December 31, 2011, 2010 or 2009.

### *Incentive Trip Accrual*

We accrue for expenses for incentive trips associated with our direct sales marketing program, which rewards independent Distributors and Managers with paid attendance at our conventions and meetings. Expenses associated with incentive trips are accrued over qualification periods as they are earned. We specifically analyze incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could generate liabilities more or less than the amounts recorded. We have accrued convention and meeting costs of approximately \$5.0 million and \$4.0 million at December 31, 2011 and 2010, respectively, which are included in accrued liabilities in the consolidated balance sheets.

### *Contingencies*

We are involved in certain legal proceedings. When a loss is considered probable in connection with litigation or non-income tax contingencies and when such loss can be reasonably estimated with a range, we record our best estimate within the range related to the contingency. If there is no best estimate, we record the minimum of the range. As additional information becomes available, we assess the potential liability related to the contingency and revise the estimates. Revision in estimates of the potential liabilities could materially affect our results of operations in the period of adjustment. Our contingencies are discussed in further detail in Note 13, "Commitment and Contingencies", to the Notes of our Consolidated Financial Statements, in Item 8, Part 2 of this report.

### *Income Taxes*

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

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Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we develop assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income, and are consistent with the plans and estimates that we are using to manage the underlying businesses. Valuation allowances are recorded as reserves against net deferred tax assets by the Company when it is determined that net deferred tax assets are not likely to be realized in the foreseeable future. As of December 31, 2011 and 2010, we had recorded valuation allowances of \$9.8 million and \$12.3 million, respectively, as offsets to our net deferred tax assets.

As of December 31, 2011, we had foreign income tax net operating loss carryforwards of \$4.5 million, which will expire at various dates from 2012 through 2021. The Company had approximately \$5.7 million of foreign tax credits, which begin to expire at various dates starting in 2019.

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

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

## Share-Based Compensation

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

## RESULTS OF OPERATIONS

The following table summarizes our consolidated operating results as a percentage of net sales revenue for the periods indicated:

|   | Year Ended December 31, |        |        |
|---|-------------------------|--------|--------|
|   | 2011                    | 2010   | 2009   |
| Net sales revenue                             | 100.0%                  | 100.0% | 100.0% |
| Costs and expenses:                           |                         |        |        |
| Cost of goods sold                            | 18.9                    | 19.7   | 20.0   |
| Volume incentives                             | 36.4                    | 37.3   | 36.9   |
| Selling, general and administrative           | 35.2                    | 39.8   | 39.5   |
| Contract termination costs                    | 4.0                     | —      | —      |
|   | 94.5                    | 96.8   | 96.4   |
| Operating income                              | 5.5                     | 3.2    | 3.6    |
| Other income:                                 |                         |        |        |
| Interest and other income, net                | 0.4                     | 0.1    | 0.4    |
| Interest expense                              | —                       | —      | —      |
| Foreign exchange gains, net                   | 0.1                     | 0.7    | 0.3    |
|   | 0.5                     | 0.8    | 0.7    |
| Income before provision for income taxes      | 6.0                     | 4.0    | 4.3    |
| Provision for income taxes                    | 1.2                     | 1.6    | 2.4    |
| Net income from continuing operations         | 4.8                     | 2.4    | 1.9    |
| Loss from discontinued operations, net of tax | —                       | (2.8)  | (0.1)  |
| Net income (loss)                             | 4.8%                    | (0.4)% | 1.8%   |

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### *Year Ended December 31, 2011, as Compared to the Year Ended December 31, 2010*

#### *Net Sales Revenue*

Consolidated net sales revenue for the year ended December 31, 2011 was \$367.8 million compared to \$349.9 million in 2010, an increase of approximately 5.1 percent. The increase in net sales revenue for the year ended December 31, 2011 compared to the same period in 2010, is primarily due to improvements in our Synergy Worldwide segment, and was partially offset by a decline in our NSP United States and NSP International segments.

#### NSP United States

Net sales revenue related to NSP United States for the year ended December 31, 2011 was \$138.2 million compared to \$141.5 million for the same period in 2010, or a decrease of 2.3 percent in 2011 compared to 2010. NSP United States Managers and Distributors are predominantly practitioners of nutritional supplement therapies, as well as retailers and consumers of our products, a segment that continued to be adversely affected by the economic downturn in the United States. Net sales revenue also decreased compared to the same period in the prior year due to the cancellation of some less profitable promotional programs.

The NSP United States segment includes both English and Spanish language sales divisions, of which the English language division is approximately 80 percent of segment net sales revenue. Our English language division net sales revenue decreased \$2.7 million for the year ended December 31, 2011, or 2.4 percent, compared to the same period in 2010. Our Spanish language division net sales revenue decreased \$0.7 million, or 2.2 percent, for the year ended December 31, 2011, compared to the same period in 2010. While both the English and Spanish Divisions have been adversely affected by the poor economic environment, the cancellation of some less profitable promotional programs had a more significant impact on our Spanish Division.

Active Managers within NSP United States totaled approximately 5,200 and 5,700 at December 31, 2011 and 2010, respectively. A significant contributor to the decrease in the number of active Managers was the discontinuance of a program that allowed Distributors to attain Manager status by meeting lower performance criteria. Active Distributors and customers within NSP United States totaled approximately 195,000 and 229,900 at December 31, 2011 and 2010, respectively. The number of active Distributors and customers decreased due to the poor economic environment. In addition, the number of active Distributors also decreased due to the cancellation of some less profitable recruiting and retention programs.

#### NSP International

NSP International reported net sales revenue for the year ended December 31, 2011 of \$135.7 million, compared to \$139.8 million for the same period in 2010, a decrease of approximately 3.0 percent. In local currencies, net sales decreased 3.6 percent, compared to the same period in 2010. Fluctuation in foreign exchange rates had a \$0.8 million favorable impact on net sales for the year ended December 31, 2011. The decrease in sales is due to lower local currency sales in our Dominican Republic, Japan and Mexico markets, which are predominately practitioners of nutritional supplement therapies and retailers or consumers of our products, offset by higher sales in our Russian markets, which are traditionally more network marketing oriented, and positive currency fluctuations.

Notable activity in the following markets contributed to the results of NSP International:

In NSP International's Russian markets (Russia, Ukraine, Belarus and several other Eastern European nations), net sales revenues increased approximately \$0.7 million, or 1.3 percent, for the year ended December 31, 2011, compared to the same period in 2010. Excluding Belarus, net sales revenues increased approximately \$3.1 million or 6.4 percent, for the year ended December 31, 2011. The Russian markets (excluding Belarus) continue to build on the momentum gained in the prior year as a result of improved Manager and Distributor recruiting efforts and strengthening economies in the region. However, this growth has been slowed by a growing debt crisis in Belarus,



which has adversely affected NSP International's Belarusian Distributors' ability to obtain foreign currency to purchase our products and may continue to adversely affect sales going forward. NSP International's sales in Belarus were \$2.3 million lower for the year ended December 31, 2011, compared to the same period in 2010.

In Japan, net sales revenues decreased approximately \$0.7 million, or 8.9 percent, for the year ended December 31, 2011, respectively, compared to the same period in 2010. In local currency, net sales decreased 17.7 percent, respectively, compared to the same period in 2010. Fluctuations in foreign exchange rates had a \$0.7 million favorable impact on net sales for the year ended December 31, 2011. The decrease in local currency sales is partially due to the earthquake, tsunami and subsequent nuclear disasters in the spring of 2011, which suppressed consumer confidence and spending and made it difficult to ship ordered products, as well as to retain active Distributors. NSP International's future sales in Japan may be adversely affected while the country rebuilds and recovers from these disasters.

In Mexico, our net sales revenues decreased approximately \$2.4 million, or 16.9 percent, for the year ended December 31, 2011, compared to the same periods in 2010. In local currency, net sales decreased 18.3 percent, compared to the same period in 2010. Fluctuations in foreign exchange rates had a \$0.2 million favorable impact on net sales for the year ended December 31, 2011. The decrease in local currency net sales is principally due to the continuing effects of a tax law interpretation by the Mexican taxing authority requiring the collection of value-added tax on all of our products sold in Mexico and our compliance with this interpretation.

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In the Dominican Republic, net sales revenues decreased approximately \$1.4 million, or 35.9 percent, for the year ended December 31, 2011, respectively, compared to the same period in 2010. The decrease in sales is in part due to the elimination of promotional programs and events which historically had promoted sales growth, but did not produce profitable results.

Active Managers within NSP International totaled approximately 19,900 and 20,300 at December 31, 2011 and 2010, respectively. Active Distributors and customers within NSP International totaled approximately 386,000 and 376,800 at December 31, 2011 and 2010, respectively.

#### [Synergy Worldwide](#)

Synergy Worldwide, which as a segment is traditionally more network marketing oriented, reported net sales revenue for the year ended December 31, 2011 of \$93.9 million, compared to \$68.6 million in 2010, an increase of approximately 37.0 percent. In local currencies, net sales increased 31.5 percent for the year ended December 31, 2011, compared to the same period in 2010. Fluctuations in foreign exchange rates had a \$3.8 million favorable impact on net sales for the year ended December 31, 2011. The increase in net sales was primarily due to growth in Synergy Worldwide's United States, Korean and European markets, offset by sales declines in its Japan and Indonesia markets.

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

In the United States, net sales revenues increased approximately \$6.0 million, or 39.5 percent, for the year ended December 31, 2011, compared to the same period in 2010. Synergy Worldwide's growth within the United States is due to effective Company and Manager sales and marketing efforts of a well-accepted product offering, which has resulted in the growth of its U.S. Distributor base through recruiting and retention.

In Europe, net sales revenues increased approximately \$10.1 million, or 82.8 percent, for the year ended December 31, 2011, compared to the same period in 2010. In local currency, net sales increased 74.6 percent for the year ended December 31, 2011, compared to the same period in 2010. Fluctuations in foreign exchange rates had a \$1.0 million favorable impact on net sales for the year ended December 31, 2011. Strong Distributor leadership and Distributor-driven marketing and development continues to drive increased market penetration, primarily within the relatively new markets of Austria, Finland, Norway and Sweden.

In Korea, net sales revenues increased approximately \$9.0 million, or 79.6 percent, for the year ended December 31, 2011, compared to the same period in 2010. In local currency, net sales increased 71.7 percent for the year ended December 31, 2011, compared to the same period in 2010. Fluctuations in foreign exchange rates had a \$0.9 million favorable impact on net sales for the year ended December 31, 2011. Synergy Worldwide's growth in Korea is due to productive joint Company and Manager efforts to develop sales groups as well as a broader product line that is well accepted in the market.

In Japan, net sales revenues decreased approximately \$0.6 million, or 3.7 percent, for the year ended December 31, 2011, compared to the same period in 2010. In local currency, net sales decreased 12.4 percent for the year ended December 31, 2011, compared to the same period in 2010. Fluctuations in foreign exchange rates had a \$1.4 million favorable impact on net sales for the year ended December 31, 2011. The decrease in local currency sales is partially due to the recent earthquake, tsunami and subsequent nuclear disasters in the spring of 2011, which suppressed consumer confidence and spending and made it difficult to ship ordered products, as well as to recruit and retain active Distributors. Synergy Worldwide's future sales in Japan may be adversely affected while the country rebuilds and recovers from these disasters.

Active Managers within Synergy Worldwide totaled approximately 2,700 and 2,300 at December 31, 2011 and 2010, respectively. Active Distributors and customers within Synergy Worldwide totaled approximately 87,400 and 78,400 at December 31, 2011 and 2010, respectively.

Further information related to the NSP United States, NSP International and Synergy Worldwide business segments is set forth in Note 14 of the Notes to Consolidated Financial Statements in Item 8 of this report.

#### [Cost of Goods Sold](#)

Cost of goods sold as a percent of net sales revenue decreased to 18.9 percent in 2011, compared to 19.7 percent in 2010. These decreases are primarily due to reductions in product and material write-offs, changes in product mix between markets and lower raw material costs, partially offset by increased importation fees related to higher transfer prices within some of our foreign markets. While the Company intends to seek continued cost reductions where possible, pricing pressure on raw materials, fuel costs and other factors could adversely affect our ability to reduce or maintain our current cost of goods sold rate in the future.

#### [Volume Incentives](#)

Volume incentives are a significant part of our direct sales marketing program, and represent commission payments made to our independent Distributors and Managers. These payments are designed to provide incentives for reaching higher sales levels

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and for recruiting additional Distributors. Volume incentives vary slightly, on a percentage basis, by product due to our pricing policies and commission plans in place in our various operations. Volume incentives as a percent of net sales revenue decreased to 36.4 percent in 2011, compared to 37.3 percent in 2010. The decreases are primarily due to reductions in volume incentive rates due to our lower Manager and Distributor base within NSP United States and an increase in product purchases that pay a lower sales commission rate in Synergy Worldwide.

## *Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased to 35.2 percent of net sales revenue in 2011, compared to 39.8 percent in 2010, or by approximately \$9.6 million to \$129.6 million in 2011.

Significant increases to selling, general and administrative expenses during the year ended December 31, 2011 compared to the same period in 2010 included:

- \$3.7 million of increased variable costs related to the sales growth of Synergy Worldwide in Europe, Korea and the United States as well as NSP International in the Russian markets;
- \$2.9 million of performance-based stock compensation costs based upon the Company's determination that it is probable that the related performance metrics will be achieved;
- \$1.5 million of unfavorable currency fluctuations; and
- \$0.7 million of increased U.S. sales tax related reserve expense due to prior year favorable adjustments of the reserve.

Significant decreases to selling, general and administrative expenses during the year ended December 31, 2011, compared to the same period in 2010 included:

- \$6.7 million of cost reductions in many of our foreign markets related to changes in leases and compensation costs;
- \$2.6 million of decreased royalty costs related to our Russian business as a result of the NutriPlus settlement;
- \$2.4 million related to our U.S. healthcare costs;
- \$1.7 million of decreased U.S. compensation and other benefit related costs;
- \$1.9 million of non-recurring severance costs related to changes in management and overall personnel reductions worldwide in the prior year;
- \$1.5 million of decreased foreign value-added tax reserves between years; and
- \$1.1 million of decreased administrative costs in U.S. convention and promotion related costs due to the differences in event qualification periods between years.

We continue to implement cost reduction measures within all of our operating segments wherever possible.

## *Contract Termination Costs*

On July 8, 2011, we entered into a settlement agreement with NutriPlus, from whom we acquired certain assets in 1999 in order to establish our Russian business, and to whom we agreed to pay a percentage of net sales in our Russian business in the form of a royalty payment, wherein both parties settled all claims in the arbitration, and bore their own costs associated with the arbitration. As a result of the settlement, the Company agreed to pay NutriPlus \$21.7 million for the release of all past and future obligations. Of the \$21.7 million, the Company applied \$7.0 million toward previously accrued but unpaid royalties (which had been previously expensed), and \$14.7 million in exchange for the contract termination and extinguishment of future royalty obligations.

For the year ended December 31, 2010, the Company recorded and expensed royalty payments to NutriPlus of approximately \$5.6 million (included in selling, general and administrative expenses), which was approximately 4.0 percent of NSP International's revenue and 1.6 percent of the Company's consolidated revenue. For the year ended December 31, 2011, the Company recorded and expensed royalty payments to NutriPlus of approximately \$2.9 million, which was approximately 2.1 percent of NSP International's revenue and 0.8 percent of the Company's consolidated revenue.

As a result of the settlement, our operating costs are expected to be reduced and our consolidated operating income is expected to be increased by \$5.6 to \$6.0 million annually based on current sales volumes from our Russian business. This expected reduction in operating costs and corresponding increase in consolidated operating income will fluctuate based on future increases or decreases in sales from our Russian business.

See Note 13, Commitments and Contingencies in the Condensed Notes to the Consolidated Financial Statements for further discussion.

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### *Operating Income*

Operating income increased approximately \$8.9 million during the year ended December 31, 2011, compared to the same period in 2010, from \$11.3 million to \$20.2 million, or 3.2 percent and 5.5 percent, respectively, of net sales revenue. Excluding the onetime NutriPlus related contract termination costs of \$14.7 million; consolidated operating income for 2011 would have been \$34.9 million, or 9.5 percent of net sales revenue.

Operating income for NSP United States increased approximately \$6.0 million for the year ended December 31, 2011, from \$6.3 million for the same period in 2010 to \$12.3 million in 2011. The increase in operating income is primarily due to significant cost reductions in our selling, general and administrative expenses described above for year ended December 31, 2011.

Operating income for NSP International decreased approximately \$5.0 million for the year ended December 31, 2011, compared to the same period in 2010, from operating income of \$3.3 million to an operating loss \$1.7 million in 2011. Excluding the NutriPlus related contract termination costs of \$14.7 million operating income for NSP International would have been \$13.1 million for the year ended December 31, 2011. The increase in operating income is primarily due to revenue growth in our Russian markets (excluding Belarus), cost reductions within our other foreign markets and positive changes in foreign value-added tax reserves.

Operating income for Synergy Worldwide increased approximately \$7.8 million for the year ended December 31, 2011, compared to the same period in 2010, from \$1.7 million to \$9.5 million in 2011. The increase in operating income is primarily due to growth in sales within its European, Korean and U.S. markets.

### *Other Income, net*

Other income, net for the year ended December 31, 2011, decreased \$0.9 million, compared to the same period in 2010. The decrease is primarily due to prior year foreign exchange gains of \$3.7 million in Venezuela as a result of the devaluation of the bolivar and the change to a highly inflationary economy that were non-recurring and recognized in 2010, offset by net foreign exchange gains and losses in certain of our other markets based on changes in exchange rates. The decrease in other net income in 2011 has been offset by an increase in interest and other income, net of \$1.2 million due to the receipt of \$0.7 in restricted cash in Venezuela that had been previously written-down.

### *Income Taxes*

Our effective income tax rate was 20.0 percent for 2011, compared to 39.5 percent for 2010. The effective rate for 2011 differed from the federal statutory rate of 35.0 percent primarily due to the following:

- (i) Adjustments relating to the U.S. tax impact of foreign operations decreased the effective tax rate by 15.1 percentage points in 2011. Included were adjustments for dividends received from foreign subsidiaries, adjustments for foreign tax credits and adjustments relating to outside basis calculations under applicable U.S. GAAP. Changes to the effective rate due to dividends received from foreign subsidiaries, adjustments for foreign tax credits and outside basis are expected to be recurring.
- (ii) Changes in the unrecognized tax benefits increased the effective tax rate by 8.2 percent in 2011. These net gains and losses were recorded for financial reporting purposes, but were excluded from the calculation of taxable income.
- (iii) Foreign tax rate differentials that incrementally affect the federal statutory rate decreased the effective tax rate by approximately 5.2 percent in 2011. This is primarily due to differences between the lower statutory rates in foreign entities compared to the U.S. statutory rate of 35%.

As a net result of these and other differences, the effective tax rate for 2011 was less than the statutory rate of 35.0 percent for the year ended December 31, 2011.

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***Year Ended December 31, 2010, as Compared to the Year Ended December 31, 2009***

***Net Sales Revenue***

Consolidated net sales revenue for the year ended December 31, 2010 was \$349.9 million compared to \$342.1 million in 2009, an increase of approximately 2.3 percent. The increase in net sales revenue for the year ended December 31, 2010, compared to the same period in 2009, is primarily due to improvements in our Synergy Worldwide segment, and was offset by a decline in our NSP United States segment.

**NSP United States**

Net sales revenue related to NSP United States for the year ended December 31, 2010 was \$141.5 million, compared to \$146.8 million for the same period in 2009, or a decrease of 3.6 percent in 2010 compared to 2009. Shifting the timing of our national convention from 2010 to 2011 negatively affected net sales, Manager retention and Distributor recruiting efforts during the current year. Net sales revenue also decreased compared to the same period in the prior year due to changes to some of our promotional programs and continued weakness in the U.S. economy which had a greater effect on our Managers that have a retail component in their business.

Active Managers within NSP United States totaled approximately 5,700 and 6,900 at December 31, 2010 and 2009, respectively. The decrease in the number of active managers is primarily the result of a discontinued program that allowed Distributors to attain Manager status with significantly reduced performance criteria. Active Distributors within NSP United States totaled approximately 229,900 and 248,100 at December 31, 2010 and 2009, respectively.

**NSP International**

NSP International reported net sales revenue for the year ended December 31, 2010 of \$139.8 million, compared to \$139.4 million for the same period in 2009, an increase of approximately 0.3 percent. In local currencies, net sales increased 2.1 percent, compared to the same period in 2009.

Notable activity in the following markets contributed to the results of NSP International:

In our Russian markets (Russia, Ukraine and several other Eastern European nations), net sales revenues increased approximately \$3.9 million, or 7.5 percent, for the year ended December 31, 2010, compared to the same period in 2009. The strengthening of the U.S. dollar in relation to the various local currencies in the region (primarily the Russian ruble and the Ukrainian hryvnia) during the prior year significantly increased the price of our products in the prior year and therefore reduced demand. Since that time, the relative price of our products has decreased slightly as the U.S. dollar has weakened and the economies of some of the countries in this market have begun to recover, contributing to increased demand. In addition, improved Manager and Distributor recruiting efforts have contributed to growth in this market.

In Canada, net sales revenues increased approximately \$1.0 million, or 6.9 percent, for the year ended December 31, 2010, compared to the same period in 2009. In local currency, net sales decreased 3.4 percent compared to the same period in 2009. Fluctuations in foreign exchange rates had a \$1.5 million favorable impact on net sales for the year ended December 31, 2010. The decrease in local currency net sales is due primarily to significant sales and value-added tax increases in several Canadian provinces that apply to our products in these regions, which negatively affected demand for our products.

In Mexico, net sales revenues increased approximately \$0.3 million, or 2.2 percent, for the year ended December 31, 2010, compared to the same periods in 2009. In local currency, net sales decreased 4.3 percent, compared to the same period in 2009. Fluctuations in foreign exchange rates had a \$0.9 million favorable impact on net sales for the year ended December 31, 2010. The decrease in local currency net sales is due to a tax law interpretation by the Mexican taxing authority requiring the collection of value-added tax on all of our products sold in Mexico.

In Venezuela, net sales revenues decreased approximately \$6.3 million, or 50.8 percent, for the year ended December 31, 2010, compared to the same period in 2009. The decrease of net sales in Venezuela was primarily a result of the devaluation of the Venezuelan bolivar from the official rate of 2.15 bolivars per U.S. dollar to 4.30 in January 2010. As a direct result, net sales revenue in Venezuela decreased significantly. In local currency, net sales decreased 0.8 percent for the year ended December 31, 2010, compared to the same period in 2009.

Active Managers within NSP International were essentially unchanged, totaling approximately 20,300 and 20,300 at December 31, 2010 and 2009, respectively. Active Distributors within NSP International totaled approximately 376,800 and 353,300 at December 31, 2010 and 2009, respectively.

Fluctuations in foreign exchange rates had a \$2.4 million unfavorable impact on net sales for the year ended December 31, 2010. The increase in net sales is due to higher sales in our Russian markets, and strong positive currency fluctuations in our Canadian and Mexican markets, and was offset by lower sales in Venezuela as a result of the devaluation of its currency.

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**Synergy Worldwide**

Synergy Worldwide reported net sales revenue for the year ended December 31, 2010 of \$68.6 million, compared to \$55.9 million in 2009, an increase of approximately 22.7 percent. In local currencies, net sales increased 21.5 percent for the year ended December 31, 2010, compared to the same period in 2009. Fluctuations in foreign exchange rates had a \$2.6 million favorable impact on net sales for the year ended December 31, 2010. The increase in net sales was primarily due to growth in our United States, Korean and European markets, the opening of our Vietnam market and the positive impact of a weakening U.S. dollar in relation to many of the local

currencies in the markets in which we operate, and was offset by sales declines in our Japanese and Indonesian markets.

In the United States, net sales revenues increased approximately \$7.7 million, or 102.7 percent, for the year ended December 31, 2010, compared to the same period in 2009. Synergy Worldwide's growth within the United States is due to effective Company and Manager sales and marketing efforts of a well accepted product offering, which has resulted in the growth of our U.S. Distributor base.

In Europe, net sales revenues increased approximately \$5.3 million, or 76.8 percent, for the year ended December 31, 2010, compared to the same period in 2009. In local currency, net sales increased 85.5 percent for the year ended December 31, 2010, compared to the same period in 2009. Fluctuations in foreign exchange rates had a \$0.6 million unfavorable impact on net sales for the year ended December 31, 2010. Synergy Worldwide's growth in Europe is due to the continued expansion of our relatively new operations primarily within Norway and Sweden.

In Korea, net sales revenues increased approximately \$4.2 million, or 59.2 percent, for the year ended December 31, 2010, compared to the same period in 2009. In local currency, net sales increased 45.1 percent for the year ended December 31, 2010, compared to the same period in 2009. Fluctuations in foreign exchange rates had a \$1.0 million favorable impact on net sales for the year ended December 31, 2010. Synergy Worldwide's growth in Korea is due to strong and productive Company and Manager development of sales groups and a broader product line that is well accepted in the market.

Synergy Worldwide launched operations in the Vietnam market during the second quarter of 2010 and reported net sales of \$2.1 million for the year ended December 31, 2010.

In Japan, Synergy Worldwide's largest market, net sales revenues decreased approximately \$4.3 million, or 21.1 percent, for the year ended December 31, 2010, compared to the same period in 2009. In local currency, net sales decreased 26.0 percent for the year ended December 31, 2010, compared to the same period in 2009. Fluctuations in foreign exchange rates had a \$1.0 million favorable impact on net sales for the year ended December 31, 2010. The decrease in net sales was primarily due to import restrictions on several of our key products, strong competition and continuing economic weakness in Japan, which has resulted in a decrease in the number of active Managers and Distributors.

In Indonesia, net sales revenues decreased approximately \$3.7 million, or 41.1 percent, for the year ended December 31, 2010, compared to the same period in 2009. In local currency, net sales decreased 47.8 percent for the year ended December 31, 2010, compared to the same period in 2009. Fluctuations in foreign exchange rates had a \$0.6 million favorable impact on net sales for the year ended December 31, 2010. The decrease in net sales compared to the same period in the prior year was primarily due to significant price increases in the prior year, which resulted in advance purchases of inventory in 2009.

Active Managers within Synergy Worldwide totaled approximately 2,300 and 1,500 at December 31, 2010 and 2009, respectively. Active Distributors within Synergy Worldwide totaled approximately 78,400 and 95,800 at December 31, 2010 and 2009, respectively.

Further information related to the NSP United States, NSP International and Synergy Worldwide business segments is set forth in Note 14 of the Notes to Consolidated Financial Statements in Item 8 of this report.

#### *Cost of Goods Sold*

Cost of goods sold as a percent of net sales revenue decreased to 19.7 percent in 2010, compared to 20.0 percent in 2009. This decrease is primarily a result of fewer promotions offered in our domestic and foreign markets compared to the prior year, as well as changes in our product mix.

#### *Volume Incentives*

Volume incentives are a significant part of our direct sales marketing program and represent commission payments made to our independent Distributors and Managers. These payments are designed to provide incentives for reaching higher sales levels and for recruiting additional Distributors. Volume incentives vary slightly, on a percentage basis, by product due to our pricing policies and commission plans in place in our international operations. Volume incentives as a percent of net sales revenue increased to 37.3 percent in 2010, compared to 36.9 percent in 2009. The increase is partially due to additional Distributors

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qualifying for payouts at higher rates due to increased sales volumes in our Russian markets and several of our Latin American markets, and was offset by reductions in the volume incentive programs for some products sold within the United States.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased to 39.8 percent of net sales revenue in 2010, compared to 39.5 percent in 2009, or by approximately \$4.2 million to \$139.2 million in 2010.

Significant increases to selling, general and administrative expenses during the year ended December 31, 2010 compared to the same period in 2009 included:

- \$3.8 million of increased costs to support the expansion of Synergy Worldwide in Europe and Vietnam and NSP International in the Russian markets;
- \$2.4 million of unfavorable currency fluctuations (excluding Venezuela), which may be recurring dependent upon changes in future exchange rates relative to the U.S. dollar;
- \$2.0 million of increased foreign value-added tax reserves between periods;
- \$1.9 million of non-recurring severance costs related to changes in management and overall personnel reductions worldwide; and
- \$1.6 million of increased U.S. healthcare costs related to several significant claims during 2010.

Significant decreases to selling, general and administrative expenses during the year ended December 31, 2010, compared to the same period in 2009 included:

- \$2.8 million of decreased administrative costs in Venezuela primarily as a result of the devaluation of the bolivar;
- \$2.1 million of decreased costs in our NSP United States market due to the lack of a national convention during 2010;
- \$1.7 million of cost reductions in our Synergy Worldwide Japanese market; and
- \$0.6 million in the NSP United States market due to the prior year settlement with the SEC.

#### *Operating Income*

Operating income decreased approximately \$1.2 million during the year ended December 31, 2010, compared to the same period in 2009, from \$12.4 million to \$11.3 million.

Operating income for NSP United States decreased approximately \$1.4 million for the year ended December 31, 2010, from \$7.7 million for the same period in 2009 to \$6.3 million in 2010. The decrease in operating income was primarily the result of reduced sales described above and one-time charges for severance costs, and was offset by

an increase in transfer prices for product sales to our international subsidiaries, primarily NSP International.

Operating income for NSP International increased approximately \$0.1 million for the year ended December 31, 2010, compared to the same period in 2009, from \$3.2 million to \$3.3 million in 2010, primarily as a result of increased importation costs on imported products as a result of higher transfer prices from the United States.

Operating income for Synergy Worldwide increased approximately \$0.1 million for the year ended December 31, 2010, compared to the same period in 2009, from \$1.6 million to \$1.7 million in 2010. Excluding prior year reversals of \$5.2 million related to the settlement of several value-added tax liabilities, operating income improved by approximately \$5.4 million. The improvement was related to growth in sales within the United States, European and Korean markets and the profitable opening of a new market in Vietnam. This improvement was also the result of adjustments to the costs of some Synergy Worldwide products in certain markets due to a change in transfer prices from NSP United States, as well as other significant cost reductions made throughout the course of 2010.

#### Other Income, net

Other net income for the year ended December 31, 2010, increased \$0.4 million, compared to the same period in 2009. The increase in the foreign exchange portion of other net income of \$1.5 million was primarily due to foreign exchange gains in Venezuela as a result of the devaluation of the bolivar and the change to highly inflationary accounting, and was offset by net foreign exchange gains and losses in certain of our other markets based upon changes in exchange rates, while the decrease of \$1.1 million in the remaining portion of other income was primarily related to the write-down of restricted cash within Venezuela.

#### Income Taxes

Our effective income tax rate was 39.5 percent for 2010, compared to 55.6 percent for 2009. The effective rate for 2010 differed from the federal statutory rate of 35.0 percent primarily due to the following:

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- (i) One-time bad debt and worthless stock deductions related to the Company's exit from Brazil decreased the effective tax rate by approximately 33.0 percent in 2010.
- (ii) The amortization of a prepaid tax resulting from a taxable gain on the sale of intercompany assets eliminated for reporting purposes, but recognized for the calculation of the consolidated income tax provision, increased the effective tax rate by approximately 10.6 percent in 2010. The prepaid tax was amortized over the respective life of the asset, and will no longer have an impact going forward.
- (iii) Adjustments relating to the U.S. tax impact of foreign operations increased the effective tax rate by 13.5 percentage points in 2010. Included were adjustments for dividends received from foreign subsidiaries, adjustments for foreign tax credits and adjustments relating to outside basis calculations under applicable U.S. GAAP. Changes to the effective rate due to dividends received from foreign subsidiaries, adjustments for foreign tax credits and outside basis are expected to be recurring.
- (iv) Foreign tax rate differentials that incrementally affect the federal statutory rate decreased the effective tax rate by approximately 5.2 percent. This is primarily due to the Company not recording a benefit for losses in most jurisdictions where tax losses exist, particularly with respect to the Company's markets in Asia. Some of these losses may be recurring or may result in benefits in future periods if these markets return to profitability.
- (v) Changes in the deferred tax asset valuations allowance increased the effective tax rate by approximately 20.9 percent in 2010. The change in the deferred tax asset valuation allowance was primarily the result of reserves being established for certain foreign affiliate deferred tax assets that were not likely to be realized due to recurring losses within the respective tax jurisdictions.
- (vi) Foreign exchange gains and losses primarily due to the Company's accounting for Venezuela becoming a highly inflationary economy and the impact of the devaluation of the bolivar reduced the effective tax rate by 10.1 percent in 2010. These net gains and losses were recorded for financial reporting purposes, but were excluded from the calculation of taxable income.

As a net result of these and other differences, the effective tax rate for 2010 was greater than the statutory rate of 35.0 percent for the year ended December 31, 2010.

#### LIQUIDITY AND CAPITAL RESOURCES

Our principal use of cash is to pay for operating expenses, including volume incentives, inventory and raw material purchases, capital assets and funding of international expansion. As of December 31, 2011, working capital was \$56.9 million, compared to \$41.4 million as of December 31, 2010. At December 31, 2011, we had \$59.0 million in cash and cash equivalents, of which \$43.8 million was held in our foreign markets and may be subject to various withholding taxes and other restrictions related to repatriation, and \$5.7 million in unrestricted short-term investments, which were available to be used along with our normal cash flows from operations to fund any unanticipated shortfalls in future cash flows.

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

|                      | Year Ended December 31, |           |        |
|----------------------|-------------------------|-----------|--------|
|                      | 2011                    | 2010      | 2009   |
| Operating activities | \$ 3,908                | \$ 16,150 | \$ 927 |
| Investing activities | (1,679)                 | (5,909)   | (297)  |
| Financing activities | 9,588                   | 132       | (776)  |

For the year ended December 31, 2011, we generated cash from operating activities of \$3.9 million compared to \$16.2 million in 2010. Operating cash flow decreased primarily due to payments of \$21.7 million related to the NutriPlus settlement in 2011 as noted above. Excluding this payment, operating cash flow improved by \$9.5 million due to the increase in operating income.

For the year ended December 31, 2010, we generated cash from operating activities of \$16.2 million compared to \$0.9 million in 2009. Our net loss included approximately \$9.7 million of expense (net of tax), of which \$7.4 million was a non-cash write-off of cumulative translation adjustments related to our discontinued operations in Brazil.

Capital expenditures related to the purchase of equipment, computer systems and software for the years ended December 31, 2011, 2010 and 2009 were \$2.4 million, \$2.6 million and \$3.2 million, respectively.

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During the years ended December 31, 2011 and 2010, we used cash to purchase available-for-sale investments of \$7.0 million and \$3.4 million, respectively, and had cash proceeds of \$7.7 million, \$0.1 million and \$0.8 million for 2011, 2010 and 2009, respectively, from the sale of such investments. We also had cash proceeds of \$2.1 million from the sale of restricted investments during the year ended December 31, 2009.

During the year ended December 31, 2009, we used cash to pay dividends of \$0.8 million. We suspended the payment of quarterly cash dividends in the second quarter of 2009 in an effort to conserve cash in the United States.

During the year ended December 31, 2011, we borrowed \$10.0 million on a term credit facility repayable over three years, which is secured by the Company's manufacturing facility in Spanish Fork, Utah.

The Company has a long-term revolving credit facility that allows us to borrow up to \$15.0 million. As of December 31, 2011, no amounts were drawn under the credit facility. We believe that, with this credit facility in place, our working capital requirements can be met for the foreseeable future with cash generated from operating activities, available cash and cash equivalents and draws on the credit facility. However, among other things, a prolonged economic downturn, a decrease in demand for our products, an unfavorable settlement of our unrecognized tax positions or non-income tax contingencies could adversely affect our long-term liquidity.

During 2009, we had short-term borrowings and repayments of \$7.9 million from our investment brokerage account secured by our available-for-sale investments in order to generate additional liquidity from month-to-month based upon our working capital needs. We have the ability to borrow up to approximately 80 percent of the fair value of our municipal obligations within our available-for-sale investments. These borrowings began in 2009 and were typically repaid in the month following the initial borrowing.

## CONTRACTUAL OBLIGATIONS

The following table summarizes information about contractual obligations as of December 31, 2011 (*in thousands*):

|   | Total     | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
|---|-----------|------------------|-----------|-----------|---------------|
| Operating lease obligations                                   | \$ 15,408 | \$ 3,868         | \$ 6,125  | \$ 3,263  | \$ 2,152      |
| Purchase obligations(1)                                       | 11,626    | 11,626           | —         | —         | —             |
| Self-insurance reserves(2)                                    | 2,892     | 489              | —         | —         | 2,403         |
| Other long-term liabilities reflected on the balance sheet(3) | 1,429     | —                | —         | —         | 1,429         |
| Unrecognized tax benefits(4)                                  | —         | —                | —         | —         | —             |
| Total   | \$ 31,355 | \$ 15,983        | \$ 6,125  | \$ 3,263  | \$ 5,984      |

- (1) Purchase obligations include non-cancelable purchase agreements for both botanical and non-botanical raw materials related to our forecasted 2012 production estimates, as well as related packaging materials.
- (2) The Company retains a significant portion of the risks associated with certain employee medical benefits and product liability insurance. Recorded liabilities for self-insured risks are calculated using actuarial methods and are not discounted. Amounts for self-insurance obligations are included in accrued liabilities and long-term other liabilities on the Company's consolidated balance sheet.
- (3) The Company provides 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. Upon separation of the participant from the service of the Company, the obligation owed to the participant under the plan will be paid as a lump sum or over a period of either three or five years. As we cannot easily determine when our officers and key employees will separate from the Company, we have classified the obligation greater than five years for payment.
- (4) At December 31, 2011, there were \$10.4 million of liabilities. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with these liabilities, if any, the Company is unable to estimate the years in which cash settlement may occur with the respective tax authorities.

The Company has entered into long-term agreements with third-parties in the ordinary course of business, in which it has agreed to pay a percentage of net sales in certain regions in which it operates, or royalties on certain products. In 2011, 2010 and 2009, the aggregate amounts of these payments were \$8.4 million, \$3.0 million and \$4.0 million, respectively.

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## OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements other than operating leases. We do not believe that these operating leases are material to our current or future financial position, results of operations, revenues or expenses, cash flows, capital expenditures or capital resources.

## RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04 Fair Value Measurement (Topic 820): "Amendments to Achieve Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS". This update addresses how to measure fair value and requires new disclosures about fair value measurements. The amendments in this update are effective for interim and annual periods beginning after December 15, 2011. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05 for Comprehensive Income (Topic 220): "Presentation of Comprehensive Income". This update improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. This update is effective for interim and annual periods beginning after December 15, 2011. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

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

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

## Foreign Currency Risk

During the year ended December 31, 2011, approximately 56.6 percent of our net sales revenue and approximately 56.6 percent of our operating expenses were realized outside of the United States. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency of each international subsidiary is generally the functional currency, while certain regions, including Russia and the Ukraine, are served by a U.S. subsidiary through third party entities, for which all business is conducted in U.S. dollars. We conduct business in twenty-three different currencies with exchange rates that are not on a one-to-one relationship with the U.S. dollar. All revenues and expenses are translated at average exchange rates for the periods reported. Therefore, our operating results will be positively or negatively affected by a weakening or strengthening of the U.S. dollar in relation to another fluctuating currency. Given the uncertainty and diversity of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations, or financial condition, but we have provided consolidated sensitivity analyses below of functional currency/reporting currency exchange rate risks. Changes in various currency exchange rates affect the relative prices at which we sell our products. We regularly monitor our foreign currency risks and periodically take measures to reduce the risk of foreign exchange rate fluctuations on our operating results. We do not use derivative instruments for hedging, trading or speculating on foreign exchange rate fluctuations. Additional discussion of the impact on the effect of currency fluctuations has been included in our management's discussion and analysis included in Part II, Item 7 of this report.

The following table sets forth a composite sensitivity analysis of our net sales revenue, costs and expenses and operating income in connection with strengthening of the U.S. dollar (our reporting currency) by 10%, 15% and 25% against every other fluctuating functional currency in which we conduct business. We note that our individual net sales revenue, cost and expense components and our operating income were equally sensitive to increases in the strength of the U.S. dollar against every other fluctuating currency in which we conduct business. We have excluded the contract termination costs of \$14.7 million in connection with the NutriPlus arbitration settlement as it is not subject to fluctuations of foreign currency exchange rates.

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Exchange rate sensitivity for the year ended December 31, 2011 (dollar amounts in thousands)

|   |            | With Strengthening of U.S. Dollar by: |        |             |        |             |        |
|---|------------|---------------------------------------|--------|-------------|--------|-------------|--------|
|   |            | 10%                                   |        | 15%         |        | 25%         |        |
|   |            | (\$)                                  | (%)    | (\$)        | (%)    | (\$)        | (%)    |
| Net sales revenue                                       | \$ 367,813 | \$ (12,413)                           | (3.4)% | \$ (17,810) | (4.8)% | \$ (27,309) | (7.4)% |
| Cost and expenses                                       |            |                                       |        |             |        |             |        |
| Cost of goods sold                                      | 69,410     | (2,246)                               | (3.2)% | (3,223)     | (4.6)% | (4,941)     | (7.1)% |
| Volume incentives                                       | 133,883    | (4,666)                               | (3.5)% | (6,695)     | (5.0)% | (10,266)    | (7.7)% |
| Selling, general and administrative                     | 129,605    | (4,047)                               | (3.1)% | (5,806)     | (4.5)% | (8,903)     | (6.9)% |
| Operating income (excluding contract termination costs) | \$ 34,915  | \$ (1,454)                            | (4.2)% | \$ (2,086)  | (6.0)% | \$ (3,199)  | (9.2)% |

As noted above, certain of our operations, including Russia and the Ukraine, are served by a U.S. subsidiary through third-party entities, for which all business is conducted in U.S. dollars. Although changes in exchange rates between the U.S. dollar and the Russian ruble or the Ukrainian hryvnia do not result in currency fluctuations within our financial statements, a weakening or strengthening of the U.S. dollar in relation to these other currencies can significantly affect the prices of our products and the purchasing power of our independent Managers and Distributors within these markets.

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

Exchange Rate Sensitivity of Balance Sheet as of December 31, 2011 (dollar amounts in thousands)

|  |           | With Strengthening of U.S. Dollar by: |            |             |            |             |            |
|--|-----------|---------------------------------------|------------|-------------|------------|-------------|------------|
|  |           | 10%                                   |            | 15%         |            | 25%         |            |
|  |           | (Loss) (\$)                           | (Loss) (%) | (Loss) (\$) | (Loss) (%) | (Loss) (\$) | (Loss) (%) |
| <b>Financial Instruments Included in Current Assets Subject to Exchange Rate Risk</b>      |           |                                       |            |             |            |             |            |
| Cash and cash equivalents  | \$ 58,969 | \$ (3,830)                            | (6.5)%     | \$ (5,497)  | (9.3)%     | \$ (8,429)  | (14.3)%    |
| Accounts receivable, net   | 9,868     | (327)                                 | (3.3)%     | (469)       | (4.8)%     | (720)       | (7.3)%     |
| Available-for-sale investments   | 5,677     | (282)                                 | (5.0)%     | (405)       | (7.1)%     | (621)       | (10.9)%    |
| <b>Financial Instruments Included in Current Liabilities Subject to Exchange Rate Risk</b> |           |                                       |            |             |            |             |            |
| Accounts payable   | 5,980     | (88)                                  | (1.5)%     | (126)       | (2.1)%     | (194)       | (3.2)%     |
| <b>Net Financial Instruments Subject to Exchange Rate Risk</b>                             |           |                                       |            |             |            |             |            |
|  | \$ 68,534 | (4,351)                               | (6.3)%     | (6,245)     | (9.1)%     | (9,576)     | (14.0)%    |

The following table sets forth the local currencies other than the U.S. dollar in which our assets that are subject to exchange rate risk were denominated as of December 31, 2011, and exceeded \$1 million upon translation into U.S. dollars. None of our liabilities that are denominated in a local currency other than the U.S. dollar and that are subject to exchange rate risk exceeded \$1 million upon translation into U.S. dollars. We use the spot exchange rate for translating balance sheet items from local currencies into our reporting currency. The respective spot exchange rate for each such local currency meeting the foregoing thresholds is provided in the table as well.

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Translation of Balance Sheet Amounts Denominated in Local Currency (dollar amounts in thousands)

|   | Translated into<br>U.S. Dollars | At Spot Exchange Rate per<br>One U.S. Dollar as of<br>December 31, 2011 |
|---|---------------------------------|---|
| <b>Cash and Cash Equivalents</b>                  |                                 |   |
| Japan (Yen)                                       | \$ 9,751                        | 77.4  |
| European Markets (Euro)                           | 7,002                           | 0.8   |
| Canada (Dollar)                                   | 4,709                           | 1.0   |
| Mexico (Peso)                                     | 3,187                           | 14.0  |
| South Korea (Won)                                 | 1,582                           | 1,160.0   |
| Colombia (Peso)                                   | 1,506                           | 1,950.0   |
| Indonesia (Rupiah)                                | 1,235                           | 9,165.9   |
| Thailand (Baht)                                   | 1,007                           | 31.7  |
| Other   | 8,785                           | Varies  |
| Total foreign dominated cash and cash equivalents | \$ 38,764                       |   |
| U.S. dollars held by foreign subsidiaries         | \$ 5,055                        |   |
| Total foreign cash and cash equivalents           | \$ 43,819                       |   |
| <b>Investments-Available-For Sale</b>             |                                 |   |
| South Korea (Won)                                 | \$ 3,104                        | 1,160.0   |
| <b>Accounts Receivable</b>                        |                                 |   |
| Japan (Yen)                                       | \$ 1,333                        | 77.4  |
| Other   | 2,266                           | Varies  |
| Total   | \$ 3,599                        |   |

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

| Year ended December 31, | 2011    | 2010    | 2009    |
|-------------------------|---------|---------|---------|
| Canada (Dollar)         | 1.0     | 1.0     | 1.1     |
| Japan (Yen)             | 79.7    | 87.7    | 93.5    |
| Korea (Won)             | 1,108.6 | 1,159.1 | 1,273.3 |
| Mexico (Peso)           | 12.4    | 12.6    | 13.5    |
| Venezuela (Bolívar)     | 5.3     | 4.3     | 2.1     |

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

The functional currency in highly inflationary economies is the U.S. dollar and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The re-measurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three-year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation and other pertinent economic factors. During 2010, Venezuela was considered to be highly inflationary, as noted above. With the exception of Venezuela, there were no other countries considered to have a highly inflationary economy during 2011, 2010 or 2009.

As of January 1, 2010, Venezuela was designated as a highly inflationary economy. Accordingly, the U.S. dollar became the functional currency for the Company's subsidiary in Venezuela. All gains and losses resulting from the re-measurement of its financial statements are determined using official rates. On January 8, 2010, the Venezuelan government announced the devaluation of the bolívar against the U.S. dollar.

Currency restrictions enacted by the government of Venezuela require approval from the government's currency control agency organization in order for the Company's subsidiary in Venezuela to obtain U.S. dollars at the official exchange rate to pay

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for imported products or to repatriate dividends back to the Company. Prior to January 1, 2010, the market rate, which is substantially lower than the official rate, was available to obtain U.S. dollars or other currencies without approval of the government's currency control organization. In 2010, the government of Venezuela enacted additional currency restrictions, which effectively replaced the market rate with the System for Foreign Currency Denominated Securities ("SITME"), which is administered by the Venezuela Central Bank. Under SITME, entities domiciled in Venezuela can obtain U.S. dollar denominated securities in limited quantities each month through banking institutions approved by the government.

At this time, the Company is not able to reasonably estimate the future state of exchange controls in Venezuela and its availability of U.S. dollars at the official exchange rate or at the SITME rate. However, the Company has been successful so far repatriating funds from Venezuela for imported products using the SITME rate. The Company re-measures its results in Venezuela at the SITME rate, which was approximately 5.3 bolívares per U.S. dollar as of December 31, 2011.

As a result of the events described in the preceding paragraphs, the Company recorded a gain of \$3.7 million in the first quarter of 2010 in connection with the re-measurement of its balance sheet to reflect the highly inflationary designation and the devaluation due to the negative position of the Company's Venezuelan subsidiary's net monetary assets, which is recorded in foreign exchange gains or losses, a part of other income. The success of future operations will be affected by several factors, including the Company's ability to take actions to mitigate the effect of devaluation, further actions of the Venezuelan government and economic conditions in Venezuela, such as inflation and consumer spending.

During 2011 and 2010, the Company's Venezuelan subsidiary's net sales revenue represented approximately 1.4 percent and 1.7 percent of consolidated net sales revenue, respectively. The Company's Venezuelan subsidiary held total assets of approximately \$8.1 million and \$8.0 million (which includes an intercompany receivable



denominated in U.S. dollars of \$2.1 million and \$2.0 million) and net assets of \$5.0 million and \$4.2 million at December 31, 2011 and 2010, respectively.

**Interest Rate Risk**

The primary objectives of our investment activities are to preserve principal while maximizing yields without significantly increasing risk. These objectives are accomplished by purchasing investment grade securities. On December 31, 2011, we had investments of \$5.7 million of which \$1.2 million were municipal obligations, which carry an average fixed interest rate of 5.1 percent and mature over a 5-year period. A hypothetical 1.0 percent change in interest rates would not have had a material effect on our liquidity, financial position or results of operations.

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**Item 8. Financial Statements and Supplementary Data**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Nature's Sunshine Products, Inc.

We have audited the accompanying consolidated balance sheets of Nature's Sunshine Products, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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, such consolidated financial statements present fairly, in all material respects, the financial position of Nature's Sunshine Products, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 5, 2012

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**NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
*(Amounts in thousands)*

| As of December 31,   | 2011      | 2010      |
|--|-----------|-----------|
| <b>Assets</b>  |           |           |
| Current assets:  |           |           |
| Cash and cash equivalents  | \$ 58,969 | \$ 47,604 |
| Accounts receivable, net of allowance for doubtful accounts of \$647 and \$918, respectively | 9,868     | 5,947     |
| Investments available for sale   | 5,677     | 6,470     |
| Inventories  | 41,611    | 36,235    |

|                                    |                   |                   |
|------------------------------------|-------------------|-------------------|
| Deferred income tax assets         | 4,395             | 4,582             |
| Prepaid expenses and other         | 4,583             | 5,700             |
| Total current assets               | 125,103           | 106,538           |
| Property, plant and equipment, net | 25,137            | 27,391            |
| Investment securities              | 1,429             | 1,778             |
| Intangible assets, net             | 1,151             | 1,303             |
| Deferred income tax assets         | 16,576            | 12,916            |
| Other assets                       | 6,415             | 9,489             |
|                                    | <u>\$ 175,811</u> | <u>\$ 159,415</u> |

#### Liabilities and Shareholders' Equity

|  |          |          |
|--|----------|----------|
| Current liabilities:                           |          |          |
| Accounts payable                               | \$ 5,980 | \$ 4,855 |
| Accrued volume incentives                      | 19,326   | 18,619   |
| Accrued liabilities                            | 27,938   | 34,601   |
| Deferred revenue                               | 2,603    | 3,385    |
| Current installments of long-term debt         | 3,296    | —        |
| Income taxes payable                           | 8,655    | 3,708    |
| Total current liabilities                      | 67,798   | 65,168   |
| Liability related to unrecognized tax benefits | 10,426   | 21,366   |
| Long-term debt                                 | 5,894    | —        |
| Deferred compensation payable                  | 1,429    | 1,778    |
| Other liabilities                              | 2,826    | 2,721    |
| Total long-term liabilities                    | 20,575   | 25,865   |

#### Commitments and Contingencies (Notes 7, 10 and 13)

##### Shareholders' equity:

|  |                   |                   |
|--|-------------------|-------------------|
| Common stock, no par value; 50,000 shares authorized, 15,569 and 15,533 shares issued and outstanding as of December 31, 2011 and 2010, respectively | 71,628            | 67,752            |
| Retained earnings  | 25,879            | 8,278             |
| Accumulated other comprehensive loss   | (10,069)          | (7,648)           |
| Total shareholders' equity   | 87,438            | 68,382            |
|  | <u>\$ 175,811</u> | <u>\$ 159,415</u> |

See accompanying notes to consolidated financial statements.

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### NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share information)

| Year Ended December 31,  | 2011       | 2010       | 2009       |
|--|------------|------------|------------|
| Net sales revenue (net of the rebate portion of volume incentives of \$44,628, \$44,099, and \$47,231, respectively) | \$ 367,813 | \$ 349,918 | \$ 342,111 |
| Costs and expenses:  |            |            |            |
| Cost of goods sold   | 69,410     | 69,040     | 68,512     |
| Volume incentives  | 133,883    | 130,367    | 126,105    |
| Selling, general and administrative  | 129,605    | 139,248    | 135,061    |
| Contract termination costs   | 14,750     | —          | —          |
|  | 347,648    | 338,655    | 329,678    |
| Operating income   | 20,165     | 11,263     | 12,433     |
| Other income:  |            |            |            |
| Interest and other income, net   | 1,470      | 270        | 1,353      |
| Interest expense   | (89)       | —          | (30)       |
| Foreign exchange gains, net  | 466        | 2,457      | 1,008      |
|  | 1,847      | 2,727      | 2,331      |
| Income before provision for income taxes   | 22,012     | 13,990     | 14,764     |
| Provision for income taxes   | 4,411      | 5,521      | 8,210      |
| Net income from continuing operations  | 17,601     | 8,469      | 6,554      |
| Loss from discontinued operations  | —          | (9,702)    | (439)      |
| Net income (loss)  | \$ 17,601  | \$ (1,233) | \$ 6,115   |
| Basic and diluted net income (loss) per common share   |            |            |            |
| Basic:   |            |            |            |
| Net income from continuing operations  | \$ 1.13    | \$ 0.55    | \$ 0.42    |
| Loss from discontinued operations  | \$ —       | \$ (0.63)  | \$ (0.03)  |
| Net income (loss)  | \$ 1.13    | \$ (0.08)  | \$ 0.39    |
| Diluted:   |            |            |            |
| Net income from continuing operations  | \$ 1.12    | \$ 0.54    | \$ 0.42    |
| Loss from discontinued operations  | \$ —       | \$ (0.62)  | \$ (0.03)  |
| Net income (loss)  | \$ 1.12    | \$ (0.08)  | \$ 0.39    |

|  |               |        |        |
|--|---------------|--------|--------|
| Weighted average basic common shares outstanding   | <b>15,550</b> | 15,515 | 15,510 |
| Weighted average diluted common shares outstanding | <b>15,695</b> | 15,605 | 15,512 |

See accompanying notes to consolidated financial statements.

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NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME (LOSS)  
(Amounts in thousands, except per share data)

|   | Common Stock  |                  | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total            |
|---|---------------|------------------|-------------------|---|------------------|
|   | Shares        | Value            |                   |   |                  |
| Balance at January 1, 2009  | 15,510        | \$ 66,705        | \$ 4,172          | \$ (17,200)                                   | \$ 53,677        |
| Share-based compensation expense                                    | —             | 478              | —                 | —   | 478              |
| Cash dividends (\$0.05 per share)                                   | —             | —                | (776)             | —   | (776)            |
| Components of comprehensive loss:                                   |               |                  |                   |   |                  |
| Foreign currency translation  | —             | —                | —                 | (2,463)                                       |                  |
| Net unrealized losses on investment securities (net of tax of \$42) | —             | —                | —                 | 64  |                  |
| Net income  | —             | —                | 6,115             | —   |                  |
| Total comprehensive income  |               |                  |                   |   | 3,716            |
| Balance at December 31, 2009  | 15,510        | 67,183           | 9,511             | (19,599)                                      | 57,095           |
| Share-based compensation expense                                    | —             | 437              | —                 | —   | 437              |
| Proceeds from the exercise of stock options                         | 23            | 132              | —                 | —   | 132              |
| Components of comprehensive income:                                 |               |                  |                   |   |                  |
| Write-off of Brazil cumulative translation adjustments              | —             | —                | —                 | 7,364   |                  |
| Foreign currency translation  | —             | —                | —                 | 4,591   |                  |
| Net unrealized loss on investment securities (net of tax of \$2)    | —             | —                | —                 | (4)   |                  |
| Net loss  | —             | —                | (1,233)           | —   |                  |
| Total comprehensive income  |               |                  |                   |   | 10,718           |
| <b>Balance at December 31, 2010</b>                                 | <b>15,533</b> | <b>67,752</b>    | <b>8,278</b>      | <b>(7,648)</b>                                | <b>68,382</b>    |
| Share-based compensation expense                                    | —             | 3,478            | —                 | —   | 3,478            |
| Proceeds from the exercise of stock options                         | 36            | 398              | —                 | —   | 398              |
| Components of comprehensive income:                                 |               |                  |                   |   |                  |
| Foreign currency translation  | —             | —                | —                 | (2,397)                                       |                  |
| Net unrealized loss on investment securities (net of tax of \$9)    | —             | —                | —                 | (24)  |                  |
| Net income  | —             | —                | 17,601            | —   |                  |
| Total comprehensive income  |               |                  |                   |   | 15,180           |
| <b>Balance at December 31, 2011</b>                                 | <b>15,569</b> | <b>\$ 71,628</b> | <b>\$ 25,879</b>  | <b>\$ (10,069)</b>                            | <b>\$ 87,438</b> |

See accompanying notes to consolidated financial statements.

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NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Amounts In Thousands)

| Year Ended December 31,  | 2011      | 2010       | 2009     |
|--|-----------|------------|----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |           |            |          |
| Net income (loss)  | \$ 17,601 | \$ (1,233) | \$ 6,115 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |           |            |          |
| Write-off of cumulative translation adjustments  | —         | 7,364      | —        |
| Provision for doubtful accounts  | (133)     | 213        | 219      |
| Depreciation and amortization  | 4,362     | 4,254      | 4,501    |
| Share-based compensation expense   | 3,478     | 437        | 478      |
| Loss on sale of property and equipment   | 224       | 138        | 142      |
| Deferred income taxes  | (5,073)   | 2,128      | (3,968)  |
| Loss on restricted cash  | —         | 747        | —        |
| Amortization of bond discount  | 9         | 22         | 28       |
| Purchase of trading investment securities  | (102)     | (177)      | (267)    |
| Proceeds from sale of trading investment securities                                      | 438       | 313        | 91       |
| Realized and unrealized gains  | (44)      | (165)      | (182)    |
| Amortization of prepaid taxes related to gain on intercompany sales                      | —         | 1,353      | 1,127    |
| Foreign exchange gains   | (466)     | (3,005)    | (2,273)  |
| Changes in assets and liabilities:   |           |            |          |
| Restricted cash  | —         | —          | (1,495)  |
| Accounts receivable  | (3,742)   | 2,181      | 2,424    |

|   |             |             |             |
|---|-------------|-------------|-------------|
| Inventories   | (5,566)     | 4,732       | (617)       |
| Prepaid expenses and other  | 1,032       | (238)       | 2,407       |
| Other assets  | 2,986       | (80)        | 62          |
| Accounts payable  | 1,316       | 588         | (4,339)     |
| Accrued volume incentives   | 805         | 1,163       | 1,429       |
| Accrued current and other long-term liabilities                               | (6,152)     | 619         | (10,110)    |
| Deferred revenue  | (782)       | (1,128)     | (654)       |
| Income taxes payable  | 5,009       | (3,679)     | 5,193       |
| Liability related to unrecognized tax positions                               | (10,943)    | (423)       | 258         |
| Deferred compensation payable   | (349)       | 26          | 358         |
| Net cash provided by operating activities                                     | 3,908       | 16,150      | 927         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                  |             |             |             |
| Purchases of property, plant and equipment                                    | (2,419)     | (2,595)     | (3,211)     |
| Purchases of investments available for sale                                   | (6,968)     | (3,439)     | —           |
| Proceeds from sale/maturities of investments available for sale               | 7,697       | 125         | 794         |
| Proceeds from sale of restricted investments                                  | —           | —           | 2,050       |
| Proceeds from sale of property, plant and equipment                           | 11          | —           | 70          |
| Net cash used in investing activities   | (1,679)     | (5,909)     | (297)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                  |             |             |             |
| Payments of cash dividends  | —           | —           | (776)       |
| Proceeds from short-term borrowings   | —           | —           | 7,900       |
| Payments on short-term borrowings   | —           | —           | (7,900)     |
| Proceeds from issuance of long-term debt                                      | 10,000      | —           | —           |
| Principal payments of long-term debt  | (810)       | —           | —           |
| Proceeds from exercise of stock options                                       | 398         | 132         | —           |
| Net cash provided by (used in) financing activities                           | 9,588       | 132         | (776)       |
| Effect of exchange rates on cash and cash equivalents                         | (452)       | 1,693       | 831         |
| Net increase in cash and cash equivalents                                     | 11,365      | 12,066      | 685         |
| Cash and cash equivalents at beginning of the year                            | 47,604      | 35,538      | 34,853      |
| Cash and cash equivalents at end of the year                                  | \$ 58,969   | \$ 47,604   | \$ 35,538   |
| <b>Year Ended December 31,</b>  | <b>2011</b> | <b>2010</b> | <b>2009</b> |
| <b>Supplemental disclosure of cash flow information:</b>                      |             |             |             |
| Cash paid for income taxes  | \$ 6,570    | \$ 5,627    | \$ 8,370    |
| Cash paid for interest  | 36          | —           | 124         |
| <b>Supplemental disclosure of noncash investing and financing activities:</b> |             |             |             |
| Purchases of property, plant and equipment included in accounts payable       | \$ 19       | \$ 196      | \$ 114      |

See accompanying notes to consolidated financial statements.

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**NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Amounts in thousands, except per share information)*

**NOTE 1: NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Nature's Sunshine Products, Inc. together with its subsidiaries (hereinafter referred to collectively as the "Company") is a natural health and wellness company primarily engaged in the manufacturing and direct selling of nutritional and personal care products. Nature's Sunshine Products, Inc. is a Utah corporation with its principal place of business in Provo, Utah. 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 Australia, Austria, Belarus, Canada, the Czech Republic, Colombia, Costa Rica, Denmark, the Dominican Republic, Ecuador, El Salvador, Finland, Germany, Guatemala, Honduras, Hong Kong, Indonesia, Ireland, Japan, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Mongolia, the Netherlands, Nicaragua, Norway, Panama, Peru, the Philippines, Poland, Russia, Singapore, Spain, South Korea, Sweden, Taiwan, Thailand, the Ukraine, the United Kingdom, the United States, Venezuela and Vietnam. The Company also exports its products to several other countries, including Argentina, Australia, Chile, Israel, New Zealand and Norway.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts and transactions of Nature's Sunshine Products, Inc. and its subsidiaries. At December 31, 2011 and 2010, the majority of the Company's subsidiaries were wholly owned. The Company operates a limited number of markets in jurisdictions where local laws require the formation of a partnership with an entity domiciled in that market. These partners have no rights to participate in the sharing of revenues, profits, losses or distribution of assets upon liquidation of these partnerships.

Intercompany balances and transactions have been eliminated in consolidation.

**Discontinued Operations**

As more fully described in Note 2, "Discontinued Operations," the Company ceased the operations of its Brazilian subsidiary in the third quarter of 2010, and the results of its operations are classified as discontinued operations in the Company's statements of operations and accompanying notes for all periods presented.

**Use of Estimates**

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires management

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accompanying notes. Actual results could differ from these estimates and those differences could have a material effect on the Company's financial position and results of operations.

The 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, the determination of liabilities related to Distributor and Manager incentives, the determination of income tax assets and liabilities, certain other non-income tax and value-added tax contingencies, legal contingencies, share-based compensation and the valuation of investments. In addition, significant estimates form the basis for allowances with respect to the collection of accounts receivable, inventory valuations and self-insurance liabilities associated with product liability and medical claims. Various assumptions and other factors enter into the determination of these significant estimates. The process of determining significant estimates takes into account historical experience and current and expected economic conditions.

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

As of January 1, 2010, Venezuela was designated as a highly inflationary economy. Accordingly, the U.S. dollar became the functional currency for the Company's subsidiary in Venezuela. All gains and losses resulting from the re-measurement of its financial statements are determined using official rates. On January 8, 2010, the Venezuelan government announced the devaluation of the bolivar against the U.S. dollar.

Currency restrictions enacted by the government of Venezuela require approval from the government's currency control agency organization in order for the Company's subsidiary in Venezuela to obtain U.S. dollars at the official exchange rate to pay for imported products or to repatriate dividends back to the Company. Prior to January 1, 2010, the market rate, which is substantially lower than the official rate, was available to obtain U.S. dollars or other currencies without approval of the government's currency control organization. In 2010, the government of Venezuela enacted additional currency restrictions, which effectively replaced the market rate with the System for Foreign Currency Denominated Securities ("SITME"), which is administered by the Venezuela Central Bank. Under SITME, entities domiciled in Venezuela can obtain U.S. dollar denominated securities in limited quantities each month through banking institutions approved by the government.

At this time, the Company is not able to reasonably estimate the future state of exchange controls in Venezuela and its availability of U.S. dollars at the official exchange rate or at the SITME rate. However, the Company has been successful so far repatriating funds from Venezuela for imported products using the SITME rate. The Company re-measures its results in Venezuela at the SITME rate, which was approximately 5.3 bolivars per U.S. dollar as of December 31, 2011.

As a result of the events described in the preceding paragraphs, the Company recorded a gain of \$3,668 in the first quarter of 2010 in connection with the re-measurement of its balance sheet to reflect the highly inflationary designation and the devaluation due to the negative position of the Company's Venezuelan subsidiary's net monetary assets, which is recorded in foreign exchange gains or losses, a part of other income. The success of future operations will be affected by several factors, including the Company's ability to take actions to mitigate the effect of devaluation, further actions of the Venezuelan government and economic conditions in Venezuela, such as inflation and consumer spending.

During 2011 and 2010, the Company's Venezuelan subsidiary's net sales revenue represented approximately 1.4 percent and 1.7 percent of consolidated net sales revenue, respectively. The Company's Venezuelan subsidiary held total assets of \$8,101 and \$8,024 (which includes an intercompany receivables denominated in U.S. dollars of \$2,110 and \$1,978) and net assets of \$5,020 and \$4,185 at December 31, 2011 and 2010, respectively.

#### **Cash and Cash Equivalents**

The Company considers all highly liquid short-term investments with original maturities of three months or less to be cash equivalents. Substantially all of the Company's cash deposits either exceed the United States federally insured limit or are located in countries that do not have government insured accounts or are subject to tax withholdings when repatriating earnings.

During 2009, cash balances denominated in Venezuelan bolivars were restricted due to the local government seizing control of the bank in which this operating cash was deposited and freezing its deposits, and was classified by the Company as restricted cash at December 31, 2009. Due to the rising uncertainty in the Company's ability to recover this cash, the Company recorded a charge of \$747 during the year ended December 31, 2010, to write-off the remaining cash balance, which is included in other income and expense. However, this restricted cash balance of \$747 was recovered during the year ended December 31, 2011 and a gain was recorded in other income and expense.

#### **Accounts Receivable**

Accounts receivable consist principally of receivables from credit card companies, arising from the sale of products to the Company's distributors, and receivables from distributors in foreign markets. Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. However, due to the geographic dispersion of credit card and distributor receivables, the collection risk is not considered to be significant. Substantially all of the receivables from credit card companies were current as of December 31, 2011 and 2010. Although receivables from distributors can be significant, the

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Company performs ongoing credit evaluations of its importers and maintains an allowance for potential credit losses. This estimated allowance is based primarily on the aging category, historical trends and management's evaluation of the financial condition of the customer. This reserve is adjusted periodically as information about specific accounts becomes available.

#### **Investment Securities**

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

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

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

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

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

The Company also has certain investment securities classified as trading securities. The Company maintains its trading securities portfolio to generate returns that are offset by corresponding changes in certain liabilities related to the Company's deferred compensation plans (see Note 12). The trading securities portfolio consists of marketable securities, which are recorded at fair value and are included in long-term investment securities on the consolidated balance sheets because they remain assets of the Company until they are actually paid out to the participants. These investment securities are not available to the Company to fund its operations as they are restricted for the payment of the deferred compensation payable. The Company has established a rabbi trust to finance obligations under the plan. 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, accounts receivable, investments and accounts payable. Other than investments, which are carried at fair value, the carrying values of these financial instruments approximate their fair values due to their short-term nature.

#### **Inventories**

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

#### **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 range from 20 to 50 years; building improvements range from 7 to 10 years; machinery and equipment range from 2 to 10 years; and furniture and fixtures range from 2 to 5 years. Leasehold improvements are amortized over the shorter of the lease term or the

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estimated useful lives of the related assets. Maintenance and repairs are expensed as incurred and major improvements are capitalized.

#### **Intangible Assets**

Intangible assets consist of purchased product formulations. Such intangible assets are amortized using the straight-line method over the estimated economic lives of the assets of 9 to 15 years. Intangible assets, net of accumulated amortization, totaled \$1,151 and \$1,303 at December 31, 2011 and 2010, respectively.

#### **Impairment of Long-Lived Assets**

The Company reviews its long-lived assets, such as property, plant and equipment and intangible assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company uses an estimate of future undiscounted net cash flows of the related assets or groups of assets over their remaining lives in measuring whether the assets are recoverable. An impairment loss is calculated by determining the difference between the carrying values and the fair values of these assets. The Company did not consider any of its long-lived assets to be impaired during the years ended December 31, 2011, 2010 or 2009.

#### **Incentive Trip Accrual**

The Company accrues expenses for incentive trips associated with its direct sales marketing program, which rewards independent Distributors and Managers with paid attendance at its conventions and meetings. Expenses associated with incentive trips are accrued over qualification periods as they are earned. The Company specifically analyzes incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could result in liabilities being more or less than the amounts recorded. The Company has accrued convention and meeting costs of \$5,047 and \$4,027 at December 31, 2011 and 2010, respectively, which are included in accrued liabilities in the consolidated balance sheets.

#### **Short-Term Borrowings**

During 2009, the Company had short-term borrowings and repayments of \$7,900 from its investment broker secured by its available-for-sale investments in order to generate additional liquidity from month-to-month based upon its working capital needs. The Company has the ability to borrow up to approximately 80 percent of the fair value of its municipal obligations within its available-for-sale investments. These borrowings began in 2009 and were typically repaid in the month following the initial borrowing. The Company had no such borrowings during 2010 and 2011.

#### **Foreign Currency Translation**

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

The functional currency in highly inflationary economies is the U.S. dollar and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The re-measurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation, and other pertinent economic factors. During 2011 and 2010, Venezuela was considered to be highly inflationary as noted above. With the exception of Venezuela, there were no countries

considered to have a highly inflationary economy during 2011, 2010 or 2009.

## Revenue Recognition

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

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

A reserve for product returns is recorded based upon historical experience. The Company allows Distributors or Managers to return the unused portion of products within ninety days of purchase if they are not satisfied with the product. In some of our markets, the requirements to return product are more restrictive. Sales returns for the years 2011, 2010 and 2009, were \$606, \$605 and \$145, respectively.

Amounts billed to customers for shipping and handling are reported as a component of net sales revenue. Shipping and handling revenues of approximately \$11,615, \$12,165 and \$11,167 were reported as net sales revenue for the years ended December 31, 2011, 2010, and 2009, respectively. The corresponding shipping and handling expenses are reported in selling, general and administrative expenses and approximated the amounts reported as net sales revenue.

Taxes that have been assessed by governmental authorities and that are directly imposed on revenue-producing transactions between the Company and its customers, including sales, use, value-added, and some excise taxes, are presented on a net basis (excluded from net sales).

## Advertising Costs

Advertising costs are expensed as incurred. Advertising expense incurred for the years ended December 31, 2011, 2010 and 2009 totaled approximately \$1,191, \$1,318 and \$2,397, 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 expenses were approximately \$1,552, \$2,020 and \$2,041 in 2011, 2010 and 2009, respectively.

## Contingencies

The Company is involved in certain legal proceedings. When a loss is considered probable in connection with litigation or non-income tax contingencies and when such loss can be reasonably estimated with a range, the Company records its best estimate within the range related to the contingency. If there is no best estimate, the Company records the minimum of the range. As additional information becomes available, it assesses the potential liability related to the contingency and revises the estimates. The Company's contingencies are discussed in further detail in Note 13.

## Income Taxes

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

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating the Company's ability to recover its deferred tax assets, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, the Company develops assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company is using to manage the underlying businesses.

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

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

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## Net Income (Loss) Per Common Share

Basic net income (loss) per common share ("Basic EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share ("Diluted EPS") reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net loss per common share.

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

|   | 2011 | 2010 | 2009 |
|---|------|------|------|
| <b>Net income (loss) available to common stockholders</b> |      |      |      |

|  |               |            |           |
|--|---------------|------------|-----------|
| Net income from continuing operations  | \$ 17,601     | \$ 8,469   | \$ 6,554  |
| Loss from discontinued operations  | —             | (9,702)    | (439)     |
| Net income (loss)  | \$ 17,601     | \$ (1,233) | \$ 6,115  |
| <b>Basic weighted-average shares outstanding</b>                                 | <b>15,550</b> | 15,515     | 15,510    |
| <b>Basic net income (loss) per common share:</b>                                 |               |            |           |
| Net income from continuing operations  | \$ 1.13       | \$ 0.55    | \$ 0.42   |
| Loss from discontinued operations  | \$ —          | \$ (0.63)  | \$ (0.03) |
| Net income (loss)  | \$ 1.13       | \$ (0.08)  | \$ 0.39   |
| <b>Diluted Shares Outstanding</b>  |               |            |           |
| Basic weighted-average shares outstanding  | 15,550        | 15,515     | 15,510    |
| Stock options  | 145           | 90         | 2         |
| Diluted weighted-average shares outstanding                                      | 15,695        | 15,605     | 15,512    |
| <b>Diluted net income (loss) per common share:</b>                               |               |            |           |
| Net income from continuing operations  | \$ 1.12       | \$ 0.54    | \$ 0.42   |
| Loss from discontinued operations  | \$ —          | \$ (0.62)  | \$ (0.03) |
| Net income (loss)  | \$ 1.12       | \$ (0.08)  | \$ 0.39   |
| <b>Potentially dilutive shares excluded from diluted-per-share amounts:</b>      |               |            |           |
| Stock options  | 219           | 50         | —         |
| <b>Potentially anti-dilutive shares excluded from diluted-per-share amounts:</b> |               |            |           |
| Stock options  | 200           | 419        | 205       |

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

#### Share-Based Compensation

Our outstanding stock options include both non-qualified stock options, which vest over differing periods ranging from the date of issuance up to 36 months from the option grant date and performance based stock options that vest upon achieving operating income margins of six, eight and ten percent as reported in four of five consecutive quarters over the term of the options.

The Company recognizes all share-based payments to employees, including grants of employee stock options based on their grant-date fair values. The Company records compensation expense, net of estimated forfeitures, over the vesting period of the stock options based on the fair value of the stock options on the date of grant. Management considers several factors when estimating forfeitures, including types of awards, employee class, and historical experience.

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#### Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in shareholders' equity except those resulting from investments by, and distributions to, shareholders. Accordingly, the Company's comprehensive income (loss) includes net income (loss), net unrealized gains (losses) on investment securities, reclassifications of realized gains, and foreign currency adjustments that arise from the translation of the financial statements of the Company's foreign subsidiaries.

#### Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04 Fair Value Measurement (Topic 820): "Amendments to Achieve Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS". This update addresses how to measure fair value and requires new disclosures about fair value measurements. The amendments in this update are effective for interim and annual periods beginning after December 15, 2011. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

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

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

#### NOTE 2: DISCONTINUED OPERATIONS

During 2010, the Company ceased its operations in Brazil as a result of declining sales and increased regulatory restrictions, which made it difficult for the Company to register and sell key products in that market. This market was part of the Company's NSP International segment.

The following table summarizes the operating results of the Company's discontinued operations for the years:

|                                  | 2011 | 2010       | 2009     |
|----------------------------------|------|------------|----------|
| Net sales revenue                | \$ — | \$ 682     | \$ 912   |
| Loss before income tax provision | \$ — | \$ (9,702) | \$ (439) |



|                                   |    |   |          |
|-----------------------------------|----|---|----------|
| Income tax provision              | —  | — | —        |
| Loss from discontinued operations | \$ | — | \$ (439) |

The loss before income taxes for the year ended December 31, 2010, includes a charge of \$8,236 related to exiting Brazil, of which \$7,364 was a non-cash write-off of accumulated translation adjustments that were previously included in shareholders' equity.

The cash flows from our discontinued operations are included in the Company's operating cash flow, but were insignificant.

### NOTE 3: INVENTORIES

The composition of inventories is as follows:

| As of December 31, | 2011      | 2010      |
|--------------------|-----------|-----------|
| Raw materials      | \$ 12,992 | \$ 9,177  |
| Work in process    | 1,230     | 956       |
| Finished goods     | 27,389    | 26,102    |
| Total inventory    | \$ 41,611 | \$ 36,235 |

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### NOTE 4: PROPERTY, PLANT AND EQUIPMENT

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

| As of December 31,                        | 2011      | 2010      |
|---|-----------|-----------|
| Land and improvements                     | \$ 3,800  | \$ 3,800  |
| Buildings and improvements                | 31,233    | 32,697    |
| Machinery and equipment                   | 17,395    | 17,480    |
| Furniture and fixtures                    | 22,197    | 23,378    |
|   | 74,625    | 77,355    |
| Accumulated depreciation and amortization | (49,488)  | (49,964)  |
| Total property, plant and equipment       | \$ 25,137 | \$ 27,391 |

Depreciation expense was \$4,210, \$4,136 and \$4,384 for the years ended December 31, 2011, 2010 and 2009, respectively.

### NOTE 5: INTANGIBLE ASSETS

At December 31, 2011 and 2010, intangibles for product formulations had a gross carrying amount of \$1,763 and \$1,763, accumulated amortization of \$612 and \$460, and a net amount of \$1,151 and \$1,303, respectively. The estimated useful lives of the product formulations range from 9 to 15 years.

Amortization expense for intangible assets for the years ended December 31, 2011, 2010 and 2009 was \$152, \$118 and \$117, respectively. Estimated amortization expense for the five succeeding fiscal years and thereafter is as follows:

| Year Ending December 31, | Estimated Amortization Expense |
|--------------------------|--------------------------------|
| 2012                     | \$ 149                         |
| 2013                     | 149                            |
| 2014                     | 149                            |
| 2015                     | 149                            |
| 2016                     | 91                             |
| Thereafter               | 464                            |
| Total                    | \$ 1,151                       |

### NOTE 6: INVESTMENT SECURITIES

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

| As of December 31, 2011                | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|----------------|------------------------|-------------------------|------------|
| Municipal obligations                  | \$ 1,158       | \$ 51                  | \$ —                    | \$ 1,209   |
| U.S. government securities funds       | 988            | —                      | (5)                     | 983        |
| Short-term deposits                    | 3,104          | —                      | —                       | 3,104      |
| Equity securities                      | 227            | 159                    | (5)                     | 381        |
| Total short-term investment securities | \$ 5,477       | \$ 210                 | \$ (10)                 | \$ 5,677   |

| As of December 31, 2010                | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|----------------|------------------------|-------------------------|------------|
| Municipal obligations                  | \$ 1,883       | \$ 77                  | \$ —                    | \$ 1,960   |
| U.S. government securities funds       | 989            | —                      | (15)                    | 974        |
| Short-term deposits                    | 3,148          | —                      | —                       | 3,148      |
| Equity securities                      | 228            | 160                    | —                       | 388        |
| Total short-term investment securities | \$ 6,248       | \$ 237                 | \$ (15)                 | \$ 6,470   |

The municipal obligations held at fair value of \$1,209 at December 31, 2011, all mature in less than five years.

During 2011, 2010 and 2009, the proceeds from the sales of available-for-sale securities were \$7,697, \$125 and \$794, respectively. There were no gross realized gains (losses) on sales of available-for-sale securities (net of tax) for the years ended December 31, 2011, 2010 and 2009, respectively.

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The Company's trading securities portfolio totaled \$1,429 and \$1,778 at December 31, 2011 and 2010, respectively, and generated gains of \$16, \$158 and \$182, for the years ended December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, the Company had unrealized losses of \$10 and \$15, respectively, in its municipal obligations, short-term deposits and equity securities investments. These losses are due to the interest rate sensitivity of the municipal obligations and the performance of the overall stock market for the equity securities.

**NOTE 7: ACCRUED LIABILITIES**

The composition of accrued liabilities is as follows:

| As of December 31,                                 | 2011             | 2010             |
|--|------------------|------------------|
| Foreign non-income tax contingencies (See Note 13) | \$ 6,801         | \$ 8,899         |
| Sales, use and property tax (See Note 13)          | 3,426            | 4,397            |
| Salaries and employee benefits                     | 6,611            | 6,341            |
| Convention and meeting costs                       | 5,047            | 4,027            |
| Royalties payable                                  | —                | 4,059            |
| Other  | 6,053            | 6,878            |
| <b>Total</b>                                       | <b>\$ 27,938</b> | <b>\$ 34,601</b> |

**NOTE 8: LONG-TERM DEBT**

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

A term loan of \$10,000 was obtained in conjunction with the Revolving Credit agreement with Wells Fargo Bank, National Association and has a maturity date of August 9, 2014 and a variable interest rate of LIBOR plus 1.25 percent (1.50 percent as of December 31, 2011). The term loan is collateralized by the Company's manufacturing facility in Spanish Fork, Utah.

Long-term debt consists of the following:

| As of December 31,   | 2011            | 2010        |
|--|-----------------|-------------|
| Term loan due in monthly installments of approximately \$284, including interest, secured by real estate | \$ 9,190        | \$ —        |
| Total long-term debt   | 9,190           | —           |
| Less current installments  | (3,296)         | —           |
| Long-term debt less current installments   | <u>\$ 5,894</u> | <u>\$ —</u> |

The various debt agreements contain restrictions on liquidity, leveraging, minimum net income and consecutive quarterly net losses. In addition, the agreements restrict capital expenditures, lease expenditures, other indebtedness, liens on assets, guaranties, loans and advances, and the merger, consolidation and the transfer of assets except in the ordinary course of business. The Company is currently in compliance with these debt covenants.

The aggregate maturities of long-term debt are as follows: \$3,296 in 2012, \$3,346 in 2013 and \$2,548 in 2014.

**NOTE 9: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The components of accumulated other comprehensive income (loss), net of tax, are as follows:

|                                 | Foreign Currency<br>Translation<br>Adjustments | Net Unrealized<br>Gains (Losses) On<br>Available-For-Sale<br>Securities | Total<br>Accumulated Other<br>Comprehensive Loss |
|---------------------------------|--|---|--|
| Balance as of January 1, 2009   | \$ (17,286)                                    | \$ 86   | \$ (17,200)                                      |
| Activity, net of tax            | (2,463)  | 64  | (2,399)  |
| Balance as of December 31, 2009 | (19,749)                                       | 150   | (19,599)   |
| Activity, net of tax            | 11,955   | (4)   | 11,951   |
| Balance as of December 31, 2010 | (7,794)  | 146   | (7,648)  |
| Activity, net of tax            | (2,397)  | (24)  | (2,421)  |
| Balance as of December 31, 2011 | <u>\$ (10,191)</u>                             | <u>\$ 122</u>   | <u>\$ (10,069)</u>                               |

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**NOTE 10: INCOME TAXES**

Income from continuing operations before provision (benefit) for income taxes are taxed under the following jurisdictions:

| Year Ended December 31, | 2011             | 2010             | 2009             |
|-------------------------|------------------|------------------|------------------|
| Domestic                | \$ 2,338         | \$ 4,453         | \$ 7,476         |
| Foreign                 | 19,674           | 9,537            | 7,288            |
| <b>Total</b>            | <b>\$ 22,012</b> | <b>\$ 13,990</b> | <b>\$ 14,764</b> |

Components of the provision (benefit) for income taxes from continuing operations for each of the three years in the period ended December 31, 2011 are as follows:

| Year Ended December 31, | 2011 | 2010 | 2009 |
|-------------------------|------|------|------|
|-------------------------|------|------|------|

| Current:                         |                 |                 |                 |
|----------------------------------|-----------------|-----------------|-----------------|
| Federal                          | \$ 4,094        | \$ 3,330        | \$ 6,812        |
| State                            | 961             | (306)           | 599             |
| Foreign                          | 4,429           | 369             | 4,767           |
| Subtotal                         | <u>9,484</u>    | <u>3,393</u>    | <u>12,178</u>   |
| Deferred:                        |                 |                 |                 |
| Federal                          | (4,408)         | 2,149           | (4,593)         |
| State                            | (719)           | 1,186           | 277             |
| Foreign                          | 54              | (1,207)         | 348             |
| Subtotal                         | <u>(5,073)</u>  | <u>2,128</u>    | <u>(3,968)</u>  |
| Total provision for income taxes | <u>\$ 4,411</u> | <u>\$ 5,521</u> | <u>\$ 8,210</u> |

The provision for income taxes from continuing operations, as a percentage of income before provision for income taxes, differs from the statutory U.S. federal income tax rate due to the following:

| Year Ended December 31,                                    | 2011          | 2010          | 2009          |
|--|---------------|---------------|---------------|
| Statutory U.S. federal income tax rate                     | 35.0 %        | 35.0 %        | 35.0 %        |
| State income taxes, net of U.S. federal income tax benefit | 0.7           | 4.1           | 4.0           |
| U.S. tax impact of foreign operations                      | (15.1)        | 13.5          | (13.7)        |
| Valuation allowance change                                 | (0.3)         | 20.9          | 8.8           |
| Tax contingencies  | (1.4)         | 1.8           | (4.5)         |
| Foreign exchange gains (losses)                            | —             | (10.1)        | 2.0           |
| Gain on sale of intercompany assets                        | —             | 10.6          | 9.8           |
| Charitable contributions                                   | (0.3)         | (0.2)         | (0.1)         |
| Foreign tax rate differential                              | (5.2)         | (5.2)         | 14.0          |
| Unrecognized tax benefits                                  | 8.2           | 4.1           | (1.4)         |
| Meals and entertainment                                    | 0.3           | 0.4           | 0.5           |
| Tax adjustment for inflation                               | —             | (0.3)         | (0.1)         |
| Domestic manufacturing deduction                           | (1.1)         | —             | (1.2)         |
| One-time bad debt and worthless stock deduction            | —             | (33.0)        | —             |
| Nondeductible foreign expenses                             | (1.3)         | (0.1)         | 6.4           |
| Other  | 0.5           | (2.0)         | (3.9)         |
| Effective income tax rate                                  | <u>20.0 %</u> | <u>39.5 %</u> | <u>55.6 %</u> |

Pretax earnings of a foreign subsidiary or affiliate are subject to U.S. taxation when effectively repatriated. The Company does not intend to reinvest undistributed earnings indefinitely in the Company's foreign subsidiaries.

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The significant components of the deferred tax assets (liabilities) are as follows:

| As of December 31,                  | 2011             | 2010             |
|-------------------------------------|------------------|------------------|
| Inventory                           | \$ 1,635         | \$ 1,482         |
| Accrued liabilities                 | 3,269            | 3,655            |
| Impaired investments                | 765              | 740              |
| Deferred compensation               | 2,514            | 1,199            |
| Intangibles assets                  | 8,084            | 6,382            |
| Bad debts                           | 59               | 124              |
| Net operating losses                | 4,547            | 4,866            |
| Capital losses                      | —                | 6                |
| Foreign tax and withholding credits | 5,675            | 8,857            |
| Non-income tax accruals             | 170              | 522              |
| Health insurance accruals           | 171              | 359              |
| Undistributed foreign earnings      | 2,425            | 665              |
| Other deferred tax assets           | 2,265            | 1,264            |
| Valuation allowance                 | (9,836)          | (12,282)         |
| Total deferred tax assets           | <u>21,743</u>    | <u>17,839</u>    |
| Other deferred tax liabilities      | (868)            | (385)            |
| Total deferred tax liabilities      | <u>(868)</u>     | <u>(385)</u>     |
| Total deferred taxes, net           | <u>\$ 20,875</u> | <u>\$ 17,454</u> |

The components of deferred tax assets (liabilities), net are as follows:

| As of December 31,                       | 2011             | 2010             |
|--|------------------|------------------|
| Net current deferred tax assets          | \$ 3,945         | \$ 4,582         |
| Net non-current deferred tax assets      | 17,026           | 12,916           |
| Total net deferred tax assets            | <u>20,971</u>    | <u>17,498</u>    |
| Net current deferred tax liabilities     | (1)              | (5)              |
| Net non-current deferred tax liabilities | (95)             | (39)             |
| Total net deferred tax liabilities       | <u>(96)</u>      | <u>(44)</u>      |
| Total deferred taxes, net                | <u>\$ 20,875</u> | <u>\$ 17,454</u> |

Net current deferred tax liabilities are included in accrued liabilities and net non-current deferred tax liabilities are included in other liabilities in the consolidated balance sheets.

Management has provided a valuation allowance of \$9,836 and \$12,282 as of December 31, 2011 and 2010, respectively, for certain deferred tax assets, including foreign net operating losses and foreign tax credits, for which management cannot conclude it is more likely than not that they will be realized. The Company reviewed its tax

positions and decreased its valuation allowance by approximately \$2,446 in 2011 primarily due to additional domestic provisions of \$2,390 and by foreign write-offs of \$56.

At December 31, 2011, foreign subsidiaries had unused operating loss carryovers for tax purposes of approximately \$4,547. The net operating losses will expire at various dates from 2012 through 2021. For financial reporting purposes, the release of these valuation allowances would reduce income tax expenses. At December 31, 2011, the Company had approximately \$5,675 of foreign tax credits which begin to expire at various times starting in 2019.

The Company is subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. The Company believes it has appropriately provided for income taxes for all years. Several factors drive the calculation of its tax reserves. Some of these factors include: (i) the expiration of various statutes of limitations; (ii) changes in tax law and regulations; (iii) the issuance of tax rulings; and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to the Company's reserves, which would impact its reported financial results.

The Company's U.S. federal income tax returns for 2003 through 2010 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions that have open tax years from 2000 through 2010. The Internal Revenue Service ("IRS") is currently conducting an audit of the Company's U.S. federal income tax returns for the 2009 through 2010 tax years.

In October 2009, the Internal Revenue Service ("IRS") issued an examination report formally proposing adjustments with respect to the 2003 through 2005 taxable years, which primarily relate to the prices that were charged in intra-group transfers of property and the disallowance of related deductions. The Company challenged the IRS proposals, and took the matter before the Office of Appeals of the Internal Revenue Service. A verbal settlement was reached with IRS Appeals during 2011 and a

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proposed settlement agreement was signed by NSP in early January 2012. IRS Appeals sent a letter on January 30, 2012 indicating that the agreement with NSP had been approved and that they would complete the processing of these years.

Also during 2011, the IRS issued an examination report formally proposing adjustments with respect to the 2006 through 2008 taxable years. As with the previous exam cycle discussed above, the adjustments relate primarily to the prices that were charged in intra-group transfers of property and the disallowance of related deductions. The Company was able to reach a verbal settlement of the issues with the IRS exam team during 2011 and an agreement was signed by the Company in January 2012.

Management believes that the Company has appropriately reserved for these matters at an amount which it believes will ultimately be due upon resolution of the administrative proceedings. These estimates are based upon a more-likely-than-not recognition threshold. The Company is currently unable to determine the precise outcome of these matters and their related impact, if any, on the Company's financial condition, results of operations or cash flows.

The total outstanding balance for liabilities related to unrecognized tax benefits at December 31, 2011 and 2010 was \$10,426 and \$15,679, respectively, all of which would favorably impact the effective tax rate if recognized. Included in these amounts is approximately \$1,460 and \$6,308, respectively, of interest and penalties. The Company decreased interest and penalties approximately \$321 and \$316 for the years ended December 31, 2011 and 2010, respectively. The Company accounts for interest expense and penalties for unrecognized tax benefits as part of its income tax provision.

During the years ended December 31, 2011, 2010 and 2009, the Company added approximately \$2,379, \$3,682 and \$4,052, respectively, to its liability for unrecognized tax benefits. Included in these amounts are approximately \$491, \$1,250 and \$2,047 for the years ended December 31, 2011, 2010 and 2009, respectively, related to interest expense and penalties. In addition, the Company recorded a benefit related to the lapse of applicable statute of limitations of approximately \$1,728, \$3,132 and \$2,261 for the years ended December 31, 2011, 2010 and 2009, respectively, all of which favorably impacted the Company's effective tax rate, as well as settlements with taxing authorities of \$0, \$0 and \$5,817, for the years ended December 31, 2011, 2010 and 2009, respectively.

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax benefits, excluding interest and penalties, is as follows for the years:

| Year Ended December 31,                                    | 2011            | 2010             | 2009             |
|--|-----------------|------------------|------------------|
| Unrecognized tax benefits, opening balance                 | \$ 15,058       | \$ 19,687        | \$ 20,495        |
| Tax positions taken in a prior period                      |                 |                  |                  |
| Settlement of liability reclassified as income tax payable | (4,479)         | —                | —                |
| Payments on Liability                                      | (2,590)         | —                | —                |
| Gross increases  | 541             | 2,432            | 5,649            |
| Gross decreases  | —               | (980)            | (775)            |
| Tax positions taken in the current period                  |                 |                  |                  |
| Gross increases  | 1,347           | —                | 1,255            |
| Gross decreases  | —               | —                | —                |
| Settlements with taxing authorities                        | —               | —                | (5,817)          |
| Lapse of applicable statute of limitations                 | (914)           | (1,566)          | (1,273)          |
| Currency translation adjustments                           | 3               | (4,515)          | 153              |
| Unrecognized tax benefits, ending balance                  | <u>\$ 8,966</u> | <u>\$ 15,058</u> | <u>\$ 19,687</u> |

The tabular roll forward ending balances do not include interest expense and penalties related to unrecognized tax benefits. At December 31, 2011 and 2010, other assets included \$0 and \$5,687, respectively, of amounts related to competent authority where the unrecognized tax liability and other assets are presented on a gross basis in the consolidated balance sheets as there is no right of offset between the Company and other tax jurisdictions. Based upon the Company's recent negotiations with the IRS, it is not likely the Company would seek competent authority related to its current unrecognized tax reserves.

The Company anticipates that unrecognized tax benefits will increase approximately \$1,500 to \$2,000 within the next twelve months due to additional transactions related to commissions and transfer pricing.

The Company believes that it is reasonably possible that unrecognized tax benefits will decrease approximately \$1,500 to \$2,000 within the next twelve months due to the close of audits or the expiration of statutes of limitations in various foreign jurisdictions.

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

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## NOTE 11: CAPITAL TRANSACTIONS

### Dividends

The Company paid cash dividends totaling \$776, for the year ended December 31, 2009. During the second quarter of 2009, the Company suspended payment of its quarterly cash dividend.

### Share-Based Compensation

During the year ended December 31, 2009, the Company's shareholders adopted and approved the Nature's Sunshine Products, Inc. 2009 Stock Incentive Plan (the "2009 Incentive Plan"). The 2009 Incentive Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, performance awards, stock awards and other stock-based awards (collectively "Awards"). The Compensation Committee of the Board of Directors has authority and discretion to determine the type of Award as well as the amount, terms and conditions of each Award under the 2009 Incentive Plan, subject to the limitations of the 2009 Incentive Plan. A total of 1,500 shares of the Company's common stock were authorized for the granting of awards under the 2009 Incentive Plan, after its amendment by shareholders in 2010. The numbers of shares available for Awards, as well as the terms of outstanding Awards, are subject to adjustment as provided in the 2009 Incentive Plan for stock splits, stock dividends, recapitalizations and other similar events.

The Company also maintained a stock option plan, which was approved by shareholders in 1995 and expired in 2005 ("the 1995 Stock Plan"). The 1995 Stock Plan provided for the granting or awarding of certain nonqualified stock options to officers, directors and other employees. The term, not to exceed 10 years, and the vesting and exercise period of each stock option awarded under the 1995 Stock Plan were determined by the Company's Board of Directors. All grants under the 1995 Stock Plan were made at the quoted fair market value of the stock at the date of grant.

Stock option activity for 2011, 2010 and 2009 consisted of the following:

|  | Number of<br>Shares (in<br>thousands) | Weighted Average Exercise<br>Price Per Share |
|--|---------------------------------------|--|
| Options outstanding at January 1, 2009   | 263                                   | \$ 11.77                                     |
| Granted                                  | 250                                   | 5.35   |
| Forfeited or canceled                    | (58)                                  | 11.77  |
| Exercised                                | —                                     | —  |
| Options outstanding at December 31, 2009 | 455                                   | 8.25   |
| Granted                                  | 475                                   | 10.03  |
| Forfeited or canceled                    | (48)                                  | 9.98   |
| Exercised                                | (23)                                  | 5.81   |
| Options outstanding at December 31, 2010 | 859                                   | 9.20   |
| Granted                                  | 630                                   | 10.84  |
| Forfeited or canceled                    | (79)                                  | 9.64   |
| Exercised                                | (36)                                  | 11.08  |
| Options outstanding at December 31, 2011 | 1,374                                 | \$ 9.88                                      |

During the year ended December 31, 2011, the Company issued options to purchase 630 shares of common stock under the 2009 Incentive Plan to the Company's executive officers, other employees and to new members of its Board of Directors, of which 505 will not vest until certain earnings metrics have been achieved. These options were issued with a weighted-average exercise price of \$10.84 per share, and a weighted-average grant date fair value of \$5.13 per share. All of the options issued have an option termination date of ten years from the option grant date.

During the year ended December 31, 2010, the Company issued options to purchase 475 shares of common stock under the 2009 Incentive Plan, issued to the Company's executive officers and other employees and to a new member of the Board of Directors, of which 300 were subject to achieving certain earnings metrics. These options were issued with a weighted average exercise price of \$10.03 per share, and a weighted-average grant date fair value of \$4.27 per share. All of the 475 options issued have an option termination date of ten years from the option grant date.

During the year ended December 31, 2009, the Company issued options to purchase 250 shares of common stock under the 2009 Incentive Plan, issued to the Company's executive officers and other employees and to new members of the Board of Directors. These options were issued with a weighted-average exercise price of \$5.35 per share, and a weighted average grant date fair value of \$3.68 per share. All of the 250 options issued have an option termination date of ten years from the option grant date.

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For the years ended December 31, 2011 and 2010, the Company issued 36 and 23 shares of common stock upon the exercise of stock options at an average exercise price of \$11.08 and \$5.81 per share, respectively. The aggregate intrinsic values of options exercised during the years ended December 31, 2011 and 2010 was \$211 and \$82, respectively. No options were exercised during the year ended December 31, 2009.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the years ended December 31, 2011, 2010 and 2009:

|  | 2011         | 2010         | 2009    |
|--|--------------|--------------|---------|
| Weighted average grant date fair value of grants | \$ 5.13      | \$ 4.27      | \$ 3.68 |
| Expected life (in years)                         | 3.0 to 4.0   | 4.0          | 3.5     |
| Risk-free interest rate                          | 0.7 to 1.2   | 0.6 to 1.5   | 1.4     |
| Expected volatility                              | 49.0 to 67.7 | 51.3 to 65.8 | 40.50   |
| Dividend yield                                   | 0.0          | 0.0          | 0.0     |

Expected option lives and volatilities are based on historical data of the Company. The risk free interest rate is calculated as the average U.S. Treasury bill rate that corresponds with the option life.

Share-based compensation expense from non-qualified stock options for the years ended December 31, 2011, 2010 and 2009 was \$557, \$437 and \$478, respectively; the related tax benefit was approximately \$222, \$173 and \$191, respectively. As of December 31, 2011, 2010 and 2009, the unrecognized share-based compensation cost related to grants described above was \$607, \$451 and \$441, respectively. As of December 31, 2011, the remaining compensation cost is expected to be recognized over the weighted-average period of approximately 1.5 years.

The Company recorded shared-based compensation expense of \$2,921 and a related tax benefit of approximately \$1,168 for the year ended December 31, 2011 for the performance-based stock options that will vest upon achieving six, eight and ten percent operating income margins as reported in four of five consecutive quarters. As of December 31, 2011, the unrecognized share-based compensation expense related to these options was approximately \$652, which is expected to be recognized over a weighted-average period of approximately 0.5 years.

The following table summarizes information about options outstanding and exercisable at December 31, 2011.

| Range of Option Prices Per Share | Options Outstanding |  |  | Options Exercisable |  |  |
|----------------------------------|---------------------|--|--|---------------------|--|--|
|                                  | Options Outstanding | Weighted-Avg. Remaining Contractual Life | Weighted-Avg. Exercise Price Per Share | Options Exercisable | Weighted-Avg. Remaining Contractual Life | Weighted-Avg. Exercise Price Per Share |
| \$5.35 to \$9.99                 | 845                 | 8.5                                      | \$ 8.02                                | 511                 | 8.5                                      | \$ 8.12                                |
| \$10.00 to \$11.99               | 329                 | 5.7                                      | 11.51                                  | 260                 | 4.9                                      | 11.54                                  |
| \$12.00 to \$13.81               | 200                 | 9.5                                      | 15.05                                  | 1                   | 0.1                                      | 13.10                                  |
|                                  | <u>1,374</u>        | 7.9                                      | \$ 9.88                                | <u>772</u>          | 7.3                                      | \$ 9.28                                |

At December 31, 2011, the aggregate intrinsic value of outstanding options to purchase 1,374 shares of common stock, the exercisable options to purchase 772 shares of common stock, and options to purchase 602 shares of common stock expected to vest was \$7,757, \$4,819 and \$2,732, respectively. At December 31, 2010, the aggregate intrinsic value of outstanding options to purchase 859 shares of common stock, the exercisable options to purchase 303 shares of common stock, and options to purchase 218 shares of common stock expected to vest was \$855, \$377 and \$359, respectively.

## NOTE 12: 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 50 percent of employee contributions up to a maximum of five percent of the employee's compensation (the match was changed from 100 percent to 50 percent of employee contributions up to a maximum of five percent during fiscal year 2010). The Company's contributions to the plan vest after a period of three years. During 2011, 2010 and 2009, the Company contributed to the plan approximately \$438, \$1,065 and \$1,318, respectively.

The Company provides 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. Although participants direct the investment of these funds, they are classified as trading securities and are included in long-term investment securities on the consolidated balance sheets because they remain assets of the Company until they are actually paid out to the participants. The Company has established a trust to finance obligations 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. Upon separation of employment of the participant with the Company, the obligation owed to the

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participant under the plan will be paid as a lump sum or 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). The Company had deferred compensation plan assets of approximately \$1,429 and \$1,778 as of December 31, 2011 and 2010, respectively. The change in the liability associated with the deferred compensation plan is recorded in the deferred compensation payable.

## NOTE 13: COMMITMENTS AND CONTINGENCIES

### Contractual Obligations

The Company leases certain facilities and equipment used in its operations and accounts for leases with escalating payments using the straight-line method. The Company incurred expenses of approximately \$6,177, \$6,174 and \$5,948 in connection with operating leases during 2011, 2010 and 2009, respectively. The approximate aggregate commitments under non-cancelable operating leases in effect at December 31, 2011 were as follows:

| Year Ending December 31, |                  |
|--------------------------|------------------|
| 2012                     | \$ 3,868         |
| 2013                     | 3,366            |
| 2014                     | 2,759            |
| 2015                     | 1,788            |
| 2016                     | 1,475            |
| Thereafter               | 2,152            |
| Total                    | <u>\$ 15,408</u> |

The Company enters into contracts with suppliers to ensure the availability of both botanical and non-botanical raw materials, as well as packing materials, in advance of its annual requirements. As of December 31, 2011, the Company has entered into non-cancelable purchase agreements for \$11,626 related to fiscal year 2012 production needs.

The Company has entered into long-term agreements with third-parties in the ordinary course of business, in which it has agreed to pay a percentage of net sales in certain regions in which it operates, or royalties on certain products. In 2011, 2010 and 2009, the aggregate amounts of these payments were \$8,360, \$2,987 and \$3,963, respectively.

### Legal Proceedings

The Company is party to various legal proceedings, including those noted below. Management cannot predict the ultimate outcome of these proceedings, individually or in the aggregate, or their resulting effect on the Company's business, financial position, results of operations or cash flows as litigation and related matters are subject to inherent uncertainties, and unfavorable rulings could occur. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the business, financial position, results of operations, or cash flows for the period in which the ruling occurs and/or future periods. The Company maintains directors' and officers' liability, product liability, general liability and excess liability insurance coverage. However, no assurances can be given that such insurance will continue to be available at an acceptable cost to the Company, that such coverage will be sufficient to cover one or more large claims, or that the insurers will not successfully disclaim coverage as to a pending or future claim.

### NutriPlus LLC Arbitration

In 1999 and 2000, the Company and NutriPlus LLC (“NutriPlus”) entered into an Asset Purchase Agreement and subsequent Settlement Agreement (together the “Purchase Agreement”) under which the Company acquired certain assets in order to establish its Russian business, and NutriPlus acquired rights to receive certain royalty payments from the Company expressed as a percentage of the Company’s net sales in its Russian business.

On July 12, 2010, the Company submitted a demand for arbitration to the American Arbitration Association (the “AAA”) naming NutriPlus as respondent. The Company sought a declaration of its rights and obligations, including with respect to royalty payments, and the calculation thereof, arising out of the Purchase Agreement.

On July 20, 2010, NutriPlus submitted its own demand for arbitration to the AAA naming the Company as respondent. NutriPlus alleged that the Company underpaid NutriPlus for royalties arising out of the Purchase Agreement. In arbitration, NutriPlus sought damages related to the alleged underpayment and a declaratory judgment with respect to the method the Company must use in determining the amount of royalties to pay NutriPlus in the future.

The arbitration demands were consolidated into a single proceeding, and the hearing was scheduled for July 2011.

On July 8, 2011, the Company and NutriPlus entered into a settlement agreement, wherein both parties settled all claims in the arbitration and bore their own costs associated with the arbitration. As a result of the settlement, the Company agreed to pay NutriPlus \$21,700 for the release of all past and future royalty obligations. Of the \$21,700, the Company applied \$6,950 toward

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previously accrued and expensed but unpaid royalties, and \$14,750 in exchange for the contract termination and extinguishment of future royalty obligations.

For the year ended December 31, 2010, the Company recorded and expensed royalty payments to NutriPlus of approximately \$5.6 million (included in selling, general and administrative expenses), which was approximately 4.0 percent of NSP International’s revenue and 1.6 percent of the Company’s consolidated revenue. For the year ended December 31, 2011, the Company recorded and expensed royalty payments to NutriPlus of approximately \$2.9 million, which was approximately 2.1 percent of NSP International’s revenue and 0.8 percent of the Company’s consolidated revenue.

**Other Litigation**

The Company is party to various other legal proceedings in several foreign jurisdictions related to VAT assessments and other civil litigation. While there is a reasonable possibility that a material loss may be incurred, the Company cannot at this time estimate the loss, if any; therefore, no provision for losses has been provided. The Company believes future payments related to these matters could range from \$0 to approximately \$700.

One of the Company’s foreign subsidiaries was a defendant in litigation regarding primarily employee-related matters. The Company recorded accruals of approximately \$200 related to this litigation at December 31, 2010, which was included in accrued liabilities. The litigation was subsequently settled in 2011 for approximately \$150.

**Non-Income Tax Contingencies**

The Company has reserved for certain state sales and use tax and foreign non-income tax contingencies based on the likelihood of an obligation in accordance with accounting guidance for probable loss contingencies. Loss contingency provisions are recorded for probable losses at management’s best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. The Company provides provisions for potential payments of tax to various tax authorities for contingencies related to non-income tax matters, including value added taxes and sales tax. The Company provides provisions for U.S. state sales taxes in each of the states where the Company has nexus. As of December 31, 2011 and 2010, accrued liabilities include \$6,921 and \$10,235, respectively, related to non-income tax contingencies. While management believes that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of those matters cannot presently be determined. The Company is not able at this time to predict the ultimate outcomes of those matters or to estimate the effect the ultimate outcomes, if greater than the amounts accrued, would have on the financial condition, results of operations or cash flows of the Company.

**Self-Insurance Liabilities**

Similar to other manufacturers and distributors of products that are ingested, the Company faces an inherent risk of exposure to product liability claims in the event that, among other things, the use of its products results in injury. The Company carries insurance in the types and amounts it considers reasonably adequate to cover the risks associated with its business. The Company has a wholly owned captive insurance company to provide it with product liability insurance coverage. The Company has accrued an amount that it believes is sufficient to cover probable and reasonably estimable liabilities related to product liability claims based on the Company’s history of such claims. However, there can be no assurance that these estimates will prove to be sufficient, nor can there be any assurance that the ultimate outcome of any litigation for product liability will not have a material negative impact on the Company’s business prospects, financial position, results of operations or cash flows.

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

The Company reviews its self-insurance accruals on a quarterly basis and determines, based upon a review of its recent claims history and other factors, which portions of its self-insurance accruals should be considered short-term and long-term. The Company has accrued \$2,892 and \$3,621 for product liability and employee medical claims at December 31, 2011 and 2010, respectively, of which \$489 and \$1,011 was classified as short-term. Such amounts are included in accrued liabilities and other long-term liabilities on the Company’s consolidated balance sheets.

**Government Regulations**

The Company is subject to governmental regulations pertaining to product formulation, labeling and packaging, product claims and advertising, and to the Company’s direct selling system. The Company is also subject to the jurisdiction of numerous foreign tax and customs authorities. Any assertions or determinations that either the Company or the Company’s Distributors are not in compliance with existing statutes, laws, rules or regulations could potentially have a material adverse effect on the Company’s operations. In addition, in any country or jurisdiction, the adoption of new statutes, laws, rules or regulations, or

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changes in the interpretation of existing statutes, laws, rules or regulations could have a material adverse effect on the Company and its operations. Although management believes that the Company is in compliance, in all material respects, with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company’s compliance with applicable statutes, laws, rules and regulations will not be challenged by foreign authorities or that such challenges will not have a material adverse effect on the Company’s financial position, results of operations or cash flows.

**NOTE 14: OPERATING BUSINESS SEGMENT AND INTERNATIONAL OPERATION INFORMATION**

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

The Company has two business segments that operate under the Nature's Sunshine Products brand and are divided based on their geographic operations in the United States (NSP United States) and in countries outside the United States (NSP International). The Company's third business segment operates under the Synergy Worldwide brand, which distributes its products through different marketing and distributor compensation plans and products with formulations that are sufficiently different from those of the NSP United States and NSP International to warrant accounting for these operations as a separate business segment. Net sales revenues for each segment have been reduced by intercompany sales as they are not included in the measure of segment profit or loss reviewed by the chief executive officer. The Company evaluates performance based on operating income (loss) by segment before consideration of certain inter-segment transfers and expenses.

Reportable business segment information for the years ended December 31, 2011, 2010 and 2009 is as follows:

| Year Ended December 31,                  | 2011             | 2010             | 2009             |
|--|------------------|------------------|------------------|
| <b>Net Sales Revenue:</b>                |                  |                  |                  |
| Nature's Sunshine Products:              |                  |                  |                  |
| United States                            | \$ 138,237       | \$ 141,543       | \$ 146,781       |
| International                            | 135,661          | 139,811          | 139,446          |
|  | <u>273,898</u>   | <u>281,354</u>   | <u>286,227</u>   |
| Synergy Worldwide                        | 93,915           | 68,564           | 55,884           |
| Total net sales revenue                  | <u>367,813</u>   | <u>349,918</u>   | <u>342,111</u>   |
| <b>Operating Expenses:</b>               |                  |                  |                  |
| Nature's Sunshine Products:              |                  |                  |                  |
| United States                            | 125,920          | 135,216          | 139,100          |
| International                            | 137,333          | 136,535          | 136,272          |
|  | <u>263,253</u>   | <u>271,751</u>   | <u>275,372</u>   |
| Synergy Worldwide                        | 84,395           | 66,904           | 54,306           |
| Total operating expenses                 | <u>347,648</u>   | <u>338,655</u>   | <u>329,678</u>   |
| <b>Operating Income (Loss):</b>          |                  |                  |                  |
| Nature's Sunshine Products:              |                  |                  |                  |
| United States                            | 12,317           | 6,327            | 7,681            |
| International                            | (1,672)          | 3,276            | 3,174            |
|  | <u>10,645</u>    | <u>9,603</u>     | <u>10,855</u>    |
| Synergy Worldwide                        | 9,520            | 1,660            | 1,578            |
| Total operating income                   | <u>20,165</u>    | <u>11,263</u>    | <u>12,433</u>    |
| Other Income, net                        | 1,847            | 2,727            | 2,331            |
| Income Before Provision for Income Taxes | <u>\$ 22,012</u> | <u>\$ 13,990</u> | <u>\$ 14,764</u> |

NSP International's operating loss of \$1,672 for the year ended December 31, 2011, includes \$14,750 of contract termination costs related to the Company's arbitration settlement with NutriPlus LLC (described further in Note 13, Commitments and Contingencies).

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The Company moved the reporting of its Dominican Republic market from NSP United States to NSP International during the year ended December 31, 2011, and has made conforming changes to the results presented above for the prior year periods. The net sales revenue and operating loss of this market for the year ended December 31, 2010 were \$3,879 and (\$467), respectively. The net sales revenue and operating loss of this market for the year ended December 31, 2009 were \$5,008 and (\$1,083), respectively.

| Year Ended December 31,               | 2011            | 2010            | 2009            |
|---------------------------------------|-----------------|-----------------|-----------------|
| <b>Capital Expenditures:</b>          |                 |                 |                 |
| Nature's Sunshine Products:           |                 |                 |                 |
| United States                         | \$ 744          | \$ 1,717        | \$ 2,007        |
| International                         | 315             | 181             | 535             |
|                                       | <u>1,059</u>    | <u>1,898</u>    | <u>2,542</u>    |
| Synergy Worldwide                     | 1,183           | 779             | 296             |
| Total capital expenditures            | <u>\$ 2,242</u> | <u>\$ 2,677</u> | <u>\$ 2,838</u> |
| <b>Depreciation and Amortization:</b> |                 |                 |                 |
| Nature's Sunshine Products:           |                 |                 |                 |
| United States                         | \$ 2,968        | \$ 2,920        | \$ 2,908        |
| International                         | 902             | 824             | 692             |
|                                       | <u>3,870</u>    | <u>3,744</u>    | <u>3,600</u>    |
| Synergy Worldwide                     | 492             | 510             | 901             |
| Total depreciation and amortization   | <u>\$ 4,362</u> | <u>\$ 4,254</u> | <u>\$ 4,501</u> |

| As of December 31,         | 2011              | 2010              |
|----------------------------|-------------------|-------------------|
| <b>Assets:</b>             |                   |                   |
| Nature's Sunshine Products |                   |                   |
| United States              | \$ 88,575         | \$ 81,235         |
| International              | 44,938            | 42,256            |
|                            | <u>133,513</u>    | <u>123,491</u>    |
| Synergy Worldwide          | 42,298            | 35,924            |
| Total Assets               | <u>\$ 175,811</u> | <u>\$ 159,415</u> |

From an individual country perspective, only the United States comprises approximately 10 percent or more of consolidated net sales revenue for any of the years ended December 31, 2011, 2010 and 2009 as follows:



| Year Ended December 31, | 2011              | 2010              | 2009              |
|-------------------------|-------------------|-------------------|-------------------|
| Net Sales Revenue:      |                   |                   |                   |
| United States           | \$ 159,471        | \$ 156,767        | \$ 154,217        |
| Other                   | 208,342           | 193,151           | 187,894           |
| Total Net Sales Revenue | <u>\$ 367,813</u> | <u>\$ 349,918</u> | <u>\$ 342,111</u> |

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Revenue generated by each of the Company's product lines is set forth below (U.S. dollars in thousands):

| Year Ended December 31,                                | 2011              | 2010              | 2009              |
|--|-------------------|-------------------|-------------------|
| NSP United States:                                     |                   |                   |                   |
| Herbal Products  | \$ 73,467         | \$ 67,792         | \$ 71,130         |
| Vitamins and Mineral and Other Nutritional Supplements | 56,442            | 64,441            | 64,767            |
| Personal Care Products                                 | 4,361             | 4,324             | 4,598             |
| Other Products   | 3,967             | 4,986             | 6,286             |
|  | <u>138,237</u>    | <u>141,543</u>    | <u>146,781</u>    |
| NSP International:                                     |                   |                   |                   |
| Herbal Products  | \$ 73,560         | \$ 77,606         | \$ 79,951         |
| Vitamins and Mineral and Other Nutritional Supplements | 49,734            | 51,827            | 47,405            |
| Personal Care Products                                 | 10,621            | 8,238             | 9,689             |
| Other Products   | 1,746             | 2,140             | 2,401             |
|  | <u>135,661</u>    | <u>139,811</u>    | <u>139,446</u>    |
| Synergy WorldWide:                                     |                   |                   |                   |
| Herbal Products  | \$ 33,563         | \$ 28,045         | \$ 26,395         |
| Vitamins and Mineral and Other Nutritional Supplements | 50,936            | 32,296            | 19,256            |
| Personal Care Products                                 | 7,526             | 6,542             | 7,838             |
| Other Products   | 1,890             | 1,681             | 2,395             |
|  | <u>93,915</u>     | <u>68,564</u>     | <u>55,884</u>     |
| Total Net Sales Revenue                                | <u>\$ 367,813</u> | <u>\$ 349,918</u> | <u>\$ 342,111</u> |

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

| As of December 31                   | 2011             | 2010             |
|-------------------------------------|------------------|------------------|
| Property, plant and equipment       |                  |                  |
| United States                       | \$ 18,119        | \$ 20,350        |
| Venezuela                           | 3,939            | 4,353            |
| Other                               | 3,079            | 2,688            |
| Total property, plant and equipment | <u>\$ 25,137</u> | <u>\$ 27,391</u> |

**NOTE 15: RELATED PARTY TRANSACTIONS**

The Company maintains split-dollar life insurance policies on certain executives. The cash surrender value of \$51 and \$56 related to such policies is recorded in other assets as of December 31, 2011 and 2010, respectively.

Mr. Eugene Hughes, a former member of the Company's Board of Directors and a shareholder, retired as an employee of the Company effective as of December 22, 2008. Prior to his retirement, the Company and Mr. Hughes entered into a Retirement and Consulting Agreement, dated as of December 9, 2008, pursuant to which Mr. Hughes provides consulting services to the Company for an initial term of eight years following his retirement. In exchange for such consulting services, Mr. Hughes will receive (i) annual compensation of \$215 for the first two years of service, (ii) annual compensation of \$100 for the remainder of the initial term, (iii) annual compensation of \$50 after the initial term, and (iv) certain medical and life insurance benefits.

**NOTE 16: FAIR VALUE**

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

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data

The following table presents the Company's hierarchy for its asset measured at fair value on a recurring basis as of December 31, 2011:

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|                                | Level 1<br>Quoted Prices<br>in Active<br>Markets for<br>Identical Assets | Level 2<br>Significant<br>Other<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs | Total    |
|--------------------------------|--|---|--|----------|
| Investments available-for-sale |  |   |  |          |
| Municipal obligations          | \$ —   | \$ 1,209  | \$ —   | \$ 1,209 |
| U.S. government security funds | 983  | —   | —  | 983      |
| Short-term deposits            | —  | 3,104   | —  | 3,104    |
| Equity securities              | 381  | —   | —  | 381      |

|  |                 |                 |             |                 |
|--|-----------------|-----------------|-------------|-----------------|
| Investment securities                                    | 1,429           | —               | —           | 1,429           |
| Total assets measured at fair value on a recurring basis | <u>\$ 2,793</u> | <u>\$ 4,313</u> | <u>\$ —</u> | <u>\$ 7,106</u> |

The following table presents the Company's hierarchy for its assets measured at fair value on a recurring basis as of December 31, 2010:

|  | <u>Level 1</u><br>Quoted Prices<br>in Active<br>Markets for<br>Identical Assets | <u>Level 2</u><br>Significant<br>Other<br>Observable<br>Inputs | <u>Level 3</u><br>Significant<br>Unobservable<br>Inputs | <u>Total</u>    |
|--|---|--|---|-----------------|
| Investments available-for-sale                           |   |  |   |                 |
| Municipal obligations                                    | \$ —  | \$ 1,960   | \$ —  | \$ 1,960        |
| U.S. government security funds                           | 974   | —  | —   | 974             |
| Short-term deposits                                      | —   | 3,148  | —   | 3,148           |
| Equity securities  | 388   | —  | —   | 388             |
| Investment securities                                    | 1,778   | —  | —   | 1,778           |
| Total assets measured at fair value on a recurring basis | <u>\$ 3,140</u>   | <u>\$ 5,108</u>  | <u>\$ —</u>   | <u>\$ 8,248</u> |

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

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

For the years ended December 31, 2011 and 2010, there were no fair value measurements using significant unobservable inputs (Level 3).

The carrying amounts reflected on the consolidated balance sheet for cash and cash equivalents, accounts and notes receivable, and accounts payable approximate fair value due to their short-term nature. The carrying amount reflected in the consolidated balance sheet for long-term debt approximates fair value due to the interest rate on the debt being variable based on current market rates. During the year ended December 31, 2011 and 2010, the Company did not have any write-offs related to the re-measurement of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

#### NOTE 17: SUMMARY OF QUARTERLY OPERATIONS — UNAUDITED

The following tables presents the Company's unaudited summary of quarterly operations during 2011 and 2010 for each of three month periods ended March 31, June 30, September 30, and December 31 (amounts in thousands).

|                                     | <u>For the Quarter Ended</u>    |                                |                                     |                                    |
|-------------------------------------|---------------------------------|--------------------------------|-------------------------------------|------------------------------------|
|                                     | <u>March 31,</u><br><u>2011</u> | <u>June 30,</u><br><u>2011</u> | <u>September</u><br><u>30, 2011</u> | <u>December</u><br><u>31, 2011</u> |
| Net sales revenue                   | \$ 92,844                       | \$ 91,811                      | \$ 91,102                           | \$ 92,056                          |
| Cost of goods sold                  | 18,552                          | 17,129                         | 16,879                              | 16,850                             |
| Gross profit                        | 74,292                          | 74,682                         | 74,223                              | 75,206                             |
| Volume incentives                   | 34,298                          | 33,390                         | 32,733                              | 33,462                             |
| Selling, general and administrative | 32,373                          | 33,240                         | 31,845                              | 32,147                             |
| Contract termination costs          | —                               | —                              | 14,750                              | —                                  |
| Operating income (loss)             | 7,621                           | 8,052                          | (5,105)                             | 9,597                              |
| Other income (expense)              | 265                             | (420)                          | 1,204                               | 798                                |
| Income (loss) before income taxes   | 7,886                           | 7,632                          | (3,901)                             | 10,395                             |
| Tax provision (benefit)             | 1,264                           | 2,018                          | (1,645)                             | 2,774                              |
| Net income (loss)                   | <u>\$ 6,622</u>                 | <u>\$ 5,614</u>                | <u>\$ (2,256)</u>                   | <u>\$ 7,621</u>                    |

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#### Basic and diluted net income (loss) per common share

|                   |      |      |        |      |
|-------------------|------|------|--------|------|
| Basic:            |      |      |        |      |
| Net income (loss) | 0.43 | 0.36 | (0.14) | 0.49 |
| Diluted:          |      |      |        |      |
| Net income (loss) | 0.43 | 0.36 | (0.14) | 0.48 |

|  | <u>For the Quarter Ended</u>    |                                |                                     |                                    |
|--|---------------------------------|--------------------------------|-------------------------------------|------------------------------------|
|  | <u>March 31,</u><br><u>2010</u> | <u>June 30,</u><br><u>2010</u> | <u>September</u><br><u>30, 2010</u> | <u>December</u><br><u>31, 2010</u> |
| Net sales revenue                            | \$ 86,790                       | \$ 87,143                      | \$ 86,096                           | \$ 89,889                          |
| Cost of goods sold                           | 17,917                          | 16,759                         | 16,632                              | 17,732                             |
| Gross profit                                 | 68,873                          | 70,384                         | 69,464                              | 72,157                             |
| Volume incentives                            | 32,551                          | 32,546                         | 32,065                              | 33,205                             |
| Selling, general and administrative          | 35,752                          | 34,565                         | 33,523                              | 35,408                             |
| Operating income (loss)                      | 570                             | 3,273                          | 3,876                               | 3,544                              |
| Other income (expense)                       | 2,901                           | (902)                          | 375                                 | 353                                |
| Income (loss) before income taxes            | 3,471                           | 2,371                          | 4,251                               | 3,897                              |
| Tax provision (benefit)                      | (1,300)                         | 965                            | 1,573                               | 4,283                              |
| Net income (loss) from continuing operations | 4,771                           | 1,406                          | 2,678                               | (386)                              |
| Income (loss) from discontinued operations   | (618)                           | (352)                          | (8,418)                             | (314)                              |
| Net income (loss)                            | <u>\$ 4,153</u>                 | <u>\$ 1,054</u>                | <u>\$ (5,740)</u>                   | <u>\$ (700)</u>                    |

#### Basic and diluted net income (loss) per common share

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Basic:                                       |        |        |        |        |
| Net income (loss) from continuing operations | 0.31   | 0.09   | 0.17   | (0.02) |
| Loss from discontinued operations            | (0.04) | (0.02) | (0.54) | (0.02) |
| Net income (loss)                            | 0.27   | 0.07   | (0.37) | (0.04) |
| Diluted:                                     |        |        |        |        |
| Net income (loss) from continuing operations | 0.31   | 0.09   | 0.17   | (0.02) |
| Loss from discontinued operations            | (0.04) | (0.02) | (0.54) | (0.02) |
| Net income (loss)                            | 0.27   | 0.07   | (0.37) | (0.04) |

Basic and diluted income (loss) per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly net loss per share may not equal the total computed for the year.

#### Item 9. Change In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

#### Item 9A. Controls and Procedures

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). See Exhibits 31.1 and 31.2. This Item 9A includes information concerning the controls and control evaluations referred to in those certifications.

##### Overview

Management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company.

The following discussion sets forth a summary of management's evaluation of our disclosure controls and procedures as of December 31, 2011. In addition, this item provides a discussion of management's evaluation of disclosure controls and procedures.

Our independent registered public accountants have also issued an audit report on our internal control over financial reporting. This report appears below.

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#### Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in rules and forms adopted by the SEC, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of our Annual Report as of December 31, 2011, our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2011.

#### Evaluation of Internal Control over Financial Reporting

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's assessment under this framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that occurred during the fourth quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Nature's Sunshine Products, Inc.:

We have audited the internal control over financial reporting of Nature's Sunshine Products, Inc. and subsidiaries (the "Company") as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2011 of the Company and our report dated March 5, 2012 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule.

Deloitte & Touche LLP

Salt Lake City, Utah  
March 5, 2012

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**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 31, 2011, except that the information required with respect to our executive officers is set forth under Item 1. "Business", of this Annual Report on Form 10-K, and is incorporated herein by reference.

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 31, 2011.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 31, 2011.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 31, 2011.

**Item 14. Principal Accountant Fees and Services.**

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 31, 2011.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(a)(1) List of Financial Statements**

The following are filed as part of this report:

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets as of December 31, 2011 and 2010

Consolidated statements of operations for the years ended December 31, 2011, 2010, and 2009

Consolidated statements of changes in shareholders' equity and comprehensive income (loss) for the years ended December 31, 2011, 2010, and 2009

Consolidated statements of cash flows for the years ended December 31, 2011, 2010, and 2010

Notes to consolidated financial statements

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

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 elsewhere in this report.

(a)(3) **List of Exhibits**

Exhibit Index as seen below

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**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.**

Date: **March 5, 2012**

By: /s/ Michael D. Dean

Michael D. Dean,  
Chief Executive Officer

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.

| <u>Signature</u>                                    | <u>Title</u>  | <u>Date</u>   |
|---|---|---------------|
| <u>/s/ Kristine F. Hughes</u><br>Kristine F. Hughes | Chair of the Board and Director   | March 5, 2012 |
| <u>/s/ Michael D. Dean</u><br>Michael D. Dean       | Chief Executive Officer and Director  | March 5, 2012 |
| <u>/s/ Gregory L. Probert</u><br>Gregory L. Probert | Executive Vice Chairman and Director  | March 5, 2012 |
| <u>/s/ Stephen M. Bunker</u><br>Stephen M. Bunker   | Executive Vice President,<br>Chief Financial Officer and Treasurer, Chief<br>Accounting Officer | March 5, 2012 |
| <u>/s/ Albert R. Dowden</u><br>Albert R. Dowden     | Director  | March 5, 2012 |
| <u>/s/ Mark R. Genender</u><br>Mark R. Genender     | Director  | March 5, 2012 |
| <u>/s/ Robert B. Mercer</u><br>Robert B. Mercer     | Director  | March 5, 2012 |
| <u>/s/ Willem Mesdag</u><br>Willem Mesdag           | Director  | March 5, 2012 |
| <u>/s/ Jeffrey D. Watkins</u><br>Jeffrey D. Watkins | Director  | March 5, 2012 |

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**NATURE'S SUNSHINE PRODUCTS, INC.**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009**  
*(Amounts in thousands)*

| <u>Description</u>                         | <u>Balance at Beginning of Year</u> | <u>Provisions</u> | <u>Amounts Written Off</u> | <u>Amounts Recovered</u> | <u>Effect of Currency Translation</u> | <u>Balance at End of Year</u> |
|--|-------------------------------------|-------------------|----------------------------|--------------------------|---------------------------------------|-------------------------------|
| <b>Year ended December 31, 2011</b>        |                                     |                   |                            |                          |                                       |                               |
| Allowance for doubtful accounts receivable | \$ 918                              | \$ (133)          | \$ (174)                   | \$ 12                    | \$ 24                                 | \$ 647                        |
| Allowance for sales returns                | 90                                  | 625               | (606)                      | —                        | —                                     | 109                           |
| Allowance for obsolete inventory           | 2,397                               | 732               | (1,057)                    | 10                       | 1                                     | 2,083                         |

|  |          |         |            |      |        |          |
|--|----------|---------|------------|------|--------|----------|
| Tax valuation allowance                    | 12,282   | (2,390) | (56)       | —    | —      | 9,836    |
| <b>Year ended December 31, 2010</b>        |          |         |            |      |        |          |
| Allowance for doubtful accounts receivable | \$ 1,840 | \$ 213  | \$ (1,148) | \$ — | \$ 13  | \$ 918   |
| Allowance for sales returns                | 55       | 640     | (605)      | —    | —      | 90       |
| Allowance for obsolete inventory           | 2,833    | 1,196   | (1,605)    | —    | (27)   | 2,397    |
| Tax valuation allowance                    | 18,662   | 302     | (6,706)    | —    | 24     | 12,282   |
| <b>Year ended December 31, 2009</b>        |          |         |            |      |        |          |
| Allowance for doubtful accounts receivable | \$ 1,472 | \$ 219  | \$ (69)    | \$ — | \$ 218 | \$ 1,840 |
| Allowance for sales returns                | 55       | 145     | (145)      | —    | —      | 55       |
| Allowance for obsolete inventory           | 3,286    | 1,062   | (1,524)    | —    | 9      | 2,833    |
| Tax valuation allowance                    | 13,986   | 5,870   | (1,234)    | —    | —      | 18,662   |

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**LIST OF EXHIBITS**

| Item No.  | Exhibit   |
|-----------|---|
| 3.1(1)    | Amended and Restated Articles of Incorporation.   |
| 3.2(1)    | Amended and Restated By-laws.   |
| 10.1(1)*  | Nature's Sunshine Products, Inc. Tax Deferred Retirement Plan, as restated as of March 1, 2008.   |
| 10.2(1)*  | Nature's Sunshine Products, Inc. Supplemental Elective Deferral Plan, as restated effective as of January 1, 2008.                              |
| 10.3(1)*  | 1995 Stock Option Plan, as amended.   |
| 10.4(1)*  | Form of Stock Option Agreement (1995 Stock Option Plan).  |
| 10.5(1)*  | Employment Agreement, dated as of April 16, 2001, by and between Nature's Sunshine Products, Inc. and William J. Keller.                        |
| 10.6(3)*  | Employment Agreement, dated as of December 21, 2007, between Nature's Sunshine Products, Inc. and Stephen M. Bunker.                            |
| 10.7(2)*  | Amendment to Employment Agreement, dated as of December 30, 2008, by and between Nature's Sunshine Products, Inc. and Stephen M. Bunker.        |
| 10.8(3)*  | Employment Agreement, dated as of December 21, 2007, by and between Nature's Sunshine Products, Inc. and Bryant J. Yates.                       |
| 10.9(2)*  | Amendment to Employment Agreement, dated as of December 30, 2008, by and between Nature's Sunshine Products, Inc. and Bryant J. Yates.          |
| 10.10(2)* | Employment Agreement, dated as of December 30, 2008, by and between Nature's Sunshine Products, Inc. and John DeWyze.                           |
| 10.11(4)* | Retirement and Consulting Agreement, dated as of December 9, 2008, by and between Nature's Sunshine Products, Inc. and Eugene Hughes.           |
| 10.12(5)* | Employment Agreement, dated as of December 21, 2007, by and between Nature's Sunshine Products, Inc. and Jamon Jarvis.                          |
| 10.13(5)* | Amendment to Employment Agreement, dated as of December 30, 2008, by and between Nature's Sunshine Products, Inc. and Jamon Jarvis.             |
| 10.14(6)  | 2009 Stock Incentive Plan   |
| 10.15(9)  | Form of Award Agreement (2009 Stock Incentive Plan)   |
| 10.16(7)  | First Amendment to Employment Agreement and Form of Consulting Agreement, dated March 12, 2010, by and between the Company and Douglas Faggioli |
| 10.17(7)  | Employment Agreement, dated March 12, 2010, by and between the Company and Michael D. Dean  |
| 10.18(7)  | Stock Option Agreement, dated March 12, 2010, by and between the Company and Michael D. Dean  |
| 10.19(8)  | Employment Agreement, dated June 17, 2011, by and between the Company and Gregory L. Probert  |
| 10.20(8)  | Stock Option Agreement, dated June 17, 2011, by and between the Company and Gregory L. Probert  |
| 10.21(9)  | Employment Agreement, dated January 25, 2012, by and between the Company and D. Wynne Roberts   |
| 10.22(9)  | Stock Option Agreement, dated February 6, 2012, by and between the Company and D. Wynne Roberts   |
| 14(1)     | Nature's Sunshine Products, Inc. Code of Conduct.   |
| 21(10)    | List of Subsidiaries of Registrant.   |
| 23.1(10)  | Consent of Independent Registered Public Accounting Firm.   |
| 31.1(10)  | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.                      |
| 31.2(10)  | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.                      |
| 32.1(11)  | Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.  |
| 32.2(11)  | Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.  |
| 101.INS** | XBRL Instance Document  |
| 101.SCH** | XBRL Taxonomy Extension Schema Document   |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document  |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document  |

\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statement of Operations for the years ended December 31, 2011, 2010 and 2009, (ii) the Consolidated Balance Sheets as of December 31, 2011 and 2010, the (iii) Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2011, 2010 and 2009 and (iv) the Consolidated Statement of Cash Flows for the years ended December 31, 2011, 2010 and 2009. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

- (1) Previously filed with the SEC on November 9, 2009 as an exhibit to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 and is incorporated herein by reference.
- (2) Previously filed with the SEC on January 12, 2009 as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
- (3) Previously filed with the SEC on December 31, 2007 as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
- (4) Previously filed with the SEC on February 12, 2009 as an exhibit to the registration statement on Form 10 and is incorporated herein by reference.

- (5) Previously filed with the SEC on March 20, 2009 as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 2008 and is incorporated herein by reference.
- (6) Previously filed with the SEC on October 19, 2009 as Appendix C, an exhibit to the Registrant's Proxy Statement and is incorporated herein by reference.
- (7) Filed with the SEC on March 16, 2010 as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
- (8) Filed with the SEC on June 22, 2012 as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.

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- (9) Filed with the SEC on February 23, 2012 as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
- (10) Filed herewith.
- (11) Furnished herewith.
  
- \* Management contract or compensatory plan.

## 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 Direct, Inc.                    | Utah                          |
| NSP Casualty Insurance Company, Inc.                       | Hawaii                        |
| Nature's Sunshine Products of Canada, Ltd.                 | Canada                        |
| Nature's Sunshine Products de Mexico, S.A. de C.V.         | Mexico                        |
| Arrendadora Bonaventure, S.A. de C.V.                      | Mexico                        |
| Nature's Sunshine Services, 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 Marketing, Ltda.                         | Brazil                        |
| Nature's Sunshine Products, Japan G.K.                     | Japan                         |
| Nature's Sunshine Products N.S.P. de Venezuela, C.A.       | Venezuela                     |
| NSP de Centroamérica, S.A.                                 | Costa Rica                    |
| Nature's Sunshine Products de Panamá, S.A.                 | Panama                        |
| NSP 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                          |
| Nature's Sunshine Products del Ecuador, S.A.               | Ecuador                       |
| Nature's Sunshine Products de Honduras, S.A. de C.V.       | Honduras                      |
| Nature's Sunshine Products de Nicaragua, S.A.              | Nicaragua                     |
| Nature's Sunshine Products (Israel) Ltd.                   | Israel                        |
| Nature's Sunshine Products of Russia, Inc.                 | Utah                          |
| Nature's Sunshine Products Poland Sp. z.o.o.               | Poland                        |
| Nature's Sunshine Products Dominicana, S. R. L.            | Dominican Republic            |
| Nature's Sunshine Products International Distribution B.V. | Netherlands                   |
| Nature's Sunshine Products International Holdings C.V.     | Netherlands                   |
| Consolidated Distribution Network, Inc.                    | Utah                          |
| Quality Nutrition International, Inc.                      | Utah                          |
| Synergy Taiwan Inc.  | Utah                          |
| Synergy WorldWide Inc.                                     | Utah                          |
| Synergy WorldWide Marketing (Thailand) Ltd.                | Thailand                      |
| Synergy WorldWide Australia PTY Ltd.                       | Australia                     |
| Synergy WorldWide Korea Ltd.                               | Korea                         |
| Synergy WorldWide Japan G.K.                               | Japan                         |
| Synergy WorldWide (S) PTE Ltd.                             | Singapore                     |
| Synergy WorldWide Nutrition Israel Ltd.                    | Israel                        |
| Synergy WorldWide (HK)Ltd.                                 | Hong Kong                     |
| PT Nature's Sunshine Products Indonesia                    | Indonesia                     |
| Synergy WorldWide Japan Ltd. (Y.K.)                        | Japan                         |
| NATR Distribution (M) SDN. BHD                             | Malaysia                      |
| Synergy WorldWide Europe B.V.                              | Netherlands                   |
| Synergy WorldWide Philippines Distribution Inc.            | Philippines                   |
| Synergy Vietnam Co., Ltd.                                  | Vietnam                       |
| Synergy WorldWide Mexico, S.A. de C.V.                     | Mexico                        |
| Nature's Sunshine Products, Inc. United Kingdom/Ireland    | (branch office)               |
| *Synergy WorldWide Marketing SDN BHD                       | Malaysia                      |
| *Nature's Sunshine (Far East) Limited                      | Hong Kong                     |
| *Shanghai Nature's Sunshine Health Products Co. Ltd. China | China                         |
| **Synergy WorldWide, Inc. (Philippines)                    | Philippines                   |
| **P.T. Synergy WorldWide Indonesia                         | Indonesia                     |

\*Held in trust for NSP by local counsel

\*\*Held in trust by Nominee Shareholders

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



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 033-59497, 333-08139, 333-117916, 333-126166, and 333-164054 on Forms S-8 of our reports dated March 5, 2012, relating to the consolidated financial statements and financial statement schedule of Nature's Sunshine Products, Inc. and subsidiaries and the effectiveness of Nature's Sunshine Products, Inc. and subsidiaries' internal control over financial reporting appearing in this Annual Report on Form 10-K of Nature's Sunshine Products, Inc. and subsidiaries for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 5, 2012

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## CERTIFICATIONS

I, Michael D. Dean, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2011 of Nature's Sunshine Products, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael D. Dean  
Chief Executive Officer  
March 5, 2012

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## CERTIFICATIONS

I, Stephen M. Bunker, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2011 of Nature's Sunshine Products, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stephen M. Bunker  
Executive Vice President, Chief Financial Officer and Treasurer  
March 5, 2012

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF  
NATURE'S SUNSHINE PRODUCTS, INC.  
PURSUANT TO 18 U.S.C. § 1350**

In connection with the Annual Report on Form 10-K of Nature's Sunshine Products, Inc. (the "Company") for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael D. Dean, Chief Executive Officer of the Company, hereby certify that, pursuant to the 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael D. Dean

Michael D. Dean  
Chief Executive Officer  
March 5, 2012

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER OF  
NATURE'S SUNSHINE PRODUCTS, INC.  
PURSUANT TO 18 U.S.C. § 1350**

In connection with the Annual Report on Form 10-K of Nature's Sunshine Products, Inc. (the "Company") for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Bunker, Executive Vice President, Chief Financial Officer and Treasurer of Nature's Sunshine Products, Inc. (the "Company"), hereby certify that, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stephen M. Bunker

Stephen M. Bunker

Executive Vice President, Chief Financial Officer and Treasurer

March 5, 2012

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