UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the fiscal year ended December 31, 2006.

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

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

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

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.

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 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, 2008 was approximately $82,797,216 based on the closing price of $6.75 as quoted by the National Quotation Bureau's Pink Sheets on June 30, 2008

The number of shares of Common Stock, no par value, outstanding on June 30, 2008 is 15,510,159 shares.

Documents Incorporated by Reference: For items incorporated by reference, see List of Exhibits in Item 15 of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated 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."

EXPLANATORY NOTE

In this Annual Report on Form 10-K, we are restating our consolidated statement of operations, consolidated statement of changes in shareholders' equity and comprehensive income (loss), and consolidated statement of cash flows for the year ended December 31, 2004. An overview of the principal adjustments to our financial statements as a result of the restatement is set forth in Note 2 to our consolidated financial statements, set forth in Item 8 of this Report. We are also providing consolidated balance sheets, consolidated statements of operations, consolidated statements of changes in stockholders' equity and comprehensive income (loss), and consolidated statements of cash flows for the years ended December 31, 2005 and December 31, 2006. The information set forth in such financial statements for the year ended December 31, 2005 has not been previously filed with the United States Securities and Exchange Commission (the "SEC"), and reflects significant adjustments to the financial

statements we filed on Form 10-Q with the SEC for the quarterly periods ended March 31, June 30 and September 30, 2005. The summary of quarterly operations for these periods included in Note 17 to our consolidated financial statements, set forth in Item 8 of this report, has been restated for such adjustments. None of the information set forth in such statements for the year ended December 31, 2006 has been previously filed with the SEC. The restatement of our 2004 and 2005 financial statements reflect changes resulting from errors identified from Management's comprehensive review of its accounting policies, practices, and financial records, including matters identified by the independent investigation, as discussed below. The Company used all available information in determining the impact of adjustments identified as a result of Management's review. The restatement adjustments reduced previously reported net sales revenue, pre-tax income, net income and net income per diluted share by $5.7 million, $2.2 million, $5.3 million, and $0.34 per diluted share, respectively, for the year ended December 31, 2004. In addition, it reduced retained earnings as of January 1, 2004 by $85.0 million, of which $71.8 million was related to a correction in the Company's accounting for the repurchase and retirement of treasury stock resulting in no change in total shareholders' equity.

We are currently preparing and expect to file the following reports with the SEC subsequent to the filing of this Report: (i) Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, and June 30, 2008; and (ii) the Annual Report on Form 10-K for the year ended December 31, 2007.

PREVIOUSLY FILED ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2004 AND QUARTERLY REPORTS ON FORM 10-Q FOR THE QUARTERS ENDED MARCH 31, 2005, JUNE 30, 2005, AND SEPTEMBER 30, 2005, HAVE NOT BEEN AND WILL NOT BE AMENDED AND SHOULD NOT BE RELIED UPON.

Table of Contents

Internal Investigation

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

(i) Quarterly Reports on Form 10-Q for each of the first three fiscal quarters of 2005;

(ii) Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (which includes financial statements as of December 31, 2004 and 2003 and for the fiscal years ended December 31, 2004, 2003 and 2002); and

(iii) Quarterly Reports on Form 10-Q for each of the first three fiscal quarters of 2004, 2003 and 2002.

Change in Certifying Accountant

As previously announced, on March 31, 2006, we received a letter from KPMG LLP ("KPMG") pursuant to which KPMG resigned as our independent registered public accounting firm. Following KPMG's resignation, we began the process of obtaining a new independent registered public accounting firm. On February 2, 2007, our Audit Committee engaged Deloitte & Touche LLP ("Deloitte") to serve as our independent registered public accounting firm.

Failure to Report and Delisting

Due primarily to the dedication of a substantial amount of our resources to the review and assessment of information we received in the course of the internal investigation described above, we have been unable to prepare and file periodic reports for periods ending on or after December 31, 2005 as required by the Exchange Act. As a result of our inability to file such reports, on April 5, 2006, the Nasdaq Listing Qualifications Panel determined to delist our common stock from The Nasdaq National Market.

Since April 2006, our common stock has been listed on the Pink Sheets. We intend to seek to be re-listed on a securities exchange when we become current in our financial reporting. There can be no assurance regarding our ability to satisfy the standards for listing on an exchange or that an exchange will approve our listing. Nor can there be any assurance at this time when the re-listing would occur. Continuing to be quoted only on Pink Sheets could adversely affect the trading market—and potentially the market price—of our common stock.

Summary of Restatement and Adjustments

In this Annual Report on Form 10-K, the Company restated its previously filed consolidated financial statements for the year ended December 31, 2004 and its previously reported December 31, 2003 consolidated common stock, treasury stock, retained earnings, and accumulated other comprehensive loss to recognize corrected items that relate to periods prior to January 1, 2004. Beginning retained earnings as of January 1, 2004 was reduced by $85.0 million, of which $71.8 million was related to a correction in the Company's accounting for the repurchase and retirement of treasury stock, resulting in no net change in shareholders' equity. For the year ended December 31, 2004, the restatement adjustments reduced previously reported net sales revenue, pre-tax income, net income, and net income per diluted share by $5.7 million, $2.2 million, $5.3 million, and $0.34 per diluted share, respectively.

Table of Contents

As a result of additional procedures performed by the Company, 2004 reported net sales revenues and net income were adjusted by the following:

- The Company identified that it had inconsistently classified certain rebates, shipping and handling revenues, and other fees and expenses. These classification matters reduced reported net sales revenue by $1.6 million and a corresponding reduction in operating expenses and other income, with no impact on reported net income;

- The Company reevaluated the timing of revenue recognition of customer orders and determined that title passed to the customer upon delivery, while the Company had previously recorded revenue upon shipment. The Company also had identified certain errors related to membership fees, and customer deposits. These adjustments related to the timing and recognition of certain revenues reduced reported net sales revenue by $1.0 million and reported pre-tax income by $0.9 million;

- The true-up of accounting records for differences between the accounting records of certain foreign subsidiaries and the consolidated financial statements reduced reported net sales revenue by $2.7 million and reported pre-tax income by $0.9 million;

- Other matters that arose in the course of completing additional procedures related to the year ended December 31, 2004, reduced reported net sales revenues by $0.4 million and reduced reported pre-tax income by $0.4 million;

- Adjustments related to a comprehensive review of the Company's positions on tax matters reduced reported net income by $3.1 million, primarily as a result of increased tax reserves in certain countries and their effect on the Company's tax provision and the tax effect of the pre-tax restatement adjustments discussed above.

The nature and impact of these adjustments are described in greater detail in Footnotes 2 and 17 of Item 8 of this Form 10-K.

Legal Proceedings

On July 12, 2007, we announced that the SEC had instituted an administrative proceeding pursuant to Section 12(j) of the Securities Exchange Act of 1934, as amended ("the Exchange Act"), to suspend or revoke the registration of our common stock under Section 12 of the Exchange Act. On November 8, 2007, an administrative law judge in an administrative proceeding issued an Initial Decision to revoke the registration of our common stock because of our failure to file required periodic reports. Shortly thereafter, we filed a petition for review with the SEC. On December 5, 2007, the SEC granted our petition for review. The SEC had scheduled oral argument regarding the Company's petition on October 1, 2008. The SEC has now rescheduled the oral argument for an unspecified future date. We cannot predict the outcome of such review at this time. The Initial Decision of the administrative law judge will not become effective prior to the completion of the SEC's review. We cannot predict what, if any, impact the SEC's ultimate determination may have on our financial statements or the materiality of such impact, if any. If a final order is issued by the SEC revoking the registration of our common stock, broker-dealers would not be permitted to effect transactions in shares of our common stock until we file a new registration with the SEC under the Exchange Act and that registration is made effective.

Our financial statements set forth in Item 8 of this Report, as well as the Selected Financial Data set forth in Item 6 of this Report, including both the financial information that has been restated from prior filings and financial information that is set forth for the first time in this Report, have been prepared in a manner that incorporates to the extent appropriate all information available to us as of the date hereof. This available information includes updated information of which we are aware resulting from information derived as a result of the internal investigation, and various changes resulting from errors identified in our review of our accounting policies, practices and financial records.

Given the significant delay in the filing of our annual report on Form 10-K for 2006, certain amounts and discussions, as indicated, have been updated to include relevant 2007 and current information as far as practicable to do so.

Table of Contents

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 primarily engaged in the manufacturing and marketing of nutritional and personal care products. We sell our products worldwide to a sales force of independent Distributors who use the products themselves or resell them to other Distributors or consumers.

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

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

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

Financial Information by Business Segment

We are principally engaged in one line of business; namely, manufacturing and marketing nutritional and personal care products. We conduct our business through three operating business segments. Two of the operating business segments operate under the Nature's Sunshine Products name and are based on geographic operations: a United States segment ("NSP United States") and an international segment ("NSP International"). Our third operating business segment is Synergy Worldwide, a division that was acquired in 2000. Synergy Worldwide offers products with formulations different from those of the Nature's Sunshine Products offerings. In addition, Synergy Worldwide's marketing and Distributor compensation plans are sufficiently different from those of Nature's Sunshine Products. Information by business segment for each of our last three fiscal years for sales revenue and operating income, and information by business segment as of the end of our last two fiscal years for identifiable assets, are set forth in Note 14 of the Notes to Consolidated Financial Statements set forth in Item 8 of this Report.

Products and Manufacturing

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

Herbal Products

We manufacture a wide selection of herbal products, which are sold in the form of capsules or tablets. These capsules or tablets contain herb powder or a combination of two or more herb powders. We also produce both single herbs and herb combinations in the form of liquid herbs and extracts. Liquid herbs are manufactured by concentrating herb constituents in a vegetable glycerin base. Extracts are created by dissolving powdered herbs into liquid solvents that separate the key elements of the herbs from the fibrous plant material. For the years ended December 31, 2006, 2005, and 2004, herbal products accounted for approximately 54.0, 53.7, and 52.7 percent of net sales revenue, respectively.

Vitamins and Mineral Supplements

We manufacture a wide variety of single vitamins, which are sold in the form of chewable or non-chewable tablets. We also manufacture several multiple vitamins and mineral supplements, including a line containing natural antioxidants. Generally, mineral supplements are sold in the form of tablets; however, certain minerals are offered only in liquid form. For the years ended December 31, 2006, 2005, and 2004, vitamin and mineral supplements accounted for approximately 40.3, 40.5, and 41.3 percent of net sales revenue, respectively.

Personal Care Products

We manufacture or contract with independent manufacturers to supply a variety of personal care products for external use, including oils and lotions, aloe vera gel, herbal shampoo, herbal skin treatment, toothpaste, and skin cleanser. For the years ended December 31, 2006, 2005, and 2004, personal care products accounted for approximately 2.4, 2.5, and 2.5 percent of net sales revenue, respectively.

Other Products

We manufacture or contract with independent manufacturers to supply a variety of other products, including a variety of nutritional drinks, homeopathic products, and powders. For the years ended December 31, 2006, 2005, and 2004, other products accounted for approximately 3.3, 3.3, and 3.5 percent of net sales revenue, respectively.

Distribution and Marketing

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

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

Demand for our products is created primarily from our independent Distributors. As of June 30, 2008, we had approximately 718,500 active Distributors worldwide, which included approximately 227,000 Distributors in the United States. A person who joins our independent sales force begins as a “Distributor”. An individual can become a Distributor by signing up under the sponsorship of someone who is already a Distributor. Each Distributor is required to renew his/her distributorship on a yearly basis; our experience indicates that approximately 45 percent of our Distributors renew annually. Many Distributors sell our products on a part-time basis to friends or associates or use the products themselves. A Distributor interested in earning additional income by committing more time and effort to selling our products may earn “Manager” status. Manager status is contingent upon attaining certain purchase volume levels, recruiting additional Distributors, and demonstrating leadership abilities. We had approximately 26,800 Managers worldwide as of June 30, 2008, including approximately 7,600 Managers in the United States. Managers resell our products to Distributors within their sales group, sell our products directly to consumers, or use the products themselves. Historically, approximately 60 percent of Distributors appointed as Managers have continued to maintain that status annually.

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

We pay sales commissions (“Volume Incentives”) to our Managers and Distributors based upon the amount of sales group product purchases. Generally, a portion of these Volume Incentives are paid to the applicable Manager as a rebate for product purchases made by the Manager and the Manager’s down-line Distributors. The remaining portion of these Volume Incentives is paid in the form of commissions for purchases made by the Manager’s down-line Distributors. The amounts of Volume Incentives that we paid during the years ended December 31, 2006, 2005, and 2004 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 qualify by attaining certain levels of monthly product purchases are eligible for additional incentive programs including automobile allowances, sales convention privileges, and travel.

Source and Availability of Raw Materials

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

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 product lines. We have also obtained trademark registrations for “Synergy” for all of our Synergy product lines. We hold trademark registrations in the United States and in many other countries. Our customers’ recognition and association of our brands and trademarks with quality is an important element of our operating strategy.

Seasonality

Our business does not reflect significant seasonality.

Inventories

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

Dependence Upon Customers

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

Backlog

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

Competition

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

Table of Contents

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 $1.9 million, $1.8 million, and $1.7 million in 2006, 2005, and 2004, respectively. During the three years in the period ended December 31, 2006, we did not contract for any third-party research and development.

Compliance with Environmental Laws and Regulations

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

Regulation

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

FDA regulations relating specifically to foods and dietary supplements for human use are set forth in Title 21 of the Code of Federal Regulations. These regulations include basic labeling requirements for both foods and dietary supplements. Additionally, Good Manufacturing Practices ("GMPs") exist for both foods and dietary supplements. The GMPs for dietary supplements became effective August 27, 2007 with a phase-in compliance date of June 2008 for companies with more than 500 employees.

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.

Employees

The number of individuals we employed as of June 30, 2008 was 1,177. We believe that our relations with our employees are satisfactory.

International Operations

A significant portion of our net sales are concentrated within the United States, which represents 43.4 percent of net sales in 2006. Outside of the United States, Japan continues to be our largest market, representing 14.4 percent of net sales during 2006. As we continue to expand internationally, our operating results will likely become more sensitive to economic and political conditions in foreign markets, as well as to foreign currency fluctuations.

Table of Contents

Year Ended December 31,	**2006**		**2005**		**2004**	
Sales Revenue:						
United States	**$ 157,132**	**43.4%**	$ 158,052	44.9%	$ 192,605	59.2%
Foreign						
Japan	**52,301**	**14.4**	55,540	15.8	15,544	4.8
Russia	**28,394**	**7.8**	23,710	6.8	19,222	5.9
Other	**124,395**	**34.4**	114,382	32.5	97,953	30.1
Total Foreign	**205,090**	**56.6**	193,632	55.1	132,719	40.8
	$ 362,222	**100.0%**	$ 351,684	100.0%	$ 325,324	100.0%

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

Our international operations are conducted in a manner we believe is comparable with those conducted in the United States; however, in order to conform to local

variations, economic realities, market customs, consumer habits, and regulatory environments, differences may exist in the products and in the distribution and marketing programs.

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

Item 1A. Risk Factors

You should carefully consider the following risks in evaluating our Company and our business. In addition, you should keep in mind that the risks described below are not the only risks that we face. The risks described below are the risks that we currently believe are material to our business. However, additional risks not presently known to us, or risks that we currently believe are not material, may also impair our business operations. You should also refer to the other information set forth in this 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 trading price of our common stock could decline.

Risk Factors Related to Delayed Financial Reporting

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

Because of the delay in completing our financial statements for the years ended December 31, 2007, 2006, and 2005, and our restatement of prior period financial statements, we have been unable to timely file our required periodic reports with the SEC. This report is being filed after it was due. We have not filed any Quarterly Reports on Form 10-Q since November 2005, we were not able to timely file our Annual Report on Form 10-K for the year ended December 31, 2007 or our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008, and June 30, 2008. As a result of these events, we have become subject to significant risks and occurrences relating to the following matters, which are described in more detail below:

- Revocation of our registration under the Exchange Act;
- Limitations on access to public capital markets;

Table of Contents

- Inability of our common stock to trade on a recognized exchange and potential inability to re-list on a recognized exchange;
- Inability of registered broker-dealers to effect trades in our outstanding stock;
- Impact of material weaknesses in internal control over financial reporting;
- Potential changes in tax liabilities; and
- Outcome of civil litigation.

We cannot register securities for a public offering or acquisitions until we are current in our financial reporting with the SEC. We also will be unable to repurchase our common stock until we are current in our financial reporting with the SEC.

United States securities laws require that we supply current annual and quarterly financial statements in order for us to be able to register securities for a public offering or an acquisition. Our ability to register securities for a public offering or an acquisition will depend upon retaining our registration under the Exchange Act. If we succeed in doing so, we believe we will be able to register securities for public offerings and acquisitions after we become current. However, we will be ineligible to use "short-form" registration that allows us to incorporate by reference our SEC reports into our registration statements or to use shelf registration until we have filed all of our periodic reports in a timely manner for a period of twelve months. This could increase the costs of selling securities publicly and could significantly delay such sales. We will also be unable to engage in other transactions involving our common stock, including a stock repurchase, until we have become current in our financial reporting.

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

As discussed in Item 9A of this report, Controls and Procedures, our management team for financial reporting, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our internal controls. As of December 31, 2006, they concluded that our disclosure controls and procedures and that our internal control over financial reporting were not effective. Although we have made and are continuing to make improvements in our internal controls, if we are unsuccessful in our focused effort to permanently and effectively remediate the weaknesses in our internal control over financial reporting over time, it may adversely impact our ability to report our financial condition and results of operations in the future accurately and in a timely manner, and may potentially adversely impact our reputation with stakeholders.

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

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

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

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

As a result of the restatement and delay in our financial reporting, we will likely have to amend previously filed tax returns and reports. Where legal, regulatory or administrative rules require or allow us to amend our previous tax filings, we intend to comply with our obligations under applicable law. To the extent that tax authorities do not accept our conclusions about the tax effects of the restatement, liabilities for taxes could differ from those which have been recorded in our consolidated financial statements. If it is determined that we have additional tax liabilities, there could be an adverse effect on our financial condition, results of operations and cash flows.

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

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

As of June 30, 2008, we had one securities class action lawsuit pending against us, former members of our Board of Directors and present and former members of management that relate to the internal investigation and the restatement of our financial statements. The lawsuit and other legal matters in which we have become involved following the announcement of the restatement are described in Item 3, "Legal Proceedings." The securities class action lawsuit is currently in the early stages of discovery. The court granted in part the plaintiffs' motion to certify the class on September 25, 2008. The trial is not scheduled to commence until April 19, 2010. We are not able to predict the outcome of the litigation; however, if we are unsuccessful in our efforts to defend against the allegations raised in the litigation, our business and financial condition would likely be negatively impacted. Among other consequences of a negative outcome of the litigation, we could become obligated to pay damages in an amount, which would adversely affect our financial condition or our operations.

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

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

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

As described in the Explanatory Note immediately preceding Part I, Item 1, in this Form 10-K, our Audit Committee conducted an internal investigation, which initially focused on certain of our foreign operations, but subsequently expanded to include other matters related to our financial statements and financial reporting. The internal investigation and related activities have required us to incur substantial expenses for legal, accounting, tax and other professional services, and has diverted management's attention from our business.

Risk Factors Related to Our Business

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

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

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

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

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

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

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

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

- any adverse publicity regarding us, our products, our distribution channels or our competitors;
- on-going motivation of our independent Distributors;
- public's perceptions about the value and efficacy of our products;
- public's perceptions and acceptance of network-marketing;

- general and economic business conditions;
- changes to our compensation arrangements with our independent Distributors; and
- competition in recruiting and retaining independent Distributors and or market saturation.

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

Table of Contents

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

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

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

In 2006, we recognized approximately 57 percent of our revenue in markets outside the United States in each market's respective local currency. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenues and expenses in foreign countries from their local currencies into U.S. dollars using weighted-average exchange rates. Because a significant portion of our sales is in foreign countries, exchange rate fluctuations may have a significant effect on our sales and earnings. Our reported net earnings may be significantly affected by fluctuations in currency exchange rates, with earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. As operations expand in countries where foreign currency transactions may be made, our operating results will increasingly be subject to the risks of exchange rate fluctuations and we may not be able to accurately estimate the impact that these changes may have on our future results of operations or financial condition.

Availability and integrity of raw materials could become compromised.

We depend on outside suppliers for raw materials. We acquire all of our raw materials for the manufacture of our products from third-party suppliers. We have some agreements for the supply of materials used in the manufacture of our products. We also contract with third-party manufacturers and suppliers for the production of some of our product**s.** 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 the raw materials in the quantities we request or at a price we are willing to pay. We are also subject to the delays caused by any interruption in the production of these materials including weather, crop conditions, transportation interruptions, and natural disasters or other catastrophic events.

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

Geopolitical issues and conflicts could adversely affect our business.

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

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

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

Table of Contents

Taxation and transfer pricing affect our operations.

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

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

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

Our business is subject to intellectual property risks.

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

Product liability claims could harm our business.

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

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

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

Table of Contents

System failures could harm our business.

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

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

We sell our products worldwide to a sales force of independent Distributors who use the products themselves or resell them to other Distributors or consumers. In the event that local laws and regulations or the interpretation of locals 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. 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, and liquidity.

Changes in key management.

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 team. We cannot guarantee the continued service by 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, and liquidity.

Our business is involved in a market with intense competition.

Our business operates in a market 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 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 in attracting and retaining 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' products, and competing products entering 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.

Item 1B. Unresolved Staff Comments

On March 23, 2006, we received a letter from the Division of Corporation Finance of the SEC requesting more information on the nature of the internal control weaknesses and potential violations of law disclosed in our Current Report on Form 8-K, filed on March 20, 2006, as well as the potential impact on our financial statements. These staff comments are not yet resolved, but we have responded to these staff comments with a letter to be filed concurrently with this Report.

Table of Contents

Item 2. Properties

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

Our principal warehousing and manufacturing facilities are housed in a building consisting of approximately 270,000 square feet owned by us and located on

approximately ten acres in Spanish Fork, Utah. These facilities 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 our Nature's Sunshine Products international segment.

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 Columbus, Ohio; Dallas, Texas; Atlanta, Georgia; and Spanish Fork, Utah; as well as offices and distribution warehouses in Pleasant Grove, Utah, Japan, Mexico, Central America, Canada, Venezuela, South Korea, the Dominican Republic, Ecuador, the United Kingdom, Colombia, Thailand, Peru, Singapore, Israel, Brazil, Taiwan, and Australia. We believe these facilities are suitable for their respective uses and are, in general, adequate for our present and near-term future needs. During 2006, 2005, and 2004, we spent approximately $5.3 million, $3.7 million, and $4.6 million, respectively, for all of our leased facilities.

Item 3. Legal Proceedings

Class Action Litigation

Between April 3, 2006 and June 2, 2006, five separate shareholder class action lawsuits were filed against the Company and certain of our present and former officers and directors in the United States District Court for the District of Utah. These matters were consolidated and on November 3, 2006, the plaintiffs filed a Consolidated Complaint against the Company, our Chief Executive Officer and former director, Douglas Faggioli, our former Chief Financial Officer, Craig D. Huff, and a former director and former Chair of our Audit Committee, Franz L. Cristiani. The Consolidated Complaint asserts three separate claims on behalf of purchasers of our common stock: (1) a claim against Mr. Faggioli and the Company for violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, alleging that Mr. Faggioli made a series of alleged material misrepresentations to the investing public; (2) a claim against Mr. Faggioli and the Company for violation of Section 10(b) and Rule 10b-5, alleging that Mr. Faggioli made a series of misrepresentations to the Company's then independent auditor, KPMG, LLP, for the purpose of obtaining unqualified or "clean" audit opinions and review opinions from KPMG concerning certain of our annual and quarterly financial statements; and (3) a claim against Messrs. Faggioli, Huff and Cristiani for violation of Section 20(a) of the Exchange Act, alleging that the individual defendants have "control person" liability for the previously-alleged violations by the Company. The Consolidated Complaint seeks an unspecified amount of compensatory damages, together with interest thereon, litigation costs and expenses, including attorneys' fees and expert fees, and any such other and further relief as may be allowed by law.

On January 5, 2007, the Company and Messrs. Faggioli, Huff and Cristiani moved to dismiss the Consolidated Complaint in its entirety. On May 21, 2007, the court issued its decision denying the motion in large part, but shortening the proposed class period on one of the Plaintiffs' claims. On June 6, 2007, the Company and the other defendants answered the Consolidated Complaint, wherein they denied all allegations of wrongdoing and raised a number of affirmative defenses. On November 1, 2007, the Plaintiffs filed their motion for class certification, which the Company opposed. On September 25, 2008, the court granted the Plaintiffs' motion for class certification in part, establishing the class as all persons who purchased or otherwise acquired the Company's common stock, and were damaged thereby, from March 16, 2005 to March 20, 2006. On May 9, 2008, at the invitation of the Court based upon recent case law developments, the Company filed a motion to dismiss the Plaintiffs' second cause of action (a 10b-5 claim based on

non-public representations to KPMG). The Plaintiffs opposed this motion. On September 23, 2008, the Court granted the Company's motion and dismissed the Plaintiffs' second cause of action.

The case is currently in the early stages of discovery. The trial is not scheduled to commence until April 19, 2010. Although we and the other defendants are vigorously defending against the allegations in the lawsuit, and we intend to continue doing so, we are unable to predict the outcome of this litigation or whether the Company will incur any liability associated to the litigation, or to estimate the effect such outcome would have on the financial condition of the Company.

Threatened Derivative Lawsuits

By letter dated October 4, 2007, a shareholder of the Company alleged that a number of the current and former officers and directors of the Company breached their fiduciary duties to the Company by supposedly engaging in the same alleged wrongdoing that is the subject of the class action lawsuit. The shareholder demanded that the Company take action to recover from the specified officers and directors all damages sustained by the Company as a result of the alleged misconduct, and threatened to commence a derivative action if the Company failed to act on the shareholder's demand within a reasonable period of time.

On December 26, 2007, before the expiration of the Company's allotted 90-day period for responding to the demand, the shareholder presented a second but substantively identical demand on the Company, thereby triggering a new 90-day response period. The Company's Board of Directors responded to this demand on March 20, 2008, rejecting the shareholder's demands.

On May 21, 2008, this same shareholder filed a summons and complaint in the Fourth Judicial District Court for the State of Utah seeking an order compelling the Company to produce certain books and records to the shareholder. The Company filed its answer to the complaint on June 12, 2008.

Although the Company and the other defendants are vigorously defending against the allegations in the threatened derivative lawsuit above, it is not possible at this time to predict the outcome of this litigation or whether the Company will incur any liability associated to the litigation, or to estimate the effect such outcome would have on the financial condition of the Company.

SEC and DOJ Investigations

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

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

SEC Section 12(j) Proceeding

On July 12, 2007, we announced that the SEC had instituted administrative proceedings pursuant to Section 12(j) of the Exchange Act to suspend or revoke the registration of our common stock. On November 8, 2007, an administrative law judge in the administrative proceeding issued an Initial Decision to revoke the registration of the Company's common stock. Shortly thereafter, we filed a petition for review with the SEC. On December 5, 2007, the SEC granted our petition for review. The SEC had

scheduled oral argument regarding the Company's petition on October 1, 2008. The SEC has now rescheduled the oral argument for an unspecified future date. We cannot predict the outcome of such review at this time. The Initial Decision of the administrative law judge will not become effective pending the review. We cannot presently predict what, if any, impact the SEC's ultimate determination may have on our financial statements or the materiality of such impact, if any. If a final order is issued by the SEC revoking the registration of our common stock, broker-dealers would not be permitted to effect transactions in shares of our common stock until we file a new registration with the SEC under the Exchange Act and that registration is made effective.

Table of Contents

Employee-Related Litigation

One of the Company's foreign subsidiaries is a defendant in litigation regarding primarily employee-related matters. The Company has recorded accruals of approximately $0.8 million related to this litigation, which is included in accrued liabilities.

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

None.

Table of Contents

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 was traded on the Nasdaq National Market System (symbol "NATR") until April 5, 2006, the date that the Nasdaq Listing Qualifications Panel determined to delist our common stock from The Nasdaq National Market. Our stock is currently traded on the Pink Sheets (symbol NATR.PK). The information in the table below reflects the actual high and low sales prices of our stock from January 1, 2006 through April 4, 2006 and the high and low bid information from April 5, 2006 through December 31, 2007.

	Market Prices	
2007	**Best Ask**	**Best Bid**
First Quarter	$ 12.60	$ 11.45
Second Quarter	12.35	10.20
Third Quarter	14.45	11.50
Fourth Quarter	12.50	8.10

	Market Prices	
2006	**High/Best Ask**	**Low/Best Bid**
First Quarter	$ 18.88	$ 10.23
Second Quarter through April 4, 2006	12.64	7.83
Second Quarter from April 5, 2006	12.00	8.46
Third Quarter	12.25	8.15
Fourth Quarter	12.00	9.91

The Pink Sheets quotations (provided for time periods after April 4, 2006) reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Recent Sales of Unregistered Securities

Since October 1, 2005, we have issued and sold the following unregistered securities:

On July 10, 2006, we issued and sold 500 shares of common stock into the market on behalf of Karen Nichols pursuant to a net exercise of stock options granted under our 1995 Stock Plan and payment to Ms. Nichols of cash proceeds in excess of the exercise price, less applicable tax withholdings. No exemption from the registration requirements of Section 5 of the Securities Act is claimed.

On February 1, 2007, we issued and sold 95,690 shares of common stock to Douglas Faggioli, our Chief Executive Officer, for cash consideration in an aggregate amount of $735,665 upon the exercise of stock options granted under our 1995 Stock Plan. This sale is exempt from the registration requirement of Section 5 of the Securities Act pursuant to Section 4(2) of the Securities Act.

On February 2, 2007, we issued and sold 61,330 shares of common stock to Eugene L. Hughes, our founder and Director, for cash consideration in an aggregate amount of $471,505 upon the exercise of stock options granted under our 1995 Stock Plan. This sale is exempt from the registration requirement of Section 5 of the Securities Act pursuant to Section 4(2) of the Securities Act.

On February 6, 2007, we issued and sold 5,340 shares of common stock to Kent Hastings, our Director of Export Markets, for cash consideration in an aggregate amount of $41,054 upon the exercise of stock options granted under our 1995 Stock Plan. This sale is exempt from the registration requirement of Section 5 of the Securities Act pursuant to Section 4(2) of the Securities Act.

On July 27, 2007, we issued and sold 500 shares of common stock to the estate of Robert Schaffer for cash consideration in an aggregate amount of $4,157 upon the exercise of stock options granted under our 1995 Stock Plan. This sale is exempt from the registration requirement of Section 5 of the Securities Act pursuant to Section 4(2) of the Securities Act.

Table of Contents

Dividends

There were approximately 842 shareholders of record as of June 30, 2008. During 2006 and 2005, the Company paid quarterly cash dividends of $0.05 per common share. The Company expects to continue to pay cash dividends in the future.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	142,590	$ 12.05	—
Equity compensation plans not approved by security holders	140,300	11.85	—
Total	282,890	$ 11.95	—

Table of Contents

Performance Graph

The graph below depicts our common stock as an index, assuming $100.00 was invested on January 1, 2002 along with the composite prices of companies listed in the NASDAQ 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 intended to forecast or be indicative of the possible future performance of our common stock. The publicly-traded companies in our peer group are USANA Health Sciences, Inc., Nu Skin Enterprises, Inc., Herbalife International, Inc., and Mannatech, Incorporated.

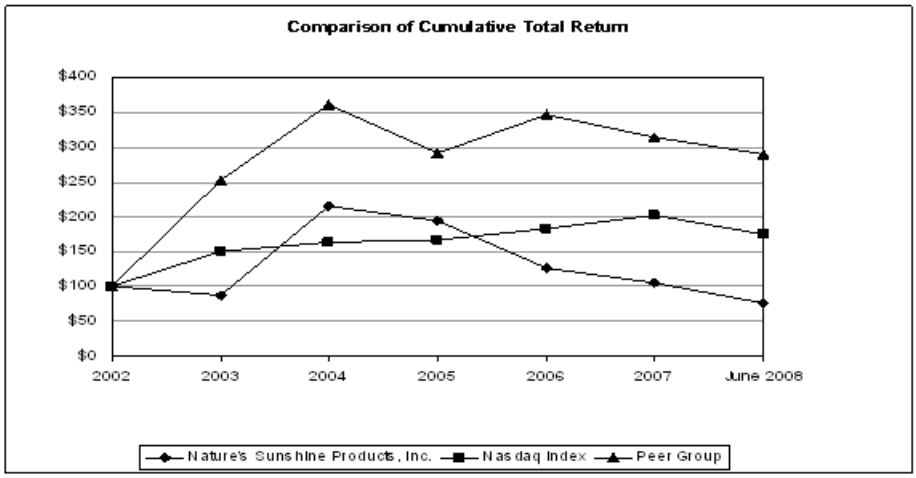

Table of Contents

Item 6. Selected Financial Data
(Dollar and Share Amounts in Thousands, Except for Per Share Information)

The selected consolidated financial data presented below is summarized from our results of operations for each of the three years in the period ended December 31, 2006 (restated for 2004), as well as selected consolidated balance sheet data as of December 31, 2006, 2005, 2004, and 2003. All restatement adjustments relating to periods prior to January 1, 2004 have been presented as adjustments to retained earnings as of December 31, 2003. In light of the substantial time, effort and expense incurred since December 2006 to complete the restatement of our consolidated financial statements for 2004, we have determined that extensive additional efforts would be required to restate all 2003 and 2002 financial data. In particular, turnover of relevant personnel and limitations of systems and data all limit our ability to reconstruct additional financial information for 2003 and 2002. Previously published information for 2003 and 2002 should not be relied upon.

Income Statement Data

	Net Sales Revenue	Cost of Goods Sold	Volume Incentives	Selling, General and Administrative	Operating Income	Income Before Income Taxes	Net (Loss) Income
2006	**$ 362,222**	**$ 68,745**	**$ 145,827**	**$ 139,645**	**$ 8,005**	**$ 8,629**	**$ (3,565)**
2005	351,684	67,593	144,125	128,381	11,585	11,423	3,504
2004 (as restated)	325,324	61,263	129,752	115,299	19,010	20,702	11,772

Balance Sheet Data

	Working Capital	Current Ratio	Inventories	Property, Plant and Equipment, Net	Total Assets	Long-term Obligations	Shareholders' Equity
2006	**$ 23,968**	**1.31 %**	**$ 38,639**	**$ 30,581**	**$ 148,347**	**$ 2,190**	**$ 68,186**
2005	27,928	1.40	34,988	34,075	147,286	2,284	75,407
2004							

(as restated)	34,181	1.53	35,444	35,869	143,981	3,491	75,854
2003 (as restated)	35,566	1.72	25,062	33,358	123,507	3,586	67,970

Common Share Summary

	Cash Dividend Per Share	Basic Net (Loss) Income Per Share	Diluted Net (Loss) Income Per Share	Basic Weighted Average Shares	Diluted Weighted Average Shares
2006	**$ 0.20**	**$ (0.23)**	**$ (0.23)**	**15,344**	**15,344**
2005	0.20	0.23	0.23	15,211	15,515
2004 (as restated)	0.20	0.79	0.76	14,917	15,478

Other relevant nonfinancial data is presented below:

Other Information

	Number of Independent Managers	Square Footage of Property in Use	Number of Company Employees
2006	**24,292**	**852,235**	**1,181**
2005	21,309	816,296	1,100
2004	18,374	921,677	1,069
2003	15,151	806,343	1,037
2002	14,000	863,688	1,037

Table of Contents

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

In this Annual Report on Form 10-K, we are restating our consolidated statement of operations, consolidated statement of changes in shareholders' equity and comprehensive income (loss), and consolidated statement of cash flows for the year ended December 31, 2004. An overview of the principal adjustments to our financial statements as a result of the restatement is set forth in Note 2 to our consolidated financial statements, set forth in Item 8 of this Report. We are also providing consolidated balance sheets, consolidated statements of operations, consolidated statements of changes in stockholders' equity and comprehensive income (loss), and consolidated statements of cash flows for the years ended December 31, 2006 and December 31, 2005. The information set forth in such financial statements for the year ended December 31, 2005 has not been previously filed with the United States Securities and Exchange Commission (the "SEC"), and reflects significant adjustments to the financial statements we filed on Form 10-Q with the SEC for the quarterly periods ended March 31, June 30 and September 30, 2005. The summary of quarterly operations for these periods included in Note 17 to our consolidated financial statements, set forth in Item 8 of this report, has been restated for such adjustments. None of the information set forth in such statements for the year ended December 31, 2006 has been previously filed with the SEC. The restatement of our 2004 and 2005 financial statements reflect changes resulting from errors identified from Management's comprehensive review of its accounting policies, practices, and financial records, as well as including matters identified by the independent investigation. The Company used all available information in determining the impact of adjustments identified as a result of their review. The restatement adjustments reduced previously reported net sales revenue, pre-tax income, net income and net income per diluted share by $5.7 million, $2.2 million, $5.3 million, and $0.34 per diluted share, respectively, for the year ended December 31, 2004. In addition, it reduced retained earnings as of January 1, 2004 by $85.0 million, of which $71.8 million was related to a correction in the Company's accounting for the repurchase and retirement of treasury stock resulting in no change in total shareholders' equity.

As a result of additional procedures performed by the Company, 2004 reported net sales revenues and net income were adjusted by the following:

- The Company identified that it had inconsistently classified certain rebates, shipping and handling revenues, and other fees and expenses. These classification matters reduced reported net sales revenue by $1.6 million and a corresponding reduction in operating expenses and other income, with no impact on reported net income;
- The Company reevaluated the timing of revenue recognition of customer orders and determined that title passed to the customer upon delivery, while the Company had previously recorded revenue upon shipment. The Company also had identified certain errors related to membership fees, and customer deposits. These adjustments related to the timing and recognition of certain revenues reduced reported net sales revenue by $1.0 million and reported pre-tax income by $0.9 million;
- The true-up of accounting records for differences between the accounting records of certain foreign subsidiaries and the consolidated financial statements reduced reported net sales revenue by $2.7 million and reported pre-tax income by $0.9 million;
- Other matters that arose in the course of completing additional procedures related to the year ended December 31, 2004, reduced reported net sales revenues by $0.4 million and reduced reported pre-tax income by $0.4 million;
- Adjustments related to a comprehensive review of the Company's positions on tax matters reduced reported net income by $3.1 million, primarily as a result of increased tax reserves in certain countries and their effect on the Company's tax provision and the tax effect of the pre-tax restatement adjustments discussed above.

The nature and impact of these adjustments are described in greater detail in Footnotes 2 and 17 of Item 8 of this Form 10-K.

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 Form 10-K. This discussion contains forward-looking statements. Please see "Cautionary Statements Regarding Forward-Looking Statements" for the risks, uncertainties and assumptions associated with these forward-looking statements.

Table of Contents

OVERVIEW

Our Business, Industry and Target Market

Nature's Sunshine Products, Inc. and its subsidiaries are primarily engaged in the manufacturing and marketing of herbal products, vitamin and mineral supplements, personal care, and miscellaneous 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 consumers. 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.

We market our products in the United States, Mexico, Central America, Canada, Venezuela, the Dominican Republic, Japan, Ecuador, the United Kingdom, Columbia, Peru, Israel, Russia, Ukraine, Latvia, Lithuania, Kazakhstan, Mongolia, Belarus, China, Poland, and Brazil. We also export our products to several other countries, including Argentina, Australia, Chile, New Zealand, and Norway.

We also sell our products through a separate division and operating business segment, Synergy Worldwide, which was acquired in 2000. Synergy Worldwide offers products with formulations different from those of the Nature's Sunshine Products offerings. In addition, Synergy Worldwide's marketing and Distributor compensation plans are sufficiently different from those of Nature's Sunshine Products. Synergy Worldwide sells products in Japan, the United States, South Korea, Singapore, Thailand, Taiwan, Malaysia, Hong Kong, the Philippines, Indonesia, the United Kingdom, Germany, Austria, the Netherlands and Australia.

In 2006, we experienced healthy net sales revenue growth in our Nature's Sunshine Products International business segment, while our domestic business segment sales remained flat and our Synergy Worldwide business segment experienced a slight decline in net sales revenue. Over the same period, our cost of goods sold remained constant as a percentage of net sales revenue, but our selling, general and administrative expenses increased somewhat primarily as a result of costs associated with our internal investigation and non-income tax contingencies. As a result, our net operating income remained essentially unchanged. On our consolidated balance sheets, we maintained a fairly consistent profile from 2005 to 2006. The most significant change from 2005 to 2006, an increase in our accrued liabilities from $33.1 million to $43.8 million, was primarily due to an increase in income and non-income tax contingency accruals of $8.6 million.

Critical Accounting Policies and Estimates

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

A summary of our significant accounting policies is provided in Note 1 of the Notes to Consolidated Financial Statements in Item 8 of 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.

Table of Contents

Revenue Recognition

Net sales revenue and related volume incentive expenses are recorded when persuasive evidence of an arrangement exists, collectability is reasonably assured, the amount is fixed and determinable, and title and risk of loss have passed, generally when the merchandise has been delivered. Amounts received for undelivered merchandise are recorded as deferred revenue. Sales revenue is recorded net of the rebate portion of volume incentives, and a reserve for product returns, which reduces revenue, is accrued based on historical experience. From time to time, the Company's United States operation extends 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. Membership fees are recorded 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.

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

As a manufacturer and distributor of products that are ingested, we face an inherent risk of exposure to product liability claims in the event that, among other things, the use of our products results in injury to consumers due to tampering by unauthorized third parties or product contamination. We have historically had a very limited number of product claims or reports from individuals who have asserted that they have suffered adverse consequences as a result of using our products. These matters have historically been settled to our satisfaction and have not resulted in material payments. We have established a wholly owned captive insurance company to provide us with product liability insurance coverage and have accrued an amount that we believe is sufficient to cover probable and reasonable estimable liabilities related to product liability claims based upon our history. 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 liquidity.

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.

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 result in liabilities being more or less than the amounts recorded. We have accrued convention and meeting costs of approximately $3.8 million at December 31, 2006 and 2005.

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. At December 31, 2006 and 2005, the Company did not consider any of its long-lived assets to be impaired.

Table of Contents

Contingencies

We are involved in certain legal proceedings. When a loss is considered probable in connection with litigation or income tax and non-income tax contingencies and when a 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 impact our results of operations in the period of adjustment.

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 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 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 we are using to manage the underlying businesses.

As of December 31, 2006, we have foreign income tax net operating loss carryforwards of $7,092 that will expire at various dates from 2007 through 2011. The Company has approximately $3,348 of foreign tax credits, which begin to expire at various times starting in 2012.

We believe that it is more likely than not that the benefit from certain deferred tax assets, including foreign net operating loss carryforwards and foreign tax credits, will not be realized. In recognition of this risk, we have provided a valuation allowance of $7,822 for certain deferred tax assets, including foreign net operating loss carryforwards and foreign tax credits. If our assumptions change and we determine we will be able to realize these deferred tax assets, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets at December 31, 2006 will be accounted for as a reduction of income tax expense.

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.

In July 2006, the FASB issued Financial Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and

Table of Contents

transition. We adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material effect on our consolidated financial statements.

Table of Contents

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,		
	2006	**2005**	**2004**
Net sales revenue	**100.0%**	100.0%	100.0%
Costs and Expenses:			
Cost of goods sold	**19.0**	19.2	18.8
Volume incentives	**40.3**	41.0	39.9
Selling, general and administrative	**38.5**	36.5	35.5
	97.8	96.7	94.2
Operating Income	**2.2**	3.3	5.8
Other Income (Expense):			
Interest and other income, net	**0.4**	0.2	0.3
Interest expense	**(0.2)**	(0.2)	—
Foreign exchange (losses) gains, net	—	(0.1)	0.2
	0.2	(0.1)	0.5
Income Before Provision for Income Taxes	**2.4**	3.2	6.3

Provision for Income Taxes	**3.4**	2.2	2.7
Net (Loss) Income	**(1.0)%**	1.0%	3.6%

Year Ended December 31, 2006 as Compared to the Year Ended December 31, 2005

With this Annual Report, we have presented our financial statements for our fiscal years 2006 and 2005, incorporating to the extent appropriate all information available to us as of the date hereof. We have not previously filed our financial statements for fiscal years 2006 or 2005.

Net Sales Revenue

Consolidated net sales revenue for the year ended December 31, 2006, was $362.2 million compared to $351.7 million in 2005, an increase of approximately 3.0 percent. During 2006, the increase in net sales revenue is primarily due to continued growth in the Company's international business segment.

We distribute our products to consumers through an independent sales force comprised of Managers and Distributors. Active Managers totaled approximately 24,300 and 21,300 at December 31, 2006 and 2005, respectively. Active Distributors totaled approximately 668,600 and 588,100 at December 31, 2006 and 2005, respectively. We anticipate the number of active Distributors to increase as we expand our existing operations, enter new international markets, and as current Distributors grow their businesses.

Net sales revenue related to the NSP United States business segment operations increased approximately 0.1 percent in 2006 to $148.4 million compared to $148.3 million in 2005. This slight increase was the result of both our price increases in our United States market of 1.9 percent in 2006 (due to higher material costs) and a slight decrease in sales volumes of 1.8 percent.

Table of Contents

NSP International net sales revenue increased to $130.6 million in 2006 compared to $120.0 million in 2005, an increase of approximately 8.8 percent. The increase in international net sales revenue in 2006 compared to 2005 is primarily the result of continued growth in our operations in Russia, Venezuela, Canada, and Mexico. We implement price increases annually to compensate for foreign currency devaluations and increases in the cost of finished products. Management believes the price increases will be acceptable to its sales force and will result in increased net sales revenue.

Synergy Worldwide net sales revenue decreased to $83.2 million in 2006 compared to $83.4 million in 2005, a decrease of approximately 0.2 percent. The slight decrease in Synergy Worldwide net sales is primarily due to increased competition in the United States and Japanese markets, which have been offset by continued growth in the Korean and South Asian markets. Further information related to the NSP United States, NSP International and Synergy Worldwide business segments is set forth in Note 14 of 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 slightly in 2006 compared to 2005 primarily as a result of (1) decreased importation costs in several of our international operations, and (2) increased efficiency gained from our expanded manufacturing facility.

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 as a percent of net sales revenue decreased slightly during 2006 as compared to 2005, primarily as a result of the decreased sales revenue in our Synergy Worldwide business segment where volume incentives are slightly higher than in the United States and our other international operations, and as a result of sales in new markets where lower levels of volume incentives were paid.

Selling, General and Administrative

Selling, general and administrative expenses increased $11.2 million in 2006 compared to 2005, from $128.4 million to $139.6 million, as a result of expenses related to the internal investigation previously mentioned of $6.9 million and $5.1 million related to non-income tax contingencies. Selling, general and administrative expenses as a percent of net sales revenue increased to 38.5 percent in 2006 compared to 36.5 percent in 2005. Selling, general and administrative expenses includes general marketing and sales expenses, but not commissions, which are included under Volume Incentives, and also includes research and development expenses and general administrative expenses. The amount, excluding capital expenditures, spent on research and development activities increased slightly, from $1.8 million in 2005 to $1.9 million in 2006.

Income Taxes

The effective income tax rate was 141 percent for 2006, compared to 69 percent for 2005. The effective rate for 2006 differed from the federal statutory rate of 35 percent primarily related to (i) additional tax contingencies, which increased the effective rate by approximately 54 percent, (ii) a change in deferred tax asset valuation allowances which increased the effective rate by approximately 29 percent, (iii) a taxable gain on the sale of intercompany assets eliminated for book purposes which increased the effective rate by approximately 13 percent, (iv) a foreign exchange tax gain on an intercompany payable, which increased the effective rate by 10 percent, and (v) foreign and state tax rate differentials as well as permanent nondeductible or deductible items accounting for the remaining increase.

The effective rate for 2005 differed from the federal statutory rate of 35 percent primarily due to additional tax contingencies which increased the effective rate by approximately 39 percent, and foreign and state tax rate differentials, as well as permanent nondeductible or deductible items accounting for the remaining increase.

Year Ended December 31, 2005 as Compared to the Year Ended December 31, 2004

With this Annual Report, we have presented both our financial statements for our fiscal year 2005 and our restated financial statements for our fiscal year 2004, incorporating to the extent appropriate all information available to us as of

Table of Contents

the date hereof. The restatement of our financial statements reflects changes resulting from errors identified from Management's comprehensive review of its accounting policies, practices, and financial records, as well as matters identified by the independent investigation. We have not previously filed our financial statements for fiscal year 2005.

Net Sales Revenue

Consolidated net sales revenue for the year ended December 31, 2005, was $351.7 million compared to $325.3 million in 2004, an increase of approximately 8.1 percent. During 2005, the increase in net sales revenue is primarily due to continued growth in the Company's international business segment as well as expansion of the Company's Synergy Worldwide business segment, which operates primarily in Asia.

We distribute our products to consumers through an independent sales force comprised of Managers and Distributors. Active Managers totaled approximately 21,300 and 18,400 at December 31, 2005, and 2004, respectively. Active Distributors totaled approximately 588,100 and 562,000 at December 2005 and 2004, respectively.

Net sales revenue related to the NSP United States business segment operations increased approximately 4.7 percent in 2005 to $148.3 million compared to $141.6 million in 2004. This increase is the result of price increases of 1.3 percent in our United States market that went into effect in 2005 due to higher raw material costs, and increased sales volumes of 3.4 percent as a result of an increase in the number of Distributors in the United States.

NSP International net sales revenue increased to $120.0 million in 2005 compared to $102.9 million in 2004, an increase of approximately 16.6 percent. The increase in international net sales revenue in 2005 is primarily the result of continued growth in our operations in Russia and Ukraine of approximately $11.3 million or 50 percent, Canada of $1.8 million or 17 percent, Japan of $2.3 million or 38 percent, and Mexico of $1.8 million or 7 percent over the prior years, respectively. These increases are the results of developing new markets and growth in the number of Distributors as a result of strengthening Distributor relationships in existing markets.

Synergy Worldwide net sales revenue increased to $83.4 million in 2005 compared to $80.9 million in 2004, an increase of approximately 3.1 percent. The increase in sales is primarily the result of continued growth in the segment's Singapore, Philippines, Indonesia and Malaysia markets as a result of the number of Distributors nearly doubling in these markets. Further information related to the NSP United States, NSP International and Synergy Worldwide business segments is set forth in the Note 14 of 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 increased in 2005 compared to 2004 primarily as a result of increased costs for raw materials, packaging, and manufacturing, which were partially offset by decreased importation costs in several of our international operations, increased efficiency gained from our expanded manufacturing facility, and increased net sales revenue in our Synergy Worldwide operations where costs of goods sold are lower as a percent of net sales revenue.

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 as a percent of net sales revenue increased slightly during 2005 as compared to 2004, primarily as a result of the increased sales revenue in our Synergy Worldwide business segment where volume incentives are slightly higher than in the United States and our other international operations.

Selling, General and Administrative

Selling, general and administrative expenses increased $13.1 million in 2005 compared to 2004, of which $9.3 million is a result of increased sales within the US, International, and Synergy Worldwide segments, and costs related to the internal investigation previously mentioned of $0.4

Table of Contents

million. Selling, general and administrative expenses as a percent of net sales revenue increased to 36.5 percent in 2005 compared to 35.5 percent in 2004. This category includes costs for research and development, distribution, and incentive programs such as our conventions. The amount spent on research and development activities, excluding capital expenditures, increased slightly, from $1.7 million in 2004 to $1.8 million in 2005.

Income Taxes

The effective income tax rate was 69 percent for 2005, compared to 43 percent for 2004. The effective rate for 2005 differed from the federal statutory rate of 35 percent primarily because of additional foreign tax contingencies, which increased the effective rate by approximately 39 percent, and foreign and state tax rate differentials, as well as permanent nondeductible or deductible items accounting for the remaining increase.

The effective rate for 2004 differed from the federal statutory rate of 35 percent primarily as a result of additional tax contingencies which increased the effective rate by approximately 11 percent, and change in foreign tax credits which decreased the effective rate by approximately 7 percent and foreign and state tax rate differentials, as well as permanent nondeductible or deductible items accounting for the remaining increase.

LIQUIDITY AND CAPITAL RESOURCES

Our principal use of cash is to pay for operating expenses, including volume incentives, capital assets, inventory purchases, funding of international expansion, and the payment of quarterly dividends. We have generally relied upon cash flows from operations to fund operating activities, and have at times drawn on an operating line of credit in order to fund stock repurchases and other strategic transactions. At December 31, 2006, we had $39.1 million in cash and cash equivalents and $6.1 million in investments, which was available to be used along with our normal cash flows from operations to fund any unanticipated shortfalls in future cash flows.

As of December 31, 2006, working capital was $24.0 million, compared to $27.9 million as of December 31, 2005. The decrease in our working capital was primarily due to an increase in tax contingency accruals of $8.6 million in 2006, which was partially offset by increases in cash and inventory of $1.2 million and $3.7 million, respectively.

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

	Year Ended December 31,		
	2006	2005	2004
Operating activities	$ 14,252	$ 17,012	$ 17,368
Investing activities	(3,959)	(3,679)	(5,748)
Financing activities	(9,303)	(7,256)	(4,074)

Operating Activities

For the year ended December 31, 2006, we generated cash from operating activities of $14.3 million compared to $17.0 million in 2005. The decrease in cash generated from operating activities was primarily due to our net loss of $3.6 million for 2006 compared to net income of $3.5 million the previous year, as well as increases in

the cash used to purchase inventory, the timing of payments and accruals for accrued volume incentives, changes in deferred income tax assets and liabilities, and a decrease in the tax benefit related to the exercise of stock options from 2005 to 2006. This decrease was offset by decreases in the use of cash for accounts receivable due to higher receivable turnover, prepaids and other assets, as well as the timing of payments in accounts payable and accrued liabilities. Approximately $8.6 million of the increase in accrued liabilities was related to accruals for income and non-income tax contingencies. Cash flows provided by operating activities in 2004 were approximately $17.4 million.

Investing Activities

For the year ended December 31, 2006, net cash flow used in investing activities was approximately $4.0 million which included $2.7 million related to capital expenditures for equipment, computer systems, and software, and $0.8 million for the acquisition of intangibles related to the purchase of product formulations.

Table of Contents

For the year ended December 31, 2005, net cash flow used in investing activities was approximately $3.7 million, which included $4.3 million of capital expenditures for equipment, computer systems and software, as well as leasehold improvements made to enhance existing operations, as well as the expansion of international markets.

For the year ended December 31, 2004, cash flow used in investing activities was approximately $5.7 million, which consisted primarily of capital expenditures of $8.3 million. The high level of capital expenditures in 2004 was primarily due to the expansion of our Synergy Worldwide business segment. This use of cash was offset by $2.3 million in net proceeds related to the net sales of investments, and $0.2 million related to the sale of equipment.

Financing Activities

For the years ended December 31, 2006, 2005, and 2004, cash flows used for financing activities were approximately $9.3 million, $7.3 million, and $4.1 million, respectively. In 2006, we used funds of $7.0 million to pay off our outstanding line of credit. Additional information with respect to the line of credit is set forth in Note 7 of the Notes to Consolidated Financial Statements set forth in Item 8 of this Report.

During 2005, we used cash of approximately $11.4 million to purchase approximately 513,000 shares at $22.15 per share and, during 2004, we used $17.0 million (including related fees) to purchase 1,000,000 of our shares in a Dutch Auction tender of $16.50 per share. These Dutch Auction tenders were open to all shareholders of the Company, including employees. As of December 31, 2006, there were no plans approved by the Board of Directors to purchase any additional shares.

During 2006, 2005, and 2004, we used cash of $3.1 million, $3.1 million, and $3.0 million to pay quarterly cash dividend payments, respectively. We expect to continue to pay cash dividends in the future.

The uses of cash for financing activities above were partially offset by proceeds received from option holders exercising their options of $0.6 million, $7.7 million, and $13.4 million for the years ended December 31, 2006, 2005, and 2004, respectively.

We believe that our working capital requirements can be met through our available cash and cash equivalents and cash generated from operating activities for the foreseeable future; however, a prolonged economic downturn or a decrease in the demand for our products could adversely affect our long-term liquidity. In the event of a significant decrease in cash provided by our operating activities, we might need to obtain additional external sources of funding.

We do not currently maintain a long-term credit facility or any other external sources of long-term funding; however, we believe that such funding could be obtained on competitive terms in the event additional sources of funds become necessary.

Table of Contents

CONTRACTUAL OBLIGATIONS

The following table summarizes information about contractual obligations as of December 31, 2006 (*in thousands*):

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Operating leases obligations	$ 10,894	$ 4,625	$ 5,248	$ 721	$ 300
Purchase obligations(1)	8,301	8,301	—	—	—
Other long-term liabilities reflected on the balance sheet(2)	1,594	—	—	—	1,594
Total	$ 20,789	$ 12,926	$ 5,248	$ 721	$ 1,894

(1) Purchase obligations include non-cancelable purchase agreements for both botanical and non-botanical raw materials related to our forecasted 2007 production estimates, as well as related packaging materials.

(2) 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.

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, liquidity, capital expenditures, or capital resources.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment"("SFAS No. 123(R)"), which requires all share-based payments to employees and directors, including grants of employee stock options, to be recognized in the statement of income based on their fair values. This accounting utilizes a "modified grant-date" approach in which the fair value of an equity award is estimated on the grant date without regard to service or performance vesting conditions. We adopted SFAS No. 123(R) using the "modified prospective" transition method. Under this transition method, compensation expense was recognized beginning

January 1, 2006, based on the requirements of SFAS No. 123(R) for all stock options vesting after December 31, 2005. The impact of adopting SFAS No. 123(R) was immaterial to our net income and earnings per common share for the year ended December 31, 2006. See Notes 1 and 10 to Consolidated Financial Statements for more information.

On January 1, 2006, we adopted SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). SFAS No. 154 is a replacement of Accounting Principles Board Opinion ("APB") No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and how to report a change in such circumstances. SFAS No. 154 also provides that a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate effected by a change in accounting principle, and also provides that correction of errors in previously issued financial statements should be termed a "restatement." SFAS No. 154 became effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The restatement discussed in Note 2 of the Consolidated Financial Statements was accounted for and reported in accordance with SFAS No. 154. The impact of adopting SFAS No. 154 was immaterial to the net loss and net loss per share for the year ended December 31, 2006.

Table of Contents

On January 1, 2006, we adopted SFAS No. 151, "Inventory Costs, an amendment of APB No. 43, Chapter 4", which requires certain inventory related costs including abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) to be expensed as incurred. In addition, the statement also requires that the allocation of fixed production costs to conversion costs be based on the normal capacity of the production facilities. The adoption of this standard did not have a material effect on our consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements", which became effective for the Company on January 1, 2008. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but applies to assets and liabilities that are required to be recorded at fair value under other accounting standards. In February 2008, the FASB issued FASB Staff Position FAS No. 157-2 ("FSP No. 157-2"), "Effective Date of FASB Statement No. 157", which delays the Company's January 1, 2008, effective date of FSP No. 157-2 for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually) until January 1, 2009. We adopted SFAS No. 157 on January 1, 2008, and that adoption did not have a material effect on our consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material effect on our consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. The SAB requires registrants to quantify misstatements using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 does not change the guidance in SAB 99, "Materiality", when evaluating the materiality of misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006. Upon initial application, SAB 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The adoption of SAB 108 did not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). The fair value option established by this statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. Although this statement is voluntary, it is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, "Fair Value Measurements". We adopted SFAS No. 159 on January 1, 2008, and the adoption of the standard did not have a material effect on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which changes how business combinations are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R is effective January 1, 2009, and will be applied prospectively. The effect of adopting SFAS No. 141R will depend on the nature and terms of future acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"), which changes the accounting and reporting standards for the noncontrolling interests in a subsidiary in consolidated financial statements. SFAS 160 recharacterizes minority interest as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders' equity. SFAS 160 is effective January 1, 2009 and requires retroactive adoption of the presentation and disclosure requirements for existing minority

Table of Contents

interest. The Company is currently evaluating the impact of SFAS 160 on the Company's consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin ("SAB") No. 110. SAB 110 expresses the views of the SEC regarding the use of a "simplified" or "shortcut" method, as discussed in SAB No. 107, "Share-Based Payment", in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123R. The guidance in SAB 110 is effective as of January 1, 2008. The adoption of SAB 110 did not have a material effect on the Company's consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We conduct business in several countries and intend to continue to expand 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 United States laws and regulations relating to international trade and investment.

Foreign Currency Risk

During the year ended December 31, 2006, approximately 56.6 percent of our net sales revenue and approximately 53.1 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 considered the functional currency, and all revenues and expenses are translated at average exchange rates for the periods reported. Therefore, reported sales and expenses will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations, or financial condition. Changes in 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 impact 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.

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

Year ended December 31	2006	2005	2004
Canada (Dollar)	**1.1**	1.2	1.3
Japan (Yen)	**116.3**	109.9	108.1
Mexico (Peso)	**10.9**	10.9	11.3
Venezuela (Bolivar)	**2,145.9**	2,100.8	1,879.9

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 if they are considered material to the consolidated financial statements. The re-measurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. There were no countries considered to have a highly inflationary economy during 2004, 2005, or 2006.

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, substantially all of

Table of Contents

which either mature within the next 12 months or have characteristics of marketable securities. On December 31, 2006, we had investments of $6.1 million of which $5.0 million were municipal obligations, which carry an average fixed interest rate of 4.9 percent and mature over a 5-year period. A hypothetical 1 percent change in interest rates would not have had a material effect on our liquidity, financial position, or results of operations.

Table of Contents

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

Table of Contents

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, 2006 and 2005, 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, 2006. 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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule (as restated for 2004), 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.

As discussed in Note 2 to the consolidated financial statements, the Company has restated the accompanying 2004 consolidated financial statements and financial statement schedule.

We were engaged to audit, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, and our report dated October 6, 2008 disclaimed an opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting because of a scope limitation and expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of material weaknesses and the effects of a scope limitation.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
October 6, 2008

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

As of December 31	2006	2005
Assets		
Current Assets:		
Cash and cash equivalents	**$ 39,061**	$ 37,875
Accounts receivable, net of allowance for doubtful accounts of $1,129 and $1,984, respectively	**6,409**	8,313
Investments available for sale	**6,054**	5,577
Inventories	**38,639**	34,988
Deferred income tax assets	**5,727**	5,297
Prepaid expenses and other current assets	**6,049**	5,473
Total current assets	**101,939**	97,523
Property, plant and equipment, net	**30,581**	34,075
Investment securities	**1,594**	1,867
Intangible assets	**755**	—
Deferred income tax assets	**5,732**	5,417
Other assets	**7,746**	8,404
	$ 148,347	$ 147,286
Liabilities and Shareholders' Equity		
Current Liabilities:		
Line of credit	**$ —**	$ 7,000
Accounts payable	**6,529**	6,271
Accrued volume incentives	**15,247**	15,382
Accrued liabilities	**43,816**	33,076
Deferred revenue	**4,814**	4,677
Income taxes payable	**7,565**	3,189
Total current liabilities	**77,971**	69,595
Deferred compensation payable	**1,594**	1,867
Other liabilities	**596**	417
Total long-term liabilities	**2,190**	2,284
Commitments and Contingencies (Notes. 7, 10, and 13)		
Shareholders' Equity:		
Common stock, no par value; 20,000 shares authorized, 15,348 and 15,282 shares issued and outstanding at December 31, 2006 and 2005, respectively	**64,795**	64,029
Retained earnings	**20,451**	27,085
Accumulated other comprehensive loss	**(17,060)**	(15,707)
Total shareholders' equity	**68,186**	75,407
	$ 148,347	$ 147,286

See accompanying notes to consolidated financial statements.

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share information)

Year Ended December 31	2006	2005	2004 (As Restated)
Net Sales Revenue (net of the rebate portion of volume incentives of $41,344, $39,453, and $37,099, respectively)	**$ 362,222**	$ 351,684	$ 325,324
Costs and Expenses:			
Cost of goods sold	**68,745**	67,593	61,263
Volume incentives	**145,827**	144,125	129,752

Selling, general and administrative	**139,645**	128,381	115,299
	354,217	340,099	306,314
Operating Income	**8,005**	11,585	19,010
Other Income (Expense):			
Interest and other income, net	**1,319**	821	1,056
Interest expense	**(609)**	(730)	(156)
Foreign exchange (losses) gains, net	**(86)**	(253)	792
	624	(162)	1,692
Income Before Provision for Income Taxes	**8,629**	11,423	20,702
Provision for Income Taxes	**12,194**	7,919	8,930
Net (Loss) Income	**$ (3,565)**	$ 3,504	$ 11,772
Basic Net (Loss) Income Per Common Share	**$ (0.23)**	$ 0.23	$ 0.79
Diluted Net (Loss) Income Per Common Share	**$ (0.23)**	$ 0.23	$ 0.76
Basic Common Shares Outstanding	**15,344**	15,211	14,917
Diluted Common Shares Outstanding	**15,344**	15,515	15,478

See accompanying notes to consolidated financial statements.

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(Amounts in thousands)

	Common Stock		Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Value	Earnings	Stock	Income (Loss)	Total
Balance at January 1, 2004 (As previously reported)	19,446	$ 25,437	$ 124,997	$ (54,833)	$ (18,259)	$ 77,342
Effects of restatement (Note 2)	(5,267)	16,952	(84,981)	54,833	3,824	(9,372)
Balance at January 1, 2004 (As restated)	14,179	42,389	40,016	—	(14,435)	67,970
Common stock repurchased and retired (as restated)	(1,002)	(3,985)	(13,014)	—	—	(16,999)
Common stock issued under stock option plan (as restated)	1,698	13,426	—	—	—	13,426
Tax benefit related to exercise of stock options	—	3,337	—	—	—	3,337
Cash dividends	—	—	(3,001)	—	—	(3,001)
Components of comprehensive income (loss):						
Foreign currency translation (net of tax of $326) (as restated)	—	—	—	—	(606)	
Net unrealized losses on investment securities (net of tax of $11)	—	—	—	—	(18)	
Reclassification adjustment for net realized gains on investment securities included in net income (net of tax of $18)	—	—	—	—	(27)	
Net income (as restated)	—	—	11,772	—	—	
Total comprehensive income (as restated)						11,121
Balance at December 31, 2004 (As restated)	14,875	55,167	35,773	—	(15,086)	75,854
Common stock repurchased and retired	(513)	(2,224)	(9,139)	—	—	(11,363)
Common stock issued under stock option plan	920	7,660	—	—	—	7,660
Tax benefit related to exercise of stock options	—	3,426	—	—	—	3,426
Cash dividends	—	—	(3,053)	—	—	(3,053)
Components of comprehensive income (loss):	—					
Foreign currency translation (net of tax of $308)	—	—	—	—	(573)	
Net unrealized losses on investment securities (net of tax of $17)	—	—	—	—	(28)	
Reclassification adjustment for net realized gains on investment securities included in net income (net of tax of $12)	—	—	—	—	(20)	
Net income	—	—	3,504	—	—	
Total comprehensive income						2,883
Balance at December 31, 2005	**15,282**	**64,029**	**27,085**	**—**	**(15,707)**	**75,407**
Common stock issued under stock option plan	**66**	**551**	—	—	—	**551**
Tax benefit related to exercise of stock options	**—**	**215**	—	—	—	**215**
Cash dividends	—	—	**(3,069)**	—	—	**(3,069)**
Components of comprehensive income (loss):						
Foreign currency translation (net of tax of $738)	—	—	—	—	**(1,371)**	
Net unrealized gains on investment securities (net of tax of $18)	—	—	—	—	**27**	
Reclassification adjustment for net realized gains on investment securities included in net loss (net of tax of $6)	—	—	—	—	**(9)**	
Net loss	—	—	**(3,565)**	—	—	
Total comprehensive loss						**(4,918)**
Balance at December 31, 2006	**15,348**	**$ 64,795**	**$ 20,451**	**$ —**	**$ (17,060)**	**$ 68,186**

See accompanying notes to consolidated financial statements.

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

Year Ended December 31	2006	2005	2004 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	**$ (3,565)**	$ 3,504	$ 11,772
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Provision for doubtful accounts	**(441)**	460	149
Depreciation and amortization	**6,224**	5,959	5,368
Tax benefit from stock option exercises	**(215)**	3,426	3,337
Loss (gain) on sale of property, plant and equipment	**50**	(42)	311
Deferred income taxes	**(2,685)**	1,108	(2,082)
Amortization of bond discount	**69**	72	83
Purchase of trading investment securities	**(167)**	(261)	(140)
Proceeds from sale of trading investment securities	**570**	531	477
Realized and unrealized (gains) losses on investments	**(157)**	68	(37)
Amortization of prepaid taxes related to gain on intercompany sales	**1,280**	—	—
Foreign exchange (gains) losses	**497**	701	(623)
Changes in assets and liabilities:			
Accounts receivable	**2,720**	1,281	(4,592)
Inventories	**(3,423)**	84	(10,029)
Prepaid expenses and other current assets	**178**	483	873
Other assets	**(951)**	(5,876)	802
Accounts payable	**(893)**	(31)	2,492
Accrued volume incentives	**(235)**	2,408	1,936
Accrued liabilities	**11,121**	2,357	6,663
Deferred revenue	**137**	(425)	192
Income taxes payable	**4,411**	1,400	603
Deferred compensation payable	**(273)**	(195)	(187)
Net cash provided by operating activities	**14,252**	17,012	17,368
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	**(2,718)**	(4,284)	(8,320)
Proceeds from sale of investments available for sale	**1,396**	1,718	8,153
Purchase of investments available for sale	**(1,901)**	(1,317)	(5,823)
Purchase of intangible assets	**(763)**	—	—
Proceeds from sale of property, plant and equipment	**27**	204	242
Net cash used in investing activities	**(3,959)**	(3,679)	(5,748)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Advances on line of credit	**4,643**	27,000	11,000
Payments on line of credit	**(11,643)**	(27,500)	(8,500)
Repurchase and retirement of common stock	**—**	(11,363)	(16,999)
Payments of cash dividends	**(3,069)**	(3,053)	(3,001)
Proceeds from exercise of stock options	**551**	7,660	13,426
Tax benefit from stock option exercises	**215**	—	—
Net cash used in financing activities	**(9,303)**	(7,256)	(4,074)
Effect of exchange rates on cash and cash equivalents	**196**	(895)	(153)
Net increase in cash and cash equivalents	**1,186**	5,182	7,393
Cash and cash equivalents at beginning of the year	**37,875**	32,693	25,300
Cash and cash equivalents at end of the year	**$ 39,061**	$ 37,875	$ 32,693
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	**$ 6,015**	$ 2,867	$ 5,294
Cash paid for interest	**297**	388	113
Supplemental disclosure of noncash investing and financing activities:			
Purchases of property, plant and equipment included in accounts payable	**$ 138**	$ 133	$ 44

See accompanying notes to consolidated financial statements.

Table of Contents

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. and its subsidiaries (hereinafter referred to collectively as the "Company") are primarily engaged in the manufacturing and marketing of herbal products, vitamin and mineral supplements, personal care, and miscellaneous 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 the United States, South Korea, Mexico, Venezuela, Japan, Brazil, Canada, Central America, Colombia, the Dominican

Republic, Ecuador, Peru, the United Kingdom, Austria, Germany, the Netherlands, Israel, Taiwan, Thailand, Singapore, Indonesia, Malaysia, the Philippines, Australia, Russia, Ukraine, Latvia, Lithuania, Kazakhstan, Mongolia, and Belarus. The Company also exports its products to several other countries, including Argentina, Australia, Chile, 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, 2006, 2005 and 2004, all of the Company's subsidiaries were wholly owned. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities, in these financial statements and 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.

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.

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.

Investment Securities

The Company's investment securities, which are generally categorized as available-for-sale securities, are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income (loss) in shareholders' equity. Unrealized losses on available-for-sale securities that are determined to be other than temporary are included in the determination of net income in the period in which that determination is made. The cost of the securities sold is based on the specific identification method. Realized gains and losses on sales of available-for-sale securities are included in interest and other income.

The Company 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. 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, accounts payable and line of credit. The carrying values of these financial instruments approximate their fair values. The estimated fair values have been determined using appropriate market information and valuation methodologies.

Inventories

Inventories are stated at the lower-of-cost-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 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 15 years. Intangible assets, net of accumulated amortization, totaled $755 at December 31, 2006. The Company had no intangible assets at December 31, 2005.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Amounts in thousands, except per share information)

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. At December 31, 2006 and 2005, the Company did not consider any of its long-lived assets to be impaired.

Foreign Currency Translation

The local currency of the foreign subsidiaries is used as the functional currency, except for subsidiaries operating in highly inflationary economies. The financial statements of foreign subsidiaries, where the local currency is the functional currency, are translated into U.S. dollars using exchange rates in effect at 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 income (loss), net of income taxes. Foreign currency transaction gains and losses are included in interest and 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 remeasured as if the functional currency were the U.S. dollar. The remeasurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. There were no countries considered to have a highly inflationary economy during 2004, 2005, or 2006.

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. Amounts received for undelivered merchandise are recorded as deferred revenue. Sales revenue is recorded net of the rebate portion of volume incentives. A reserve for product returns, which reduces revenue, is accrued based on historical experience. From time to time, the Company's United States operation extends 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. Membership fees are deferred and amortized as revenue over the life of the membership, which is primarily one year. Prepaid event registration fees are deferred and recognized as revenues when the related event is held.

Amounts billed to customers for shipping and handling are reported as a component of net sales revenue. Shipping and handling revenues of approximately $10,131, $9,110, and $15,006 were reported as net sales revenue for the years ended December 31, 2006, 2005, and 2004, 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) as permitted by Emerging Issues Task Force (EITF) 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities should be Presented in the Income Statement (that is, Gross versus Net Presentation)".

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense incurred for the years ended December 31, 2006, 2005, and 2004 totaled approximately $1,453, $1,665, and $2,036, respectively.

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Amounts in thousands, except per share information)

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 $1,920, $1,754, and $1,656 in 2006, 2005 and 2004, respectively.

Income Taxes

Income taxes are recorded using the asset and liability method. This method recognizes a liability or asset for the deferred income tax consequences of temporary differences between the tax basis of assets or liabilities and their reported amounts in the consolidated financial statements. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. Net deferred tax assets are reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the realization of its deferred tax assets, the Company considers all available positive and negative evidence, including past operating results and forecasts of future taxable income, including tax planning strategies. These forecasts require significant judgment and assumptions to estimate future taxable income and are based on the plans and estimates that the Company uses to manage its business. The Company has established a valuation allowance against its deferred tax assets in each jurisdiction where it cannot conclude that it is more likely than not that such assets will be realized. In the event that actual results differ from the forecasts or the Company adjusts the forecasts or assumptions in the future, the resulting change in the valuation allowance could have a significant impact on future income tax expense (see Note 10).

The Company is subject to income taxes in the United States and numerous foreign jurisdictions. In the ordinary course of the Company's business there are calculations and transactions, including transfer pricing, where the ultimate tax determination is uncertain. In addition, changes in tax laws and regulations as well as adverse judicial rulings could adversely affect the income tax provision. The Company believes that it has adequately provided for income tax issues not yet resolved with federal, state, local and foreign tax authorities. However, if these provided amounts prove to be more than what is necessary, the reversal of the reserves would result in tax benefits being recognized in the period in which the Company determines that provision for the liabilities is no longer necessary. If an ultimate tax assessment exceeds the Company's estimate of tax liabilities, an additional charge to expense would be required.

(Amounts in thousands, except per share information)

Net Income Per Common Share

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

	Net Income (Loss) (Numerator)	Shares (Denominator)	Net Income (Loss) Per Share Amount
Year Ended December 31, 2006			
Basic EPS	$ (3,565)	15,344	$ (0.23)
Effect of options	—	—	—
Diluted EPS	$ (3,565)	15,344	$ (0.23)
Year Ended December 31, 2005			
Basic EPS	$ 3,504	15,211	$ 0.23
Effect of options	—	304	—
Diluted EPS	$ 3,504	15,515	$ 0.23
Year Ended December 31, 2004			
Basic EPS	$ 11,772	14,917	$ 0.79
Effect of options	—	561	(0.03)
Diluted EPS	$ 11,772	15,478	$ 0.76

Table of Contents

Because of net loss in the year ended December 31, 2006, common stock options were not included in the computation of diluted earnings per share because the effect on net loss per share would be antidilutive. For the year ended December 31, 2005 and 2004, there were outstanding options to purchase 15 and 35 shares of common stock, respectively, that were not included in the computation of Diluted EPS because the options' exercise prices were greater than the average market price of the common shares during the year.

Share-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. This accounting utilizes a "modified grant-date" approach in which the fair value of an equity award is estimated on the grant date without regard to service or performance vesting conditions. The Company adopted SFAS No. 123(R) using the "modified prospective" transition method. Under this transition method, compensation expense was recognized beginning January 1, 2006 based on the requirements of SFAS No. 123(R) for all stock options vesting after December 31, 2005. Upon adoption, there were no unvested stock options, and therefore the impact of adopting SFAS No. 123(R) was not significant. Under SFAS No. 123(R), the Company records compensation expense over the vesting period of the stock options based on the fair value of the stock options on the date of grant.

Prior to January 1, 2006, the Company accounted for stock option compensation under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related Interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Accordingly, the Company did not record any compensation expense for stock options, as the exercise price of the option was equal to or greater than the quoted market price of the stock on the date of grant. Had compensation expense been determined consistent with SFAS No. 123(R), the Company's net income and net income per common share would have been reduced to the following pro forma amounts for the years ended December 31, 2005 and 2004:

Table of Contents

Year Ended December 31		2005	2004
Net Income	As reported	$ 3,504	$ 11,772
	Stock option expense, net of tax	(199)	(347)
	Pro forma	3,305	11,425
Basic Earnings Per Share	As reported	$ 0.23	$ 0.79
	Stock option expense, net of tax	(0.01)	(0.02)
	Pro forma	0.22	0.77
Diluted Earnings Per Share	As reported	$ 0.23	$ 0.76
	Stock option expense, net of tax	(0.01)	(0.02)
	Pro forma	0.22	0.74

The weighted-average fair value of options granted in 2004 was $6.08. The fair value of each option granted in 2004 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants: risk-free interest rate of 2.7 percent; expected life of 5 years; expected dividend yield of 1.6 percent; and expected volatility of 65 percent. The estimated fair value of options granted is subject to the assumptions made, and if the assumptions were

to change, the estimated fair value amounts could be significantly different.

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

On January 1, 2006, the Company adopted SFAS No. 154, "Accounting Changes and Error Corrections"("SFAS No. 154"). SFAS No. 154 is a replacement of Accounting Principles Opinion ("APB") No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and how to report a change in such circumstances. SFAS No. 154 also provides that a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate effected by a change in accounting principle, and also provides that correction of errors in previously issued financial statements should be termed a "restatement." SFAS No. 154 became effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The restatement discussed in Note 2 of the consolidated financial statements was accounted for and reported in accordance with SFAS No. 154. The impact of adopting SFAS No. 154 was immaterial to the net loss and net loss per share for the year ended December 31, 2006.

On January 1, 2006, the Company adopted SFAS No. 151, "Inventory Costs, an amendment of APB No. 43, Chapter 4", which requires certain inventory related costs including abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) to be expensed as incurred. In addition, the statement also requires that the allocation of fixed production costs to conversion costs be based on the normal capacity of the production facilities. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

Table of Contents

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements", ("SFAS No. 157") which will become effective for the Company on January 1, 2008. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but applies to assets and liabilities that are required to be recorded at fair value under other accounting standards. In February 2008, the FASB issued FASB Staff Position FAS No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. 157-2") which delays the Company's January 1, 2008, effective date of FSP No. 157-2 for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually) until January 1, 2009. The Company adopted SFAS No. 157 on January 1, 2008, and that adoption did not have a material effect on the Company's consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statement in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of adopting FIN 48 will be recorded in retained earnings (and other accounts as applicable). The Company adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material effect on the Company's consolidated financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. The SAB requires registrants to quantify misstatements using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 does not change the guidance in SAB 99, "Materiality", when evaluating the materiality of misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006. Upon initial application, SAB 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The adoption of SAB 108 did not have a material effect on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). The fair value option established by this statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. Although this statement is voluntary, it is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS No. 159 on January 1, 2008. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations", ("SFAS No. 141R"), which changes how business combinations are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R is effective January 1, 2009, and will be applied prospectively. The effect of adopting SFAS No. 141R will depend on the nature and terms of future acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"), which changes the accounting and reporting standards for the noncontrolling interests in a subsidiary in consolidated financial statements. SFAS 160 recharacterizes minority interest as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders' equity. SFAS 160 is effective January 1, 2009 and requires retroactive adoption of the presentation and disclosure requirements for existing minority

Table of Contents

interest. The Company is currently evaluating the impact of SFAS 160 on the Company's consolidated financial statements.

(Amounts in thousands, except per share information)

In December 2007, the SEC issued SAB No. 110. SAB No. 110 expresses the views of the SEC regarding the use of a "simplified" or "shortcut" method, as discussed in SAB No. 107, "Share-Based Payment", in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123(R). The guidance in SAB 110 is effective as of January 1, 2008. The impact of adopting SAB No. 110 did not have a material effect on the Company's consolidated financial statements.

NOTE 2: RESTATEMENT OF 2004 FINANCIAL STATEMENTS

Overview

Subsequent to the issuance of the Company's 2004 financial statements, the Audit Committee of the Company's Board of Directors ("Audit Committee") commenced an independent investigation regarding certain sales and commission activities involving certain of the Company's foreign operations. The investigation was subsequently expanded to include other matters related to the Company's consolidated financial statements.

As a result, the Company restated its previously filed consolidated financial statements for the year ended December 31, 2004. The Company also restated its previously reported December 31, 2003 consolidated common stock, treasury stock, retained earnings, and accumulated other comprehensive income (loss) to correct items that relate to periods prior to January 1, 2004. Beginning retained earnings as of January 1, 2004 was reduced by $84,981, of which $71,785 was related to a correction in the Company's accounting for the repurchase and retirement of treasury stock resulting in no net change in shareholders' equity. For the year ended December 31, 2004, the restatement adjustments reduced previously reported net sales revenue, pre-tax income, net income, and net income per diluted share by $5,739, $2,259, and $5,306 and $0.34 per diluted share, respectively.

The following table presents the impact of the restatement adjustments on the Company's consolidated statement of operations for the year ended December 31, 2004:

	As Previously Reported (1)	Rebate and Fee and Other Classification	Revenue Recognition	Foreign Consolidation	Other	Income Tax	As Restated
Net sales revenue	$ 331,063	$ (1,645)	$ (977)	$ (2,678)	$ (439)	$ —	$ 325,324
Costs and Expenses							
Cost of goods sold	62,693	(9)	52	(733)	(740)	—	61,263
Volume incentives	127,985	1,848	(131)	(240)	290	—	129,752
Selling, general, and administrative	118,731	(3,265)		(837)	670	—	115,299
	309,409	(1,426)	(79)	(1,810)	220	—	306,314
Operating income (loss)	21,654	(219)	(898)	(868)	(659)	—	19,010
Other Income (Expense):							
Interest and other income (expense), net	568	219	—	(17)	286	—	1,056
Interest expense	(104)	—	—	—	(52)	—	(156)
Foreign exchange gains (losses), net	843	—	—	(51)	—	—	792
	1,307	219	—	(68)	234	—	1,692
Income before provision for income taxes	22,961	—	(898)	(936)	(425)	—	20,702
Provision for income taxes	5,883	—	—	—	—	3,047	8,930
Net Income (Loss)	$ 17,078	$ —	$ (898)	$ (936)	$ (425)	$ (3,047)	$ 11,772
Basic Net Income per Share	$ 1.14						$ 0.79
Diluted Net Income per Share	$ 1.10						$ 0.76

(1) As previously reported in the Form 10-K for the year ended December 31, 2004, filed on March 16, 2005.

The following table displays the cumulative impact of the restatement on consolidated shareholders' equity as of December 31, 2003.

	Common Stock Shares	Common Stock Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
December 31, 2003 balance, as previously reported (1)	19,446	$ 25,437	$ 124,997	$ (54,833)	$ (18,259)	$ 77,342
Restatement adjustments for:						
Treasury stock	(5,267)	16,952	(71,785)	54,833	—	—
Revenue recognition	—	—	(1,513)	—	—	(1,513)
Foreign consolidation	—	—	(1,032)	—	—	(1,032)
Intangible impairment	—	—	(2,093)	—	—	(2,093)
Inventory valuation	—	—	(2,008)	—	—	(2,008)
Accrued liabilities	—	—	(891)	—	—	(891)
Non-income tax contingencies	—	—	(3,816)	—	—	(3,816)
Inventory costs	—	—	111	—	—	111
Other adjustments	—	—	139	—	(389)	(250)
Pre-tax total impact of restatement adjustments	(5,267)	16,952	(82,888)	54,833	(389)	(11,492)
Tax impact of restatement adjustments	—	—	4,386	—	—	4,386
Other tax restatement adjustments	—	—	(6,479)	—	4,213	(2,266)
Total impact of restatement adjustments	(5,267)	16,952	(84,981)	54,833	3,824	(9,372)

December 31, 2003 balance, as restated	14,179	$ 42,389	$ 40,016	$ —	$ (14,435)	$ 67,970

(1) As previously reported in the Form 10-K for the year ended December 31, 2004, filed on March 16, 2005.

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Amounts in thousands, except per share information)

The following table presents the impact of the restatement adjustments on the Company's consolidated statement of cash flows for the year ended December 31, 2004:

	As Previously Reported(1)	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 17,078	$ 11,772
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	(276)	149
Depreciation and amortization	5,728	5,368
Tax benefit from stock option exercises	3,337	3,337
Loss on sale of property, plant and equipment	311	311
Deferred income taxes	(1,252)	(2,082)
Amortization of bond discount	—	83
Purchase of trading securities	—	(140)
Proceeds from sale of trading securities	—	477
Realized and unrealized gains on investments	—	(37)
Foreign exchange gains	—	(623)
Changes in assets and liabilities:		
Accounts receivable	(599)	(4,592)
Inventories	(9,798)	(10,029)
Prepaid expenses and other current assets	1,541	873
Other assets	—	802
Accounts payable	457	2,492
Accrued volume incentives	2,312	1,936
Accrued liabilities	2,405	6,663
Deferred revenues	—	192
Income taxes payable	(2,978)	603
Deferred compensation payable	(187)	(187)
Net cash provided by operating activities	18,079	17,368
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(8,124)	(8,320)
Proceeds from sale of investment securities available for sale	4,753	8,153
Purchase of investment securities available for sale	(6,128)	(5,823)
Sale of other assets	829	—
Payments received on long-term receivables, net	624	—
Proceeds from sale of property, plant and equipment	126	242
Net cash used in investing activities	(7,920)	(5,748)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on line of credit	2,500	11,000
Payments on line of credit	—	(8,500)
Repurchase and retirement of common stock	(16,999)	(16,999)
Payments of cash dividends	(3,001)	(3,001)
Proceeds from exercise of stock options	13,422	13,426
Net cash used in financing activities	(4,078)	(4,074)
Effect of exchange rates on cash and cash equivalents	(540)	(153)
Net increase in cash and cash equivalents	5,541	7,393
Cash and cash equivalents at beginning of the year	30,665	25,300
Cash and cash equivalents at end of the year	$ 36,206	$ 32,693
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for taxes	$ 4,706	$ 5,294
Cash paid for interest	75	113
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES — Purchases of property, plant and equipment included in accounts payable	$ —	$ 44

(1) As previously reported in the Form 10-K for the year ended December 31, 2004, filed on March 16, 2005.

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Amounts in thousands, except per share information)

(Amounts in thousands, except per share information)

The following table presents the impact of the restatement adjustments discussed below on the Company's consolidated comprehensive income for the year ended December 31, 2004:

	As Previously Reported(1)	As Restated
Net income	$ 17,078	$ 11,772
Foreign currency translation adjustments	81	(606)
Net unrealized losses on investment securities available for sale	(18)	(18)
Reclassification adjustment for net realized gains on investment securities available for sale included in net income	(27)	(27)
Comprehensive Income	$ 17,114	$ 11,121

(1) As previously reported in the Form 10-K, for the year ended December 31, 2004, filed on March 16, 2005.

Adjustments to the Company's consolidated comprehensive income for the year ended December 31, 2004 are primarily attributable to the following:

- Restated net income decreased from $17,078 to $11,772 as a result of the adjustments discussed below, and;
- Currency translation adjustments decreased from a gain of $81 to a loss of $606 as a result of the adjustments discussed below.

The notes to the consolidated financial statements for the year ended December 31, 2004 reflect the impact of all of the restatement adjustments as discussed below.

Summary of Restatement Adjustments

Rebate, Fee and Other Classification Matters

As noted in the Company's significant accounting policies in Note 1, the Company accounts for payments made to its Distributors and Managers for sales incentives or rebates as reductions of revenue. In addition, amounts billed to customers for shipping and handling are reported as components of net sales revenue, and the corresponding shipping and handling expenses are reported in selling, general, and administrative expenses. As a result of procedures performed by the Company, the Company identified that it had inconsistently classified certain foreign subsidiary rebates and shipping and handling revenues as selling, general and administrative expenses and other income. Sales taxes collected were inconsistently classified in certain foreign countries as a reduction of net sales revenue and not netted against the corresponding expense included in selling, general, and administrative expense. In addition, certain incentives to Distributors were inconsistently classified as selling, general, and administrative expenses rather than volume incentives. Collectively, these adjustments resulted in a $1,645 reduction of net sales revenue and corresponding reduction in operating expenses and other income. These classification corrections did not result in a change in 2004 reported net income.

Revenue Recognition Matters

As a result of the additional procedures performed by the Company, the Company reevaluated the timing of revenue recognition of customer orders and identified certain errors related to membership fees and customer deposits. Previously, the Company recorded revenue once shipment had occurred. Based upon further analysis, the Company determined that title and risk of loss of merchandise shipped passed from the Company to the customer at the point of acceptance by the customer. The related restatement adjustment was to defer revenue for sales in which customer acceptance had not occurred prior to the period end as well as reverse the related cost of goods sold, and volume incentives. The impact of these entries was to decrease retained earnings at December 31, 2003 by $1,239. The

restatement impact to the statement of operations for the year ended December 31, 2004 was to increase net sales revenue, cost of goods sold, and volume incentives by $488, $52, and $277, respectively.

The Company in its Synergy United States operations incorrectly recorded volume incentives related to sales of products that had not yet been shipped and recognized as revenue. The impact of the restatement entry decreased volume incentives by $408 for the year ended December 31, 2004.

The Company previously recorded membership fees as revenue when collected from customers and Distributors. The Company should have amortized the membership fees into revenue over the term of the membership, which is generally one year. The restatement impact of recognizing net sales revenue over the term of the membership decreased retained earnings at December 31, 2003 by $882 and resulted in an adjustment to decrease net sales revenue by $748 for the year ended December 31, 2004.

During the year ended December 31, 2004, the Company recognized revenues of $608 related to customer deposits previously recorded as deferred revenue in its Synergy Worldwide segment. The related deposit should have been recognized as revenue in 2003 as the related service had been performed in 2003. The related restatement adjustment increased retained earnings at December 31, 2003 by $608 and decreased net sales revenue by $608 for the year ended December 31, 2004.

The Company's review of various foreign subsidiaries resulted in additional restatement adjustments being recorded related to the timing of revenue recognition. These remaining adjustments in the aggregate, reduced net revenue by approximately $109.

Foreign Consolidation Matters

During the year ended December 31, 2004, the Company incorrectly recorded financial information related to three foreign subsidiaries that did not correspond to the local accounting records of the respective foreign subsidiaries. The Company recorded restatement entries to correlate the financial information to the underlying foreign accounting records, which resulted in a decrease to retained earnings at December 31, 2003 of $1,032, a $2,678 reduction to 2004 reported net sales revenue, a decrease to cost of goods sold of $733, a decrease to volume incentive expense of $240, a decrease to selling, general and administrative expense of $837, and a decrease to interest and other income and foreign exchange gains of $68. The net effect of these adjustments resulted in a $936 reduction to 2004 reported pre-tax income.

Other Matters

The Company did not adequately consider sales forecast, product expiration information, and other relevant information in analyzing and establishing inventory obsolescence valuation reserves. The impact of the restatement adjustments decreased retained earnings at December 31, 2003 by $2,008 and decreased cost of goods sold, and increased pre-tax income by $132 for the year ended December 31, 2004.

The Company did not evaluate impairment conditions and related amortization lives related to an identifiable distributor network intangible. The related intangible asset held no value previous to January 1, 2004 as the related distributor network ceased to exist. The Company recorded restatement adjustments that reduced beginning retained earnings by $2,093 at December 31, 2003 and reversed related amortization expense, which was included in selling, general, and administrative expense, and increased pre-tax income by $336 for the year ended December 31, 2004.

The Company excluded certain incentive trip accruals that had been earned at certain period ends. In addition, the Company had not reconciled certain accruals on the general ledger to the underlying supporting detail. As a result, the Company recorded restatement adjustments that reduced beginning retained earnings by $891 at December 31, 2003, increased cost of sales by $151, increased volume incentives by $183, and reduced selling, general, and administrative expenses by $699, reduced other income by $53 and increased pre-tax income by $312 for the year ended December 31, 2004.

The Company did not capitalize an appropriate amount of certain inventory costs in inventory at December 31, 2003 and 2004. The impact of the restatement adjustment increased beginning retained earnings by $111 and decreased cost of goods sold and increased pre-tax income by $415 for the year ended December 31, 2004.

The Company did not adequately evaluate its exposure to sales tax and other non-income tax contingencies at December 31, 2004 and 2003. As a result, the Company recorded restatement adjustments that decreased beginning retained earnings of $3,816, increased selling, general, and administrative expense by $711, and decreased pre-tax income by $779.

The Company had improperly recorded certain non-income tax transactions in its prepaid income tax or income tax payable accounts. The impact of the restatement adjustments increased selling, general, and administrative expense and decreased pre-tax income by $648.

The Company had various other individual adjustments that, in the aggregate, increased beginning retained earnings by $139 at December 31, 2003, decreased net sales revenue by $439, decreased costs of goods sold by $344, increased volume incentives by $107, increased selling, general and administrative by $346, increased other income (expense) by $287, and decreased pre-tax income by $193.

Tax Matters

The impact of the restatement adjustments discussed above resulted in related tax adjustments of $4,386 as of January 1, 2004. These tax adjustments, with the other pretax restatement adjustments, required the Company to review certain aspects of the worldwide provision which was impacted by such adjustments: primarily the foreign tax credits and the book to tax basis differences in the investment in foreign subsidiaries under Accounting Principles Board No. 23 (APB 23). Accordingly, the Company determined that its foreign tax credit deferred tax assets were overstated by approximately $2,100. Also, it was determined that the Company had not calculated an APB 23 provision on foreign earnings, as the Company is not permanently reinvested in its foreign subsidiaries, which resulted in a decrease of $4,213 to accumulated other comprehensive loss at December 31, 2003. Other tax adjustments of approximately $2,565 were recorded that were a result of certain unsupported deferred tax assets and other tax related amounts. In addition, the Company had not performed tax contingency reviews in various taxable entities, whereby, it was determined upon further detail review that $1,470 in additional tax contingency reserves needed to be recorded. The increase in tax contingency reserves related to nondeductible commissions expense in certain foreign jurisdictions and transfer pricing reserves. In addition, the Company was not collecting and remitting required withholdings on commissions in one of its foreign subsidiaries, resulting in additional tax payments of $344 to the local tax authorities. As a result of the above restatement amounts, the Company recorded a decrease to beginning retained earnings of $6,479 as of January 1, 2004.

Consistent with the matters described in the above paragraph, a tax benefit related to the pretax restatement adjustments of approximately $636, an additional $4,537 in tax contingency expense, an increase in the benefit related to foreign tax credits of $1,115, and other various tax expense adjustments of $261 were recorded as restatement adjustments for the year ended December 31, 2004.

Accounting for the Retirement of Treasury Stock

Previously, the Company recorded the repurchase of shares of outstanding common as shares of treasury stock, using the cost method, which resulted in treasury stock being presented as a separate component of shareholders' equity. However, the Company is incorporated in the State of Utah, which requires entities incorporated within this jurisdiction to treat any purchase of outstanding common shares as a retirement of common stock. As a result, the Company has restated the presentation of shareholders' equity and has accounted for any repurchases of outstanding common shares as a retirement of the common shares, with the cost of common shares acquired being allocated as a reduction of common stock and retained earnings. For any issuance of new shares, the issuance proceeds were recorded as an increase to common stock as the Company has no par value stock.

As a result of this adjustment, previously reported treasury stock of $54,833 at December 31, 2003 has been allocated as a reduction in both common stock and retained earnings. Previously reported common stock of $25,437 increased by $16,952 to $42,389. Previously reported retained earnings of $124,997 decreased by $71,785 to $53,212. The previously reported treasury stock repurchased during the year ended December 31, 2004 has been restated to reflect an allocation as a reduction in both common stock and retained earnings. The previously reported treasury stock issued during the year ended December 31, 2004 has been corrected to reflect an increase in common stock. As a result of these corrections, previously reported common stock of $21,692 increased by $16,523 and previously reported retained earnings of $139,074 decreased by $13,014. There is no impact on reported net income for the fiscal year ended December 31, 2004 or other years.

2004 Consolidated Statement of Cash Flows

In addition to the effects of the restatements described above, the Company identified other restatements in the consolidated statement of cash flows for the year ended December 31, 2004 as follows:

- The Company corrected all amounts related to unrealized gains and losses, sales, purchases and redemptions to reflect the underlying activity of investments during the

(Amounts in thousands, except per share information)

year.

- The Company presented the non-cash foreign exchange gain as an adjustment to reconcile net income to cash provided by operating activities.
- The Company presented the advances and payments on the line of credit as separate line items.
- Previously reported cash and cash equivalents of $36,206 at December 31, 2004 decreased to $32,693 as a result of short-term investments and credit card receivables improperly included as cash and cash equivalents.

NOTE 3: INVENTORIES

The composition of inventories is as follows:

As of December 31	2006	2005
Raw materials	**$ 8,670**	$ 9,509
Work in process	**1,224**	922
Finished goods	**28,745**	24,557
	$ 38,639	$ 34,988

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

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

As of December 31	2006	2005
Land and improvements	**$ 2,208**	$ 2,208
Buildings and improvements	**28,624**	28,516
Machinery and equipment	**16,724**	17,107
Furniture and fixtures	**27,066**	28,209
	74,622	76,040
Accumulated depreciation and amortization	**(44,041)**	(41,965)
	$ 30,581	$ 34,075

Depreciation expense was $6,216, $5,959, and $5,368 for the years ended December 31, 2006, 2005, and 2004, respectively.

Table of Contents

NOTE 5: INTANGIBLE ASSETS

The Company acquired certain product formulations during the year ended December 31, 2006. At December 31, 2006, the product formulations had a carrying amount of $763, accumulated amortization of $8 and a net amount of $755. The estimated useful life of the product formulations is estimated to be 15 years. Amortization expense for intangible assets for the year ended December 31, 2006 was $8.

Estimated amortization expense for the five succeeding fiscal years and thereafter is as follows:

Year Ending December 31:	Estimated Amortization Expense
2007	$ 51
2008	51
2009	51
2010	51
2011	51
Thereafter	500
Total	$ 755

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, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal obligations	$ 5,034	$ 14	$ (31)	$ 5,017
U.S. Government Securities Funds	646	—	—	646
Equity securities	212	179	—	391
Total investment securities	$ 5,892	$ 193	$ (31)	$ 6,054

As of December 31, 2005	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal obligations	$ 4,609	$ 24	$ (46)	$ 4,587
U.S. Government Securities Funds	619	—	—	619
Equity securities	212	159	—	371
Total investment securities	$ 5,440	$ 183	$ (46)	$ 5,577

Contractual maturities of municipal obligations fair value at December 31, 2006, are as follows:

Mature after one year through five years	$ 1,609

(Amounts in thousands, except per share information)

Mature after five years	3,408
Total	$ 5,017

During 2006, 2005 and 2004, the proceeds from the sales of available-for-sale securities were $1,396, $1,718, and $8,153, respectively. The gross realized gains on sales of available-for-sale securities (net of tax) were $14, $23, and $27 for the years ended December 31, 2006, 2005 and 2004, respectively. The gross realized losses on the sales of available-for-sale securities were $5, $3, and $0 for the years ended December 31, 2006, 2005 and 2004, respectively.

Table of Contents

The Company's trading securities portfolio totaled $1,594 and $1,867 at December 31, 2006 and 2005, respectively, and generated gains of $148 and $10, for the years ended December 31, 2006, and 2004, respectively and a loss $88 for the year ended December, 31, 2005.

As of December 31, 2006 and 2005, the Company had unrealized losses of $31 and $46, respectively, in its municipal obligations investments. These losses are due to the interest rate sensitivity of these investments.

NOTE 7: LINE OF CREDIT

The Company had an operating line of credit at December 31, 2005, which provided for borrowings up to $15 million, with an interest rate equal to LIBOR (4.75 percent as of December 31, 2005) plus 1.5 percent. Borrowings under this line of credit were used for working capital, capital expenditures, and other related costs. The borrowing outstanding on this line of credit as of December 31, 2005 was $7.0 million. The weighted average interest rate for 2005 was 4.76 percent. The line of credit contained other terms and conditions as well as affirmative and negative financial covenants. The Company paid off the line of credit on March 31, 2006 and the line of credit was terminated on July 1, 2006.

NOTE 8: ACCRUED LIABILITIES

The composition of accrued liabilities is as follows:

As of December 31	2006	2005
Tax contingencies	**$ 16,826**	$ 10,522
Sales, use, and property tax	**5,568**	3,301
Salaries and employee benefits	**4,750**	5,752
Convention costs	**3,839**	3,779
Other	**12,833**	9,722
Total	**$ 43,816**	$ 33,076

NOTE 9: ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Available-For-Sale Securities	Total Accumulated Other Comprehensive Loss
Balance as of January 1, 2004	$ (14,604)	$ 169	$ (14,435)
Activity, net of tax	(606)	(45)	(651)
Balance as of December 31, 2004	(15,210)	124	(15,086)
Activity, net of tax	(573)	(48)	(621)
Balance as of December 31, 2005	(15,783)	76	(15,707)
Activity, net of tax	(1,371)	18	(1,353)
Balance as of December 31, 2006	$ (17,154)	$ 94	$ (17,060)

Table of Contents

NOTE 10: INCOME TAXES

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

Year Ended December 31	2006	2005	2004
Domestic	**$ 1,138**	$ (1,345)	$ 13,616
Foreign	**7,491**	12,768	7,086
Total	**$ 8,629**	$ 11,423	$ 20,702

Components of the provision (benefit) for income taxes for each of the three years in the period ended at December 31, 2006 are as follows:

Year Ended December 31	2006	2005	2004
Current:			
Federal	**$ 3,848**	$ (782)	$ 5,514

(Amounts in thousands, except per share information)

State	**388**	(280)	874
Foreign	**10,643**	7,873	4,624
Subtotal	**14,879**	6,811	11,012
Deferred:			
Federal	**$ (2,173)**	1,163	(1,844)
State	**237**	(163)	(128)
Foreign	**(749)**	108	(110)
Subtotal	**(2,685)**	1,108	(2,082)
Total provision for income taxes	**$ 12,194**	$ 7,919	$ 8,930

The income tax benefits associated with employee exercises of options under the nonqualified stock option plan decreased the income taxes payable by $215, $3,426, and $3,337 in 2006, 2005 and 2004, respectively. These benefits were recorded as an increase to common stock.

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

Year Ended December 31	**2006**	**2005**	**2004**
Statutory U.S. federal income tax rate	**35.0%**	**35.0%**	35.0%
State income taxes, net of U.S. federal income tax benefit	**4.8**	**(3.5)**	2.3
Foreign taxes	**(3.1)**	**0.8**	(7.2)
Valuation allowance change	**29.3**	**(2.3)**	0.2
Tax contingencies	**54.0**	**38.6**	11.0
Foreign exchange gains	**9.9**	**—**	—
Gain on sale of intercompany assets	**12.9**	**—**	—
Charitable contributions	**(2.5)**	**(0.6)**	(0.5)
Extra territorial income	**(2.6)**	**(2.9)**	—
Foreign tax rate differential	**—**	**(5.6)**	0.7
Nondeductible foreign expenses	**2.1**	**2.3**	1.2
Other	**1.5**	**7.5**	0.4
Effective income tax rate	**141.3%**	**69.3%**	43.1%

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.

Table of Contents

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

As of December 31	**2006**	**2005**
Inventory	**$ 2,087**	$ 2,841
Accrued liabilities	**3,264**	3,329
Impaired investments	**750**	776
Deferred compensation	**613**	759
Amortization of intangibles	**1,129**	1,299
Bad debts	**492**	619
Net operating losses	**2,346**	1,892
Capital losses	**785**	812
Foreign tax and withholding credits	**3,953**	3,953
Non-income tax accruals	**1,918**	879
Health insurance accruals	**596**	398
Cumulative translation adjustment — outside basis	**1,050**	47
Other deferred tax assets	**2,319**	698
Valuation allowance	**(7,822)**	(5,297)
Total deferred tax assets	**13,480**	13,005
Accelerated depreciation	**(489)**	(1,345)
Other deferred tax liabilities	**(2,324)**	(2,110)
Total deferred tax liabilities	**(2,813)**	(3,455)
Total deferred taxes, net	**$ 10,667**	$ 9,550

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

Year Ended December 31	**2006**	**2005**
Net current deferred tax assets	**$ 5,727**	$ 5,297
Net non-current deferred tax assets	**5,732**	5,417
Total net deferred tax assets	**11,459**	10,714
Net current deferred tax liabilities	**(338)**	(891)
Net non-current deferred tax liabilities	**(454)**	(273)
Total net deferred tax liabilities	**(792)**	(1,164)
Total deferred tax assets, net	**$ 10,667**	$ 9,550

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

(Amounts in thousands, except per share information)

balance sheets.

Management has provided a valuation allowance of $7,822 and $5,297 as of December 31, 2006 and 2005, 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 foreign tax positions and increased its valuation allowance by approximately $2,525 and $45 for 2006 and 2004, respectively, and decreased its valuation allowance by $259 for 2005.

At December 31, 2006, foreign subsidiaries had unused operating loss carryovers of approximately $7,092. Generally, the tax net operating losses will expire at various dates from 2007 through 2011. For financial reporting purposes, the release of these valuation allowances would reduce income tax expenses. The Company has approximately $3,348 of foreign tax credits which begin to expire at various times starting in 2012.

Table of Contents

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) 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 federal income tax returns for 2002 through 2006 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions which have open tax years from 2000 through 2006. The IRS is currently conducting an audit of the Company's U.S. federal income tax returns for the 2003 through 2005 tax years. The Company believes the outcome of these matters will not have a material adverse effect on the consolidated results of operations or consolidated financial position.

NOTE 11: CAPITAL TRANSACTIONS

Common Stock

During 2006, the Company did not repurchase any shares of common stock. During 2005 and 2004, the Company repurchased 513 and 1,002 shares of common stock for a total of $11,363 and $16,999, respectively. Of the shares repurchased during 2005 and 2004, the Company repurchased 513 and 1,000 shares, respectively, of common stock upon the completion of Dutch Auction tender offers. The Dutch Auction tender offers were open to all shareholders of the Company including employees. Employees were required to tender outstanding shares and be at risk consistent with all shareholders. The repurchased shares have been accounted for as retired shares.

Share-Based Compensation

The Company maintained a stock option plan, which expired in 2005 ("the Plan"). The 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 Plan were determined by the Company's Board of Directors. All grants were made at the quoted fair market value of the stock at the date of grant.

Stock option activity for 2006, 2005 and 2004 consisted of the following:

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at January 1, 2004	3,111	$ 8.28
Granted	95	12.29
Forfeited or canceled	(45)	8.96
Exercised	(1,698)	7.91
Options outstanding at December 31, 2004	1,463	8.94
Granted	—	—
Forfeited or canceled	(40)	11.28
Exercised	(920)	8.32
Options outstanding at December 31, 2005	503	9.89
Granted	—	—
Forfeited or canceled	(5)	9.25
Exercised	(66)	8.37
Options outstanding at December 31, 2006	432	10.13

The aggregate intrinsic values on the dates of exercise of options exercised during the years ended December 31, 2006, 2005, and 2004 were $567, $9,981, and $9,344, respectively. Intrinsic value is defined as the difference between the current market value of the underlying common stock and the grant price for options with exercise prices less than the market values on such dates.

The Company has paid cash dividends totaling $3,069, $3,053, and $3,001 for the years ended December 31, 2006, 2005 and 2004, respectively.

Table of Contents

The following table summarizes information about options outstanding and exercisable at December 31, 2006.

	Options Outstanding and Exercisable

Range of Option Prices Per Share	Options Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price Per Share
$6.88 to $7.94	219	0.2 years	$ 7.68
$8.10 to $11.75	62	4.7 years	9.74
$12.00 to $13.81	99	2.0 years	12.44
$14.90 to $19.71	52	3.4 years	16.54
$6.88 to $19.71	432	1.6 years	$ 10.13

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2006 was $962.

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 100 percent of employee contributions up to a maximum of five percent of the employee's compensation. The Company's contributions to the plan vest after a period of three years. During 2006, 2005 and 2004, the Company contributed to the plan approximately $887, $970, and $863, 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 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 $1,594 and $1,867 as of December 31, 2006 and December 31, 2005, respectively. The change in the liability associated with the deferred compensation plan is recorded in the deferred compensation payable.

Management and Employee Bonus Plan

The Company has a discretionary bonus plan that provides for participants to receive payments based upon the achievement of specified annual increases in net sales revenue and operating income, as well as individual objectives. The expense related to the bonus plan was approximately $2,325, $2,449, and $6,241 for the years ended December 31, 2006, 2005 and 2004, respectively. These amounts were accrued as liabilities in the respective year-end consolidated balance sheets. All United States employees as well as key international employees participate in the bonus plan.

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 $5,496, $3,863, and $4,766 in connection with operating leases during 2006, 2005 and 2004, respectively. The approximate aggregate commitments under non-cancelable operating leases in effect at December 31, 2006, were as follows:

Year Ending December 31	
2007	$ 4,625
2008	3,306
2009	1,942
2010	600
2011	121
Thereafter	300
	$ 10,894

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, 2006, the Company has entered into non-cancelable purchase agreements for $8,301 related to fiscal year 2007 production needs.

Letter of Credit

At December 31, 2006, the Company had an outstanding standby letter of credit with a financial institution of $2,864 that secured the payment of the costs of an incentive trip that occurred in 2007. The letter of credit was secured by the Company's investments.

Legal Proceedings

Currently, the Company is a 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 prospects 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 prospects for the period in which the ruling occurs 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.

Class Action Litigation

Between April 3, 2006 and June 2, 2006, five separate shareholder class action lawsuits were filed against the Company and certain of its present and former officers

and directors in the United States District Court for the District of Utah. These matters were consolidated and on November 3, 2006, the plaintiffs filed a Consolidated Complaint against the Company, the Company's Chief Executive Officer and former director, Douglas Faggioli, the Company's former Chief Financial Officer, Craig D. Huff, and a former director and former Chair of the Company's Audit Committee, Franz L. Cristiani. The Consolidated Complaint asserts three separate claims on behalf of purchasers of the Company's common stock: (1) a claim against Mr. Faggioli and the Company for violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, alleging that Mr. Faggioli made a series of alleged material misrepresentations to the investing public; (2) a claim against Mr. Faggioli and the Company for violation of Section 10(b) and Rule 10b-5, alleging that Mr. Faggioli made a series of misrepresentations to the Company's then independent auditor, KPMG, LLP ("KPMG"), for the purpose of obtaining unqualified or "clean" audit opinions and review opinions from KPMG concerning certain of the Company's annual and quarterly financial statements; and (3) a claim against Messrs. Faggioli, Huff and Cristiani for violation of Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), alleging that the individual defendants have "control person" liability for the previously-alleged violations by the Company. The Consolidated Complaint seeks an unspecified amount of compensatory damages, together with interest thereon, litigation costs and expenses, including attorneys' fees and expert fees, and any such other and further relief as may be allowed by law.

On January 5, 2007, the Company and Messrs. Faggioli, Huff and Cristiani moved to dismiss the Consolidated Complaint in its entirety. On May 21, 2007, the court issued its decision denying the motion in large part, but shortening the proposed class period on one of the plaintiffs' claims. On June 6, 2007, the Company and the other defendants answered the Consolidated Complaint, wherein they denied all allegations of wrongdoing and raised a number of affirmative defenses. On November 1, 2007, the plaintiffs filed their motion for class certification, which the Company

opposed. On September 25, 2008, the court granted the plaintiffs' motion for class certification in part, establishing the class as all persons who purchased or otherwise acquired the Company's common stock, and were damaged thereby, from March 16, 2005 to March 20, 2006. On May 9, 2008, at the invitation of the Court based upon recent case law developments, the Company filed a motion to dismiss the Plaintiffs' second cause of action (a 10b-5 claim based on non-public representations to KPMG). The Plaintiffs opposed this motion. On September 23, 2008, the Court granted the Company's motion and dismissed the Plaintiffs' second cause of action.

The case is currently in the early stages of discovery. The trial is not scheduled to commence until April 19, 2010. Although the Company and the other defendants are vigorously defending against the allegations in the lawsuit, and the Company intends to continue doing so, the Company is not able at this time to predict the outcome of this litigation or whether the Company will incur any liability associated to the litigation, or to estimate the effect such outcome would have on the financial condition of the Company.

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

Threatened Derivative Lawsuits

By letter dated October 4, 2007, a shareholder of the Company alleged that a number of the current and former officers and directors of the Company breached their fiduciary duties to the Company by supposedly engaging in the same alleged wrongdoing that is the subject of the class action lawsuit. The shareholder demanded that the Company take action to recover from the specified officers and directors all damages sustained by the Company as a result of the alleged misconduct, and threatened to commence a derivative action if the Company failed to act on the shareholder's demand within a reasonable period of time.

On December 26, 2007, before the expiration of the Company's allotted 90-day period for responding to the demand, the shareholder presented a second but substantively identical demand on the Company, thereby triggering a new 90-day response period. The Company's Board of Directors responded to this demand on March 20, 2008, rejecting the shareholder's demands.

On May 21, 2008, this same shareholder filed a summons and complaint in the Fourth Judicial District Court for the State of Utah seeking an order compelling the Company to produce certain books and records to the shareholder. The Company filed its answer to the complaint on June 12, 2008.

Although the Company and the other defendants are vigorously defending against the allegations in the threatened derivative lawsuit above, management believes that it is not possible at this time to predict the outcome of this litigation or whether the Company will incur any liability associated to the litigation, or to estimate the effect such outcome would have on the financial condition of the Company.

SEC and DOJ Investigations

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

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

SEC Section 12(j) Proceeding

On July 12, 2007, the Company announced that the SEC had instituted administrative proceedings pursuant to Section 12(j). On November 8, 2007, an administrative law judge in the administrative proceeding issued an Initial Decision to revoke the registration of the Company's common stock. Shortly thereafter, the Company filed a petition for review with the SEC. On December 5, 2007, the SEC granted our petition for review. The SEC had scheduled oral argument regarding the Company's petition on October 1, 2008. The SEC has now rescheduled the oral argument for an unspecified future date. The Company cannot predict the outcome of such review at this time. The Initial Decision of the administrative law judge will not become effective pending the review. The Company cannot presently predict what, if any, impact the SEC's ultimate determination may have on our financial statements or the materiality of such impact, if any. If a final order is issued by the SEC revoking the registration of our common stock, broker-dealers would not be permitted to effect transactions in shares of our common stock until the Company files a new registration with the SEC under the Exchange Act and that registration is made effective.

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. Effective April 12, 2004, the Company complied with the FDA's ban on the ingredient ephedra. The Company carries insurance in the types and amounts it considers reasonably adequate to cover the risks associated with its business. On June 1, 2003, the Company established 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 liquidity.

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 has accrued $1,503 and $1,068 for product liability and employee medical claims at December 31, 2006 and 2005, respectively, and such amounts are included in accrued liabilities on the Company's consolidated balance sheets.

Employee-Related Litigation

One of the Company's foreign subsidiaries is a defendant in litigation regarding primarily employee-related matters. The Company has recorded accruals of approximately $836 related to this litigation, which is included in accrued liabilities.

Tax Contingencies

The Company has reserved for certain income tax and state sales tax and use tax contingencies based on the likelihood of an obligation in accordance with SFAS No. 5, "Accounting for Contingencies". Under SFAS No. 5, loss

Table of Contents

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 income and other tax to various tax authorities for contingencies related to uncertain tax positions and other issues. The Company also provides provisions for state sales taxes in each of the states where the Company has potential nexus. At December 31, 2006 and 2005, the Company accrued $21,093 and $11,708, respectively, (including estimated interest and penalties) in accrued liabilities in the accompanying consolidated balance sheets. 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 outcome of these matters or to estimate the effect the ultimate outcomes, if greater than the amounts accrued, would have on the financial condition of the Company.

Government Regulations

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

NOTE 14: OPERATING BUSINESS SEGMENT AND INTERNATIONAL OPERATION INFORMATION

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

The Company has two operating business segments based on geographic operations that include a United States segment and an international segment that operate under the Nature's Sunshine Products name. The Company's third operating business segment is Synergy Worldwide, which offers products with formulations different from those of the Nature's Sunshine Products offerings. In addition, Synergy Worldwide's marketing and Distributor compensation plans are sufficiently different from those of Nature's Sunshine Products. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. Sales revenues for each segment have been reduced by any intercompany sales as they are not included in the measure of segment profit or loss reviewed by the chief operating decision maker. The Company evaluates performance based on operating income (loss) by segment before consideration of certain inter-segment transfers and expenses.

Table of Contents

(Amounts in thousands, except per share information)

Operating business segment information for the years ended December 31, 2006, 2005 and 2004 is as follows:

Year Ended December 31	2006	2005	2004
Sales Revenue:			
Nature's Sunshine Products:			
United States	**$ 148,374**	$ 148,325	$ 141,551
International	**130,596**	119,988	102,898
	278,970	268,313	244,449
Synergy Worldwide	**83,252**	83,371	80,875
Total sales revenue	**362,222**	351,684	325,324
Operating Expenses:			
Nature's Sunshine Products:			
United States	**152,446**	149,265	141,958
International	**118,976**	104,262	89,600
	271,422	253,527	231,558
Synergy Worldwide	**82,795**	86,572	74,756
Total operating expenses	**354,217**	340,099	306,314
Operating Income (Loss):			
Nature's Sunshine Products:			
United States	**(4,072)**	(940)	(407)
International	**11,620**	15,726	13,298
	7,548	14,786	12,891
Synergy Worldwide	**457**	(3,201)	6,119
Total operating income	**8,005**	11,585	19,010
Other Income (Expense), net	**624**	(162)	1,692
Income Before Provision for Income Taxes	**$ 8,629**	$ 11,423	$ 20,702

Year Ended December 31	2006	2005	2004
Capital Expenditures:			
Nature's Sunshine Products:			
United States	**$ 1,488**	$ 2,896	$ 3,500
International	**630**	609	1,096
	2,118	3,505	4,596
Synergy Worldwide	**605**	868	3,553
Total capital expenditures	**$ 2,723**	$ 4,373	$ 8,149
Depreciation and Amortization:			
Nature's Sunshine Products:			
United States	**$ 4,074**	$ 3,834	$ 3,676
International	**854**	1,175	1,205
	4,928	5,009	4,881
Synergy Worldwide	**1,296**	950	487
Total depreciation and amortization	**$ 6,224**	$ 5,959	$ 5,368

Table of Contents

As of December 31	2006	2005
Assets:		
Nature's Sunshine Products		
United States	**$ 86,045**	$ 82,752
International	**39,420**	43,360
	125,465	126,112
Synergy Worldwide	**22,882**	21,174
Total Assets	**$ 148,347**	$ 147,286

From an individual country perspective, only the United States, Japan, and Russia comprise approximately 10 percent or more of consolidated net sales revenue for any of the years ended December 31, 2006, 2005 and 2004 as follows:

Year Ended December 31	2006	2005	2004
Sales Revenue:			
United States	**$ 157,132**	$ 158,052	$ 192,605
Japan	**52,301**	55,540	15,544
Russia	**28,394**	23,710	19,222
Other	**124,395**	114,382	97,953
Total Sales Revenue	**$ 362,222**	$ 351,684	$ 325,324

From an individual country perspective, only the United States comprise 10 percent or more of consolidated long-lived assets, consisting of property, plant and equipment and intangible assets as follows:

As of December 31	2006	2005

Long-Lived Assets		
United States	**$ 25,601**	$ 27,997
Other	**5,735**	6,078
Total Long-Lived Assets	**$ 31,336**	$ 34,075

NOTE 15: RELATED PARTY TRANSACTIONS

In early 2005, two Japanese Managers made donations of approximately $170 to Legacy for the Future ("Legacy"). Legacy was a charitable entity organized and controlled by a then officer and director of the Company. The donation was paid to the Company in Japan and was then wired to Legacy. Legacy subsequently purchased two products from the Company at the Company's cost. The products were near their expiration date and were provided to under-nourished children in a third world country.

The Company maintains split-dollar life insurance policies on certain executives. The cash surrender value of $313 and $321 related to such policies is recorded in other assets as of December 31, 2006 and 2005, respectively.

NOTE 16: SUBSEQUENT EVENTS

In January 2008, the Company purchased a warehouse in Venezuela for approximately $4,000. The warehouse was purchased with cash from cash balances maintained in Venezuela.

Since December 31, 2006, the Company has declared quarterly cash dividends of five cents per common share.

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Amounts in thousands, except per share information)

NOTE 17: SUMMARY OF QUARTERLY OPERATIONS (SEE NOTE 1) – UNAUDITED

The following table displays the unaudited interim consolidated statements of operations for the quarters ended March 31, 2006, June 30, 2006, September 30, 2006, and December 31, 2006.

	For the Quarter Ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Net sales revenue	$ 87,989	$ 89,506	$ 92,458	$ 92,269
Cost of goods sold	17,841	16,526	18,233	16,145
Volume incentives	35,788	36,858	36,027	37,154
Selling, general and administrative	36,983	35,391	32,438	34,833
Operating income (loss)	(2,623)	731	5,760	4,137
Other income (expense)	522	845	282	(1,025)
Income (loss) before income taxes	(2,101)	1,576	6,042	3,112
Taxes	1,366	2,819	4,583	3,426
Net income (loss)	(3,467)	(1,243)	1,459	(314)
Basic net income (loss) per share	(0.23)	(0.08)	0.09	(0.02)
Diluted net income (loss) per share	(0.23)	(0.08)	0.09	(0.02)

The following table displays the unaudited interim consolidated statements of operations for the quarters ended March 31, 2005, June 30, 2005, September 30, 2005, and December 31, 2005. As noted in the table, the consolidated statements of operations and earnings per share for the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005 have been restated from previously filed unaudited consolidated financial statements. Restatement adjustments are described in Note 2.

	For the Quarter Ended						
	March 31, 2005		June 30, 2005		September 30, 2005		
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	December 31, 2005
Net sales revenue	$ 86,401	$ 83,433	$ 87,040	$ 84,873	$ 87,706	$ 86,483	$ 96,895
Cost of goods sold	14,698	14,564	14,825	14,934	16,521	16,634	21,461
Volume incentives	33,508	33,667	35,161	37,424	34,572	35,907	37,127
Selling, general and administrative	32,644	31,799	32,287	29,636	31,972	30,405	36,541
Operating income	5,551	3,403	4,767	2,879	4,641	3,537	1,766
Other income (expense)	74	6	(116)	28	(244)	86	(282)
Income before income taxes	5,625	3,409	4,651	2,907	4,397	3,623	1,484
Taxes	1,658	2,198	584	2,000	72	2,283	1,438
Net income	3,967	1,211	4,067	907	4,325	1,340	46
Basic net income per share	0.27	0.08	0.27	0.06	0.28	0.09	0.00
Diluted net income per share	0.26	0.08	0.26	0.06	0.28	0.09	0.00

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

Table of Contents

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

As previously disclosed and as described above, the Audit Committee engaged an independent, nationally recognized law firm to assist in the investigation in November 2005 and the law firm, in turn, engaged a nationally recognized independent, registered public accounting firm to provide further assistance. One independent

member of the Audit Committee and an outside independent consultant, who later became a director and independent member of the Audit Committee (the "Special Committee"), oversaw the work of the independent law firm and independent accounting firm assisting in the investigation (the "Investigative Team"). On March 15, 2006, the Audit Committee received an oral preliminary report (the "Preliminary Report") from the Investigative Team on the preliminary findings of the investigation to that date. The Preliminary Report noted certain weaknesses in the Company's internal controls and recommended certain remedial measures be taken by the Company in connection with the findings of the investigation. Representatives of KPMG LLP ("KPMG") were present for the presentation of the Preliminary Report by the Investigative Team. Based on the Preliminary Report, the Audit Committee, in consultation with KPMG, determined that certain of the Company's previously issued financial statements should no longer be relied upon and reported such determination in a Current Report on Form 8-K filed on March 20, 2006. While the Company has consistently believed and disclosed that the amount of any errors and the periods to which they related had not been determined and finalized as of March 20, 2006 (stated in the Current Report on Form 8-K filed on March 20, 2006), KPMG stated in a letter to the Company dated April 14, 2006 (filed as Exhibit 99.1 to Current Report on Form 8-K filed April 18, 2006) that it disagreed with that statement because the Investigative Team had identified both the proposed amount of the errors and the period in which they occurred.

On March 24, 2006, KPMG requested a meeting with the members of the Audit Committee other than Franz Cristiani, the then-Chairman of the Audit Committee. At this meeting, held telephonically on March 26, 2006, KPMG informed the members of the Company's Board who were present that, based on its interpretation of the findings presented in the Preliminary Report on March 15, 2006 and subsequent meetings with the Audit Committee and the Investigative Team, KMPG required that (i) all of the recommended remedial measures in the Preliminary Report be implemented and, on or before April 10, 2006, the Company provide KPMG with a plan of remediation covering the implementation of such measures; (ii) the Board be enhanced to add additional independent members; (iii) Franz Cristiani be removed from the Board by the end of the day on March 28, 2006; and (iv) Douglas Faggioli, the Company's Chief Executive Officer, be terminated. The Board members requested that they be given until April 10, 2006 (the day on which the remediation plan was due to KPMG) to make a determination with regard to the removal of Mr. Cristiani and termination of Mr. Faggioli, given that the Board believed that the Investigative Team had only recommended that Mr. Cristiani be replaced as the Chairman of the Audit Committee, not that he be removed from the Audit Committee or the Board, and given that the Investigative Team had not completed its investigation. In a letter to the Company dated March 27, 2006 (filed as Exhibit 99.2 to Current Report on Form 8-K filed April 3, 2006), KPMG stated that the removal of Mr. Cristiani and termination of Mr. Faggioli were necessary by the close of business on Wednesday, March 29, 2006.

In a letter to KPMG on March 29, 2006 (filed as Exhibit 99.3 to Current Report on Form 8-K filed on April 3, 2006), the Board reiterated its commitment to taking prompt actions to address the issues raised in the ongoing independent investigation being overseen by the Special Committee, including implementing the remedial measures recommended by the Investigative Team. The Board also stated, among other things, that it had replaced Mr. Cristiani with Larry Deppe to serve as the Chairman of the Audit Committee and that, pending the conclusion of the independent investigation, it had relieved Mr. Faggioli of his executive duties and appointed an executive committee overseen by the Chairman of the Board to serve in Mr. Faggioli's place. Mr. Faggioli would continue as an employee of the Company, but would not be a member of the Board. The Board noted that the Investigative Team had agreed that these interim steps were appropriate and consistent with their recommendations.

On March 30, 2006, during further discussion with KPMG, KPMG reiterated its insistence that Mr. Cristiani be removed from the Board and Mr. Faggioli be terminated. The Board of Directors met and, in the interest of resolving the matter with KPMG, Mr. Cristiani offered to resign from all positions on the Board. On the afternoon of March 30, the Board presented to KPMG the proposed resignation of Mr. Cristiani and reiterated its commitment to relieve Mr. Faggioli of his executive duties while retaining his services as an employee pending the conclusion of the investigation. On the evening of March 30, KPMG indicated that Mr. Faggioli's continuing as an employee was not acceptable and

Table of Contents

that, in addition to Mr. Cristiani's resigning, Mr. Faggioli would need to be terminated as an employee by 5:00 p.m. Mountain Standard Time on March 31, 2006 or KPMG would resign as the Company's independent, registered public accounting firm. The Company's Board met on March 31, 2006 to discuss KPMG's position and the Board subsequently asked for an extension until Monday, April 3, 2006, to provide KPMG with its decision. KPMG tendered its letter of resignation on the evening of March 31, 2006, which was filed as Exhibit 99.1 to the Current Report on Form 8-K filed on April 3, 2006.

On April 3, 2006, the Company reported the resignation of KPMG consistent with the foregoing summary, under Item 4.01 of its Current Report on Form 8-K. On April 14, 2008, KPMG submitted a letter to the SEC, identifying four disagreements with the Company's filing on April 3, 2006, which letter was filed as Exhibit 99.1 to the Current Report on Form 8-K filed on April 18, 2006. First, KPMG asserted, with respect to certain errors, the Investigative Team had completed its investigation and identified both the proposed amount of the errors and the period in which they occurred. The Company had stated that the exact amount of any errors and the periods to which they relate had not been determined and finalized. Second, KPMG disagreed with the Company's statement that KPMG had required certain remedial measures based on its interpretation of the findings in the Preliminary Report. Rather, KPMG asserted, the Investigative Team found and reported on March 15, 2006 that their investigation was complete as to certain matters and that they had reached the conclusion, and were recommending, that the employment of Mr. Faggioli be terminated and that Mr. Cristiani be removed from his position as chair of the Audit Committee. KPMG also asserted that the Special Committee concurred with the recommendation while the other members of the Board of Directors stated that they would not terminate Mr. Faggioli. Third, KPMG disagreed with the Company's statement that the interim steps regarding Mr. Faggioli (continuing his employment in a limited, non-executive role) were appropriate and consistent with the Investigative Team's recommendations, asserting that on March 30, 2006, a member of the Special Committee communicated to KPMG that the conclusion and recommendation as to the termination of Mr. Faggioli had not changed and that nothing supported holding off on that recommendation any longer. Fourth, KPMG laid out three separate reportable events within the meaning of Item 304(a)(1)(v) of Regulation S-K, as required to be reported under Item 4.01 of Form 8-K:

1. KPMG advised the Company's Audit Committee that, because of issues outlined and conclusions reached in the Preliminary Report of the Investigative Team, KPMG could no longer rely on management's representations.

2. KPMG advised the Company's Audit Committee that as a result of information brought to its attention by the findings and conclusions reached in the Preliminary Report, previously issued financial statements could no longer be relied upon and it would be necessary to expand significantly the scope of its audit with respect to the Company's 2005 and previously issued financial statements. Due to KPMG's resignation, KPMG has not expanded the scope of its audit or performed further investigations.

3. KPMG advised the Company's Audit Committee that the Company had failed to take timely and appropriate remedial actions.

Following the resignation of KPMG, the Audit Committee continued to pursue its investigation of the findings of Preliminary Report.

On February 2, 2007, the Audit Committee of the Board of Directors of the Company engaged Deloitte & Touche LLP ("Deloitte") to serve as the Company's independent, registered public accounting firm. On February 8, 2007, the Company filed a Current Report on Form 8-K, with its press release announcing its engagement of Deloitte.

During the two-year period ended December 31, 2006, and through February 2, 2007, neither the Company, nor anyone on its behalf, consulted with Deloitte with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and no written report or oral advice was provided by Deloitte to the Company that Deloitte concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing, or financial reporting issue or (ii) any matter that was the subject of either a disagreement as defined in Item 304(a)(1)(iv) of Regulation S-K or a reportable event as described in Item 304(a)(1)(v) of Regulation S-K.

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.

Evaluation of Disclosure Controls and Procedures

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 Securities and Exchange Commission (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 this report, the Company's management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2006, as a result of the existence of material weaknesses in our internal control over financial reporting.

Since December 31, 2006, we have made significant progress in improving our disclosure controls and procedures. We have taken, and are taking, the actions described below under "Management's Plan to Remediate Material Weaknesses" to remediate the material weaknesses in our internal control over financial reporting.

We continue to strive to improve our processes to enable us to provide complete and accurate public disclosure on a timely basis. Management believes that we will not be able to conclude that our disclosure controls and procedures are effective until the material weaknesses have been fully remediated and we are able to file required reports with the SEC on a timely basis.

Nevertheless, based on the completion of the Audit Committee's investigation, management's internal review of our processes and procedures, efforts to remediate the material weaknesses in internal control over financial reporting described below, and the performance of additional procedures by management designed to ensure the reliability of our financial reporting, we believe that the consolidated financial statements included in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented.

Management's Report on Internal Control over Financial Reporting

Overview

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our 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 accounting principles generally accepted in the United States of America, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorization of management and directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our 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 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.

Definition of Material Weakness

A "material weakness" is defined under SEC rules as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis by the company's internal controls.

Management's Assessment of Internal Control over Financial Reporting

Management was unable to complete a comprehensive, formal assessment of internal control over financial reporting for the year ended December 31, 2006. Management dedicated a substantial amount of the Company's resources to the review and assessment of information we received in the course of the previously disclosed internal investigation. In addition, we experienced turnover of key senior and other management personnel through resignation, which led to the hiring of a significant number of replacement personnel into key positions throughout 2006. As part of the training of these new personnel on the operations of the Company and as part of their integration, job responsibilities and our internal control structure were reevaluated, which led to changes or enhancements to certain internal control procedures throughout the year. Certain controls were not tested or were not able to be tested because of our resource constraints and the ongoing changes to our procedures and controls. Additionally, as the material weaknesses described below were identified, we determined that it was more appropriate to focus our attention and resources on remediating the identified deficiencies.

Although management was unable to complete its assessment of internal control over financial reporting as of December 31, 2006, management did identify material weaknesses relating to our control environment, application of generally accepted accounting principles ("GAAP"), accounting for income taxes, our financial reporting process, the monitoring of a service provider, and information technology systems as of December 31, 2006. Because of these material weaknesses, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Certain of these material weaknesses have resulted in restatements to the previously issued consolidated financial statements as described in Note 2 to the consolidated financial statements, and adjustments to the Company's

consolidated financial statements for the years ended December 31, 2006 and 2005. A description of the material weaknesses relating to each of these areas as of December 31, 2006 is included below.

Control Environment — The Company did not maintain an effective control environment for internal control over financial reporting. Specifically, we concluded that we did not have appropriate controls in the following areas:

- *Accounting Policies* – As a result of the turnover of key financial and accounting personnel during 2006, we did not maintain a comprehensive and formalized process for monitoring the application of our policies, and for updating and consistently communicating our accounting policies and procedures within the organization.

- *Maintenance of Risk Assessment Programs* – We did not maintain an adequate risk oversight function to evaluate and report on risks to financial reporting throughout the organization, including completion of a comprehensive, worldwide risk assessment to identify all potential risk areas and evaluate the adequacy of controls to mitigate identified risks.

Table of Contents

Application of GAAP — The Company did not maintain effective internal controls relating to the application of generally accepted accounting principles, including revenue recognition for certain items, the proper recording of certain accruals and contingencies, use of appropriate models to evaluate potential impairment of intangible assets, and the proper classification of certain balance sheet and income statement accounts.

Accounting for Income Taxes — The Company's processes, procedures and controls related to the preparation and review of the annual tax provision were not effective to ensure that amounts related to the tax provision and related current or deferred income tax asset and liability accounts were accurate, recorded in the proper period, and determined in accordance with generally accepted accounting principles. Specifically, we did not (i) analyze and reconcile certain deferred income and tax payable accounts, (ii) appropriately consider the need to record and/or disclose contingencies for certain income tax positions in accordance with generally accepted accounting principles, and (iii) file tax returns in certain foreign jurisdictions. Additionally, we had insufficient personnel with appropriate qualifications and training in accounting for income taxes.

Financial Reporting Process — The Company did not maintain an effective financial reporting process to prepare financial statements in accordance with generally accepted accounting principles. Specifically, our process lacked timely and complete financial statement reviews, effective journal entry controls, and appropriate reconciliation processes. Further, we were unable to complete regulatory filings as required by the rules of the SEC.

Monitoring of a Service Provider — The Company did not effectively monitor a service provider responsible for managing the entire operations for one of our foreign locations in terms of an out-sourced arrangement. Transactions are recorded in the Company's system based on monthly reporting from the service provider. The Company had established a monitoring process including a recalculation of commissions expense based on sales reported by the service provider, and certain additional cash and inventory shipment reconciliation procedures. These monitoring processes and procedures were not performed on a regular basis, and were not adequately documented or reviewed, which increased the likelihood of material misstatements in our financial statements.

Information Technology Systems — The Company did not maintain effective internal control over financial reporting related to certain information technology applications and general computer controls which are considered to have an impact on financial reporting and which resulted in a more than reasonable possibility that material misstatements in our financial statements would not be prevented or detected. Specifically, we lacked effective controls in the following areas:

- *Access Control* – The Company did not maintain effectively designed controls to prevent unauthorized access to certain programs and data, and provide for periodic review and monitoring of access including reviews of security logs and analysis of segregation of duties conflicts.

- *Change Management* – The Company did not maintain effectively designed controls to ensure that all information technology program and data changes were authorized, developer access to the production environment was limited, and that all program and data changes were adequately tested for accuracy and appropriate implementation.

- *Spreadsheets* – The Company did not maintain effectively designed controls to ensure that critical spreadsheets were identified, access to these spreadsheets was restricted to appropriate personnel, changes to data or formulas were authorized and appropriate, or that the spreadsheets were adequately reviewed by someone other than the preparer.

As we were unable to complete our assessment of internal control over financial reporting as of December 31, 2006, more material weaknesses might exist in other areas that were not fully evaluated or tested as of December 31, 2006. To the extent additional material weaknesses are discovered, they will be disclosed in subsequent 10Q and 10K filings.

Deloitte & Touche LLP, the Company's independent registered public accounting firm, issued its attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting, which

Table of Contents

disclaimed an opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting because of a scope limitation, and expressed an adverse opinion on the effectiveness of our internal control over financial reporting because of material weaknesses identified and the effects of additional material weaknesses that might have been identified had they been able to perform sufficient auditing procedures relating to management's assessment.

Changes in Internal Control Over Financial Reporting

Management has evaluated whether any changes in our internal control over financial reporting that occurred through the date of this filing have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We anticipate that these changes and other ongoing enhancements and remediation activities, which are described in "Remediation Activities Related to Material Weaknesses" section below, will continue to have a material impact on our internal control over financial reporting in future periods.

- Hired experienced senior management personnel including a new CFO, Corporate Controller, and International Controllers in 2006.

- Hired a Chief Compliance Officer and in-house General Counsel in 2007.

- The CFO and the President of International and International Controllers traveled to various foreign locations to observe the respective operations and to reinforce the importance of internal controls and accurate financial reporting in 2006. Additional visits and training at international locations will be conducted on a go forward basis.

- Established an outsourced agreement in 2006 with a third-party internal audit service provider to assist with specific internal audit procedures, including the documentation, and evaluation of design and operating effectiveness of internal control over financial reporting to support management's 2007 assessment of internal control over financial reporting. This included visits during 2007 to certain material foreign locations.

- Performed a complete management assessment of internal control over financial reporting beginning in 2007, which included documentation of business processes and entity level controls and the creation of risk matrixes to facilitate the evaluation and testing of the Company's key business processes and internal control activities.

Remediation Activities Related to Material Weaknesses

In addition, the Company has taken, or anticipates taking, the following additional actions to remediate the specific material weaknesses described above.

Control Environment — Remediation activities related to our control environment include the following:

Accounting Policies – We have formalized our accounting policies in 2007 in conjunction with our enhancement of our documentation of internal control processes and procedures, and have established procedures to standardize our accounting policies throughout the organization. We have also increased the frequency of training for the general managers and international subsidiary controllers to provide for consistent communication of our policies for financial reporting and related internal controls.

Maintenance of Risk Assessment Programs – Management has, in conjunction with the assessment of internal controls in 2007, identified key financial reporting risks and has evaluated the adequacy of the internal control procedures to address the identified risks. This included the completion of comprehensive, worldwide entity level control questionnaires and fraud risk assessments in 2007 by senior management, the Company's General Counsel and the Manager of Internal Audit. In addition, the Company enhanced the in-house internal audit function in 2007 by hiring a Manager of Internal Audit who is a Certified Internal Auditor with direct reporting to the Audit Committee. This has provided enhanced assistance to the Audit Committee in monitoring identified risks and in establishing more robust internal audit plans. In addition, management will continue to provide compliance training throughout the worldwide organization.

Table of Contents

Application of GAAP — We have implemented procedures to address revenue recognition issues and impairment models for intangible assets. With respect to other non-income tax accruals and contingencies, in 2007 and 2008 our management performed an analysis with the assistance of outside legal counsel to assess and estimate the exposure related to such positions. To address income statement and balance sheet classification issues, we have enhanced our close processes and procedures as described in the financial reporting process remediation activities below.

Accounting for Income Taxes — In 2007, we hired a new Tax Director and Tax Accountant and have utilized various out-sourced service providers for tax consulting services to assist in our accounting for income taxes. We continue to evaluate our tax process and tax resource requirements. In 2007 we performed a comprehensive review of our foreign statutory tax filings, and have assessed the impact of the delinquent filings and the process that we need to complete these filings. In addition, in 2007 and 2008 our management performed an analysis with the assistance of outside legal counsel to assess, estimate, and record the exposure related to our uncertain tax positions in accordance with generally accepted accounting principles. We continue to evaluate the adequacy of our tax resources.

Financial Reporting Process — During 2007, we redesigned and implemented improved procedures to provide for enhanced retention of documentation to support sub-ledger and account reconciliations. We are continuing to evaluate the reconciliation process related to clearing accounts and controls over journal entries. During 2007 and 2008, we enhanced monthly close procedures to include completion of a formal monthly close checklist, recurring journal entry checklist, variance analysis of financial statement fluctuations, enhanced budget to actual reviews, and review and approval of all accrued liability accounts. In 2008, we hired a Financial Reporting Manager, who brings additional knowledge of GAAP and financial reporting practices. In addition, the Company has added a disclosure committee in 2007 and enhanced our procedures to provide for additional management review of financial statements and disclosures.

We believe that we will not have fully remediated this material weakness until we are able to file required reports with the SEC on a timely basis.

Monitoring of a Service Provider — We are in the process of redesigning our procedures to more effectively monitor the service provider responsible for the management of the operations of one of our foreign locations. In particular, we are improving our monitoring process to ensure that the commissions expense recalculations and other reconciliation processes (based on information reported by the outside service provider) are performed on a regular basis, documented and reviewed. In addition, in conjunction with our 2007 assessment of internal controls, our out-sourced internal auditor performed a site visit to the foreign location to observe the facility, interview on site employees of the service provider, and evaluate the internal control procedures of the service provider. Additional visits to the location will be conducted as part of internal audit's overall plan.

Information Technology Systems — During 2007, we implemented the following procedures to enhance our information technology processes and controls:

Access Controls — In 2007, management performed a broad and detailed analysis of user access for the applications we have determined to have a material impact on our financial reporting for our domestic locations. We are continuing to remediate segregation of duties conflicts. Our management is evaluating the level of risk at material international locations, and will perform additional access reviews at additional international locations as considered necessary. The Company is in the process of redesigning user security within our financial reporting systems.

During 2007, we improved physical access controls including limiting access to certain check printers and our main data center. In addition, management performed an evaluation of the password requirements for certain key financial reporting applications, and implemented strengthened passwords in 2007 to improve length, aging, and complexity for our passwords in certain key systems. We are currently evaluating enhancements to password requirements for our remaining applications.

Change Management – During 2007, our management implemented enhanced procedures to control changes to the production environment, and we continue to evaluate additional measures to ensure that adequate documentation is retained. In addition, during 2007 our management redesigned job descriptions within the change control process of certain of the Company's application systems to improve segregation of duties, including removing the ability of the Information Technology Director to perform code changes and increasing his responsibilities to conduct code review. In

Table of Contents

addition, an additional developer's job responsibilities were changed to assist in reviewing code before it is placed into production, including code changes regarding financial reports.

Spreadsheets – During 2007, management has designed and implemented procedures to inventory, assess the risk of, and rank our critical financial reporting spreadsheets for locations that have a material impact on our financial reporting. In conjunction with the assessment of internal controls for 2007, management performed detailed testing at locations that have a material impact on our financial reporting around security and change management for spreadsheets. Management intends to further enhance the design of our controls over spreadsheets by establishing procedures for benchmarking critical spreadsheets to ensure that formulas are appropriate and protected, and that the logic and design of the spreadsheets is appropriate and consistent. Management is also implementing enhanced review procedures and we will extend any or all of our enhanced procedures to additional international locations as considered necessary.

Management is also in the process of implementing an application package that will facilitate a worldwide consolidation and reduce our reliance on spreadsheets. In addition, our information technology management has selected an application to provide for a world-wide standardization of the general ledger system. Management has developed a timeline for implementation of this application.

Conclusion

We believe the measures described above will facilitate remediation of the material weaknesses we have identified and will continue to strengthen our internal control over financial reporting. We are committed to continually improving our internal control processes and will diligently and vigorously review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may decide that additional measures are necessary to address control deficiencies. Moreover, we may determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We were engaged to audit management's assessment regarding the effectiveness of internal control over financial reporting of Nature's Sunshine Products, Inc. and subsidiaries (the "Company") as of December 31, 2006. 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.

As described in the accompanying Management's Report on Internal Control over Financial Reporting, the Company was unable to complete its assessment of the effectiveness of the Company's internal control over financial reporting. Accordingly, we were unable to perform sufficient auditing procedures necessary to form an opinion on management's assessment.

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 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.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

- *Control Environment* – The Company did not maintain an effective control environment for internal control over financial reporting. Specifically, the Company concluded that they did not have appropriate controls in the following areas:
  - *Accounting Policies* – As a result of the turnover of key financial and accounting personnel during 2006, the Company did not maintain a comprehensive and formalized process for monitoring the application of its policies, and for updating and consistently communicating its accounting policies and procedures within the organization.
  - *Maintenance of Risk Assessment Programs* – The Company did not maintain an adequate risk oversight function to evaluate and report on risks to financial reporting throughout the organization, including completion of a comprehensive, worldwide risk assessment to identify all potential risk areas and evaluate the adequacy of controls to mitigate identified risks.

Table of Contents

- *Application of GAAP* – The Company did not maintain effective internal controls relating to the application of generally accepted accounting principles, including revenue recognition for certain items, the proper recording of certain accruals and contingencies, use of appropriate models to evaluate potential impairment of intangible assets, and the proper classification of certain balance sheet and income statement accounts.
- *Accounting for Income Taxes* – The Company's processes, procedures and controls related to the preparation and review of the annual tax provision were not effective to ensure that amounts related to the tax provision and related current or deferred income tax asset and liability accounts were accurate, recorded in the proper period, and determined in accordance with generally accepted accounting principles. Specifically, the Company did not (i) analyze and reconcile certain deferred income and tax payable accounts, (ii) appropriately consider the need to record or disclose contingencies for certain income tax positions in accordance with generally accepted accounting principles, and (iii) file tax returns in certain foreign jurisdictions. Additionally, the Company had insufficient personnel with appropriate qualifications and training in accounting for income taxes.

- *Financial Reporting Process* – The Company did not maintain an effective financial reporting process to prepare financial statements in accordance with generally accepted accounting principles. Specifically, the Company's process lacked timely and complete financial statement reviews, effective journal entry controls, and appropriate reconciliation processes. Further, the Company was unable to complete regulatory filings as required by the rules of the SEC.

- *Monitoring of a Service Provider* – The Company did not effectively monitor a service provider responsible for managing the entire operations for one of their foreign locations in terms of an out-sourced arrangement. Transactions are recorded in the Company's system based on monthly reporting from the service provider. The Company had established a monitoring process including a recalculation of commissions expense based on sales reported by the service provider, and certain additional cash and inventory reconciliation procedures. These monitoring processes and procedures were not performed on a regular basis, and were not adequately documented or reviewed, which increased the likelihood of material mistatements in their financial statements.

- *Information Technology Systems* – The Company did not maintain effective internal control over financial reporting related to certain information technology applications and general computer controls which are considered to have an impact on financial reporting and which resulted in a more than reasonable possibility that material misstatements in their financial statements would not be prevented or detected. Specifically, the Company lacked effective controls in the following areas:

    - *Access Control* – The Company did not maintain effectively designed controls to prevent unauthorized access to certain programs and data, and provide for periodic review and monitoring of access including reviews of security logs and analysis of segregation of duties conflicts.

    - *Change Management* – The Company did not maintain effectively designed controls to ensure that all information technology program and data changes were authorized, developer access to the production environment was limited, and that all program and data changes were adequately tested for accuracy and appropriate implementation.

    - *Spreadsheets* – The Company did not maintain effectively designed controls to ensure that critical spreadsheets were identified, access to these spreadsheets was restricted to appropriate personnel, changes to data or formulas were authorized and appropriate, or that the spreadsheets were adequately reviewed by someone other than the preparer.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2006, of the Company and this report does not affect our report on such financial statements and financial statement schedule.

Table of Contents

Because of the limitation on the scope of our audit described in the second paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on management's assertion referred to above. In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria and the effects of any other material weaknesses, if any, that we might have identified if we had been able to perform sufficient auditing procedures, the Company has not maintained effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have 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, 2006, of the Company and have issued our report dated October 6, 2008 that expressed an unqualified opinion on those 2006 financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
October 6, 2008

Table of Contents

Item 9B. Other Events

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The Company's directors and executive officers, as of June 30, 2008, are as follows:

Name	Age	Position	Served in Position Since	Class and Year Term will Expire
Kristine F. Hughes	69	Chairperson of the Board	1980	Class III – 2005
Robert K. Bowen	59	Director	2006	
Larry A. Deppe	59	Director	2006	
Eugene L. Hughes	77	Director	1980	Class II – 2007
Pauline Hughes Francis	67	Director	1988	Class I – 2006
Douglas Faggioli	54	President and Chief Executive Officer	1997	—
Stephen M. Bunker	50	Vice President – Finance, Treasurer, Chief Financial Officer and Chief Accounting Officer	2006	—
Jamon Jarvis	42	General Counsel and Chief Compliance Officer	2007	—
Greg Halliday	44	President – U.S. Sales, Nature's Sunshine Products	2006	—
Bryant J. Yates	35	President – International, Nature's Sunshine Products	2007	—
John R. DeWyze	51	Executive Vice President – Operations, Nature's Sunshine Products	2002	—
William J. Keller	65	Vice President – Health Sciences and Educational Services	2001	—

Lynda Marie Hammons	53	Vice President – Quality and Regulatory Affairs	2001	—
R. Kay Olsen	53	Vice President – Information Technology	2002	—

Certain information regarding the business experience of the executive officers and directors is set forth below.

KRISTINE F. HUGHES. Mrs. Hughes is the Chairperson of our Board of Directors and a member of our Compensation Committee. She was a co-founder in 1972 of Hughes Development Corporation, a predecessor of our Company, and has served as an officer or director of our company and/or its predecessors since 1980. Mrs. Hughes is the wife of Eugene L. Hughes, one of our founders and directors.

ROBERT K. BOWEN. Mr. Bowen is a member of our Board of Directors and a member of our Audit Committee. A Certified Public Accountant, Mr. Bowen has been a partner at the accounting firm of Hansen, Barnett & Maxwell, P.C. since 1980.

LARRY A. DEPPE. Mr. Deppe is an independent member of our Board of Directors and a member of our Audit Committee. Mr. Deppe is a certified public accountant with over 35 years experience auditing and teaching accounting. Mr. Deppe is currently an Associate Professor of Accounting in the School of Accountancy at Weber State University, Ogden, Utah. Prior to embarking on an academic career, Mr. Deppe for eight years held various accounting posts with Intermountain Health Care, the Office of the Utah State Auditor, Christensen, Inc. and Arthur Young & Co. Active in professional affairs, Mr. Deppe served two four-year terms as Chair of the Utah State Board of Accountancy.

Table of Contents

EUGENE L HUGHES. Mr. Hughes is a founder and member of our Board of Directors. He co-founded Hughes Development Corporation, a predecessor of our Company, in 1972. He has served as an officer or director of our Company and/or its predecessors since 1972. Mr. Hughes graduated from Brigham Young University. He is the husband of Kristine F. Hughes, our Chairperson of the Board.

PAULINE HUGHES FRANCIS. Mrs. Francis is a member of our Board of Directors, a member of our Audit Committee, and a member of our Compensation Committee. She has served on our Board of Directors since 1988. Mrs. Francis was a co-founder in 1972 of Hughes Development Corporation, a predecessor of the Company, and has acted as a consultant from time to time to our Company and its predecessors.

DOUGLAS FAGGIOLI. Mr. Faggioli is the President and Chief Executive Officer of our Company. Prior to his appointment as President and Chief Executive Officer in November 2003, Mr. Faggioli served as Executive Vice President, Chief Operating Officer and a Director of our Company. He began his employment with us in 1983 and has served as one of our officers since 1989. He is a Certified Public Accountant.

STEPHEN M. BUNKER. Mr. Bunker serves as Vice President over Finance and Chief Financial Officer since March 27, 2006. Mr. Bunker served as Vice President of Finance and Treasurer of Geneva Steel Holdings, Corporation from July 2001 until March 2006. Previous to July 2001 Mr. Bunker served as Corporate Controller for Geneva Steel Corporation. Mr. Bunker is a certified public accountant, and worked for Arthur Andersen for six years.

JAMON JARVIS. Mr. Jarvis is the General Counsel of our Company. He has served in this position since March 2007. Prior to this appointment, Mr. Jarvis served as General Counsel and Chief Financial Officer of InterNetwork, Inc., in San Francisco, California, from January 2004 to November 2006; and as Executive Vice President Finance, General Counsel and Corporate Secretary at Spontaneous Technology, Inc., in Salt Lake City, Utah, September 2001 to October 2003. Mr. Jarvis received his B.A. in History in 1990 from Brigham Young University and his J.D. in 1993 from Cornell Law School.

GREG HALLIDAY. Mr. Halliday is the President – U.S. Sales for Nature's Sunshine Products. He has served in this position since 2006 and previously served as Vice President – Nature's Sunshine Products U.S. Sales. Mr. Halliday received his B.S. in 1989 and M.B.A. with an emphasis in Marketing in 1991 from the Marriott School of Management at Brigham Young University.

BRYANT J. YATES. Mr. Yates is the President – International of our Company. Mr. Yates, has served as Executive Director—International of the Company, Director—International—Europe/Middle East and General Manager of Nature's Sunshine Products of Russia, an affiliate of the Company. Mr. Yates has been employed by the Company since 1999. Mr. Yates received a degree in international business from Utah Valley State College.

JOHN R. DEWYZE. Mr. DeWyze is the Executive Vice President – Operations for Nature's Sunshine Products and has served in this position since 1997. Mr. DeWyze received his B.S. in Chemistry in 1981 from Grand Valley State University and his M.B.A. in 1994 from the University of Southern Indiana.

WILLIAM J. KELLER. Dr. Keller is the Vice President – Health Sciences and Educational Services for Nature's Sunshine Products. He was appointed to serve in this capacity in April 2001. Prior to joining our Company, Dr. Keller was the Department Chair/Professor in the School of Pharmacy at Stamford University and Northeast Louisiana University. Dr. Keller received his B.S. in Pharmacy and M.S. in Pharmaceutical Sciences from Idaho State University. In 1972, the University of Washington awarded him a Ph.D. in Pharmacognosy.

LYNDA MARIE HAMMONS. Mrs. Hammons is the Vice President – Quality and Regulatory Affairs for Nature's Sunshine Products. She has served in this capacity since June 2001. Mrs. Hammons received her B.S. in Chemistry and Microbiology from Bowling Green State University and her M.B.A. with an emphasis on Quality Management from the University of Cincinnati. Mrs. Hammons is also a Certified Quality Engineer, a Certified Quality Technician and a Certified Quality Auditor–American Society for Quality.

Table of Contents

R. KAY OLSEN. Mr. Olsen is the Vice President – Information Technology of our Company and has served in this capacity since March 2002. Mr. Olsen received his B.S. in Information Management from Brigham Young University and his M.B.A. from the University of Phoenix.

Board Composition and Election

Directors are elected at annual meetings of shareholders. Our Bylaws provide for a classified Board of Directors, consisting of three staggered classes of directors, as nearly equal in number as possible. As a result, shareholders will elect a portion of our Board of Directors each year. The Class I directors' terms were originally set to expire at our annual meeting held in 2006, the Class II directors' terms were originally set to expire at our annual meeting held in 2007, and the Class III directors' terms were originally set to expire at our annual meeting held in 2008. Due to our inability to file our Quarterly and Annual Reports with the SEC in those years, we were not able to hold annual meetings in 2007, 2006 or 2005. The Class of each director is set forth above.

Committees of the Board of Directors

The Board of Directors has formed the following committees:

The Compensation Committee. The Compensation Committee reviews compensation policies applicable to officers and key employees, recommends to the Board of Directors the compensation to be paid to our Chief Executive Officer and determines the compensation and benefits of all directors on the Board. The Compensation Committee has adopted a written charter. The members of the Compensation Committee are Kristine F. Hughes and Pauline Hughes Francis; Ms. Francis is an "Independent Director" as discussed in Item 13, "Certain Relationships and Related Transactions, and Director Independence."

The Audit Committee. The Audit Committee is a separately-designated standing committee of the Board, which oversees our financial statements, preparation process and related compliance matters and performance of the internal audit function, is responsible for engagement and oversight of our independent registered public accounting firm and reviews the adequacy and effectiveness of our internal control system and procedures.

The members of the Audit Committee are Larry A. Deppe (Chairman), Robert K. Bowen and Pauline Hughes Francis, each of whom is an Independent Director and independent for the purposes of the regulations promulgated by the SEC. Our Board of Directors has determined that Larry A. Deppe and Robert K. Bowen are audit committee financial experts, as that term is defined in Item 401(h) of Regulation S-K promulgated by the Securities and Exchange Commission. We believe Pauline Hughes Francis falls outside the SEC safe harbor providing that a person will not be deemed an affiliate for purposes of determining audit committee member independence if he or she beneficially owns 10 percent or less of an issuer's voting stock. As of June 30, 2008, Ms. Francis beneficially owned approximately 12.4 percent of the Company's common stock. The Board has determined that Ms. Francis is independent for purposes of SEC regulations and the NASD Marketplace Rules.

The Nominating Committee. The Nominating Committee makes recommendations to the Board of Directors about the size of the Board or any committee thereof, identifies and recommends candidates for the Board and committee membership, evaluates nominations received from shareholders, and develops and recommends to the Board corporate governance principles applicable to our Company. The Nominating Committee has not adopted a written charter.

The members of the Nominating Committee are Kristine Hughes, Pauline Hughes Francis, Robert K. Bowen. Ms. Francis and Mr. Bowen are both an "Independent Director" as discussed in Item 13, "Certain Relationships and Related Transactions, and Director Independence."

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and persons who beneficially own more than 10 percent of a registered class of the Company's equity securities, to file initial reports of ownership on Form 3 and changes in ownership on Forms 4 or 5 with the SEC. Such officers, directors and 10 percent shareholders also are required by SEC rules to furnish the Company with copies of all Section 16(a) reports they file. Based solely on its review of the copies of such forms furnished or available to the Company, the Company believes that its directors, executive officers and 10 percent shareholders complied with all Section 16(a) filing requirements for the fiscal years ended December 31, 2005, December 31, 2006 and December 31, 2007 except for the following filings: the Form 5 filed by Pauline Hughes Francis on September 9, 2008 to report gift transactions dated December 14, 2006, January 23, 2007 and December 26, 2007 and the Form 5 filed by Eugene L. Hughes on September 9, 2008 to report gift transactions dated October 31, 2007 and December 31, 2007.

Code of Ethics

We adopted a revised Code of Conduct on August 29, 2008 that applies to all of our employees, including our Chief Executive Officer, Chief Financial Officer and senior financial and accounting officers. Among other matters, the Code of Conduct establishes policies to deter wrongdoing and to promote both honest and ethical conduct, including ethical handling of actual or apparent conflicts of interest, compliance with applicable laws, rules and regulations, full, fair, accurate, timely and understandable disclosure in public communications and prompt internal reporting of violations of the Code of Conduct and accountability for adherence to the Code. In addition, we provide an ethics line for reporting any violations of the Code of Conduct on a confidential basis. Copies of our Code of Conduct are available on our website at *www.natr.com* or upon request, without charge, from the Company by sending a written request to the following: Nature's Sunshine Products, Inc., Code of Conduct Request, Attn: Legal Department, 75 East 1700 South, P.O. Box 19005, Provo, UT 84605. We will post on our internet website all waivers to or amendments of our Code of Conduct that are required to be disclosed by applicable law.

Item 11. Executive Compensation

Compensation Discussion and Analysis

This Compensation Discussion and Analysis provides disclosure about the policies and objectives underlying the compensation programs for our executive officers. Accordingly, we will address and analyze each element of the compensation provided to our chief executive officer, our chief financial officer and the other executive officers named in the Summary Compensation Table which follows this discussion. The Compensation Committee of our Board of Directors administers the compensation programs for our chief executive officer. Our chief executive officer administers the compensation programs for our other executive officers.

Compensation Policy for Executive Officers. We have designed the various elements comprising the compensation packages of our executive officers to achieve the following objectives:

- reflect individual accomplishments and contributions to the Company as well as overall Company performance;
- align each executive officer's interests with those of the Company's shareholders; and
- attract and retain qualified executives who will help the Company meets its goals.

Each executive officer's compensation package has historically consisted of three elements: (i) a base salary, (ii) a cash bonus based upon pre-established financial objectives and the individual officer's personal performance, and (iii) participation in long-term, stock-based incentive awards, in the form of stock options, designed to align and strengthen the mutuality of interests between our executive officers and our shareholders. In 2005 the Company's 1995 Stock Plan expired and the Company suspended its option grant program; accordingly, the compensation package for our executive officers is now comprised of base salary and cash bonus.

When establishing the compensation levels for the executive officers, we take into account the Company's overall financial performance and its evaluation of each executive officer's individual performance level and his or her potential contribution to the Company's future growth. Over the years, the Company has endeavored to follow a pay-for-performance philosophy of conservative base and competitive short-term bonus when Company performance measures have been achieved.

Table of Contents

In setting executive officer compensation, the Compensation Committee and our chief executive officer review a report (the "Executive Compensation Report") prepared by our Director of Human Resources in order to assess the competitiveness of the Company's compensation programs in comparison to market averages. The Executive Compensation Report examined the data contained in Watson Wyatt's ECS Top Management Compensation Survey and Mercer's Executive Compensation Survey

for 2005-06. The Executive Compensation Report compared the Company's executive compensation practices including base pay, short-term incentives, long-term incentives and other practices to industry and national survey data as well as the base pay, bonus and total compensation of officers on an individual basis.

Elements of Compensation. Each of the major elements comprising the compensation package for executive officers (salary, bonus and equity) is (i) designed to reflect individual accomplishments and contributions to the Company as well as overall Company performance, (ii) align the executive's interests with those of our shareholders and (iii) attract and retain qualified executives who will help the Company meet its goals. The manner in which each element of compensation has been structured may be explained as follows.

Salary. The base salary level of each executive officer is reviewed in the last quarter of each year, with any salary adjustments for the upcoming year to be effective on or about January 1 of that year. The Company targets base salaries to be in the range of 80% to 90% of market. However, the Company may also consider the performance of the executive, contributions by the executive towards the Company's mission/goals and tenure at the Company. The Company believes that this component of compensation should provide a level of security and stability from year to year and not be dependent to any material extent on the Company's financial performance. The Compensation Committee approved a salary increase of 6% for our chief executive officer for 2006; however, Mr. Faggioli declined to accept the approved increase. Accordingly, Mr. Faggioli's salary remained constant from 2005 to 2006. The salary levels for the other named executive officers were increased by approximately 3% in 2006 from the levels in effect for the 2005 fiscal year. After examining the practices of companies with similar sales revenue in 2006, the Company found that, on average, our officers' base salaries for 2006 were approximately 24% below the base salaries of officers at those companies.

Incentive Compensation. The bonus structure is generally designed to bring the total cash compensation for our executives up to market in a typical year and to exceed market when justified by Company performance. In 2005, to compensate for the suspension of our option grant program, the Company increased the size of the cash bonus awards to our executive officers. As a result, the cash bonuses paid to our executive officers exceeded 2005 market averages by 250%, and our overall officer total cash compensation in 2005 exceeded market averages by 24%. To prevent placing too much emphasis on short-term focus at the expense of long-term results, we significantly reduced bonus amounts for 2006. Messrs. Faggioli and Halliday were each eligible to receive bonuses in 2006 pursuant to guidelines which provided for a recommended bonus amount equal to a percentage of their respective base salaries based on achievement of increases in operating income and sales revenue. The Compensation Committee (in the case of Mr. Faggioli's bonus) and our chief executive officer (in the case of Mr. Halliday's bonus) had the discretionary authority to determine the actual amount of the bonuses, which could be adjusted to be higher or lower than the guideline amounts. Because the pre-established operating income and sales revenue goals were not achieved, Mr. Faggioli did not receive a bonus for 2006; however, our chief executive officer exercised his discretionary authority and awarded Mr. Halliday a $4,000 bonus based on his personal performance. For Messrs. Bunker, DeWyze and Keller, our chief executive officer had established bonuses of up to 75%, 75% and 60% of their respective base salaries for 2006 based on the Company's performance. The actual bonuses paid to Messrs. Bunker, DeWyze and Keller were significantly below these amounts. The reduction was based on the weighted average bonuses actually paid to the employees in the Company's U.S. Sales, International and Synergy divisions. In addition, Mr. Bunker's bonus was further reduced to reflect the fact that he was not employed for the entire year. Accordingly, Messrs. Bunker, DeWyze and Keller received bonuses equal to 13.8%, 27.5% and 22%, respectively, of their base salaries. Cash bonuses paid to our officers in 2006 were 81% under the market average for companies with similar annual revenues**,** resulting in the total cash compensation of our officers being 38% below such market averages.

Long-Term Incentives. In prior years, we have structured our long-term incentive program for executive officers in the form of option grants under our 1995 Stock Option Plan which was administered by our Compensation Committee. Each option grant has been designed to align the interests of the executive officer with those of the shareholders and to provide him with a significant incentive to manage the company from the perspective of an owner with an equity stake in the business. Each option grant allows the officer to acquire shares of our common stock at a fixed price per share over a specified period, usually ten years. Options granted in past years have generally vested and become exercisable in a series of installments over a period of one to three years measured from the grant date, contingent upon the officer's continued employment. All outstanding options are fully vested at this time. Our 1995 Stock Option Plan terminated in 2005 and no options have been granted under this plan since its termination.

Table of Contents

Executive Officer Perquisites. It is not our practice to provide our executive officers with any meaningful perquisites. However, in 2006 we paid premiums on $250,000 key person life insurance policies for our named executive officers and provided our named executive officers the opportunity to receive up to $2,500 for tuition assistance; however, none of our executive officers elected to receive tuition assistance. We believe these perquisites are an important factor in retaining our executive officers.

Other Programs. Our executive officers are eligible to participate in our 401(k) employee savings plan on the same basis as all other regular U.S. employees.

Deferred Compensation Programs. The Company has adopted a deferred compensation plan for its executive officers, certain other selected employees and its non-employee directors to enable them to save for retirement by deferring their income and the associated tax to a future date following termination of employment. Under the Supplemental Elective Deferral Plan (the "SEDP"), the named executive officers and other participants have the opportunity to defer compensation to future dates specified by the participant with a return based on investment alternatives selected by the participant. The Company believes that the SEDP is comparable to similar plans offered by its competitors. The amounts deferred under the SEDP for the named executive officers are reported below in the Summary Compensation Table and the Nonqualified Deferred Compensation Table.

Officer Employment Agreements. We have entered into employment agreements with each of our named executive officers. We believe that the employment agreements with our executive officers achieve two important goals crucial to our long-term financial success; namely, the long-term retention of our senior executives and their commitment to the attainment of our strategic objectives. The agreements will allow our participating executive officers to continue to focus their attention on our business operations and strategic plans without undue concern over their own financial situations during periods when substantial disruptions and distractions might otherwise prevail. Each employment agreement provides for an initial term of twelve months which automatically renews for additional twelve month periods provided neither party terminates the employment relationship. Upon the cessation of a named executive officer's employment due to termination by the Company without cause, the Company's non-renewal of the employment term, death or incapacity, the named executive officer will receive severance benefits in an amount equal to his or her base salary for the year of termination and continued medical and life insurance coverage for 12 months (3 months for Mr. Halliday and Dr. Keller).

A summary of the material terms of the officer employment agreements, together with a quantification of the severance benefits payable under those agreements to each of the executive officers named in the Summary Compensation Table may be found in the section below entitled "Executive Compensation and Other Information — Employment Contracts, Termination of Employment and Change in Control Arrangements."

Compliance with Internal Revenue Code Section 162(m). Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly held companies for compensation paid to certain of their executive officers to the extent such compensation exceeds $1.0 million per covered officer in any year. The limitation applies only to compensation that is not considered to be performance-based under the terms of Section 162(m). Non-performance-based compensation paid to our executive officers for 2006 did not exceed the $1.0 million limit per officer. However, as we continue to increase salaries and bonuses for our executive officers and if we grant equity awards in the future, it is possible that the non-performance-based compensation payable to our executive officers will exceed the $1.0 million limit in one or more future years. We believe that in establishing the cash and equity incentive compensation programs for our executive officers, the potential deductibility of the compensation payable under those programs should be only one of a number of relevant factors taken into consideration, and not the sole governing factor. For that reason, we may deem it appropriate to provide one or more executive officers with the opportunity to earn incentive compensation, whether through cash bonus programs tied to our financial performance or through equity awards, which together with base salary in the aggregate may be in excess of the amount deductible by reason of Section 162(m) or other provisions of the Internal Revenue Code. We believe it is important to maintain cash and equity incentive compensation at the levels needed to attract and retain the executive officers essential to our success, even if all or part of that compensation may not be deductible by reason of the Section 162(m) limitation.

Table of Contents

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis disclosure with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Submitted by:
Pauline Hughes Francis
Kristine Hughes

Table of Contents

Executive Compensation

The following table sets forth a summary, for the year ended December 31, 2006 of the compensation of the principal executive officer, the principal financial officer, the three most highly compensated executive officers of the Company (not including the principal executive officer and the principal financial officer) whose total compensation for the 2006 fiscal year was in excess of $100,000 and who were serving as executive officers at the end of 2006 and the former principal financial officer and one other former executive officer whose employment terminated during 2006. The listed individuals shall be hereinafter referred to as the "named executive officers."

Summary Compensation Table

Name & Principal Position	Year	Salary ($) (1)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(2)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Douglas Faggioli President, CEO & Director	2006	350,000	—	—	—	—	—	13,860	363,860
Stephen Bunker, CFO	2006	131,250	18,081	—	—	—	—	7,283	156,614
Craig Huff, Former CFO	2006	123,548	—	—	—	—	—	6,978	130,526
John DeWyze, EVP & VP of Operations	2006	187,000	51,515	—	—	—	—	12,643	251,158
William Keller, VP of Health Sciences & Educational Services	2006	150,360	4,336	—	—	—	—	9,758	164,454
Greg Halliday, President - Nature's Sunshine Products U.S.	2006	163,000	4,000	—	—	—	—	10,771	177,771
Bob Shaffer, President - Nature's Sunshine Products International	2006	103,606	—	—	—	—	—	111,648	215,254

(1) Includes amounts that were deferred into the Company's Supplemental Elective Deferral Plan ("SEDP") as follows: Mr. Faggioli – $52,000; Mr. Bunker – $0; Mr. Huff – $8,557; Mr. DeWyze – $30,920; Dr. Keller – $9,015; Mr. Halliday – $8,146; Mr. Shaffer – $0. The SEDP provides selected employees and non-employee directors with the ability to defer compensation to future dates specified by the participant with a return based on investment alternatives selected by the participant. The SEDP is more fully described in the section following the Nonqualified Deferred Compensation Plans table below.

(2) "All Other Compensation" includes the following amounts paid by the Company for the fiscal year ended December 31, 2006. The amounts disclosed are the actual costs to the Company of providing these benefits.

Name & Principal Position	401(k) Plan Company Contribution ($)	Life Insurance ($)	Disability Payments ($)	Severance Payments* ($)	Total ($)
Douglas Faggioli	11,000	2,320	540	—	13,860
Stephen Bunker	6,576	437	270	—	7,283
Craig Huff	5,917	851	210	—	6,978
John Dewyze	11,000	1,283	360	—	12,643
William Keller	9,218	—	540	—	9,758
Greg Halliday	9,844	567	360	—	10,771
Bob Shaffer	9,195	1,309	360	100,784	111,648

* Includes the following amounts: (i) salary continuation payments of $64,394 paid between the date of Mr. Shaffer's death on July 29, 2006 and December 31, 2006 and (ii) $36,390 for accrued paid time off.

Table of Contents

Grants of Plan-Based Awards in Fiscal Year 2006

The Company did not grant any awards to named executive officers in 2006 under non-equity incentive plans or equity incentive plans.

Outstanding Equity Awards at Fiscal Year-End

The following table provides certain summary information concerning outstanding equity awards held by the named executive officers as of December 31, 2006:

	Option Awards				
Name & Principal Position	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
(a)	(b)	(c)	(d)	(e)	(f)
Douglas Faggioli	2,000	—	—	8.80	4/1/2013
	25,000	—	—	12.65	2/26/2008
	95,690	—	—	7.69	2/6/2007
TOTAL	122,690	—	—		
Stephen Bunker	—	—	—	—	—
Craig Huff	—	—	—	—	—
John DeWyze	16,300	—	—	12.25	2/23/2009
	250	—	—	8.13	1/3/2010
TOTAL	16,550	—	—		
William Keller	4,000	—	—	7.51	4/16/2007
Greg Halliday	2,560	—	—	12.25	2/23/2009
	3,000	—	—	9.95	5/16/2007
	500	—	—	12.55	8/1/2011
	10,000	—	—	14.90	5/28/2010
TOTAL	16,060	—	—		
Bob Shaffer	6,550	—	—	12.25	7/29/2007
	500	—	—	8.31	7/29/2007
	10,000	—	—	12.65	7/29/2007
	10,000	—	—	19.71	7/29/2007
TOTAL	27,050	—	—		

Option Exercises and Stock Vested

None of the named executive officers exercised options in 2006 or held shares of stock that vested in 2006.

Pension Benefits

The Company does not have a pension plan in which the named executive officers can participate to receive payments or other benefits at, following, or in connection with retirement.

Table of Contents

Nonqualified Deferred Compensation Plans

Information regarding the named executive officers' participation in the Company's nonqualified deferred compensation plan is included below.

Supplemental Elective Deferral Plan. The Company has adopted the Nature's Sunshine Products, Inc. Supplemental Elective Deferral Plan (the "SEDP"). The following table sets forth information relating to the SEDP for 2006 for the named executive officers:

Name & Principal Position	Executive Contributions in Last FY ($)(1)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)(2)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
(a)	(b)	(c)	(d)	(e)	(f)
Douglas Faggioli	52,000	—	45,276	—	577,992
Stephen Bunker	—	—	—	—	—
Craig Huff	8,557	—	16,514	—	274,742
John DeWyze	30,920	—	16,049	—	187,079
William Keller	9,015	—	507	—	9,522
Greg Halliday	8,146	—	432	—	8,578
Bob Shaffer	—	—	—	—	—

(1) Executive contributions are included in the "Salary" reported under the Summary Compensation Table above.

(2) Earnings is defined to reflect the difference in the account balance between the beginning and end of the year, less any executive or Company contributions and any amounts withdrawn or distributed. Earnings include realized and unrealized gains, capital gains and dividends paid.

The SEDP permits the named executive officers, certain other employees and the Company's non-employee directors with the opportunity to defer specified percentages (up to 75%) of their compensation, including amounts that could not be deferred under the Company's Tax Deferred Retirement Plan because of the limitations under such plan imposed by the Internal Revenue Code. Participants may elect deferred amounts to be paid in monthly payments over 3 or 5 years or in a lump sum upon separation from service. Deferrals are credited with gain or loss based on the performance of one or more investment alternatives selected by the participant from among the investment funds offered by the Board. No actual investments are held in the participants' accounts and participants will at all times remain general unsecured creditors of the Company with respect to their account balances.

Potential Payments Upon Termination or Change in Control

Included below is a summary of the material terms and conditions of the employment agreements the Company has entered into with its named executive officers that provide for certain payments and benefits upon termination of employment. The employment agreements are the only arrangements the Company has with its named executive officers to provide benefits upon termination of employment. The Company does not have any contract, agreement, plan or arrangement with its named executive officers that provides for payments at, following or in connection with a change in control of the Company.

Pursuant to the terms of the employment agreement each named executive officer has entered into with the Company, each named executive officer is eligible to receive certain termination benefits. The employment agreements provide that in the event the named executive officer is terminated by the Company without cause or due to non-renewal of the employment agreement or in the event the named executive officer's employment ceases due to death or incapacity, he will be entitled to receive a severance payment equal to his annual base salary for the year of termination and continued medical and life insurance coverage for 12 months (3 months for Mr. Halliday and Dr. Keller). Such severance payment may be distributed in a lump sum or in a series of bi-weekly payments. Pursuant to the terms of their employment agreements, for a period of 1 year after the later of (i) the cessation of the named executive officer's employment and (i) the date on which the final severance payment was paid to the named executive officer, the named executive officer will be subject to certain non-compete and non-solicitation covenants.

The following table sets forth the estimated payments and benefits that would have been payable to the named executive officers under their agreements in the termination circumstances indicated below had their employment

Table of Contents

terminated on December 31, 2006. All cash payments are assumed to be made in a lump sum and would be paid by the Company. The amounts set forth in this table represent estimates and forward-looking information that is subject to substantial variation, based on the timing of the triggering event. The Company cautions the reader to consider these limitations in reviewing the following table.

Executive Benefits and Payments Upon Termination Due to Termination by the Company Without Cause or Due to Non-Renewal, Death or Incapacity

	Mr. Faggioli	Mr. Bunker	Mr. DeWyze	Dr. Keller	Mr. Halliday
Salary severance	$ 350,000	$ 200,360	$ 217,920	$ 37,590	$ 42,786
Continued Medical & Life Insurance Coverage	8,040	7,860	7,860	8,040	7,860
TOTAL	$ 358,040	$ 208,220	$ 225,780	$ 45,630	$ 50,646

Director Compensation

The following table sets forth certain information regarding the compensation of each individual who served as a member of our Board of Directors during the 2006 fiscal year. Except with respect to Mr. Eugene Hughes, the compensation disclosed is for services rendered as a Board member during that year. Mr. Eugene Hughes is also our employee, and the compensation disclosed for him below reflects his compensation he received in his capacity as an employee. He did not receive any additional compensation for his Board service.

Name	Fees Earned or Paid in Cash ($) (1)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(2)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Kristine F. Hughes	137,584	—	—	—	—	1,495	139,079
Pauline Hughes Francis	51,712	—	—	—	—	12,640	64,352
Franz L. Cristiani	61,575	—	—	—	—	750	62,325
Robert Bowen	41,897	—	—	—	—	18,376	60,273
Larry Deppe	60,901	—	—	—	—	300	61,201
Eugene Hughes	230,957	—	—	—	—	20,424	251,381

(1) Consists of retainer fees for service as a member of the Board with respect to Kristine Hughes, Pauline HughesFrancis and Messrs. Cristiani, Bowen and Deppe; Mr. Hughes received salary of $203,000, of which he deferred $13,000 into the SEDP, and a cash bonus of $27,957 in 2006. Retainers paid to Kristine Hughes and Pauline Hughes Francis were paid on a monthly basis; retainers paid to Messrs. Cristiani, Bowen and Deppe were paid on a quarterly basis. The aggregate payments include the following categories of payments:

Name	Retainer ($)	Committee Chairperson Additional Retainer ($)	Misc. Retainer* ($)	Total ($)
Kristine F. Hughes	137,584	—	—	137,584
Pauline Hughes Francis	50,712	1,000	—	51,712
Franz L. Cristiani	33,075	2,000	26,500	61,575
Robert Bowen	23,625	—	18,272	41,897
Larry Deppe	31,500	3,000	26,401	60,901
Eugene Hughes	—	—	—	—

* During 2006, Messrs. Cristiani, Bowen and Deppe received compensation for additional time and efforts related to the investigation of the Company performed by a Special Committee appointed by the Audit Committee.

Table of Contents

(2) "All Other Compensation" includes the following amounts paid by the Company for the fiscal year ended December 31, 2006:

Name	401(k) Plan Company Contribution ($)	Life Insurance Premiums ($)	Disability Payments ($)	Health Insurance ($)	Product Credit* ($)	Consulting Fees** ($)	Total ($)
Kristine F. Hughes	—	745	—	—	750	—	1,495
Pauline Hughes Francis	—	1,690	—	10,200	750	—	12,640
Franz L. Cristiani	—	—	—	—	750	—	750
Robert Bowen	—	—	—	—	750	17,626	18,376
Larry Deppe	—	—	—	—	300	—	300
Eugene Hughes	9,512	10,552	360	—	—	—	20,424

* Represents a credit of up to $750 to purchase the Company's products.

** From January 17, 2006 through his election to the Board of Directors on March 29, 2006, Mr. Bowen provided consulting services to the Audit Committee while serving as a member of the Special Committee overseeing the ongoing internal investigation of the Company. Upon his election to the Board and appointment to the Audit Committee, Mr. Bowen's consulting relationship terminated.

Retainer Fees. Retainers were paid on a monthly basis to Ms. Kristine Hughes and Ms. Pauline HughesFrancis and on a quarterly basis to Messrs. Cristiani, Bowen and Deppe. In addition, Mr. Cristiani received an additional $1,000 retainer for serving as Chair of the Audit Committee for the first quarter of 2006. Mr. Deppe received an additional $3,000 retainer for serving as Chair of the Audit Committee for the second, third and fourth quarters of 2006. Ms. Pauline Hughes Francis received an additional $1,000 retainer for serving as the Chair of the Compensation Committee for 2006.

Meeting Fees. Our directors do not receive fees for attendance at Board or Committee meetings; however, Messrs. Cristiani, Bowen and Deppe received $26,500, $18,272 and $26,401, respectively, for time devoted to the ongoing internal investigation performed by the Special Committee.

Expenses. Board members were reimbursed for travel and other expenses incurred in connection with their duties as directors to the extent such expenses were submitted to the Company for reimbursement.

Equity. No stock options or other equity awards were granted to our directors during 2006.

Nonqualified Deferred Compensation. None of our non-employee directors participated in the SEDP. Mr. Hughes elected to defer under the SEDP $13,000 of the compensation he received in 2006 in his capacity as an employee. The SEDP is more fully described above in the section following the Nonqualified Deferred Compensation Plans table.

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

The following table sets forth information regarding beneficial ownership of our Common Stock as of June 30, 2008 by (1) each person who is known by us to beneficially own more than five percent of the outstanding shares of our Common Stock, (2) each of our directors, (3) each of our executive officers and (4) all directors and executive officers of the Company as a group. To our knowledge and except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to community property laws where applicable. Unless we indicate otherwise, each holder's address is c/o Nature's Sunshine Products, Inc., 75 East 1700 South, Provo, Utah 84606.

Table of Contents

Name and Address of Beneficial Owner	Number of Shares(1)	Percent of Class (2)
Beneficial Owners of More than 5%		
Delta Partners LLC (3) One International Place, Suite 2401 Boston, MA 02110	1,959,043	12.6%
Prescott Group Capital Management, LLC (3) 1924 South Utica, Suite 1120 Tulsa, OK 74104	1,525,683	9.8%
Red Mountain Capital Partners LLC (4) 10100 Santa Monica Blvd, Suite 925 Los Angeles, CA 90067	1,144,450	7.3%
Paradigm Capital Management, Inc. (3) 9 Elk Street Albany, NY 12207	1,108,600	7.2%
First Wilshire Securities Management, Inc.(5) 1224 East Green Street, Suite 200 Pasadena, CA 91106	1,108,839	7.1%
Directors and Executive Officers		
Kristine F. Hughes, Chair of the Board	572,089	3.7%
Eugene L. Hughes, Director	700,312	4.5%
Pauline Hughes Francis, Director	1,923,546	12.4%
Douglas Faggioli, President and Chief Executive Officer	36,271	*
Stephen M. Bunker, Vice President of Finance, Treasurer, Chief Financial Officer and Chief Accounting Officer	18	*
Greg Halliday	3,338	*
John DeWyze, Executive Vice-President — Operations	4,264	*
All directors and executive officers as a group (7 persons)	3,239,838	20.9%

* Less than one percent.

(1) All entries exclude beneficial ownership of shares that are issuable pursuant to options that have not vested or that are not other wise exercisable as of the date hereof and which will not become vested or exercisable within 60 days of June 30, 2008.

(2) Calculated based on 15,510,159 shares of our Common Stock outstanding on the June 30, 2008, with percentages rounded to the nearest one-tenth of one percent. Shares of Common Stock subject to options that are presently exercisable or exercisable within 60 days are deemed to be beneficially owned by the person holding the option for the purpose of computing the percentage ownership of that person but not treated as outstanding for computing the percentage of any other person.

(3) Reflects the number of shares held at June 30, 2008 per Schedule 13F filing.

(4) Reflects the number of shares held at December 31, 2007 per Schedule 13D/A Filing.

(5) Reflects the number of shares held at February 12, 2007 per Schedule 13G filing.

Table of Contents

Equity Compensation Plans

The following table contains information regarding the Company's equity compensation plans as of June 30, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	142,590	$ 12.05	—
Equity compensation plans not approved by security holders	140,300	$ 11.85	—
Total	282,890	$ 11.95	—

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

The Board's Audit Committee is responsible for review, approval, or ratification of "related-person transactions" involving the Company or its subsidiaries and related persons. Under SEC rules, a related person is a director, officer, nominee for director, or 5% stockholder of the Company since the beginning of the previous fiscal year, and their immediate family members. We have adopted written policies and procedures that apply to any transaction or series of transactions in which the Company or a subsidiary is a participant, the amount involved exceeds $120,000, and a related person has a direct or indirect material interest. If the Audit Committee determines a related person has a material interest in a transaction, the Audit Committee may approve, ratify, rescind, or take other action with respect to the transaction in its discretion.

In early 2005, two Japanese Managers made donations of approximately $170 to Legacy for the Future ("Legacy"). Legacy was a charitable entity organized and controlled by a then officer and director of the Company. The donation was paid to the Company in Japan and was then wired to Legacy. Legacy subsequently purchased two products from the Company at the Company's cost. The products were near their expiration date and were provided to under-nourished children in a third world country.

Director Independence

The Board of Directors has determined that each of the following directors is an "independent director" under applicable NASDAQ standards:

Robert K. Bowen
Larry A. Deppe
Pauline Hughes Francis

In this report, these three directors are referred to individually as an "Independent Director" and collectively as the "Independent Directors."

Item 14. Principal Accountant Fees and Services.

We engaged Deloitte & Touche LLP as our independent, registered public accounting firm on February 2, 2007. For our fiscal year ended December 31, 2005 and until its resignation on March 31, 2006, KPMG LLP served as our registered independent public accountant. The fees incurred by the Company during the fiscal year ended December 31, 2007 for professional services rendered by the Company's principal accountant, Deloitte & Touche LLP, are set forth below. Deloitte & Touche LLP did not perform any services for the Company during the fiscal year ended December 31, 2006.

Table of Contents

Audit Fees

During the fiscal year ended December 31, 2007 and through October 6, 2008, Deloitte & Touche LLP billed the Company approximately $9,608,000 for professional services rendered for the audit of the Company's consolidated financial statements for the fiscal years ended December 31, 2006, 2005, and 2004.

Tax Fees

The aggregate fees billed for tax services rendered by Deloitte & Touche LLP for the years ended December 31, 2006 and 2005 were approximately $665,000 and $513,000, respectively.

Audit Related Fees and All Other Fees

During the fiscal year ended December 31, 2007, Deloitte & Touche LLP did not provide any services to the Company other than those identified above.

All of the fees above were approved by the Audit Committee. The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence and has concluded that it is.

Pre-Approval Policies and Procedures

The Company pre-approves a schedule of audit and non-audit services expected to be performed by the Company's registered public accountant in a given fiscal year. In addition, the Audit Committee delegates authority to its Chairman to pre-approve certain additional audit and non-audit services rendered by Company's registered public accountant (other than services that have been generally pre-approved by the Audit Committee) during the period between meetings of the Audit Committee. The Chairman must report any such pre-approval decisions to the Audit Committee at its next scheduled meeting. During the year ended December 31, 2007, 100 percent of the aggregate amounts set forth above under the captions "Audit-Related Fees," "Tax Fees," and "All Other Fees" were pre-approved by the Chairman of the Audit Committee and subsequently reported to the Audit Committee in accordance with the procedures set forth above. Deloitte & Touche LLP did not perform any services for the Company during the fiscal year ended December 31, 2006.

Table of Contents

PART IV

Item 15. Financial Statement Schedules, Exhibits and Reports on Form 8-K

(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, 2006 and 2005

Consolidated statements of operations for the years ended December 31, 2006, 2005, and 2004 (restated)

Consolidated statements of changes in shareholders' equity and comprehensive income (loss) for the years ended December 31, 2006, 2005, and 2004 (restated)

Consolidated statements of cash flows for the years ended December 31, 2006, 2005, and 2004 (restated)

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 in this Report.

(a)(3) List of Exhibits

Exhibit Index as seen below

Table of Contents

SIGNATURES

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

Nature's Sunshine Products, Inc.
(Registrant)

Date: **October 6, 2008**

By: /s/ Douglas Faggioli

Douglas Faggioli,
President and 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.

Signature	Title	Date
/s/ Kristine F. Hughes Kristine F. Hughes	Chair of the Board and Director	October 6, 2008
/s/ Douglas Faggioli Douglas Faggioli	President and Chief Executive Officer	October 6, 2008
/s/ Stephen M. Bunker Stephen M. Bunker	Vice President of Finance, Treasurer, Chief Financial Officer, Chief Accounting Officer	October 6, 2008

/s/ Robert K. Bowen Robert K. Bowen	Director	October 6, 2008
/s/ Larry A. Deppe Larry A. Deppe	Director	October 6, 2008
/s/ Eugene L Hughes Eugene L Hughes	Director	October 6, 2008
/s/ Pauline Hughes Francis Pauline Hughes Francis	Director	October 6, 2008

Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC.
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004 (RESTATED)
(Amounts in Thousands)

Description	Balance at Beginning of Year	Provisions	Amounts Written Off	Amounts Recovered	Effect of Currency Translation	Balance at End of Year
Year ended December 31, 2006						
Allowance for doubtful accounts receivable	$ 1,984	$ (441)	$ (547)	$ 14	$ 119	$ 1,129
Allowance for obsolete inventory	4,641	736	(2,052)	—	—	3,325
Tax valuation allowance	5,297	2,525	—	—	—	7,822
Year ended December 31, 2005						
Allowance for doubtful accounts receivable	$ 1,706	$ 460	$ (333)	$ 7	$ 144	$ 1,984
Allowance for obsolete inventory	4,020	1,516	(895)	—	—	4,641
Tax valuation allowance	5,556	(259)	—	—	—	5,297
Year ended December 31, 2004 (as restated)						
Allowance for doubtful accounts receivable(1)	$ 1,472	$ 149	$ (191)	$ 188	$ 88	$ 1,706
Allowance for obsolete inventory(1)	3,945	1,295	(1,220)	—	—	4,020
Tax valuation allowance(2)	5,511	45	—	—	—	5,556

(1) As a result of the restatement discussed in Note 2 to the consolidated financial statements, the amounts reported above for the year ended December 31, 2004 were restated from the following previously reported amounts.

Allowance for doubtful accounts receivable	2,138	190	(166)	(300)	—	1,862
Allowance for obsolete inventory	1,926	1,502	(1,493)	—	—	1,935

(2) The valuation allowance amounts were not previously reported for the year ended December 31, 2004.

Table of Contents

LIST OF EXHIBITS

Item No.		Exhibit	Located At Sequentially Numbered Page
3.1	-	Restated Articles of Incorporation	1
3.2	-	By-laws, as amended	XX
10.1*		Nature's Sunshine Products, Inc. Tax Deferred Retirement Plan, restated March 1, 2008	XX
10.2*		Nature's Sunshine Products, Inc. Supplemental Elective Deferral Plan as restated effective January 1, 2008	XX
10.3*		Employment Agreement between the Registrant and Douglas Faggioli dated November 1, 1994	XX
10.4(1)*		Employment Agreement between the Registrant and Stephen M. Bunker dated December 21, 2007	
10.5*	-	Employment Agreement between the Registrant and Robert W. Schaffer dated June 20, 2003	XX

10.6*		Employment Agreement between the Registrant and William J. Keller dated April 16, 2001	XX
10.7*		Employment Agreement between the Registrant and John DeWyze dated September 20, 1999	XX
10.8*		Employment Agreement between the Registrant and Gregory R. Halliday dated June 1, 2001	XX
10.9*		Employment Agreement between the Registrant and Craig Huff dated September 20, 1999	XX
10.10*	-	1995 Stock Option Plan, as amended	XX
10.11*	-	Form of Stock Option Agreement (1995 Stock Option Plan)	XX
14		Nature's Sunshine Products, Inc. Code of Conduct	XX
21	-	List of Subsidiaries of Registrant	XX
23.1	-	Consent of Independent Registered Public Accounting Firm	XX
31.1	-	Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended	XX
31.2	-	Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended	XX
32.1	-	Certification pursuant to 18 U.S.C. § 1350	XX
32.2	-	Certification pursuant to 18 U.S.C. § 1350	XX

(1) Previously filed with the Commission as an exhibit to the Current Report on Form 8-K dated December 28, 2007 and is incorporated herein by reference.
(*) Management contract or compensatory plan.

Exhibit 3.1

RESTATED

ARTICLES OF INCORPORATION

OF
NATURE'S SUNSHINE PRODUCTS, INC.

We, the undersigned, natural persons being more than twenty-one years of age, acting as incorporators of a corporation pursuant to the provisions of the Utah Business Corporation Act, do hereby adopt the following Articles of Incorporation for such Corporation.

ARTICLE I

NAME

The name of the Corporation is Nature's Sunshine Products, Inc.

ARTICLE II

DURATION

The Corporation shall continue in existence perpetually unless sooner dissolved according to the law.

ARTICLE III

PURPOSES

The purposes for which the Corporation is organized are:

1. To buy, sell, grow, manufacture, produce, or otherwise deal in any and all food and /or food supplements and further, to purchase, invest in, acquire, and/or act as holding company for various other related businesses. And further, to create, publish, sell, and otherwise deal in publications relating to but not limited to food and/or food supplements.

2. To purchase, or otherwise acquire, and to hold, grant security interests in, pledge, sell, exchange, or otherwise dispose of , securities (which term includes, without limitation of the generality thereof, any shares of stocks, bonds, debentures, contracts, options, notes, mortgages, or other obligations, and any certificates, receipts, or other instruments representing rights to receive, purchase, or subscribe for the same, or representing any other rights or interests therein or in any property or assets) created or issued by any persons, firm, associations, corporations, or governments or subdivisions thereof; to make payment therefore in any lawful manner; and to exercise, as owner or holder of any securities, any and all rights, powers, and privileges in respect thereof.

3. To issue, offer, underwrite, buy, sell, sponsor, create, assign, transfer, pledge or otherwise deal in commodities, options, or double options on commodities of any kind whatsoever.

4. To act as registrar or transfer agent either for itself or for others, including the cancellations, authentication, validation, issuance and execution of share certificates; the preparation and maintenance of any and all books, ledgers, journals and records in connection therewith; the execution, signing, verification, and acknowledgment of any kind and all documents or writings of any kind whatsoever; and all other acts necessary or appropriate in connection thereto.

5. To do any act or thing provided or permitted herein either directly or indirectly through agents, independent contractors, joint ventures, subsidiaries, divisions, contractual arrangements or otherwise.

6. In general, to possess and exercise all the powers and privileges granted by the laws of the State of Utah or by these Articles of Incorporation together with any powers incidental thereto, so far as such powers and privileges are necessary or convenient to the conduct, promotion or attainment of the purpose of the Corporation.

7. The business and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in these Articles of Incorporation, but the business and purposes specified in each of the foregoing clauses of this Article shall be regarded as independent businesses and purposes.

ARTICLES IV

CAPITALIZATION

The aggregate number of shares which the Corporation shall have authority to issue is 20,000,000 shares of Common Stock, no Par Value, each of which shall have equal voting rights.

ARTICLE V

PAID –IN CAPITAL

The Corporation shall not commence business until consideration of a value of a least $1,000.00 has been received by it as consideration for the issuance of its shares.

ARTICLE VI

PRE-EMPTIVE RIGHTS

No holder of shares of the Corporation of any class now or hereafter authorized, shall have any preferential or re-emptive right to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized, or any options or warrants for such shares, or any rights to subscribe to or purchase such shares or any securities convertible into or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation. The Board of Directors of the Corporation shall have the right to issue the authorized and treasury shares of this Corporation at such time and upon such terms and conditions and for such consideration as the Board of Directors shall determine.

ARTICLE VII

OFFICERS AND DIRECTORS' CONTRACTS

No contract or other transaction between this Corporation and any other firm or corporation shall be affected by the fact that a director or officer of this Corporation has an interest in, or is a director or officer of such firm or other corporation. Any officer or director, individually or with others, may be a party to, or may have an

interest in, any transaction of this Corporation or any transaction in which the Corporation is a party or has an interest. Each person who is now or may become an officer or a director of this Corporation is hereby relieved from liability that might otherwise obtain in the event that such officer or director contracts with this Corporation for the benefit of himself or any firm or other corporation in which he may have an interest, provided such officer or director acts in good faith.

ARTICLE VIII

REGISTERED OFFICE AND AGENT

The address of the initial registered office of the Corporation is:

1055 North Main Street, Spanish Fork, Utah 84660 and the name of its initial registered agent at such address is:

Kenneth E. Brailsford.

ARTICLE IX

DIRECTORS

The internal affairs of the Corporation shall be managed by a Board of Directors which shall have not less than three (3) nor more than nine (9) directors, as

determined from time to time by the Board of Directors. The original Board of Directors shall be comprised of five (5) persons. The names and residence addresses of the persons who are to serve as directors until the first annual meeting of shareholders and until their successors are elected and shall qualify are as follows:

Name	Address
Kenneth E. Brailsford	42 North 1360 East Springville, Utah 84663
G. Jay Hughes	Route 1, Box 435 Benjamin, Utah 84660
Kerry O. Asay	456 East 200 North Provo, Utah 84601
Richard S. Hughes	260 West 600 North Spanish Fork, Utah 84660
Eugene L. Hughes	2461 North 750 East Provo, Utah 84601

The Board of Directors shall be and is divided into three classes, Class I, Class II, and Class III, which shall be as nearly equal in number as possible. Each

director shall serve for a term ending on the date of the third Annual Meeting following the Annual Meeting at which such director was elected; provided, however, that such initial director in Class I shall hold office until the Annual Meeting of Shareholders in 1985; each initial director in Class II shall hold office until the annual meeting of Shareholders in 1986; and each initial director in Class III shall hold office until the Annual Meeting of Shareholders in 1987. Directors shall only be subject to removal before their term has expired upon the vote of at least three-fourths (75%) of the then issued and outstanding capital shares of the Corporation. Provisions of this Article relating to classification of the Board of Directors or removal of directors shall not be subject to amendment or repeal without the approval of at least three-fourths (75%) of the then issued and outstanding shares of the capital stock of the Corporation.

ARTICLE X

INCORPORATORS

The names and residence addresses of the incorporators are:

Name	Address
Richard L. Chatham	700 South 330 East Salt Lake City, Utah 84111
Burke T. Maxfield	1600 East 3970 South #3 Salt Lake City, Utah 84117
Hazel Ann Cowan	3795 South 900 East #6 Salt Lake City, Utah 84107

IN WITNESS WHEREOF, these Restated Articles of Incorporation have been executed as of the 17th day of January, 1989.

NATURE'S SUNSHINE PRODUCTS, INC.

By: \s\ Kerry O. Asay
Kerry O. Asay, President

By: \s\ Brent F. Ashworth
Brent F. Ashworth, Secretary

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Exhibit 3.2

BYLAWS

OF

NATURE'S SUNSHINE PRODUCTS, INC.

A UTAH CORPORATION

2002

(as amended and restated March 2006)

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

BYLAWS
OF
NATURE'S SUNSHINE PRODUCTS, INC.

ARTICLE 1. OFFICES

Section 1.1. Business Offices. The principal office of Nature's Sunshine Products, Inc., a Utah corporation (the "Corporation"), shall be located at any place either within or outside the State of Utah, as designated in the Corporation's Articles of Incorporation or the Corporation's most recent annual report on file with the Division of Corporations and Commercial Code providing such information. The Corporation may have such other offices, either within or outside the State of Utah as the Board of Directors may designate or as the business of the Corporation may require from time to time. The Corporation shall maintain at its principal office a copy of those records specified in Section 2.13 of Article 11 of these Bylaws. (16-10a-102(24))*

Section 1.2. Registered Office. The registered office of the Corporation required by the Utah Revised Business Corporation Act shall be located within the State of Utah. The address of the registered office may be changed from time to time. (16-10a-501 and 16-10a-502)

ARTICLE 2. SHAREHOLDERS

Section 2.1. Annual Shareholder Meeting. An annual meeting of the shareholders shall be held each year on the date, at the time, and at the place, fixed by the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. (16-10a-701)

Section 2.2. Special Shareholder Meetings. Special meetings of the shareholders may be called, for any purposes described in the notice of the meeting, by the president, or by the Board of Directors, and shall be called by the president at the request of the holders of not less than one-tenth of all outstanding votes of the Corporation entitled to be cast on any issue at the meeting. (16-10a-702)

Section 2.3. Place of Shareholder Meeting. The Board of Directors may designate any place, either within or outside the State of Utah, as the place for any annual meeting of the shareholders and for any special meeting of the shareholders called by the Board of Directors. The president of the Corporation or any shareholder or any group of shareholders of the Corporation holding at least ten percent (10%) of all of the voting shares of the Corporation may designate any place, within or outside the State of Utah, as the place for any special meeting of the shareholders called by the president or the group of shareholders. If no designation is made by the Board of Directors, the president, or the shareholders, as the case may be, the place of the meeting shall be the principal office of the Corporation. (16-10a-701(2) and 16-10a-702(3))

* Citations in parentheses are to Utah Code Annotated. These citations are for reference only and shall not constitute a part of these bylaws.

Section 2.4. Notice of Shareholder Meeting.

(a) Required Notice. Written notice stating the place, day, and hour of any annual or special shareholder meeting shall be delivered not less than ten nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the Board of Directors, the president, or other persons calling the meeting, to each shareholder of record entitled to vote at such meeting, and to any other shareholder entitled by the Utah Revised Business Corporation Act or the Corporation's Articles of Incorporation to receive notice of the meeting. Notice shall be deemed to be effective when mailed.

Notice shall not be required to be given to any shareholder to whom:

(1) A notice of two consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting during the period between the two consecutive annual meetings, have been mailed, addressed to the shareholder at the shareholder's address as shown on the records of the Corporation, and have been returned undeliverable; or

(2) at least two payments, if sent by first class mail, of dividends or interest on securities during a twelve month period, have been mailed, addressed to the shareholder at the shareholder's address as shown on the records of the Corporation, and have been returned undeliverable.

If a shareholder to whom notice is not required delivers to the Corporation a written notice setting forth the shareholder's current address, or if another address for the shareholder is otherwise made known to the Corporation, the requirement that notice be given to the shareholder is reinstated. (16-10a-103 and 16-10a-705)

(b) Adjourned Meeting. If any shareholder meeting is adjourned to a different date, time, or place, notice need not be given of the new date, time, or place, if the new date, time, or place is announced at the meeting before adjournment. However, if the adjournment is for more than 30 days, or if after the adjournment a new record date for the adjourned meeting is or must be fixed (see Section 2.5 of these Bylaws), then notice must be given pursuant to the requirements of paragraph (a) of this Section 2.4 to shareholders of record who are entitled to vote at the meeting. (16-10a-705(4))

(c) Waiver of Notice. Any shareholder may waive notice of a meeting (or any notice required by the Utah Revised Business Corporation Act, the Corporation's Articles of Incorporation, or these Bylaws), by a writing signed by the shareholder, which is delivered to the Corporation (either before or after the date and time stated in the notice as the date or time when any action will occur or has occurred) for inclusion in the minutes or filing with the Corporation's records.

A shareholder's attendance at a meeting:

(1) Waives objection to lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting; and

(2) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented. (16-10a-706)

(d) Contents of Notice. Notice of any special meeting of the shareholders shall include a description of the purpose or purposes for which the meeting is called. Except as provided in this Section 2.4(d), in the Articles of Incorporation, or in the Utah Revised Business Corporation Act, notice of an annual meeting of the shareholders need not include a description of the purpose or purposes for which the meeting is called. (16-10a-705(2) and (3))

Section 2.5. Fixing of Record Date. For the purpose of determining shareholders of any voting group entitled to notice of or to vote at any meeting of shareholders, or shareholders entitled to take action without a meeting or to demand a special meeting, or shareholders entitled to receive payment of any distribution or dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a date as the record date. Such record date shall not be more than seventy days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If not record date is so fixed by the Board of Directors, the record date shall be at the close of business:

(a) with respect to an annual meeting of the shareholders or any special meeting of the shareholders called by the Board of Directors or any person or group specifically authorized by these Bylaws to call a meeting of the shareholders, as of the close of business on the day before the first notice is delivered to shareholders; (16-10a-707(1))

(b) with respect to a special shareholder meeting demanded by the shareholders, on the earliest date of any of the demands pursuant to which the meeting is called, or 60 days prior to the date the first of the written demands is received by the Corporation, whichever is later; (16-10a-702(2))

(c) with respect to a distribution to shareholders (other than one involving a repurchase or re-acquisition of shares), on the date the Board of Directors authorizes the distribution; (16-10a-40(2))

and

(d) with respect to the payment of a share dividend, on the date the Board of Directors authorizes the share dividend. (16-10a-623(3))

When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section, such determination shall apply to any adjournment thereof unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting. (16-10a-707)

Section 2.6. Shareholder List. The secretary shall make a complete record of the shareholders entitled to vote at each meeting of shareholders, arranged in alphabetical order within each class or series, with the address of and the number of shares held by each. The list must be arranged by voting group (if such exists; see Section 2.7 of these Bylaws) and within each voting group by class or series of shares.

The shareholder list must be available for inspection by any shareholder, beginning on the earlier of ten days before the meeting for which the list was prepared or two business days after notice of the meeting is given and continuing through the meeting and any adjournments. The list shall be available at the Corporation's principal office or at a place identified in the notice of the meeting in the city where the meeting is to be held. A shareholder, his agent, or attorney is entitled on written demand to inspect and, subject to the requirements of Section 2.13 of these Bylaws, to inspect and copy the list during regular business hours and during the period it is available for inspection. The Corporation shall maintain the shareholder list in written form or in another form capable of conversion into written form within a reasonable time. (16-10a-720)

Section 2.7. Shareholder Quorum and Voting Requirements. If the Articles of Incorporation or the Utah Revised Business Corporation Act provide for voting by a single voting group on a matter, action on that matter is taken when voted upon by that voting group.

Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. Unless the Articles of Incorporation, a Bylaw adopted by the shareholders pursuant to the Utah Revised Business Corporation Act, or the Utah Revise Business Corporation Act provide otherwise, a majority of the votes entitled to be cast on the matter by the voting group constitutes a quorum of that voting group for action on that matter.

If the Articles of Incorporation or the Utah Revised Business Corporation Act provide for voting by two or more voting groups on a matter, action on that matter is taken only when voted upon by each of those voting groups counted separately. One voting group may vote on a matter even though another voting group entitled to vote on the matter has not voted.

Once a share is represented for any purpose at a meeting, including the purpose of determining that a quorum exists, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting, unless a new record date is or must be set for that adjourned meeting.

If a quorum exists, action on a matter (other than the election of directors) by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation, a Bylaw adopted by the shareholders pursuant to the Utah Revised Business Corporation Act, or the Utah Revised Business Corporation Act require a greater number of affirmative votes. (16-10a-725 and 16-10a-726)

Section 2.8. Proxies. At all meetings of shareholders, a shareholder may vote in person or by a proxy executed in any lawful manner. Such proxy shall be filed with the Corporation before or at the tine of the meeting. No proxy shall be valid after eleven months from the date of its execution unless otherwise provided in the proxy. (16-10a-722)

Section 2.9. Voting of Shares. Unless otherwise provided in the Articles of Incorporation, each outstanding share entitled to vote shall be entitled to one vote, and each fractional share shall be entitled to a corresponding fractional vote, upon each matter submitted to a vote at a meeting of shareholders.

Except as provided by specific court order, no shares of the Corporation held by another corporation, if a majority of the shares entitled to vote for the election of directors of such other corporation are held by the Corporation, shall be voted at any meeting of the Corporation or counted in determining the total number of outstanding shares at any given time for purposes of any meeting. However, the power of the Corporation to vote any shares, including its own shares, held by it in a fiduciary capacity is not hereby limited.

Redeemable shares are not entitled to be voted after notice of redemption is mailed to the holders thereof and a sum sufficient to redeem the shares has been deposited with a bank, trust company, or other financial institution under an irrevocable obligation to pay the holders the redemption price on surrender of the shares. (16-10a-721)

Section 2.10. Corporation's Acceptance of Votes.

(a) If the name signed on a vote, consent, waiver, proxy appointment, or proxy appointment revocation corresponds to the name of a shareholder, the Corporation, if acting in good faith, is entitled to accept the vote, consent, waiver, proxy appointment, or proxy appointment revocation and give it effect as the act of the shareholder.

(b) If the name signed on a vote, consent, waiver, proxy appointment , or proxy appointment revocation does not correspond to the name of a shareholder, the Corporation, if acting in good faith, is nevertheless entitled to accept the vote, consent, waiver, proxy appointment, or proxy appointment revocation and give it effect as the act of the shareholder if:

(1) The shareholder is an entity as defined in the Utah Revised Business Corporation Act and the name signed purports to be that of an officer or agent of the entity;

(2) the name signed purports to be that of an administrator, executor, guardian, or conservator representing the shareholder and, if the Corporation requests, evidence of fiduciary status acceptable to the Corporation has been presented with respect to the vote, consent, waiver, proxy appointment, or proxy appointment revocation;

(3) the name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the Corporation requests, evidence of this status acceptable to the Corporation has been presented with respect to the vote, consent, waiver, proxy appointment, or proxy appointment revocation;

(4) the name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the Corporation requests, evidence acceptable to the Corporation of the signatory's authority to sign for the shareholder has been presented with respect to the vote, consent, waiver, proxy appointment, or proxy appointment revocation;

(5) two or more persons are the shareholder as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-tenants or fiduciaries and the person signing appears to be acting on behalf of all the co-tenants or fiduciaries; or

(6) the acceptance of the vote, consent, waiver, proxy appointment, or proxy appointment revocation is otherwise proper under rules established by the Corporation that are not inconsistent with the provisions of this Section 2.10.

(c) If shares of the Corporation are registered in the names of two or more persons, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the secretary is given written notice to the contrary and furnished with a copy of the instrument creating the relationship, their acts with respect to voting shall have the following effect:

(1) If only one votes, the act binds all;

(2) if more than one vote, the act of the majority so voting binds all;

(3) if more than one vote, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionately; and

(4) if the instrument so filed or the registration of the shares shows that any tenancy is held in unequal interests, a majority or even split for the purpose of this Section 2.10 shall be a majority or even split in interest.

(d) The Corporation is entitled to reject a vote, consent, waiver, proxy appointment, or proxy appointment revocation if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

(e) The Corporation and its officer or agent who accepts or rejects a vote, consent, waiver, proxy appointment, or proxy appointment revocation in good faith and in accordance with the standards of this Section 2.10 are not liable in damages to the shareholder for the consequences of the acceptance or rejection.

(f) Corporate action based on the acceptance or rejection of a vote, consent, waiver, proxy appointment, or proxy appointment revocation under this Section 2.10 is valid unless a court of competent jurisdiction determines otherwise. (16-10a-724)

Section 2.11. Intentionally Omitted.

Section 2.12. Voting for Directors. At each election of directors, unless otherwise provided in the Articles of Incorporation or the Utah Revised Business Corporation Act, every shareholder entitled to vote at the election has the right to vote, in person or by proxy, all of the votes to which the shareholder's shares are entitled for as many persons as there are directors to be elected and for whose election the shareholder has the right to vote.

Unless otherwise provided in the Articles of Incorporation or the Utah Revised Business Corporation Act, directors are elected by a plurality of the votes cast by the shares entitled to be voted in the election, at a meeting at which a quorum is present. (16-10a-728)

Section 2.13. Shareholder's Rights to Inspect Corporate Records.

(a) Minutes and Accounting Records. The Corporation shall keep as permanent records minutes of all meetings of its shareholders and Board of Directors, a record of all actions taken by its shareholders or Board of Directors without a meeting, a record of all actions taken on behalf of the Corporation by a committee of the Board of Directors in place of the Board of Directors, and a record of all waivers of notices of meetings of its shareholders, meetings of the Board of Directors, or any meetings of committees of the Board of Directors. The Corporation shall maintain appropriate accounting records. (16-10a-1601(1), (2))

(b) Absolute Inspection Rights of Records Required at Principal Office. If a shareholder gives the Corporation written notice of the shareholder's demand at least five business days before the date on which the shareholder wishes to inspect and copy, a shareholder (or the shareholder's agent or attorney) has the right to inspect and copy, during regular business hours, any of the following records, all of which the Corporation is required to keep at its principal office:

(1) The Corporation's Articles of Incorporation currently in effect;

(2) the Corporation's Bylaws currently in effect;

(3) the minutes of all shareholders' meetings, and records of all action taken by shareholders without a meeting, for the past three years;

(4) all written communications within the past three years to shareholders as a group or to the holders of any class or series of shares as a group;

(5) a list of the names and business addresses of the Corporation's current officers and directors;

(6) the Corporation's most recent annual report delivered to the Division of Corporations and Commercial Code; and

(7) all financial statements prepared for periods ending during the last three years that a shareholder could request pursuant to Section 16-10a-1605 or the Utah Revised Business Corporation Act. (16-10a-1601(5) and 16-10a-1602(1))

(c) Conditional Inspection Right. If a shareholder gives the Corporation a written demand made in good faith and for a proper purpose at least five business days before the date on which the shareholder wishes to inspect sand copy, the shareholder describes with reasonable particularity the shareholder's purpose and the records the shareholder desires to inspect, and the records are directly connected with the shareholder's purpose, the shareholder (or the shareholder's agent or attorney) is entitled to inspect and copy, during regular business hours at a reasonable location specified by the Corporation, any of the following records of the Corporation:

(1) Excerpts from:

(i) Minutes of any meeting of the Board of Directors, records of any action of a committee of the Board of Directors while acting on behalf of the Corporation in place of the Board of Directors;

(ii) minutes of any meeting of the shareholders;

(iii) records of action taken by the shareholders without a meeting; and

(iv) waivers of notices of any meeting of the shareholders, of any meeting of the Board of Directors, or of any meeting of a committee of the Board of Directors;

(2) accounting records of the Corporation; and

(3) the record of the Corporation's shareholders referred to in Section 16-10a-1601(3) of the Utah Revised Business Corporation Act. (16-10a-1602(2))

(d) Copy Costs. The right to copy records includes, if reasonable, the right to receive copies made by photographic, xerographic, or other means. The Corporation may impose a reasonable charge, payable in advance, covering the costs of labor and material, for copies of any documents provided to a shareholder. The charge may not exceed the estimated cost of production or reproduction of the records. (16-10a-1603)

(e) Shareholder Includes Beneficial Owner. For purposes of this Section 2.13, the term "shareholder" shall include a beneficial owner, whose shares are held in a voting trust and any other beneficial owner who establishes beneficial ownership. (16-10a-1602(4)(b))

Section 2.14. Furnishing Financial Statements to a Shareholder. Upon the written request of any shareholder, the Corporation shall mail to the shareholder its most recent annual or quarterly financial statements showing in reasonable detail its assets and liabilities and the results of its operations. (16-10a-1605)

Section 2.15. Information Respecting Shares. Upon the written request of any shareholder, the Corporation, at its own expense, shall mail to the shareholder information respecting the designations, preferences, limitations, and relative rights applicable to each class of shares, the variations determined for each series, and the authority of the Board of Directors to determine variations for any existing or future class or series. The Corporation may comply by mailing the shareholder a copy of its Articles of Incorporation containing such information. (16-10a-1606)

ARTICLE 3. BOARD OF DIRECTORS

Section 3.1 General Powers. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation managed under, the direction of the Board of Directors, subject to any limitation set forth in the Articles of Incorporation or in any agreement authorized by Section 16-10a-732 of the Utah Revised Business Corporation Act. (16-10a-801)

Section 3.2. Number, Tenure, and Qualifications of Directors. The number of directors of the Corporation shall be not less than three (3) nor more than nine (9) except in the event that there are less than three (3) shareholders of the Corporation entitled to vote for the election of directors in which case the number of directors may equal the number of such voting shareholders of the Corporation. Within this range, the shareholders or the Board of Directors initially shall fix the number of directors of the Corporation. Thereafter, again within this range, the number of directors of the Corporation may be changed and re-established, from time to time, by the shareholders or the Board of Directors of the Corporation, but no decrease in the number of directors of the Corporation may shorten the term of any incumbent director.

Each director shall hold office until the next annual meeting of shareholders or until removed. However, if a director's term expires, the director shall continue to serve until the director's successor shall have been elected and qualified, or until there is a decrease in the number of directors.

Directors need not be residents of the State of Utah but must within 3 years of becoming a director own at least 1,000 shares of the Corporation's Common Stock. (16-10a-802, 16-10a-803 and 16-10a-805)

Section 3.3. Regular Meetings of the Board of Directors. The Board of Directors may set the time and place, either within or outside the State of Utah, for the holding of regular meetings, which may be held without further notice.

Section 3.4. Special Meetings of the Board of Directors. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board or two (2) or more of the directors, who may fix any place, either within or outside the State of Utah, as the place for holding the meeting.

Section 3.5. Notice and Waiver of Notice of Special Director Meetings. Unless the Articles of Incorporation provide for a longer or shorter period, special meetings of the Board of Directors must be preceded by at least five days notice, either orally or in writing, of the date, time and place of the meeting.

Notice of any meeting of the Board of Directors shall be deemed to be effective at the earliest of: (1) When received; (2) five days after it is mailed; or (3) the date shown on the return receipt if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the director.

A director may waive notice of any meeting. Except as in this Section 3.5 provided, the waiver must be in writing and signed by the director entitled to the notice. The waiver shall be delivered to the Corporation for filing with the corporate records, but delivery and filing are not conditions to its effectiveness.

The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except when a director attends a meeting for the express purpose of objecting to the transaction of any business and at the beginning of the meeting, or promptly upon arrival, the director objects to holding the

meeting of transacting business at the meeting because of lack of notice or defective notice, and does not thereafter vote for or assent to action taken at the meeting.

A director who attends a special meeting to object to lack of notice shall not be deemed to be present for quorum purposes. (16-10a-822 and 16-10a-823)

Section 3.6. Director Quorum. A majority of the number of directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, unless the Articles of Incorporation require a greater number.

A majority of the number of directors in office immediately before the meeting begins shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, unless the Articles of Incorporation require a greater number.

Section 3.7. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present when the vote is taken shall be the act of the Board of Directors, unless the Articles of Incorporation require a greater percentage.

Unless the Articles of Incorporation provide otherwise, any or all directors may participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

A director who is present at a meeting of the Board of Directors when corporate action is taken is considered to have assented to the action taken, unless:

(a) The director objects at the beginning of the meeting, or promptly upon arrival, to holding it or transacting business at the meeting:

(b) the director contemporaneously requests his dissent or abstention as to any specific action to be entered into the minutes of the meeting; or

(c) the director causes written notice of a dissent of abstention as to any specific action to be received by the presiding officer of the meeting before its adjournment or by the Corporation promptly after adjournment of the meeting.

The right of dissent or abstention as to a specific action is not available to a director who votes in favor of the action taken. (16-10a-824)

Section 3.8 Director Action Without a Meeting. Unless the Articles of Incorporation or the Utah Revised Business Corporation Act provide otherwise, any action required or permitted to be taken by the Board of Directors at a meeting may be taken without a meeting if all the directors consent to the action in writing. Action is taken by consents at the time the last director signs a writing describing the action taken, unless, prior to that time, any director has revoked a consent by a writing signed by the director and received by the secretary. Action taken by consents is effective when the last director signs the consent, unless the Board of Directors establishes a different effective date. Action taken by consents

has the same effect as action taken at a meeting of directors and may be described as such in any document. (16-10a-821)

Section 3.9. Removal of Directors. The shareholders may remove one or more directors at a meeting called for that purpose if notice has been given that a purpose of the meeting is such removal. The removal may be with or without cause, unless the Articles of Incorporation provide that directors may only be removed with cause. If a director is elected by a voting group of shareholders, only the shareholders of that voting group may participate in the vote to remove the director. If cumulative voting is in effect, a director may not be removed if the number of votes sufficient to elect the director under cumulative voting is voted against the director's removal. If cumulative voting is not in effect, a director may be removed only if the number of votes cast to remove the director exceeds the number of votes cast not to remover the director. (16-10a-808)

Section 3.10. Board of Director Vacancies.

(a) Unless the Articles of Incorporation provide otherwise, if a vacancy occurs on the Board of Directors, including a vacancy resulting from an increase in the number of directors:

(1) The shareholders may fill the vacancy;

(2) the Board of Directors may fill the vacancy; or

(3) if the directors remaining in office constitute fewer than a quorum of the board, they may fill the vacancy by the affirmative vote of a majority of all the directors remaining in office.

(b) Unless the Articles of Incorporation provide otherwise, if the vacant office was held by a director elected by a voting group of shareholders:

(1) If one or more directors were elected by the same voting group, only they are entitled to vote to fill the vacancy if it is filled by the directors; and

(2) only the holders of shares of that voting group are entitled to vote to fill the vacancy if it is filled by the shareholders.

A vacancy that will occur at a specific later date, because of a resignation effective at a later date, may be filled before the vacancy occurs, but the new director may not take office until the vacancy occurs.

If a director's term expires, the director shall continue to serve until the director's successor is elected and qualified or until there is a decrease in the number of directors. The term of a director elected to fill a vacancy expires at the next shareholders' meeting at which directors are elected. (16-10a-810 and 16-10a-805(5))

Section 3.11. Director Compensation. Unless otherwise provided in the Articles of Incorporation, by resolution of the Board of Directors, each director may be paid his expenses, if any, of

attendance at each meeting of the Board of Directors, and may be paid a stated salary as a director or a fixed sum for attendance at each meeting of the Board of Directors or both.

Section 3.12. Director Committees.

(a) Creation of Committees. Unless the Articles of Incorporation provide otherwise, and subject to Section 3.12(b), the Board of Directors may create one or more committees and appoint members of the Board of Directors to serve on them. Each committee must have two or more members, who serve at the pleasure of the Board of Directors.

(b) Selection of Members. The creation of a committee and appointment of members to it must be recommended by the Chairman of the Board and approved by the greater of:

(1) A majority of all the directors in office when the action is taken; or

(2) the number required by Section 3.7 of these Bylaws to take action.

(c) Required Procedures. Sections 3.4 through 3.9 of these Bylaws, which govern meetings, action without a meeting, notice, waiver of notice, and quorum and voting requirements of the Board of Directors, apply to committees and their members as well.

(d) Authority. Unless limited by the Articles of Incorporation, each committee may exercise those aspects of the authority of the Board of Directors which the Board of Directors confers upon such committee in the resolution creating the committee. (16-10a-825)

Section 3.13. Director's Rights to Inspect Corporate Records.

(a) Absolute Inspection Rights of Records Required at Principal Office. If a director gives the Corporation written notice of the director's demand at least five business days before the date on which the director wishes to inspect and copy, the director (or the director's agent or attorney) has the right to inspect and copy, during regular business hours, any of the following records, all of which the Corporation is required to keep at its principal office:

(1) The Corporation's Articles of Incorporation currently in effect;

(2) the Corporation's Bylaws currently in effect;

(3) the minutes of all shareholders' meetings, and records of all action taken by shareholders without a meeting, for the past three years;

(4) all written communications within the past three years to shareholders as a group or to the holders of any class or series of shares as a group;

(5) a list of the names and business addresses of the Corporation's current officers and directors;

(6) the Corporation's most recent annual report delivered to the Division of Corporations and Commercial Code; and

(7) all financial statements prepared for periods ending during the last three years that a shareholder could request. (16-10a-1601(5) and 16-10a-1602(1))

(b) Conditional Inspection Right. In addition, if a director gives the Corporation a written demand made in good faith and for a proper purpose at least five business days before the date on which the director wishes to inspect and copy, the director describes with reasonable particularity the director's purpose and the records the director desires to inspect, and the records are directly connected with the director's purpose, the director (or the director's agent or attorney) is entitled to inspect and copy, during regular business hours at a reasonable location specified by the Corporation, any of the following records of the Corporation:

(1) Excerpts from:

(i) Minutes of any meeting of the Board of Directors, records of any action of a committee of the Board of Directors while acting on behalf of the Corporation in place of the Board of Directors;

(ii) minutes of any meeting of the shareholders;

(iii) records of action taken by the shareholders without a meeting; and

(iv) waivers of notices of any meeting of the shareholders, of any meeting of the Board of Directors, or of any meeting of a committee of the Board of Directors;

(2) accounting records of the Corporation; and

(3) the record of the Corporation's shareholders referred to in Section 16-10a-1601(3) of the Utah Revised Business Corporation Act. (16-10a-1602(2))

(c) Copy Costs. The right to copy records includes, if reasonable, the right to receive copies made by photographic, xerographic, or other means. The Corporation may impose a reasonable charge, payable in advance, covering the costs of labor and material, for copies of any documents provided to the director. The charge may not exceed the estimated cost of production or reproduction of the records. (16-10a-1603)

ARTICLE 4. OFFICERS/CHAIRMAN

Section 4.1 Number of Officers. The officers of the Corporation shall be a president, a secretary, and a treasurer, each of whom shall be appointed by the Board of Directors. Such other officers and assistant officers as may be deemed necessary, including any vice presidents, may be appointed by the Board of Directors. If specifically authorized by the Board of Directors, an officer may appoint one or more officers or assistant officers. The same individual may simultaneously hold more than one office in the Corporation. The Board of Directors may appoint a special executive committee, consisting of two or

more individuals and overseen by the Chairman of the Board, to perform the functions of any office of the Corporation and such special executive committee shall operate under such procedures as prescribed by the Board of Directors. (16-10a-830)

Section 4.2. Appointment and Term of Office. The officers of the Corporation shall be appointed by the Board of Directors for such term as is determined by the Board of Directors. The designation of a specified term does not grant to the officer any contract rights, and the Board of Directors can remove the officer at any time prior to the end of such term. If no term is specified, each officer shall hold office until the officer resigns, dies, or until removed in the manner provided in Section 4.3 of these Bylaws. (16-10a-832 and 16-10a-833)

Section 4.3. Removal of Officers. Any officer or agent may be removed by the Board of Directors at any time, with or without cause. Such removal shall be without prejudice to the contract rights, if any, of the person so removed. Appointment of an officer or agent shall not of itself create contract rights. (16-10a-832)

Section 4.4 Chairman of the Board. The Chairman of the Board shall have the following powers and duties:

(a) to preside at all meetings of the shareholders of the Corporation;

(b) to preside at all meetings of the Board of Directors; and

(c) to oversee the actions and functions of any special executive committee appointed by the Board of Directors to perform the functions of any office of the Corporation.

Section 4.5 President. The president shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall, in general, supervise and control all of the business and affairs of the Corporation. The president may sign, with the secretary or any other proper officer of the Corporation authorized by the Board of Directors, certificates for shares of the Corporation, the issuance of which shall have been authorized by a resolution of the Board of Directors, and deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the Board of Directors from time to time. (16-10a-831)

Section 4.6. Vice Presidents. If appointed, in the absence of the president or in the event of his death, inability, or refusal to act, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated at the time of their election, or in the absence of any designation, then in the order of their appointment) shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. If there is no vice president, then the treasurer shall perform such duties of the president. Any vice president may sign, with the secretary or an assistant secretary, certificates for shares of the Corporation the issuance of which have been authorized by resolution of the Board of Directors; and shall perform such other duties as from time to time may be assigned to him or her by the president or by the Board of Directors. (16-10a-831)

Section 4.7. Secretary. The secretary shall:

(a) Keep the minutes of the proceedings of the shareholders and of the Board of Directors and the other records and information of the Corporation required to be kept, in one or more books provided for that purpose;

(b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law;

(c) be custodian of the corporate records and of any seal of the Corporation;

(d) when requested or required, authenticate any records of the Corporation;

(e) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder;

(f) sign with the president, or a vice-president, certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors;

(g) have general charge of the stock transfer books of the Corporation; and

(h) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him or her by the president or by the Board of Directors. (16-10a-830 and 16-10a-831)

Section 4.8. Treasurer. The treasurer shall:

(a) Have charge and custody of and be responsible for all funds and securities of the Corporation;

(b) receive and give receipts of moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies, or other depositories as shall be selected by the Board of Directors; and

(c) in general perform all of the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him or her by the president or by the Board of Directors. (16-10a-831) If required by the Board of Directors, the treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the Board of Directors shall determine.

Section 4.9. Assistant Secretaries and Assistant Treasurers. The assistant secretaries, when authorized by the Board of Directors, may sign, with the president or a vice president, certificates for shares of the Corporation, the issuance of which shall have been authorized by a resolution of the Board of Directors. The assistant treasurers shall, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall

Be assigned to them by the secretary or the treasurer, respectively, or by the president or the Board of Directors. (16-10a-831)

Section 4.10. Salaries. The compensation of the Chairman of the Board of Directors, Chief Executive Officer and Chief Operating Officer shall be fixed from time to time by the Board of Directors.

ARTICLE 5. LIMITATION OF LIABILITY AND INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, FIDUCIARIES, AND AGENTS

Section 5.1. Limitation of Liability of Directors and Officers. The personal liability of the directors and officers of the Corporation to the Corporation or its shareholders, or to any third person, shall be eliminated or limited to the fullest extent as from time to time permitted by Utah law. (16-10a-841(1))

Section 5.2. Indemnification of Directors and Officers. Unless otherwise provided in the Articles of Incorporation, the Corporation shall indemnify any individual made a party to a proceeding because the individual is or was a director or officer of the Corporation against liability incurred in such proceeding to the fullest extent as from time to time permitted by Utah law. (16-10a-902, 907)

Section 5.3. Effect of Repeal or Modification of Article V. Any repeal or modification of this Article V by the shareholders of the Corporation shall not adversely affect any right or protection of any person existing at the time of such repeal or modification.

Section 5.4. Insurance. The Corporation may purchase and maintain liability insurance on behalf of a person who is or was a director, officer, employee, fiduciary, or agent of the Corporation, or who, while serving as a director, officer, employee, fiduciary, or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, fiduciary, or agent of another foreign or domestic corporation or other person, or of an employee benefit plan, against liability asserted against or incurred by him or her in that capacity or arising from his or her status as a director, officer, employee, fiduciary, or agent, whether or not the Corporation would have power to indemnify him or her against the same liability under Sections 16-10a-902, 16-10a-903, or 16-10a-907 of the Utah Revised Business Corporation Act. Insurance may be procured from any insurance company designated by the Board of Directors, whether the insurance company is formed under the laws of the State of Utah or any other jurisdiction of the United States or elsewhere, including any insurance company in which the Corporation has an equity or any other interest through stock ownership or otherwise. (16-10a-908)

ARTICLE 6. CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 6.1. Certificates for Shares.

(a) Content. Certificates representing shares of the Corporation shall, at a minimum, state on their face the name of the Corporation and that the Corporation is organized under the laws of the State of Utah; the name of the person to whom issued; and the number and class of shares and the designation of the series, if any, the certificate represents; and be in such form as is determined by the Board of Directors. Such certificates shall be signed by the president or a vice president and by the

secretary or an assistant secretary and may be sealed with the corporate seal or a facsimile thereof. The signatures of the officers may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the Corporation itself or an employee of the Corporation. Each certificate for shares shall be consecutively numbered or otherwise identified. The certificates may contain any other information the Corporation considers necessary or appropriate. (16-10a-625)

(b) Legend as to Class or Series. If the Corporation is authorized to issue different classes of shares or different series within a class, the designations, preferences, limitations, and relative rights applicable to each class, the variations in preferences, limitations, and relative rights determined for each series, and the authority of the Board of Directors to determine variations for any existing or future class or series must be summarized on the front or back of each certificate. Alternatively, each certificate may state conspicuously on its front or back that the Corporation will furnish the shareholder this information on request in writing and without charge. (16-10a-625)

(c) Shareholder List. The name and address of the person to whom the shares represented are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation.

(d) Transferring Shares. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed, or mutilated certificate a new one may be issued therefore upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

Section 6.2. Shares Without Certificates.

(a) Issuing Shares Without Certificates. Unless the Articles of Incorporation provide otherwise, the Board of Directors may authorize the issuance of some or all of the shares of any or all classes or series without certificates. The authorization does not affect shares already represented by certificates until they are surrendered to the Corporation.

(b) Information Statement Required. Within a reasonable time after the issuance or transfer of shares without certificates, the Corporation shall send the shareholder a written statement containing, at a minimum, the name of the Corporation and that it is organized under the laws of the State of Utah; the name of the person

to whom issued; and the number and class of shares and the designation of the series, if any, of the issued shares. If the Corporation is authorized to issue different classes of shares or different series within a class, the written statement shall describe the designations, preferences, limitations, and relative rights applicable to each class, the variations in preferences, limitations, and relative rights determined for each series, and the authority of the Board of Directors to determine variation for any existing or future class or series. (16-10a-626)

Section 6.3. Registration of Transfer of Shares. Registration of the transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation. In order to register a transfer, the record owner shall surrender the shares to the Corporation for cancellation, properly endorsed by the appropriate person or persons with reasonable assurances that the endorsements are genuine and effective. Unless the Corporation has established a procedure by which a beneficial owner of shares held

by a nominee is to be recognized by the Corporation as the owner, the person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

Section 6.4. Restrictions on Transfer of Shares Permitted. The Board of Directors or the shareholders may impose restrictions on the transfer or registration of transfer of shares (including any security convertible into, or carrying a right to subscribe for or acquire shares). A restriction does not affect shares issued before the restriction was adopted unless the holders of the shares are parties to the restriction agreement or voted in favor of the registration or otherwise consented to the restriction.

(a) A restriction on the transfer or registration of transfer of shares may be authorized:

(1) To maintain the Corporation's status when it is dependent on the number or identity of its shareholders;

(2) to preserve entitlements, benefits, or exemptions under federal, state, or local laws; and

(3) for any other reasonable purpose.

(b) A restriction on the transfer or registration of transfer of shares may:

(1) Obligate the shareholder first to offer the Corporation or other persons, separately, consecutively, or simultaneously, and opportunity to acquire the restricted shares;

(2) obligate the Corporation or other persons, separately, consecutively, or simultaneously, to acquire the restricted shares;

(3) require, as a condition to a transfer or registration, that any one or more persons, including the Corporation or any of its shareholders, approve the transfer or registration, if the requirement is not manifestly unreasonable; or

(4) prohibit the transfer or the registration of a transfer of the restricted shares to designated persons or classes of persons, if the prohibition is not manifestly unreasonable.

A restriction on the transfer or registration of transfer of shares is valid and enforceable against the holder or a transferee of the holder if the restriction is authorized by this Section 6.4 and its existence is noted conspicuously on the front or back of the certificate, or if the restriction is contained in the information statement required by Section 6.2 of these Bylaws with regard to shares issued without certificates. Unless so noted, a restriction is not enforceable against a person without knowledge of the restriction. (16-10a-627)

Section 6.5. Acquisition of Shares. The Corporation may acquire its own shares, and, unless otherwise provided in the Articles of Incorporation, the shares so acquired constitute authorized but unissued shares.

If the Articles of Incorporation prohibit the re-issuance of acquired shares, the number of authorized shares shall be reduced by the number of shares acquired, effective upon amendment of the Articles of Incorporation, which amendment shall be adopted by the shareholders or the Board of Directors without shareholder action. Appropriate Articles of Amendment must be delivered to the Division of Corporations and Commercial Code and must set forth:

(a) The name of the Corporation;

(b) the reduction in the number of authorized shares, itemized by class and series;

(c) the total number of authorized shares, itemized by class and series, remaining after reduction of the shares; and

(d) a statement that the amendment was adopted by the Board of Directors without shareholder action and that shareholder action was not required if such be the case. (16-10a-631)

ARTICLE 7. DISTRIBUTIONS

Section 7.1. Distributions. The Board of Directors may authorize, and the Corporation may make, distributions (including dividends on its outstanding shares) in the manner and upon the terms and conditions provided by law and in the Articles of Incorporation.

ARTICLE 8. CORPORATE SEAL

Section 8.1 Corporate Seal. The Board of Directors may provide a corporate seal which may be circular in form and have inscribed thereon any designation including the name of the Corporation, Utah as the state of incorporation, and the words "Corporate Seal."

ARTICLE 9. FISCAL YEAR

Section 9.1. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

ARTICLE 10. AMENDMENTS

Section 10.1. Amendments. The Corporation's Board of Directors may amend these Bylaws, except to the extent that the Articles of Incorporation, these

Bylaws, or the Utah Revised Business Corporation Act reserve this power exclusively to the shareholders in whole or in part. However, the Board of Directors may not adopt, amend, or repeal a Bylaw that fixes a shareholder quorum or voting requirement that is greater than required by the Utah Revised Business Corporation Act.

If authorized by the Articles of Incorporation, the shareholders may adopt, amend, or repeal a Bylaw that fixes a greater quorum or voting requirement for shareholders, or voting groups of shareholders, than is required by the Utah Revised Business Corporation Act. Any such action shall comply with the provisions of the Utah Revised Business Corporation Act.

The Corporation's shareholders may amend or repeal the Corporation's Bylaws even though the Bylaws may also be amended or repealed by the Corporation's Board of Directors. (16-10a-1020 to 16-10a-1022)

ADOPTED as of the 29th day of March, 2006.

\s\Douglas Faggioli
Douglas Faggioli, Secretary

Your plan is an important legal document. This sample plan has been prepared based on our understanding of the desired provisions. It may not fit your situation. You should consult with your lawyer on the plan's legal and tax implications. Neither Principal Life Insurance Company nor its agents can be responsible for the legal or tax aspects of the plan nor its appropriateness for your situation. If you wish to change the provisions of this sample plan, you may ask us to prepare new sample wording for you and your lawyer to review.

NATURE'S SUNSHINE PRODUCTS, INC.
TAX DEFERRED RETIREMENT PLAN

401(k) Plan CL2006

Restated March 1, 2008

TABLE OF CONTENTS

INTRODUCTION

The Primary Employer previously established a tax deferred retirement plan on October 31, 1986.

The Primary Employer is of the opinion that the plan should be changed. It believes that the best means to accomplish these changes is to completely restate the plan's terms, provisions and conditions. The restatement, effective March 1, 2008, is set forth in this document and is substituted in lieu of the prior document with the exception of any good faith compliance amendment and any model amendment. Such amendment(s) shall continue to apply to this restated plan until such provisions are integrated into the plan or such amendment(s) are superseded by another amendment.

The restated plan continues to be for the exclusive benefit of employees of the Employer. All persons covered under the plan on February 29, 2008, shall continue to be covered under the restated plan with no loss of benefits.

It is intended that the plan, as restated, shall qualify as a profit sharing plan under the Internal Revenue Code of 1986, including any later amendments to the Code.

This plan includes the statutory, regulatory, and guidance changes specified in the 2006 Cumulative List of Changes in Plan Qualification Requirements (2006 Cumulative List) contained in Internal Revenue Service Notice 2007-3 and the qualification requirements and guidance published before the issuance of such list. The provisions of this plan apply as of the effective date of the restatement unless otherwise specified.

ARTICLE I

FORMAT AND DEFINITIONS

SECTION 1.01—FORMAT.

Words and phrases defined in the DEFINITIONS SECTION of Article I shall have that defined meaning when used in this Plan, unless the context clearly indicates otherwise.

These words and phrases have an initial capital letter to aid in identifying them as defined terms.

SECTION 1.02—DEFINITIONS.

Account means, for a Participant, his share of the Plan Fund. Separate accounting records are kept for those parts of his Account that result from:

(a) Pre-tax Elective Deferral Contributions

(b) Roth Elective Deferral Contributions

(c) Matching Contributions

(d) Qualified Nonelective Contributions

(e) Rollover Contributions

A Participant's Account shall be reduced by any distribution of his Vested Account and by any Forfeitures. A Participant's Account shall participate in the earnings credited, expenses charged, and any appreciation or depreciation of the Investment Fund. His Account is subject to any minimum guarantees applicable under the Annuity Contract or other investment arrangement and to any expenses associated therewith.

ACP Test means the nondiscrimination test described in Code Section 401(m)(2) as provided for in subparagraph (d) of the EXCESS AMOUNTS SECTION of Article III.

Active Participant means an Eligible Employee who is actively participating in the Plan according to the provisions in the ACTIVE PARTICIPANT SECTION of Article II.

Adopting Employer means an employer which is a Controlled Group member and which is listed in the ADOPTING EMPLOYERS - SINGLE PLAN SECTION of Article II.

ADP Test means the nondiscrimination test described in Code Section 401(k)(3) as provided for in subparagraph (c) of the EXCESS AMOUNTS SECTION of Article III.

Affiliated Service Group means any group of corporations, partnerships or other organizations of which the Employer is a part and which is affiliated within the meaning of Code Section 414(m) and the regulations thereunder. Such a group includes at least two organizations one of which is either a service organization (that is, an organization the principal business of which is performing services), or an organization the principal business of which is performing management functions on a regular and continuing basis. Such service is of a type historically performed by employees. In the case of a management organization, the Affiliated Service Group shall include organizations related, within the meaning of Code Section 144(a)(3), to either the

management organization or the organization for which it performs management functions. The term Controlled Group, as it is used in this Plan, shall include the term Affiliated Service Group.

Alternate Payee means any spouse, former spouse, child, or other dependent of a Participant who is recognized by a qualified domestic relations order as having a right to receive all, or a portion of, the benefits payable under the Plan with respect to such Participant.

Annual Compensation means, for a Plan Year, the Employee's Compensation for the Compensation Year ending with or within the consecutive 12-month period ending on the last day of the Plan Year.

Annual Compensation shall exclude Compensation for the portion of the Compensation Year in which an Employee is not an Active Participant.

Annuity Contract means the annuity contract or contracts into which the Trustee or the Primary Employer enters with the Insurer for guaranteed benefits, for the investment of Contributions in separate accounts, and for the payment of benefits under this Plan.

Annuity Starting Date means, for a Participant, the first day of the first period for which an amount is payable as an annuity or any other form.

Beneficiary means the person or persons named by a Participant to receive any benefits under the Plan when the Participant dies. See the BENEFICIARY SECTION of Article X.

Catch-up Contributions means Elective Deferral Contributions made to the Plan that are in excess of an otherwise applicable Plan limit and that are made by Participants who are age 50 or older by the end of the taxable year. An otherwise applicable Plan limit is a limit in the Plan that applies to Elective Deferral Contributions without regard to Catch-up Contributions, such as the limits on the Maximum Annual Additions, as defined in the CONTRIBUTION LIMITATION SECTION of Article III, the dollar limitation on Elective Deferral Contributions under Code Section 402(g) (not counting Catch-up Contributions), and the limit imposed by the ADP Test.

Catch-up Contributions are not subject to the limits on the Maximum Annual Additions, as defined in the CONTRIBUTION LIMITATION SECTION of Article III, are not counted in the ADP Test, and are not counted in determining the minimum allocation under Code Section 416 (but Catch-up Contributions made in prior years are counted in determining whether the Plan is top-heavy).

Claimant means any person who makes a claim for benefits under this Plan. See the CLAIM PROCEDURES SECTION of Article IX.

Code means the Internal Revenue Code of 1986, as amended.

Compensation means, except for purposes of the CONTRIBUTION LIMITATION SECTION of Article III and Article XI, the total earnings, except as modified in this definition, from the Employer during any specified period.

"Earnings" in this definition means wages within the meaning of Code Section 3401(a) for the purposes of income tax withholding at the source but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 3401(a)(2)).

For any Self-employed Individual, Compensation means Earned Income.

Except as provided herein, Compensation for a specified period is the Compensation actually paid or made available (or if earlier, includible in gross income) during such period.

For Plan Years beginning on or after January 1, 2005, Compensation for a Plan Year shall also include Compensation paid by the later of 2 1/2 months after an Employee's Severance from Employment with the Employer maintaining the Plan or the end of the Plan Year that includes the date of the Employee's Severance from Employment with the Employer maintaining the Plan, if the payment is regular Compensation for services during the Employee's regular working hours, or Compensation for services outside the Employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a Severance from Employment, the payments would have been paid to the Employee while the Employee continued in employment with the Employer.

Any payments not described above shall not be considered Compensation if paid after Severance from Employment, even if they are paid by the later of 2 1/2 months after the date of Severance from Employment or the end of the Plan Year that includes the date of Severance from Employment, except, payments to an individual who does not currently perform services for the Employer by reason of qualified military service (within the meaning of Code Section 414(u)(1)) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the Employer rather than entering qualified military service.

Back pay, within the meaning of section 1.415(c)-2(g)(8) of the regulations, shall be treated as Compensation for the Plan Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included in this definition.

Compensation paid or made available during a specified period shall include amounts that would otherwise be included in Compensation but for an election under Code Section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b).

For purposes of determining the allocation or amount of

Elective Deferral Contributions

Compensation shall exclude the following:

severance pay

For purposes of the EXCESS AMOUNTS SECTION of Article III, the Employer may elect to use an alternative nondiscriminatory definition of Compensation in accordance with the regulations under Code Section 414(s).

For Plan Years beginning on or after January 1, 2002, the annual Compensation of each Participant taken into account in determining contributions and allocations for any determination period (the period over which Compensation is determined) shall not exceed $200,000, as adjusted for cost-of-living increases in accordance with Code Section 401(a)(17)(B). The cost-of-living adjustment in effect for a calendar year applies to any determination period beginning with or within such calendar year.

If a determination period consists of fewer than 12 months, the annual compensation limit is an amount equal to the otherwise applicable annual compensation limit multiplied by a fraction. The numerator of the fraction is the number of months in the short determination period, and the denominator of the fraction is 12.

If Compensation for any prior determination period is taken into account in determining a Participant's contributions or allocations for the current Plan Year, the Compensation for such prior determination period is subject to the applicable annual compensation limit in effect for that determination period. For this purpose, in determining contributions and allocations in Plan Years beginning on or after January 1, 2002, the annual compensation limit in effect for determination periods beginning before that date is $200,000.

Compensation means, for a Leased Employee, Compensation for the services the Leased Employee performs for the Employer, determined in the same manner as the Compensation of Employees who are not Leased Employees, regardless of whether such Compensation is received directly from the Employer or from the leasing organization.

Compensation Year means the consecutive 12-month period ending on the last day of each Plan Year, including corresponding periods before October 31, 1986.

Contributions means Employer Contributions and Rollover Contributions as set out in Article III, unless the context clearly indicates only specific contributions are meant.

Controlled Group means any group of corporations, trades, or businesses of which the Employer is a part that is under common control. A Controlled Group includes any group of corporations, trades, or businesses, whether or not incorporated, which is either a parent-subsidiary group, a brother-sister group, or a combined group within the meaning of Code Section 414(b), Code Section 414(c) and the regulations thereunder and, for purposes of determining contribution limitations under the CONTRIBUTION LIMITATION SECTION of Article III, as modified by Code Section 415(h). The term Controlled Group, as it is used in this Plan, shall include the term Affiliated Service Group and any other employer required to be aggregated with the Employer under Code Section 414(o) and the regulations thereunder.

Direct Rollover means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

Distributee means an Employee or former Employee. In addition, the Employee's (or former Employee's) surviving spouse and the Employee's (or former Employee's) spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), are Distributees with regard to the interest of the spouse or former spouse.

Earned Income means, for a Self-employed Individual, net earnings from self-employment in the trade or business for which this Plan is established if such Self-employed Individual's personal services are a material income producing factor for that trade or business. Net earnings shall be determined without regard to items not included in gross income and the deductions properly allocable to or chargeable against such items. Net earnings shall be reduced for the employer contributions to the employer's qualified retirement plan(s) to the extent deductible under Code Section 404.

Net earnings shall be determined with regard to the deduction allowed to the employer by Code Section 164(f) for taxable years beginning after December 31, 1989.

Elective Deferral Contributions means contributions made by the Employer to fund this Plan in accordance with elective deferral agreements between Eligible Employees and the Employer.

Elective deferral agreements shall be made, changed, or terminated according to the provisions of the EMPLOYER CONTRIBUTIONS SECTION of Article III.

Elective Deferral Contributions shall be 100% vested and subject to the distribution restrictions of Code Section 401(k) when made. See the WHEN BENEFITS START SECTION of Article V.

Elective Deferral Contributions means Pre-tax Elective Deferral Contributions and Roth Elective Deferral Contributions, unless the context clearly indicates only one is meant.

Eligible Employee means any Employee of the Employer excluding the following:

Bargaining class. Represented for collective bargaining purposes by any collective bargaining agreement between the Employer and employee representatives, if retirement benefits were the subject of good faith bargaining and if two percent or less of the Employees who are covered pursuant to that agreement are professionals as defined in section 1.410(b)-9 of the regulations. For this purpose, the term "employee representatives" does not include any organization more than half of whose members are Employees who are owners, officers, or executives of the Employer. However, this exclusion shall not apply if the collective bargaining agreement specifically provides for participation under this Plan.

Leased Employee.

An Employee considered by the Employer to be an independent contractor, or the employee of an independent contractor, who is later determined by the Internal Revenue Service to be an Employee.

Eligible Retirement Plan means an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan, an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), an annuity contract described in Code Section 403(b), or a qualified plan described in Code Section 401(a), that accepts the Distributee's Eligible Rollover Distribution. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p).

For taxable years beginning on or after January 1, 2006, if any portion of an Eligible Rollover Distribution is attributable to payments or distributions from a designated Roth account, an Eligible Retirement Plan with respect to such portion shall include only (i) another designated Roth account of the individual from whose Account the payments or distributions were made under an annuity plan described in Code Section 403(a) or a qualified plan described in Code Section 401(a); (ii) another designated Roth account of such individual under an annuity plan described in Code Section 403(b); or (iii) a Roth IRA described in Code Section 408A of such individual.

Eligible Rollover Distribution means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: (i) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten years or more; (ii) any distribution to the extent such distribution is required under Code Section 401(a)(9); (iii) any hardship distribution; (iv) the portion of any other distribution(s) that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and (v) any other distribution(s) that is reasonably expected to total less than $200 during a year.

A portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions that are not includible in gross income. However, such portion may be transferred only to an individual retirement account or individual retirement annuity described in Code Section 408(a) or (b), or to a qualified defined contribution plan described in Code Section 401(a) or 403(a) that

agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

A portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of the portion of a designated Roth account that is not includible in a Participant's gross income. However, for taxable years beginning on or after January 1, 2006, such portion may be transferred only to a Roth IRA described in Code Section 408A or to a designated Roth account under another plan that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

If the distribution includes any portion of a designated Roth account, in determining if (v) above applies: (i) any portion of the distribution from the designated Roth account shall not be treated as an Eligible Rollover Distribution if it is reasonably expected to total less than $200 during a year and (ii) the balance of the distribution, if any, shall not be treated as an Eligible Rollover Distribution if it is reasonably expected to total less than $200 during a year. In addition, for taxable years beginning on or after January 1, 2006, a designated Roth account and all other accounts under the Plan shall be treated as accounts held under two separate plans and shall not be combined in determining a mandatory distribution of an Eligible Rollover Distribution greater than $1,000 in the DIRECT ROLLOVERS SECTION of Article X.

Employee means an individual who is employed by the Employer or any other employer required to be aggregated with the Employer under Code Sections 414(b), (c), (m), or (o). A Controlled Group member is required to be aggregated with the Employer.

The term Employee shall include any Self-employed Individual treated as an employee of any employer described in the preceding paragraph as provided in Code Section 401(c)(1). The term Employee shall also include any Leased Employee deemed to be an employee of any employer described in the preceding paragraph as provided in Code Section 414(n) or (o).

Employer means, except for purposes of the CONTRIBUTION LIMITATION SECTION of Article III, the Primary Employer. This will also include any successor corporation or firm of the Employer which shall, by written agreement, assume the obligations of this Plan or any Predecessor Employer that maintained this Plan.

Employer Contributions means

Elective Deferral Contributions
Matching Contributions
Qualified Nonelective Contributions

as set out in Article III and contributions made by the Employer to fund this Plan in accordance with the provisions of the MODIFICATION OF CONTRIBUTIONS SECTION of Article XI, unless the context clearly indicates only specific contributions are meant.

Entry Date means the date an Employee first enters the Plan as an Active Participant. See the ACTIVE PARTICIPANT SECTION of Article II.

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

Fiscal Year means the Primary Employer's taxable year. The last day of the Fiscal Year is December 31.

Forfeiture means the part, if any, of a Participant's Account that is forfeited. See the FORFEITURES SECTION of Article III.

Forfeiture Date means, as to a Participant, the date the Participant incurs five consecutive Vesting Breaks in Service.

Governing Board means the Chief Executive Officer and Chief Financial Officer of the Primary Employer.

Highly Compensated Employee means any Employee who:

(a) was a 5-percent owner at any time during the year or the preceding year, or

(b) for the preceding year had compensation from the Employer in excess of $80,000 and, if the Employer so elects, was in the top-paid group for the preceding year. The $80,000 amount is adjusted at the same time and in the same manner as under Code Section 415(d), except that the base period is the calendar quarter ending September 30, 1996.

For this purpose the applicable year of the plan for which a determination is being made is called a determination year and the preceding 12-month period is called a look-back year. If the Employer makes a calendar year data election, the look-back year shall be the calendar year beginning with or within the look-back year. The Plan may not use such election to determine whether Employees are Highly Compensated Employees on account of being a 5-percent owner.

In determining who is a Highly Compensated Employee, the Employer makes a top-paid group election. The effect of this election is that an Employee (who is not a 5-percent owner at any time during the determination year or the look-back year) with compensation in excess of $80,000 (as adjusted) for the look-back year is a Highly Compensated Employee only if the Employee was in the top-paid group for the look-back year. In determining who is a Highly Compensated Employee, the Employer does not make a calendar year data election.

Calendar year data elections and top-paid group elections, once made, apply for all subsequent years unless changed by the Employer. If the Employer makes one election, the Employer is not required to make the other. If both elections are made, the look-back year in determining the top-paid group must be the calendar year beginning with or within the look-back year. These elections must apply consistently to the determination years of all plans maintained by the Employer which reference the highly compensated employee definition in Code Section 414(q), except as provided in Internal Revenue Service Notice 97-45 (or superseding guidance).

The determination of who is a highly compensated former Employee is based on the rules applicable to determining Highly Compensated Employee status as in effect for that determination year, in accordance with section 1.414(q)-1T, A-4 of the temporary Income Tax Regulations and Internal Revenue Service Notice 97-45.

The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of Employees in the top-paid group, the compensation that is considered, and the identity of the 5-percent owners, shall be made in accordance with Code Section 414(q) and the regulations thereunder.

Hour of Service means the following:

(a) Each hour for which an Employee is paid, or entitled to payment, for performing duties for the Employer during the applicable computation period.

(b) Each hour for which an Employee is paid, or entitled to payment, by the Employer on account of a period of time in which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. Notwithstanding the preceding provisions of this subparagraph (b), no credit will be given to the Employee:

(1) for more than 501 Hours of Service under this subparagraph (b) on account of any single continuous period in which the Employee performs no duties (whether or not such period occurs in a single computation period); or

(2) for an Hour of Service for which the Employee is directly or indirectly paid, or entitled to payment, on account of a period in which no duties are performed if such payment is made or due under a plan maintained solely for the purpose of complying with applicable worker's or workmen's compensation, or unemployment compensation, or disability insurance laws; or

(3) for an Hour of Service for a payment which solely reimburses the Employee for medical or medically related expenses incurred by him.

For purposes of this subparagraph (b), a payment shall be deemed to be made by, or due from the Employer, regardless of whether such payment is made by, or due from the Employer, directly or indirectly through, among others, a trust fund or insurer, to which the Employer contributes or pays premiums and regardless of whether contributions made or due to the trust fund, insurer or other entity are for the benefit of particular employees or are on behalf of a group of employees in the aggregate.

(c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service shall not be credited both under subparagraph (a) or subparagraph (b) above (as the case may be) and under this subparagraph (c). Crediting of Hours of Service for back pay awarded or agreed to with respect to periods described in subparagraph (b) above will be subject to the limitations set forth in that subparagraph.

The crediting of Hours of Service above shall be applied under the rules of paragraphs (b) and (c) of the Department of Labor Regulation 2530.200b-2 (including any interpretations or opinions implementing such rules); which rules, by this reference, are specifically incorporated in full within this Plan. The

reference to paragraph (b) applies to the special rule for determining hours of service for reasons other than the performance of duties such as payments calculated (or not calculated) on the basis of units of time and the rule against double credit. The reference to paragraph (c) applies to the crediting of hours of service to computation periods.

Hours of Service shall be credited for employment with any other employer required to be aggregated with the Employer under Code Sections 414(b), (c), (m), or (o) and the regulations thereunder for purposes of eligibility and vesting. Hours of Service shall also be credited for any individual who is considered an employee for purposes of this Plan pursuant to Code Section 414(n) or (o) and the regulations thereunder.

Solely for purposes of determining whether a one-year break in service has occurred for eligibility or vesting purposes, during a Parental Absence an Employee shall be credited with the Hours of Service which would otherwise have been credited to the Employee but for such absence, or in any case in which such hours cannot be determined, eight Hours of Service per day of such absence. The Hours of Service credited under this paragraph shall be credited in the computation period in which the absence begins if the crediting is necessary to prevent a break in service in that period; or in all other cases, in the following computation period.

Inactive Participant means a former Active Participant who has an Account. See the INACTIVE PARTICIPANT SECTION of Article II.

Insurer means Principal Life Insurance Company or the insurance company or companies named by (i) the Primary Employer or (ii) the Trustee in its discretion or as directed under the Trust Agreement.

Investment Fund means the total of Plan assets, excluding the guaranteed benefit policy portion of any Annuity Contract. All or a portion of these assets may be held under, or invested pursuant to, the terms of a Trust Agreement.

The Investment Fund shall be valued at current fair market value as of the Valuation Date. The valuation shall take into consideration investment earnings credited, expenses charged, payments made, and changes in the values of the assets held in the Investment Fund.

The Investment Fund shall be allocated at all times to Participants, except as otherwise expressly provided in the Plan. The Account of a Participant shall be credited with its share of the gains and losses of the Investment Fund. That part of a Participant's Account invested in a funding arrangement that establishes one or more accounts or investment vehicles for such Participant thereunder shall be credited with the gain or loss from such accounts or investment vehicles. The part of a Participant's Account that is invested in other funding arrangements shall be credited with a proportionate share of the gain or loss of such investments. The share shall be determined by multiplying the gain or loss of the investment by the ratio of the part of the Participant's Account invested in such funding arrangement to the total of the Investment Fund invested in such funding arrangement.

Investment Manager means any fiduciary (other than a trustee or Named Fiduciary)

(a) who has the power to manage, acquire, or dispose of any assets of the Plan;

(b) who (i) is registered as an investment adviser under the Investment Advisers Act of 1940; (ii) is not registered as an investment adviser under such Act by reason of paragraph (1) of section 203A(a) of such Act, is registered as an investment adviser under the laws of the state (referred to in such paragraph (1)) in which it maintains its principal office and place of business, and, at the time it last filed the registration form most recently filed by it with such state in order to maintain its registration under the laws of such state, also filed a copy of such form with the Secretary of Labor; (iii) is a bank, as defined in that Act; or (iv) is an insurance company qualified to perform services described in subparagraph (a) above under the laws of more than one state; and

(c) who has acknowledged in writing being a fiduciary with respect to the Plan.

Late Retirement Date means any day that is after a Participant's Normal Retirement Date and on which retirement benefits begin. If a Participant continues to work for the Employer after his Normal Retirement Date, his Late Retirement Date shall be the day he has a Severance from Employment. An earlier Retirement Date may apply if the Participant so elects. A later Retirement Date may apply if the Participant so elects. See the WHEN BENEFITS START SECTION of Article V.

Leased Employee means any person (other than an employee of the recipient) who, pursuant to an agreement between the recipient and any other person ("leasing organization"), has performed services for the recipient (or for the recipient and related persons determined in accordance with Code Section 414(n)(6)) on a substantially full time basis for a period of at least one year, and such services are performed under primary direction or control by the recipient. Contributions or benefits provided by the leasing organization to a Leased

Employee, which are attributable to service performed for the recipient employer, shall be treated as provided by the recipient employer.

A Leased Employee shall not be considered an employee of the recipient if:

(a) such employee is covered by a money purchase pension plan providing (i) a nonintegrated employer contribution rate of at least 10 percent of compensation, as defined in Code Section 415(c)(3), (ii) immediate participation, and (iii) full and immediate vesting, and

(b) Leased Employees do not constitute more than 20 percent of the recipient's nonhighly compensated work force.

Matching Contributions means contributions made by the Employer to fund this Plan that are contingent on a Participant's Elective Deferral Contributions. See the EMPLOYER CONTRIBUTIONS SECTION of Article III.

Named Fiduciary means the person or persons appointed by the Governing Board who have authority to control and manage the investment of the assets of the Plan. To the extent the authority has not been delegated, the Named Fiduciary shall be the Governing Board. A Named Fiduciary has the authority to appoint an Investment Manager to have investment responsibility for a portion of the assets of the Plan as identified by the Named Fiduciary.

Nonhighly Compensated Employee means an Employee of the Employer who is not a Highly Compensated Employee.

Nonvested Account means the excess, if any, of a Participant's Account over his Vested Account.

Normal Retirement Age means the age at which the Participant's normal retirement benefit becomes nonforfeitable if he is an Employee. A Participant's Normal Retirement Age is 59 1/2.

Normal Retirement Date means the date the Participant reaches his Normal Retirement Age. Unless otherwise provided in this Plan, a Participant's retirement benefits shall begin on his Normal Retirement Date if he has had a Severance from Employment on such date. However, retirement benefits shall not begin before the older of age 62 or his Normal Retirement Age, unless the qualified election procedures of the ELECTION PROCEDURES SECTION of Article VI are met. Even if the Participant is an Employee on his Normal Retirement Date, he may choose to have his retirement benefit begin on such date.

Owner-employee means a Self-employed Individual who, in the case of a sole proprietorship, owns the entire interest in the unincorporated trade or business for which this Plan is established. If this Plan is established for a partnership, an Owner-employee means a Self-employed Individual who owns more than 10 percent of either the capital interest or profits interest in such partnership.

Parental Absence means an Employee's absence from work:

(a) by reason of pregnancy of the Employee,

(b) by reason of birth of a child of the Employee,

(c) by reason of the placement of a child with the Employee in connection with adoption of such child by such Employee, or

(d) for purposes of caring for such child for a period beginning immediately following such birth or placement.

Participant means either an Active Participant or an Inactive Participant.

Period of Military Duty means, for an Employee

(a) who served as a member of the armed forces of the United States, and

(b) who was reemployed by the Employer at a time when the Employee had a right to reemployment in accordance with seniority rights as protected under Chapter 43 of Title 38 of the U.S. Code,

the period of time from the date the Employee was first absent from active work for the Employer because of such military duty to the date the Employee was reemployed.

Plan means the tax deferred retirement plan of the Employer set forth in this document, including any later amendments to it.

Plan Administrator means the person or persons who administer the Plan.

The Plan Administrator is the Governing Board. The Governing Board has authority to delegate to other person or persons any part or all of the duties of Plan Administrator.

Plan Fund means the total of the Investment Fund and the guaranteed benefit policy portion of any Annuity Contract. The Investment Fund shall be valued as stated in its definition. The guaranteed benefit policy portion of any Annuity Contract shall be determined in accordance with the terms of the Annuity Contract and, to the extent that such Annuity Contract allocates contract values to Participants, allocated to Participants in accordance with its terms. The total value of all amounts held under the Plan Fund shall equal the value of the aggregate Participants' Accounts under the Plan.

Plan Year means a period beginning on a Yearly Date and ending on the day before the next Yearly Date.

Predecessor Employer means a firm of which the Employer was once a part (e.g., due to a spinoff or change of corporate status) or a firm absorbed by the Employer because of a merger or acquisition (stock or asset, including a division or an operation of such company).

Pre-tax Elective Deferral Contributions means a Participant's Elective Deferral Contributions that are not includible in the Participant's gross income at the time deferred.

Primary Employer means Nature's Sunshine Products, Inc.

Qualified Nonelective Contributions means contributions made by the Employer to fund this Plan (other than Elective Deferral Contributions) that are 100% vested when made to the Plan and that are distributable only in accordance with the distribution provisions (other than for hardships) applicable to Elective Deferral Contributions. See the EMPLOYER CONTRIBUTIONS SECTION of Article III and the WHEN BENEFITS START SECTION of Article V.

Qualifying Employer Securities means any security which is issued by the Employer or any Controlled Group member and which meets the requirements of Code Section 409(l) and ERISA Section 407(d)(5). This shall also include any securities that satisfied the requirements of the definition when these securities were assigned to the Plan.

Qualifying Employer Securities Fund means that part of the assets of the Trust Fund that are designated to be held primarily or exclusively in Qualifying Employer Securities for the purpose of providing benefits for Participants.

Reentry Date means the date a former Active Participant reenters the Plan. See the ACTIVE PARTICIPANT SECTION of Article II.

Retirement Date means the date a retirement benefit will begin and is a Participant's Normal or Late Retirement Date, as the case may be.

Rollover Contributions means the Rollover Contributions which are made by an Eligible Employee or an Inactive Participant according to the provisions of the ROLLOVER CONTRIBUTIONS SECTION of Article III.

Roth Elective Deferral Contributions means a Participant's Elective Deferral Contributions that are not excludible from the Participant's gross income at the time deferred and have been irrevocably designated as Roth Elective Deferral Contributions by the Participant in his elective deferral agreement. Whether an Elective Deferral Contribution is not excludible from a Participant's gross income will be determined in accordance with section 1.401(k)-1(f)(2) of the regulations. In the case of a Self-employed Individual, an Elective Deferral Contribution is not excludible from gross income only if the individual does not claim a deduction for such amount.

Self-employed Individual means, with respect to any taxable year, an individual who has Earned Income for the taxable year (or who would have Earned Income but for the fact the trade or business for which this Plan is established did not have net profits for such taxable year).

Severance from Employment means, except for purposes of the CONTRIBUTION LIMITATION SECTION of Article III, an Employee has ceased to be an Employee. The Plan Administrator shall determine if a Severance from Employment has occurred in accordance with section 1.401(k)-1(d)(2) of the regulations.

Totally and Permanently Disabled means that a Participant meets the definition of disabled under the Employer's long-term disability plan.

Trust Agreement means an agreement or agreements of trust between the Primary Employer and Trustee established for the purpose of holding and distributing the Trust Fund under the provisions of the Plan. The Trust Agreement may provide for the investment of all or any portion of the Trust Fund in the Annuity Contract or any other investment arrangement.

Trust Fund means the total funds held under an applicable Trust Agreement. The term Trust Fund when used within a Trust Agreement shall mean only the funds held

under that Trust Agreement.

Trustee means the party or parties named in the applicable Trust Agreement.

Valuation Date means the date on which the value of the assets of the Investment Fund is determined. The value of each Account that is maintained under this Plan shall be determined on the Valuation Date. In each Plan Year, the Valuation Date shall be the last day of the Plan Year. At the discretion of the Plan Administrator, Trustee, or Insurer (whichever applies) and in a nondiscriminatory manner, assets of the Investment Fund may be valued more frequently. These dates shall also be Valuation Dates.

Vested Account means the vested part of a Participant's Account. The Participant's Vested Account is equal to that part of his Account resulting from Contributions that were 100% vested when made before his Vesting Percentage is 100% and is equal to his Account when his Vesting Percentage is 100%.

Vesting Break in Service means a Vesting Computation Period in which an Employee is credited with 500 or fewer Hours of Service. An Employee incurs a Vesting Break in Service on the last day of a Vesting Computation Period in which he has a Vesting Break in Service.

Vesting Computation Period means a consecutive 12-month period ending on the last day of each Plan Year, including corresponding consecutive 12-month periods before October 31, 1986.

Vesting Percentage means the percentage used to determine the nonforfeitable portion of a Participant's Account attributable to Employer Contributions that were not 100% vested when made.

A Participant's Vesting Percentage is shown in the following schedule opposite the number of whole years of his Vesting Service.

VESTING SERVICE (whole years)	VESTING PERCENTAGE
Less than 3	0
3 or more	100

The Vesting Percentage for a Participant who is an Employee on or after the date he reaches Normal Retirement Age shall be 100%. The Vesting Percentage for a Participant who is an Employee on the date he dies shall be 100%. The Vesting Percentage for a Participant who is an Employee on the date he becomes disabled shall be 100% if such disability is subsequently determined to meet the definition of Totally and Permanently Disabled.

If the schedule used to determine a Participant's Vesting Percentage is changed, the new schedule shall not apply to a Participant unless he is credited with an Hour of Service on or after the date of the change and the Participant's nonforfeitable percentage on the day before the date of the change is not reduced under this Plan. The amendment provisions of the AMENDMENTS SECTION of Article X regarding changes in the computation of the Vesting Percentage shall apply.

Vesting Service means one year of service for each Vesting Computation Period in which an Employee is credited with at least 1,000 Hours of Service.

However, Vesting Service is modified as follows:

Period of Military Duty included:

A Period of Military Duty shall be included as service with the Employer to the extent it has not already been credited. For purposes of crediting Hours of Service during the Period of Military Duty, an Hour of Service shall be credited (without regard to the 501 Hour of Service limitation) for each hour an Employee would normally have been scheduled to work for the Employer during such period.

Controlled Group service included:

An Employee's service with a member firm of a Controlled Group while both that firm and the Employer were members of the Controlled Group shall be included as service with the Employer.

Yearly Date means October 31, 1986, and each following January 1.

Years of Service means an Employee's Vesting Service disregarding any modifications that exclude service.

ARTICLE II

PARTICIPATION

SECTION 2.01—ACTIVE PARTICIPANT.

(a) An Employee shall first become an Active Participant (begin active participation in the Plan) on the earliest date on which he is an Eligible Employee and has met the eligibility requirement set forth below. This date is his Entry Date.

(1) He is age 18 or older.

Each Employee who was an Active Participant on February 29, 2008, shall continue to be an Active Participant if he is still an Eligible Employee on March 1, 2008, and his Entry Date shall not change.

In the event an Employee who is not an Eligible Employee becomes an Eligible Employee, such Eligible Employee shall become an Active Participant

immediately if such Eligible Employee has satisfied the eligibility requirements above and would have otherwise previously become an Active Participant had he met the definition of Eligible Employee. This date is his Entry Date.

(b) An Inactive Participant shall again become an Active Participant (resume active participation in the Plan) on the date he again performs an Hour of Service as an Eligible Employee. This date is his Reentry Date.

Upon again becoming an Active Participant, he shall cease to be an Inactive Participant.

(c) A former Participant shall again become an Active Participant (resume active participation in the Plan) on the date he again performs an Hour of Service as an Eligible Employee. This date is his Reentry Date.

There shall be no duplication of benefits for a Participant under this Plan because of more than one period as an Active Participant.

SECTION 2.02—INACTIVE PARTICIPANT.

An Active Participant shall become an Inactive Participant (stop accruing benefits under the Plan) on the earlier of the following:

(a) the date the Participant ceases to be an Eligible Employee, or

(b) the effective date of complete termination of the Plan under Article VIII.

An Employee or former Employee who was an Inactive Participant under the Plan on February 29, 2008, shall continue to be an Inactive Participant on March 1, 2008. Eligibility for any benefits payable to the Participant or on his behalf and the amount of the benefits shall be determined according to the provisions of the prior document, unless otherwise stated in this document.

SECTION 2.03—CESSATION OF PARTICIPATION.

A Participant shall cease to be a Participant on the date he is no longer an Eligible Employee and his Account is zero.

SECTION 2.04—ADOPTING EMPLOYERS - SINGLE PLAN.

Each of the Controlled Group members listed below is an Adopting Employer. Each Adopting Employer listed below participates with the Employer in this Plan. An Adopting Employer's agreement to participate in this Plan shall be in writing.

The Employer has the right to amend the Plan. An Adopting Employer does not have the right to amend the Plan.

If the Adopting Employer did not maintain its plan before its date of adoption specified below, its date of adoption shall be the Entry Date for any of its Employees who have met the requirements in the ACTIVE PARTICIPANT SECTION of this article as of that date. Service with and Compensation from an Adopting Employer shall be included as service with and Compensation from the Employer. Transfer of employment, without interruption, between an Adopting Employer and another Adopting Employer or the Employer shall not be considered an interruption of service. The Employer's Fiscal Year defined in the DEFINITIONS SECTION of Article I shall be the Fiscal Year used in interpreting this Plan for Adopting Employers.

Contributions made by an Adopting Employer shall be treated as Contributions made by the Employer. Forfeitures arising from those Contributions shall be used for the benefit of all Participants.

An employer shall not be an Adopting Employer if it ceases to be a Controlled Group member. Such an employer may continue a retirement plan for its Employees in the form of a separate document. This Plan shall be amended to delete a former Adopting Employer from the list below.

If (i) an employer ceases to be an Adopting Employer or the Plan is amended to delete an Adopting Employer and (ii) the Adopting Employer does not continue a retirement plan for the benefit of its Employees, partial termination may result and the provisions of Article VIII shall apply.

ADOPTING EMPLOYERS

NAME	DATE OF ADOPTION
Nature's Sunshine Products Direct, Inc.	December 31, 2002
Synergy Worldwide Inc.	October 31, 2000

ARTICLE III

CONTRIBUTIONS

SECTION 3.01—EMPLOYER CONTRIBUTIONS.

Employer Contributions shall be made without regard to current or accumulated net income, earnings, or profits of the Employer. Notwithstanding the foregoing, the Plan shall continue to be designed to qualify as a profit sharing plan for purposes of Code Sections 401(a), 402, 412, and 417. Such Contributions shall be equal to the Employer Contributions as described below:

(a) The amount of each Elective Deferral Contribution for a Participant shall be equal to a portion of Compensation as specified in the elective deferral agreement. An Employee who is eligible to participate in the Plan for purposes of Elective Deferral Contributions may file an elective deferral agreement with the Employer. The Participant shall modify or terminate the elective deferral agreement by filing a new elective deferral agreement. The elective deferral agreement may not be made retroactively and shall remain in effect until modified or terminated.

The elective deferral agreement to start or modify Elective Deferral Contributions shall be effective as soon as administratively feasible on or after the Participant's Entry Date (Reentry Date, if applicable) or any following date. The elective deferral agreement must be entered into on or before the date it is

effective.

The elective deferral agreement to stop Elective Deferral Contributions may be entered into on any date. Such elective deferral agreement shall be effective as soon as administratively feasible following the date on which the elective deferral agreement is entered into.

Elective Deferral Contributions for Highly Compensated Employees cannot be more than 5% of Compensation. A Participant who is eligible to make Catch-up Contributions shall not be limited to the maximum deferral percentage unless his Elective Deferral Contributions, including Catch-up Contributions, exceed this limit plus the dollar amount of Catch-up Contributions permitted.

A Participant who is age 50 or older by the end of the taxable year shall be eligible to make Catch-up Contributions.

A Participant may elect to designate all or any portion of his future Elective Deferral Contributions as Roth Elective Deferral Contributions.

Elective Deferral Contributions are 100% vested and nonforfeitable.

(b) The Employer shall make Matching Contributions in an amount equal to 100% of Elective Deferral Contributions. Elective Deferral Contributions that are over 5% of Compensation won't be matched.

Matching Contributions are calculated based on Elective Deferral Contributions and Compensation for the payroll period. Matching Contributions are made for all persons who were Active Participants at any time during that payroll period.

Matching Contributions are subject to the Vesting Percentage.

(c) Qualified Nonelective Contributions may be made for each Plan Year in an amount determined by the Employer.

Discretionary Qualified Nonelective Contributions may be made for each Plan Year in an amount determined by the Employer to be used to reduce Excess Aggregate Contributions and Excess Contributions, as defined in the EXCESS AMOUNTS SECTION of this article. If the Plan is treated as separate plans because it is mandatorily disaggregated under the regulations of Code Section 401(k), a separate Qualified Nonelective Contribution may be determined for each separate plan. Such Contributions are in addition to the Qualified Nonelective Contributions determined above, if any.

Qualified Nonelective Contributions are 100% vested and are distributable only in accordance with the distribution provisions (other than for hardships) applicable to Elective Deferral Contributions.

No Participant shall be permitted to have Elective Deferral Contributions, as defined in the EXCESS AMOUNTS SECTION of this article, made under this Plan, or any other plan, contract, or arrangement maintained by the Employer, during any calendar year, in excess of the dollar limitation contained in Code Section 402(g) in effect for the Participant's taxable year beginning in such calendar year. The dollar limitation in the preceding sentence shall be increased by the dollar limit on Catch-up Contributions under Code Section 414(v)(2)(B)(i) for the taxable year for any Participant who will be age 50 or older by the end of the taxable year.

The dollar limitation contained in Code Section 402(g) is $10,500 for taxable years beginning in 2000 and 2001, increasing to $11,000 for taxable years beginning in 2002, and increasing by $1,000 for each year thereafter up to $15,000 for taxable years beginning in 2006 and later years. After 2006, the $15,000 limit will be adjusted by the Secretary of the Treasury for cost-of-living increases under Code Section 402(g)(4). Any such adjustments will be in multiples of $500.

Catch-up Contributions for a Participant for a taxable year may not exceed the dollar limit on Catch-up Contributions under Code Section 414(v)(2)(B)(i) for the taxable year. The dollar limit on Catch-up Contributions under Code Section 414(v)(2)(B)(i) is $1,000 for taxable years beginning in 2002, increasing by $1,000 for each year thereafter up to $5,000 for taxable years beginning in 2006 and later years. After 2006, the $5,000 limit will be adjusted by the Secretary of the Treasury for cost-of-living increases under Code Section 414(v)(2)(C). Any such adjustments will be in multiples of $500.

An elective deferral agreement (or change thereto) must be made in such manner and in accordance with such rules as the Employer may prescribe in a nondiscriminatory manner (including by means of voice response or other electronic system under circumstances the Employer permits) and may not be made retroactively.

Employer Contributions are allocated according to the provisions of the ALLOCATION SECTION of this article.

A portion of the Plan assets resulting from Employer Contributions (but not more than the original amount of those Contributions) may be returned if the Employer Contributions are made because of a mistake of fact or are more than the amount deductible under Code Section 404 (excluding any amount which is not deductible because the Plan is disqualified). The amount involved must be returned to the Employer within one year after the date the Employer Contributions are made by mistake of fact or the date the deduction is disallowed, whichever applies. Except as provided under this paragraph and Article VIII, the assets of the Plan shall never be used for the benefit of the Employer and are held for the exclusive purpose of providing benefits to Participants and their Beneficiaries and for defraying reasonable expenses of administering the Plan.

SECTION 3.01A—ROLLOVER CONTRIBUTIONS.

A Rollover Contribution may be made by an Eligible Employee or Inactive Participant if the following conditions are met:

(a) The Contribution is a Participant Rollover Contribution or a direct rollover of a distribution made after December 31, 2001 from the types of plans specified below. A Participant Rollover Contribution or a direct rollover of a distribution from a designated Roth account applies only to distributions made in taxable years beginning on or after January 1, 2006.

Direct Rollovers. The Plan will accept a direct rollover of an Eligible Rollover Distribution from (i) a qualified plan described in Code Section 401(a) or 403(a), including after-tax employee contributions and any portion of a designated Roth account; (ii) an annuity contract described in Code Section 403(b), including after-tax employee contributions and any portion of a designated Roth account; and (iii) an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state.

Participant Rollover Contributions from Other Plans The Plan will accept a Participant contribution of an Eligible Rollover Distribution from (i) a qualified plan described in Code Section 401(a) or 403(a), including distributions of a designated Roth account only to the extent such amount would otherwise be includible in a Participant's gross income; (ii) an annuity contract described in Code Section 403(b), including distributions of a designated Roth account only to the extent such amount would otherwise be includible in a Participant's gross income; and (iii) an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state.

Participant Rollover Contributions from IRAs The Plan will accept a Participant Rollover Contribution of the portion of a distribution from an individual retirement account or individual retirement annuity described in Code Section 408(a) or (b) that is eligible to be rolled over and would otherwise be includible in the Participant's gross income.

(b) The Contribution is of amounts that the Code permits to be transferred to a plan that meets the requirements of Code Section 401(a).

(c) The Contribution is made in the form of a direct rollover under Code Section 401(a)(31) or is a rollover made under Code Section 402(c) or 408(d)(3)(A) within 60 days after the Eligible Employee or Inactive Participant receives the distribution.

(d) The Eligible Employee or Inactive Participant furnishes evidence satisfactory to the Plan Administrator that the proposed rollover meets conditions (a), (b), and (c) above.

(e) In the case of an Inactive Participant, the Contribution must be of an amount distributed from another plan of the Employer, or a plan of a Controlled Group member, that satisfies the requirements of Code Section 401(a).

A Rollover Contribution shall be allowed in cash only and must be made according to procedures set up by the Plan Administrator.

If the Eligible Employee is not an Active Participant when the Rollover Contribution is made, he shall be deemed to be an Active Participant only for the purpose of investment and distribution of the Rollover Contribution. Employer Contributions shall not be made for or allocated to the Eligible Employee until the time he meets all of the requirements to become an Active Participant.

Rollover Contributions made by an Eligible Employee or an Inactive Participant shall be credited to his Account. The part of the Participant's Account resulting from Rollover Contributions is 100% vested and nonforfeitable at all times. Separate accounting records shall be maintained for those parts of his Rollover Contributions consisting of (i) voluntary contributions which were deducted from the Participant's gross income for Federal income tax purposes; (ii) after-tax employee contributions, including the portion that would not have been includible in the Participant's gross income if the contributions were not rolled over into this Plan; and (iii) any portion of a designated Roth account, including the portion that would not have been includible in the Participant's gross income if the contributions were not rolled over into this Plan.

SECTION 3.02—FORFEITURES.

The Nonvested Account of a Participant shall be forfeited as of the earlier of the following:

(a) the date the record keeper is notified that the Participant died (if prior to such date he has had a Severance from Employment), or

(b) the Participant's Forfeiture Date.

All or a portion of a Participant's Nonvested Account shall be forfeited before such earlier date if, after he has a Severance from Employment, he receives, or is deemed to receive, a distribution of his entire Vested Account or a distribution of his Vested Account derived from Employer Contributions that were not 100% vested when made, under the RETIREMENT BENEFITS SECTION of Article V, the VESTED BENEFITS SECTION of Article V, or the SMALL AMOUNTS SECTION of Article X. The forfeiture shall occur as of the date the Participant receives, or is deemed to receive, the distribution. If a Participant receives, or is deemed to receive, his entire Vested Account, his entire Nonvested Account shall be forfeited. If a Participant receives a distribution of his Vested Account from Employer Contributions that were not 100% vested when made, but less than his entire Vested Account, the amount to be forfeited shall be determined by multiplying his Nonvested Account from such Contributions by a fraction. The numerator of the fraction is the amount of the distribution derived from Employer Contributions that were not 100% vested when made and the denominator of the fraction is his entire Vested Account derived from such Contributions on the date of the distribution.

A Forfeiture shall also occur as provided in the EXCESS AMOUNTS SECTION of this article.

Forfeitures shall be determined at least once during each Plan Year. Forfeitures may first be used to pay administrative expenses. Forfeitures of Matching Contributions that relate to excess amounts as provided in the EXCESS AMOUNTS SECTION of this article, that have not been used to pay administrative expenses, shall be applied to reduce the earliest Employer Contributions made after the Forfeitures are determined. Any other Forfeitures that have not been used to pay administrative expenses shall be applied to reduce the earliest Employer Contributions made after the Forfeitures are determined. Upon their application to reduce Employer Contributions, Forfeitures shall be deemed to be Employer Contributions.

If a Participant again becomes an Eligible Employee after receiving a distribution which caused all or a portion of his Nonvested Account to be forfeited, he shall have the right to repay to the Plan the entire amount of the distribution he received (excluding any amount of such distribution resulting from Contributions that were 100% vested when made). The repayment must be made in a single sum (repayment in installments is not permitted) before the earlier of the date five years after the date he again becomes an Eligible Employee or the end of the first period of five consecutive Vesting Breaks in Service which begin after the date of the distribution.

If the Participant makes the repayment above, the Plan Administrator shall restore to his Account an amount equal to his Nonvested Account that was forfeited on the date of distribution, unadjusted for any investment gains or losses. If no amount is to be repaid because the Participant was deemed to have received a distribution, or only

received a distribution of Contributions which were 100% vested when made, and he again performs an Hour of Service as an Eligible Employee within the repayment period, the Plan Administrator shall restore the Participant's Account as if he had made a required repayment on the date he performed such Hour of Service. Restoration of the Participant's Account shall include restoration of all Code Section 411(d)(6) protected benefits with respect to the restored Account, according to applicable Treasury regulations. Provided, however, the Plan Administrator shall not restore the Nonvested Account if (i) a Forfeiture Date has occurred after the date of the distribution and on or before the date of repayment and (ii) that Forfeiture Date would result in a complete forfeiture of the amount the Plan Administrator would otherwise restore.

The Plan Administrator shall restore the Participant's Account by the close of the Plan Year following the Plan Year in which repayment is made. The permissible sources for restoration of the Participant's Account are Forfeitures or special Employer Contributions. Such special Employer Contributions shall be made without regard to profits. The repaid and restored amounts are not included in the Participant's Annual Additions, as defined in the CONTRIBUTION LIMITATION SECTION of this article.

SECTION 3.03—ALLOCATION.

A person meets the allocation requirements of this section if he is an Active Participant on the last day of the Plan Year.

Elective Deferral Contributions shall be allocated to the Participants for whom such Contributions are made under the EMPLOYER CONTRIBUTIONS SECTION of

this article. Such Contributions shall be allocated when made and credited to the Participant's Account.

Matching Contributions shall be allocated to the persons for whom such Contributions are made under the EMPLOYER CONTRIBUTIONS SECTION of this article. Such Contributions shall be allocated when made and credited to the person's Account.

The discretionary Qualified Nonelective Contributions to be used to reduce excess amounts, as described in the EMPLOYER CONTRIBUTIONS SECTION of this article, which are in addition to any other Qualified Nonelective Contributions described in such section shall be allocated as of the last day of the Plan Year only to Nonhighly Compensated Employees who meet the allocation requirements of this section. Such Contributions (or separate Contributions) shall be allocated first to the eligible person under the Plan (or separate plan) with the lowest Annual Compensation for the Plan Year, then to the eligible person under the Plan (or separate plan) with the next lowest Annual Compensation, and so forth, in each case subject to the applicable limits of the CONTRIBUTION LIMITATION SECTION of this article. This amount shall be credited to the person's Account.

Qualified Nonelective Contributions other than the discretionary Qualified Nonelective Contributions to be used to reduce excess amounts, as described in the EMPLOYER CONTRIBUTIONS SECTION of this article, shall be allocated as of the last day of the Plan Year to each person who meets the allocation requirements of this section. Such Qualified Nonelective Contributions shall be allocated only to Nonhighly Compensated Employees. The amount allocated to such person for the Plan Year shall be equal to such Qualified Nonelective Contributions multiplied by the ratio of such person's Annual Compensation for the Plan Year to the total Annual Compensation of all such persons. This amount shall be credited to the person's Account.

If Leased Employees are Eligible Employees, in determining the amount of Employer Contributions allocated to a person who is a Leased Employee, contributions provided by the leasing organization that are attributable to services such Leased Employee performs for the Employer shall be treated as provided by the Employer. Those contributions shall not be duplicated under this Plan.

SECTION 3.04—CONTRIBUTION LIMITATION.

Contributions to the Plan shall be limited in accordance with Code Section 415 and the regulations thereunder. The limitations of this section shall apply to Limitation Years beginning on or after July 1, 2007, except as otherwise provided herein.

(a) Definitions. For the purpose of determining the contribution limitation set forth in this section, the following terms are defined.

Annual Additions means the sum of the following amounts credited to a Participant's account for the Limitation Year:

(1) employer contributions;

(2) employee contributions; and

(3) forfeitures.

Annual Additions to a defined contribution plan, as defined in section 1.415(c)-1(a)(2)(i) of the regulations, shall also include the following:

(4) mandatory employee contributions, as defined in Code Section 411(c)(2)(C) and section 1.411(c)-1(c)(4) of the regulations, to a defined benefit plan;

(5) contributions allocated to any individual medical benefit account, as defined in Code Section 415(l)(2), which is part of a pension or annuity plan maintained by the Employer;

(6) amounts attributable to post-retirement medical benefits, allocated to the separate account of a key employee, as defined in Code Section 419A(d)(3), under a welfare benefit fund, as defined in Code Section 419(e), maintained by the Employer; and

(7) annual additions under an annuity contract described in Code Section 403(b).

Compensation means wages within the meaning of Code Section 3401(a) for the purposes of income tax withholding at the source but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 3401(a)(2)).

For any Self-employed Individual, Compensation shall mean Earned Income.

Except as provided herein, Compensation for a Limitation Year is the Compensation actually paid or made available (or if earlier, includible in gross income) during such Limitation Year.

For Limitation Years beginning on or after January 1, 2005, Compensation for a Limitation Year shall also include Compensation paid by the later of 2 1/2 months after an employee's Severance from Employment with the Employer maintaining the Plan or the end of the Limitation Year that includes the date of the employee's Severance from Employment with the Employer maintaining the Plan, if the payment is regular Compensation for services during the employee's regular working hours, or Compensation for services outside the employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a Severance from Employment, the payments would have been paid to the employee while the employee continued in employment with the Employer.

Any payments not described above shall not be considered Compensation if paid after Severance from Employment, even if they are paid by the later of 2 1/2 months after the date of Severance from Employment or the end of the Limitation Year that includes the date of Severance from Employment, except, payments to an individual who does not currently perform services for the Employer by reason of qualified military service (within the meaning of Code Section 414(u)(1)) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the Employer rather than entering qualified military service.

Back pay, within the meaning of section 1.415(c)-2(g)(8) of the regulations, shall be treated as Compensation for the Limitation Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included in this definition.

Compensation paid or made available during such Limitation Year shall include amounts that would otherwise be included in Compensation but for an election under Code Section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b).

Compensation shall not include amounts paid as Compensation to a nonresident alien, as defined in Code Section 7701(b)(1)(B), who is not a Participant in the Plan to the extent the Compensation is excludible from gross income and is not effectively connected with the conduct of a trade or business within the United States.

Defined Contribution Dollar Limitation means, effective for Limitation Years beginning after December 31, 2001, $40,000, automatically adjusted under Code Section 415(d), effective January 1 of each year, as published in the Internal Revenue Bulletin. The new limitation shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's Annual Additions for a Limitation Year cannot exceed the currently applicable dollar limitation (as in effect before the January 1 adjustment) prior to January 1. However, after a January 1 adjustment is made, Annual Additions for the entire Limitation Year are permitted to reflect the dollar limitation as adjusted on January 1.

Employer means the employer that adopts this Plan, and all members of a controlled group of corporations (as defined in Code Section 414(b) as modified by Code Section 415(h)), all commonly controlled trades or businesses (as defined in Code Section 414(c), as modified, except in the case of a brother-sister group of trades or businesses under common control, by Code Section 415(h)), or affiliated service groups (as defined in Code Section 414(m)) of which the adopting employer is a part, and any other entity required to be aggregated with the employer pursuant to Code Section 414(o).

Limitation Year means the consecutive 12-month period ending on the last day of each Plan Year, including corresponding consecutive 12-month periods before October 31, 1986. If the Limitation Year is other than the calendar year, execution of this Plan (or any amendment to this Plan changing the Limitation Year) constitutes the Employer's adoption of a written resolution electing the Limitation Year. If the Limitation Year is amended to a different consecutive 12-month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

Maximum Annual Addition means, for Limitation Years beginning on or after January 1, 2002, except for catch-up contributions described in Code Section 414(v), the Annual Addition that may be contributed or allocated to a Participant's Account under the Plan for any Limitation Year. This amount shall not exceed the lesser of:

(1) The Defined Contribution Dollar Limitation, or

(2) 100 percent of the Participant's Compensation for the Limitation Year.

A Participant's Compensation for a Limitation Year shall not include Compensation in excess of the limitation under Code Section 401(a)(17) that is in effect for the calendar year in which the Limitation Year begins.

The compensation limitation referred to in (2) shall not apply to an individual medical benefit account (as defined in Code Section 415(l); or a post-retirement medical benefits account for a key employee (as defined in Code Section 419A(d)(1)).

If a short Limitation Year is created because of an amendment changing the Limitation Year to a different consecutive 12-month period, the Maximum Annual Addition will not exceed the Defined Contribution Dollar Limitation multiplied by the following fraction:

$$\frac{\text{Number of months (including any fractional parts of a month) in the short Limitation Year}}{12}$$

If the Plan is terminated as of a date other than the last day of the Limitation Year, the Plan is treated as if the Plan was amended to change the Limitation Year and create a short Limitation Year ending on the date the Plan is terminated.

If a short Limitation Year is created, the limitation under Code Section 401(a)(17) shall be prorated in the same manner as the Defined Contribution Dollar Limitation.

Predecessor Employer means, with respect to a Participant, a former employer if the Employer maintains a plan that provides a benefit which the Participant accrued while performing services for the former employer. Predecessor Employer also means, with respect to a Participant, a former entity that antedates the Employer if, under the facts and circumstances, the Employer constitutes a continuation of all or a portion of the trade or business of the former entity.

Severance from Employment means an employee has ceased to be an employee of the Employer maintaining the plan. An employee does not have a Severance from Employment if, in connection with a change of employment, the employee's new employer maintains the plan with respect to the employee.

(b) If the Participant does not participate in, and has never participated in, another qualified plan maintained by the Employer or a welfare benefit fund, as defined in Code Section 419(e), maintained by the Employer, or an individual medical benefit account, as defined in Code Section 415(l)(2), maintained by the Employer, or a simplified employee pension, as defined in Code Section 408(k), maintained by the Employer, which provides an Annual Addition, the amount of Annual Additions which may be credited to the Participant's Account for any Limitation Year shall not exceed the lesser of the Maximum Annual Addition or any other limitation contained in this Plan. If the Employer Contribution that would otherwise be contributed or allocated to the Participant's Account would cause the Annual Additions for the Limitation Year to exceed the Maximum Annual Addition, the amount contributed or allocated shall be reduced so that the Annual Additions for the Limitation Year will equal the Maximum Annual Addition.

(c) This (c) applies if, in addition to this Plan, the Participant is covered under another defined contribution plan, as defined in section 1.415(c)-1(a)(2)(i) of the regulations, (without regard to whether the plan(s) have been terminated) maintained by the Employer which provides an Annual Addition during any

Limitation Year. The Annual Additions which may be credited to a Participant's Account under this Plan for any such Limitation Year will not exceed the Maximum Annual Addition, reduced by the Annual Additions credited to a Participant's account under the other defined contribution plan(s) for the same Limitation Year. If the Annual Additions with respect to the Participant under the other defined contribution plan(s) maintained by the Employer are less than the Maximum Annual Addition, and the Employer Contribution that would otherwise be contributed or allocated to the Participant's Account under this Plan would cause the Annual Additions for the Limitation Year to exceed this limitation, the amount contributed or allocated will be reduced so that the Annual Additions under all such plans and funds for the Limitation Year will equal the Maximum Annual Addition. If the Annual Additions with respect to the Participant under the other defined contribution plan(s) in the aggregate are equal to or greater than the Maximum Annual Addition, no amount will be contributed or allocated to the Participant's Account under this Plan for the Limitation Year.

(d) The limitation of this section shall be determined and applied taking into account the rules in subparagraph (e) below.

(e) Other Rules

(1) Aggregating Plans. For purposes of applying the limitations of this section for a Limitation Year, all defined contribution plans (as defined in section 1.415(c)-1(a)(2)(i) of the regulations and without regard to whether the plan(s) have been terminated) ever maintained by the Employer and all defined contribution plans of a Predecessor Employer (in the Limitation Year in which such Predecessor Employer is created) under which a Participant receives Annual Additions are treated as one defined contribution plan.

(2) Break-up of Affiliated Employers. The Annual Additions under a formerly affiliated plan (as defined in section 1.415(f)-1(b)(2)(ii) of the regulations) of the Employer are taken into account for purposes of applying the limitations of this section for the Limitation Year in which the cessation of affiliation took place.

(3) Previously Unaggregated Plans. The limitations of this section are not exceeded for the first Limitation Year in which two or more existing plans, which previously were not required to be aggregated pursuant to section 1.415(f) of the regulations, are aggregated, provided that no Annual Additions are credited to a Participant after the date on which the plans are required to be aggregated if the Annual Additions already credited to the Participant in the existing plans equal or exceed the Maximum Annual Addition.

(4) Aggregation with Multiemployer Plan. If the Employer maintains a multiemployer plan, as defined in Code Section 414(f), and the multiemployer plan so provides, only the Annual Additions under the multiemployer plan that are provided by the Employer shall be treated as Annual Additions provided under a plan maintained by the Employer for purposes of this section.

SECTION 3.05—EXCESS AMOUNTS.

(a) Definitions. For purposes of this section, the following terms are defined:

ACP means, for a specified group of Participants (either Highly Compensated Employees or Nonhighly Compensated Employees) for a Plan Year, the average (expressed as a percentage) of the Contribution Percentages of the Eligible Participants in the group.

ADP means, for a specified group of Participants (either Highly Compensated Employees or Nonhighly Compensated Employees) for a Plan Year, the average (expressed as a percentage) of the Deferral Percentages of the Eligible Participants in the group.

Catch-up Contributions means Elective Deferral Contributions made to a plan that are in excess of an otherwise applicable plan limit and that are made by participants who are age 50 or older by the end of the taxable year. An otherwise applicable plan limit is a limit in the plan that applies to Elective Deferral Contributions without regard to Catch-up Contributions, such as the limits on the maximum annual additions under Code Section 415, the dollar limitation on Elective Deferral Contributions under Code Section 402(g) (not counting Catch-up Contributions), and the limit imposed by the nondiscrimination test described in Code Section 401(k)(3).

Contribution Percentage means the ratio (expressed as a percentage) of the Eligible Participant's Contribution Percentage Amounts to the Eligible Participant's Compensation for the Plan Year (whether or not the Eligible Participant was an Eligible Participant for the entire Plan Year). In modification of the foregoing, Compensation shall be determined excluding Compensation for the portion of the Plan Year in which an Employee was not an Eligible Participant. For an Eligible Participant for whom such Contribution Percentage Amounts for the Plan Year are zero, the percentage is zero.

Contribution Percentage Amounts means the sum of the Participant Contributions and Matching Contributions (that are not Qualified Matching Contributions taken into account for purposes of the ADP Test) made under the plan on behalf of the Eligible Participant for the plan year. For plan years beginning on or after January 1, 2006, Matching Contributions cannot be taken into account for a plan year for a Nonhighly Compensated Employee to the extent they are disproportionate matching contributions as defined in section 1.401(m)-2(a)(5)(ii) of the regulations. Such Contribution Percentage Amounts shall not include Matching Contributions that are forfeited either to correct Excess Aggregate Contributions or because the contributions to which they relate are Excess Elective Deferrals, Excess Contributions, or Excess Aggregate Contributions. Under such rules as the Secretary of the Treasury shall prescribe, in determining the Contribution Percentage the Employer may elect to include Qualified Nonelective Contributions under this Plan that were not used in computing the Deferral Percentage. For plan years beginning on or after January 1, 2006, Qualified Nonelective Contributions cannot be taken into account for a plan year for a Nonhighly Compensated Employee to the extent they are disproportionate contributions as defined in section 1.401(m)-2(a)(6)(v) of the regulations. The Employer may also elect to use Elective Deferral Contributions in computing the Contribution Percentage so long as the ADP Test is met before the Elective Deferral Contributions are used in the ACP Test and continues to be met following the exclusion of those Elective Deferral Contributions that are used to meet the ACP Test.

Deferral Percentage means the ratio (expressed as a percentage) of Elective Deferral Contributions (other than Catch-up Contributions) under this Plan on behalf of the Eligible Participant for the Plan Year to the Eligible Participant's Compensation for the Plan Year (whether or not the Eligible Participant was an Eligible Participant for the entire Plan Year). In modification of the foregoing, Compensation shall be determined excluding Compensation for the portion of the Plan Year in which an Employee was not an Eligible Participant. The Elective Deferral Contributions used to determine the Deferral Percentage shall include Excess Elective Deferrals (other than Excess Elective Deferrals of Nonhighly Compensated Employees that arise solely from Elective Deferral Contributions made under this Plan or any other plans of the Employer or a Controlled Group member), but shall exclude Elective Deferral Contributions that are used in computing the Contribution Percentage (provided the ADP Test is satisfied both with and without exclusion of these Elective Deferral Contributions). Under such rules as the Secretary of the Treasury shall prescribe, the Employer may elect to include Qualified Nonelective Contributions and Qualified Matching Contributions under this Plan in computing the Deferral Percentage. For Plan Years

beginning on or after January 1, 2006, Qualified Matching Contributions cannot be taken into account for a Plan Year for a Nonhighly Compensated Employee to the extent they are disproportionate matching contributions as defined in section 1.401(m)-2(a)(5)(ii) of the regulations. For Plan Years beginning on or after January 1, 2006, Qualified Nonelective Contributions cannot be taken into account for a Plan Year for a Nonhighly Compensated Employee to the extent they are disproportionate contributions as defined in section 1.401(k)-2(a)(6)(iv) of the regulations. For an Eligible Participant for whom such contributions on his behalf for the Plan Year are zero, the percentage is zero.

Elective Deferral Contributions means any employer contributions made to a plan at the election of a participant in lieu of cash compensation. With respect to any taxable year, a participant's Elective Deferral Contributions are the sum of all employer contributions made on behalf of such participant pursuant to an election to defer under any qualified cash or deferred arrangement described in Code Section 401(k), any salary reduction simplified employee pension plan described in Code Section 408(k)(6), any SIMPLE IRA plan described in Code Section 408(p), any plan described under Code Section 501(c)(18), and any employer contributions made on behalf of a participant for the purchase of an annuity contract under Code Section 403(b) pursuant to a salary reduction

agreement. For taxable years beginning after December 31, 2005, Elective Deferral Contributions include Pre-tax Elective Deferral Contributions and Roth Elective Deferral Contributions. Elective Deferral Contributions shall not include any deferrals properly distributed as excess annual additions.

Eligible Participant means, for purposes of determining the Deferral Percentage, any Employee who is otherwise entitled to make Elective Deferral Contributions under the terms of the plan for the plan year. Eligible Participant means, for purposes of determining the Contribution Percentage, any Employee who is eligible (i) to make a Participant Contribution or an Elective Deferral Contribution (if the Employer takes such contributions into account in the calculation of the Contribution Percentage), or (ii) to receive a Matching Contribution (including forfeitures) or a Qualified Matching Contribution. If a Participant Contribution is required as a condition of participation in the plan, any Employee who would be a participant in the plan if such Employee made such a contribution shall be treated as an Eligible Participant on behalf of whom no Participant Contributions are made.

Excess Aggregate Contributions means, with respect to any Plan Year, the excess of:

(1) The aggregate Contribution Percentage Amounts taken into account in computing the numerator of the Contribution Percentage actually made on behalf of Highly Compensated Employees for such Plan Year, over

(2) The maximum Contribution Percentage Amounts permitted by the ACP Test (determined by hypothetically reducing contributions made on behalf of Highly Compensated Employees in order of their Contribution Percentages beginning with the highest of such percentages).

Such determination shall be made after first determining Excess Elective Deferrals and then determining Excess Contributions.

Excess Contributions means, with respect to any Plan Year, the excess of:

(1) The aggregate amount of employer contributions actually taken into account in computing the Deferral Percentage of Highly Compensated Employees for such Plan Year, over

(2) The maximum amount of such contributions permitted by the ADP Test (determined by hypothetically reducing contributions made on behalf of Highly Compensated Employees in the order of the Deferral Percentages, beginning with the highest of such percentages).

Such determination shall be made after first determining Excess Elective Deferrals.

Excess Elective Deferrals means those Elective Deferral Contributions of a Participant that either (i) are made during the Participant's taxable year and exceed the dollar limitation under Code Section 402(g) or (ii) are made during a calendar year and exceed the dollar limitation under Code Section 402(g) for the Participant's taxable year beginning in such calendar year, counting only Elective Deferral Contributions made under this Plan and any other plan, contract, or arrangement maintained by the Employer. The dollar limitation shall be increased by the dollar limit on Catch-up Contributions under Code Section 414(v), if applicable.

Excess Elective Deferrals shall be treated as Annual Additions, as defined in the CONTRIBUTION LIMITATION SECTION of this article, under the Plan, unless such amounts are distributed no later than the first April 15 following the close of the Participant's taxable year.

Matching Contributions means employer contributions made to this or any other defined contribution plan, or to a contract described in Code Section 403(b), on behalf of a participant on account of a Participant Contribution made by such participant, or on account of a participant's Elective Deferral Contributions, under a plan maintained by the Employer or a Controlled Group member.

Participant Contributions means contributions (other than Roth Elective Deferral Contributions) made to the plan by or on behalf of a participant that are included in the participant's gross income in the year in which made and that are maintained under a separate account to which the earnings and losses are allocated.

Pre-tax Elective Deferral Contributions means a participant's Elective Deferral Contributions that are not includible in the participant's gross income at the time deferred.

Qualified Matching Contributions means Matching Contributions that are nonforfeitable when made to the plan and that are distributable only in accordance with the distribution provisions (other than for hardships) applicable to Elective Deferral Contributions.

Qualified Nonelective Contributions means any employer contributions (other than Matching Contributions) that an Employee may not elect to have paid to him in cash instead of being contributed to the plan and that are nonforfeitable when made to the plan and that are distributable only in accordance with the distribution provisions (other than for hardships) applicable to Elective Deferral Contributions.

Roth Elective Deferral Contributions means a participant's Elective Deferral Contributions that are not excludible from the participant's gross income at the time deferred and have been irrevocably designated as Roth Elective Deferral Contributions by the participant in his elective deferral agreement. Whether an Elective Deferral Contribution is not excludible from a participant's gross income will be determined in accordance with section 1.40(k)-1(f)(2) of the regulations. In the case of a self-employed individual, an Elective Deferral Contribution is not excludible from gross income only if the individual does not claim a deduction for such amount.

(b) Excess Elective Deferrals. A Participant may assign to this Plan any Excess Elective Deferrals made during a taxable year of the Participant by notifying the Plan Administrator in writing on or before the first following March 1 of the amount of the Excess Elective Deferrals to be assigned to the Plan. A Participant is deemed to notify the Plan Administrator of any Excess Elective Deferrals that arise by taking into account only those Elective Deferral Contributions made to this Plan and any other plan, contract, or arrangement of the Employer or a Controlled Group member. The Participant's claim for

Excess Elective Deferrals shall be accompanied by the Participant's written statement that if such amounts are not distributed, such Excess Elective Deferrals will exceed the limit imposed on the Participant by Code Section 402(g) (including, if applicable, the dollar limitation on Catch-up Contributions under Code Section 414(v)) for the year in which the deferral occurred. The Excess Elective Deferrals assigned to this Plan cannot exceed the Elective Deferral Contributions allocated under this Plan for such taxable year.

Notwithstanding any other provisions of the Plan, Elective Deferral Contributions in an amount equal to the Excess Elective Deferrals assigned to this Plan, plus any income and minus any loss allocable thereto, shall be distributed no later than April 15 to any Participant to whose Account Excess Elective Deferrals were assigned for the preceding year and who claims Excess Elective Deferrals for such taxable year or calendar year.

For taxable years beginning after December 31, 2005, distribution of Excess Elective Deferrals shall be made on a pro rata basis from the Participant's Account resulting from Pre-tax Elective Deferral Contributions and Roth Elective Deferral Contributions in the same proportion that such Contributions were made for the applicable year.

The Excess Elective Deferrals shall be adjusted for any income or loss. The income or loss allocable to such Excess Elective Deferrals shall be equal to the income or loss allocable to the Participant's Elective Deferral Contributions for the taxable year in which the excess occurred multiplied by a fraction. The numerator of the fraction is the Excess Elective Deferrals. The denominator of the fraction is the closing balance without regard to any income or loss occurring during such taxable year (as of the end of such taxable year) of the Participant's Account resulting from Elective Deferral Contributions.

For purposes of determining income or loss on Excess Elective Deferrals for taxable years beginning on or after January 1, 2006, any Excess Elective Deferrals, in addition to any adjustment for income or loss for the taxable year in which the excess occurred, shall be adjusted for income or loss for the gap period between the end of such taxable year and the date of distribution. Such income or loss allocable to the gap period shall be equal to 10% of the income or loss allocable to the Excess Elective Deferrals for the taxable year multiplied by the number of complete months (counting a partial month of 16 days or more as a complete month) in the gap period.

Any Matching Contributions that were based on the Elective Deferral Contributions distributed as Excess Elective Deferrals, plus any income and minus any loss allocable thereto, shall be forfeited whether or not such amounts are distributed as Excess Elective Deferrals.

(c) ADP Test. As of the end of each Plan Year after Excess Elective Deferrals have been determined, the Plan must satisfy the ADP Test. The ADP Test shall be satisfied using the prior year testing method or the current year testing method, as elected by the Employer.

(1) Prior Year Testing Method. The ADP for a Plan Year for Eligible Participants who are Highly Compensated Employees for each Plan Year and the prior year's ADP for Eligible Participants who were Nonhighly Compensated Employees for the prior Plan Year must satisfy one of the following tests:

(i) The ADP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year shall not exceed the prior year's ADP for Eligible Participants who were Nonhighly Compensated Employees for the prior Plan Year multiplied by 1.25; or

(ii) The ADP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year:

A. shall not exceed the prior year's ADP for Eligible Participants who were Nonhighly Compensated Employees for the prior Plan Year multiplied by 2, and

B. the difference between such ADPs is not more than 2.

If this is not a successor plan, for the first Plan Year the Plan permits any Participant to make Elective Deferral Contributions, for purposes of the foregoing tests, the prior year's Nonhighly Compensated Employees' ADP shall be 3 percent or the Plan Year's ADP for these Eligible Participants, as elected by the Employer.

(2) Current Year Testing Method. The ADP for a Plan Year for Eligible Participants who are Highly Compensated Employees for each Plan Year and the ADP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year must satisfy one of the following tests:

(i) The ADP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year shall not exceed the ADP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 1.25; or

(ii) The ADP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year:

A. shall not exceed the ADP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 2, and

B. the difference between such ADP's is not more than 2.

If the Employer has elected to use the current year testing method, that election cannot be changed unless (i) the Plan has been using the current year testing method for the preceding five Plan Years, or if less, the number of Plan Years the Plan has been in existence; or (ii) if as a result of a merger or acquisition described in Code Section 410(b)(6)(C)(i), the Employer maintains both a plan using the prior year testing method and a plan using the current year testing method and the change is made within the transition period described in Code Section 410(b)(6)(C)(ii).

A Participant is a Highly Compensated Employee for a particular Plan Year if he meets the definition of a Highly Compensated Employee in effect for that Plan Year. Similarly, a Participant is a Nonhighly Compensated Employee for a particular Plan Year if he does not meet the definition of a Highly Compensated Employee in effect for that Plan Year.

The Deferral Percentage for any Eligible Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Elective Deferral Contributions (and Qualified Nonelective Contributions or Qualified Matching Contributions, or both, if treated as Elective Deferral Contributions for purposes of the ADP Test) allocated to his account under two or more arrangements described in Code Section 401(k) that are maintained by the Employer or a Controlled Group member shall be determined as if such Elective Deferral Contributions (and, if applicable, such Qualified Nonelective Contributions or Qualified Matching Contributions, or both) were made under a single arrangement. For Plan Years beginning on or after January 1, 2006, if a Highly Compensated Employee participates in two or more cash or deferred arrangements of the Employer or of a Controlled Group member that have

different plan years, all Elective Deferral Contributions made during the Plan Year shall be aggregated. For Plan Years beginning before January 1, 2006, all such cash or deferred arrangements ending with or within the same calendar year shall be treated as a single arrangement. The foregoing notwithstanding, certain plans shall be treated as separate if mandatorily disaggregated under the regulations of Code Section 401(k).

In the event this Plan satisfies the requirements of Code Section 401(k), 401(a)(4), or 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such Code sections only if aggregated with this Plan, then this section shall be applied by determining the Deferral Percentage of Employees as if all such plans were a single plan. If more than 10 percent of the Employer's Nonhighly Compensated Employees are involved in a plan coverage change as defined in section 1.401(k)-2(c)(4) of the regulations, then any adjustments to the Nonhighly Compensated Employee ADP for the prior year shall be made in accordance with such regulations if the Employer has elected to use the prior year testing method. Plans may be aggregated in order to

satisfy Code Section 401(k) only if they have the same plan year and use the same testing method for the ADP Test.

For purposes of the ADP Test, Elective Deferral Contributions, Qualified Nonelective Contributions, and Qualified Matching Contributions must be made before the end of the 12-month period immediately following the Plan Year to which the contributions relate.

If the Plan Administrator should determine during the Plan Year that the ADP Test is not being met, the Plan Administrator may limit the amount of future Elective Deferral Contributions of the Highly Compensated Employees.

Notwithstanding any other provisions of this Plan, Excess Contributions, plus any income and minus any loss allocable thereto, shall be distributed no later than 12 months after the last day of a Plan Year to Participants to whose Accounts such Excess Contributions were allocated for such Plan Year, except to the extent such Excess Contributions are classified as Catch-up Contributions. Excess Contributions are allocated to the Highly Compensated Employees with the largest amounts of employer contributions taken into account in calculating the ADP Test for the year in which the excess arose, beginning with the Highly Compensated Employee with the largest amount of such employer contributions and continuing in descending order until all of the Excess Contributions have been allocated. For Plan Years beginning on or after January 1, 2006, if a Highly Compensated Employee participates in two or more cash or deferred arrangements of the Employer or of a Controlled Group member, the amount distributed shall not exceed the amount of the employer contributions taken into account in calculating the ADP test and made to this Plan for the year in which the excess arose. If Catch-up Contributions are allowed for the Plan Year being tested, to the extent a Highly Compensated Employee has not reached his Catch-up Contribution limit under the Plan for such year, Excess Contributions allocated to such Highly Compensated Employee are Catch-up Contributions and will not be treated as Excess Contributions. If such excess amounts (other than Catch-up Contributions) are distributed more than 2 1/2 months after the last day of the Plan Year in which such excess amounts arose, a 10 percent excise tax shall be imposed on the employer maintaining the plan with respect to such amounts.

Excess Contributions shall be treated as Annual Additions, as defined in the CONTRIBUTION LIMITATION SECTION of this article, even if distributed.

The Excess Contributions shall be adjusted for any income or loss. The income or loss allocable to such Excess Contributions allocated to each Participant shall be equal to the income or loss allocable to the Participant's Elective Deferral Contributions (and, if applicable, Qualified Nonelective Contributions or Qualified Matching Contributions, or both) for the Plan Year in which the excess occurred multiplied by a fraction. The numerator of the fraction is the Excess Contributions. The denominator of the

fraction is the closing balance without regard to any income or loss occurring during such Plan Year (as of the end of such Plan Year) of the Participant's Account resulting from Elective Deferral Contributions (and Qualified Nonelective Contributions or Qualified Matching Contributions, or both, if such contributions are included in the ADP Test).

For purposes of determining income or loss on Excess Contributions beginning with the 2006 Plan Year, any Excess Contributions, in addition to any adjustment for income or loss for the Plan Year in which the excess occurred, shall be adjusted for income or loss for the gap period between the end of such Plan Year and the date of distribution. Such income or loss allocable to the gap period shall be equal to 10% of the income or loss allocable to the Excess Contributions for the Plan Year multiplied by the number of complete months (counting a partial month of 16 days or more as a complete month) in the gap period.

Excess Contributions allocated to a Participant shall be distributed from the Participant's Account resulting from Elective Deferral Contributions. If such Excess Contributions exceed the amount of Excess Contributions in the Participant's Account resulting from Elective Deferral Contributions, the balance shall be distributed from the Participant's Account resulting from Qualified Matching Contributions (if applicable) and Qualified Nonelective Contributions, respectively.

For taxable years beginning after December 31, 2005, distribution of Excess Contributions shall be made on a pro rata basis from the Participant's Account resulting from Pre-tax Elective Deferral Contributions and Roth Elective Deferral Contributions in the same proportion that such Contributions were made for the applicable year.

Any Matching Contributions that were based on the Elective Deferral Contributions distributed as Excess Contributions, plus any income and minus any loss allocable thereto, shall be forfeited whether or not such amounts are distributed as Excess Contributions.

(d) ACP Test. As of the end of each Plan Year, the Plan must satisfy the ACP Test. The ACP Test shall be satisfied using the prior year testing method or the current year testing method, as elected by the Employer.

(1) Prior Year Testing Method. The ACP for a Plan Year for Eligible Participants who are Highly Compensated Employees for each Plan Year and the prior year's ACP for Eligible Participants who were Nonhighly Compensated Employees for the prior Plan Year must satisfy one of the following tests:

(i) The ACP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year shall not exceed the prior year's ACP for Eligible Participants who were Nonhighly Compensated Employees for the prior Plan Year multiplied by 1.25; or

(ii) The ACP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year:

A. shall not exceed the prior year's ACP for Eligible Participants who were Nonhighly Compensated Employees for the prior Plan Year multiplied by 2, and

B. the difference between such ACPs is not more than 2.

If this is not a successor plan, for the first Plan Year the Plan permits any Participant to make Participant Contributions, provides for Matching Contributions, or both, for purposes of the

foregoing tests, the prior year's Nonhighly Compensated Employees' ACP shall be 3 percent or the Plan Year's ACP for these Eligible Participants, as elected by the Employer.

(2) Current Year Testing Method. The ACP for a Plan Year for Eligible Participants who are Highly Compensated Employees for each Plan Year and the ACP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year must satisfy one of the following tests:

(i) The ACP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year shall not exceed the ACP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 1.25; or

(ii) The ACP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year:

A. shall not exceed the ACP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 2, and

B. the difference between such ACPs is not more than 2.

If the Employer has elected to use the current year testing method, that election cannot be changed unless (i) the Plan has been using the current year testing method for the preceding five Plan Years, or if less, the number of Plan Years the Plan has been in existence; or (ii) if as a result of a merger or acquisition described in Code Section 410(b)(6)(C)(i), the Employer maintains both a plan using the prior year testing method and a plan using the current year testing method and the change is made within the transition period described in Code Section 410(b)(6)(C)(ii).

A Participant is a Highly Compensated Employee for a particular Plan Year if he meets the definition of a Highly Compensated Employee in effect for that Plan Year. Similarly, a Participant is a Nonhighly Compensated Employee for a particular Plan Year if he does not meet the definition of a Highly Compensated Employee in effect for that Plan Year.

The Contribution Percentage for any Eligible Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Contribution Percentage Amounts allocated to his account under two or more plans described in Code Section 401(a) or arrangements described in Code Section 401(k) that are maintained by the Employer or a Controlled Group member shall be determined as if the total of such Contribution Percentage Amounts was made under each plan and arrangement. For Plan Years beginning on or after January 1, 2006, if a Highly Compensated Employee participates in two or more such plans or arrangements that have different plan years, all Contribution Percentage Amounts made during the Plan Year shall be aggregated. For Plan Years beginning before January 1, 2006, all such plans and arrangements ending with or within the same calendar year shall be treated as a single plan or arrangement. The foregoing notwithstanding, certain plans shall be treated as separate if mandatorily disaggregated under the regulations of Code Section 401(m).

In the event this Plan satisfies the requirements of Code Section 401(m), 401(a)(4), or 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such Code sections only if aggregated with this Plan, then this section shall be applied by determining the Contribution Percentage of Employees as if all such plans were a single plan. If more than 10 percent of the Employer's Nonhighly Compensated Employees are involved in a plan coverage change as defined in section 1.401(m)-2(c)(4) of the regulations, then any adjustments to the Nonhighly Compensated Employee ACP for the prior year shall be made in accordance with such regulations if the

Employer has elected to use the prior year testing method. Plans may be aggregated in order to satisfy Code Section 401(m) only if they have the same plan year and use the same testing method for the ACP Test.

For purposes of the ACP Test, Participant Contributions are considered to have been made in the Plan Year in which contributed to the Plan. Matching Contributions and Qualified Nonelective Contributions will be considered to have been made for a Plan Year if made no later than the end of the 12-month period beginning on the day after the close of the Plan Year.

Notwithstanding any other provisions of this Plan, Excess Aggregate Contributions, plus any income and minus any loss allocable thereto, shall be forfeited, if not vested, or distributed, if vested, no later than 12 months after the last day of a Plan Year to Participants to whose Accounts such Excess Aggregate Contributions were allocated for such Plan Year. Excess Aggregate Contributions are allocated to the Highly Compensated Employees with the largest Contribution Percentage Amounts taken into account in calculating the ACP Test for the year in which the excess arose, beginning with the Highly Compensated Employee with the largest amount of such Contribution Percentage Amounts and continuing in descending order until all of the Excess Aggregate Contributions have been allocated. For Plan Years beginning on or after January 1, 2006, if a Highly Compensated Employee participates in two or more plans or arrangements of the Employer or of a Controlled Group member that include Contribution Percentage Amounts, the amount distributed shall not exceed the Contribution Percentage Amounts taken into account in calculating the ACP Test and made to this Plan for the year in which the excess arose. If such Excess Aggregate Contributions are distributed more than 2 1/2 months after the last day of the Plan Year in which such excess amounts arose, a 10 percent excise tax shall be imposed on the employer maintaining the plan with respect to such amounts.

Excess Aggregate Contributions shall be treated as Annual Additions, as defined in the CONTRIBUTION LIMITATION SECTION of this article, even if distributed.

The Excess Aggregate Contributions shall be adjusted for any income or loss. The income or loss allocable to such Excess Aggregate Contributions allocated to each Participant shall be equal to the income or loss allocable to the Participant's Contribution Percentage Amounts for the Plan Year in which the excess occurred multiplied by a fraction. The numerator of the fraction is the Excess Aggregate Contributions. The denominator of the fraction is the closing balance without regard to any income or loss occurring during such Plan Year (as of the end of such Plan Year) of the Participant's Account resulting from Contribution Percentage Amounts.

For purposes of determining income or loss on Excess Aggregate Contributions beginning with the 2006 Plan Year, any Excess Aggregate Contributions, in addition to any adjustment for income or loss for the Plan Year in which the excess occurred, shall be adjusted for income or loss for the gap period between the end of such Plan Year and the date of distribution. Such income or loss allocable to the gap period shall be equal to 10% of the income or loss allocable to the Excess Aggregate Contributions for the Plan Year multiplied by the number of complete months (counting a partial month of 16 days or more as a complete month) in the gap period.

Excess Aggregate Contributions allocated to a Participant shall be distributed from the Participant's Account resulting from Participant Contributions that are not required as a condition of employment or participation or for obtaining additional benefits from Employer Contributions. If such Excess Aggregate Contributions exceed the balance in the Participant's Account resulting from such Participant Contributions, the balance shall be forfeited, if not vested, or distributed, if vested, on a pro rata basis from the Participant's Account resulting from Contribution Percentage Amounts.

(e) Employer Elections. The Employer has made an election to use the prior year testing method.

ARTICLE IV

INVESTMENT OF CONTRIBUTIONS

SECTION 4.01—INVESTMENT AND TIMING OF CONTRIBUTIONS.

The handling of Contributions and Plan assets is governed by the provisions of the Trust Agreement and any other relevant document, such as an Annuity Contract (for the purposes of this paragraph alone, the Trust Agreement and such other documents will each be referred to as a "document" or collectively as the "documents"), duly entered into by or with regard to the Plan that govern such matters. To the extent permitted by the documents, the parties named below shall direct the Contributions for investment in any of the investment options or investment vehicles available to the Plan under or through the documents, and may request the transfer of amounts resulting from those Contributions between such investment options and investment vehicles. A Participant may not direct the investment of all or any portion of his Account in collectibles. Collectibles mean any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or other tangible personal property specified by the Secretary of the Treasury. However, for tax years beginning after December 31, 1997, certain coins and bullion as provided in Code Section 408(m)(3) shall not be considered collectibles. To the extent that a Participant who has the ability to provide investment direction fails to give timely investment direction, the amount for which no investment direction is in place shall be invested in such investment options and investment vehicles as provided in the service and expense agreement or such other documents duly entered into by or with regard to the Plan that govern such matters. If the Named Fiduciary has investment direction, the Contributions shall be invested ratably in the investment options and investment vehicles available to the Plan under or through the documents. The Named Fiduciary shall have investment direction for amounts that have not been allocated to Participants. To the extent an investment is no longer available, the Named Fiduciary may require that amounts currently held in such investment be reinvested in other investments.

At least annually, the Named Fiduciary shall review all pertinent Employee information and Plan data in order to establish the funding policy of the Plan and to determine appropriate methods of carrying out the Plan's objectives. The Named Fiduciary shall inform the Trustee and any Investment Manager of the Plan's short-term and long-term financial needs so the investment policy can be coordinated with the Plan's financial requirements.

(a) Employer Contributions other than Elective Deferral Contributions: The Participant shall direct the investment of such Employer Contributions and transfer of amounts resulting from those Contributions.

(b) Elective Deferral Contributions: The Participant shall direct the investment of Elective Deferral Contributions and transfer of amounts resulting from those Contributions.

(c) Rollover Contributions: The Participant shall direct the investment of Rollover Contributions and transfer of amounts resulting from those Contributions.

However, the Named Fiduciary may delegate to the Investment Manager investment direction for Contributions and amounts that are not subject to Participant direction.

All Contributions are forwarded by the Employer to (i) the Trustee to be deposited in the Trust Fund or otherwise invested by the Trustee in accordance with the relevant documents; or (ii) the Insurer to be deposited under the Annuity Contract, as applicable. Contributions that are accumulated through payroll deduction shall be paid to the Trustee or Insurer, as applicable, by the earlier of (i) the date the Contributions can reasonably be segregated from the Employer's assets, or (ii) the 15th business day of the month following the month in which the Contributions would otherwise have been paid in cash to the Participant.

SECTION 4.01A—INVESTMENT IN QUALIFYING EMPLOYER SECURITIES.

All or some portion of the Participant's Account may be invested in Qualifying Employer Securities; however, no new Contributions or transfers shall be allowed into the Qualifying Employer Securities Fund.

For purposes of determining the annual valuation of the Plan, and for reporting to Participants and regulatory authorities, the assets of the Plan shall be valued at least annually on the Valuation Date which corresponds to the last day of the Plan Year. The fair market value of Qualifying Employer Securities shall be determined on such Valuation Date. The prices of Qualifying Employer Securities as of the date of the transaction shall apply for purposes of valuing distributions and other transactions of the Plan to the extent such value is representative of the fair market value of such securities in the opinion of the Plan Administrator. The value of a Participant's Account held in the Qualifying Employer Securities Fund may be expressed in units.

If the Qualifying Employer Securities are not publicly traded, or if an extremely thin market exists for such securities so that reasonable valuation may not be obtained from the market place, then such securities must be valued at least annually by an independent appraiser who is not associated with the Employer, the Plan Administrator, the Trustee, or any person related to any fiduciary under the Plan. The independent appraiser may be associated with a person who is merely a contract administrator with respect to the Plan, but who exercises no discretionary authority and is not a plan fiduciary.

If there is a public market for Qualifying Employer Securities of the type held by the Plan, then the Plan Administrator may use as the value of the securities the price at which such securities trade in such market. If the Qualifying Employer Securities do not trade on the relevant date, or if the market is very thin on such date, then the Plan Administrator may use for the valuation the next preceding trading day on which the trading prices are representative of the fair market value of such securities in the opinion of the Plan Administrator.

Cash dividends payable on the Qualifying Employer Securities shall be reinvested in additional shares of such securities. In the event of any cash or stock dividend or any stock split, such dividend or split shall be credited to the Accounts based on the number of shares of Qualifying Employer Securities credited to each Account as of the payable date of such dividend or split.

In the event that the Trustee acquires Qualifying Employer Securities by purchase from a "disqualified person" as defined in Code Section 4975(e)(2) or from a "party-in-interest" as defined in ERISA Section 3(14), the terms of such purchase shall contain the provision that in the event there is a final determination by the Internal Revenue Service, the Department of Labor, or court of competent jurisdiction that the fair market value of such securities as of the date of purchase was less than the purchase price paid by the Trustee, then the seller shall pay or transfer, as the case may be, to the Trustee an amount of cash or shares of Qualifying Employer Securities equal in value to the difference between the purchase price and such fair market value for all such shares. In the event that cash or shares of Qualifying Employer Securities are paid or transferred to the Trustee under this provision, such securities shall be valued at their fair market value as of the date of such purchase, and interest at a reasonable rate from the date of purchase to the date of payment or transfer shall be paid by the seller on the amount of cash paid.

The Plan Administrator may direct the Trustee to sell, resell, or otherwise dispose of Qualifying Employer Securities to any person, including the Employer, provided that any such sales to any disqualified person or party-in-interest, including the Employer, will be made at not less than the fair market value and no commission will be charged. Any such sale shall be made in conformance with ERISA Section 408(e).

The Governing Board is responsible for compliance with any applicable Federal or state securities law with respect to all aspects of the Plan. If the Qualifying Employer Securities or interest in this Plan are required to be registered in order to permit investment in the Qualifying Employer Securities Fund as provided in this section, then such investment will not be effective until the later of the effective date of the Plan or the date such registration or

qualification is effective. The Governing Board will take or cause to be taken any and all such actions as may be necessary or appropriate to effect such registration or qualification. Further, if the Trustee is directed to dispose of any Qualifying Employer Securities held under the Plan under circumstances which require registration or qualification of the securities under applicable Federal or state securities laws, then the Governing Board will take or cause to be taken any and all such action as may be necessary or appropriate to effect such registration or qualification. The Governing Board is responsible for all compliance requirements under Section 16 of the Securities Act with respect to Qualifying Employer Securities held under the Plan.

ARTICLE V

BENEFITS

SECTION 5.01—RETIREMENT BENEFITS.

On a Participant's Retirement Date, his Vested Account shall be distributed to him according to the distribution of benefits provisions of Article VI and the provisions of the SMALL AMOUNTS SECTION of Article X.

SECTION 5.02—DEATH BENEFITS.

If a Participant dies before his Annuity Starting Date, his Vested Account shall be distributed according to the distribution of benefits provisions of Article VI and the provisions of the SMALL AMOUNTS SECTION of Article X.

SECTION 5.03—VESTED BENEFITS.

If an Inactive Participant's Vested Account is not payable under the SMALL AMOUNTS SECTION of Article X, he may elect, but is not required, to receive a distribution of any part of his Vested Account after he has a Severance from Employment. A distribution under this paragraph shall be a retirement benefit and shall be distributed to the Participant according to the distribution of benefits provisions of Article VI.

A Participant may not elect to receive a distribution under the provisions of this section after he again becomes an Employee until he subsequently has a Severance from Employment and meets the requirements of this section.

If an Inactive Participant does not receive an earlier distribution, upon his Retirement Date or death, his Vested Account shall be distributed according to the provisions of the RETIREMENT BENEFITS SECTION or the DEATH BENEFITS SECTION of this article.

The Nonvested Account of an Inactive Participant who has had a Severance from Employment shall remain a part of his Account until it becomes a Forfeiture. However, if he again becomes an Employee so that his Vesting Percentage can increase, the Nonvested Account may become a part of his Vested Account.

SECTION 5.04—WHEN BENEFITS START.

(a) Unless otherwise elected, benefits shall begin before the 60th day following the close of the Plan Year in which the latest date below occurs:

(1) The date the Participant attains age 65 (or Normal Retirement Age, if earlier).

(2) The 10th anniversary of the Participant's Entry Date.

(3) The date the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant to consent to a distribution while a benefit is immediately distributable, within the meaning of the ELECTION PROCEDURES SECTION of Article VI, shall be deemed to be an election to defer the start of benefits sufficient to satisfy this section.

The Participant may elect to have benefits begin after the latest date for beginning benefits described above, subject to the following provisions of this section. The Participant shall make the election in writing. Such election must be made before his Normal Retirement Date or the date he has a

Severance from Employment, if later. The Participant shall not elect a date for beginning benefits or a form of distribution that would result in a benefit payable when he dies which would be more than incidental within the meaning of governmental regulations.

Benefits shall begin on an earlier date if otherwise provided in the Plan. For example, the Participant's Retirement Date or Required Beginning Date, as defined in the DEFINITIONS SECTION of Article VII.

(b) The Participant's Vested Account that results from Elective Deferral Contributions and Qualified Nonelective Contributions may not be distributed earlier than Severance from Employment (separation from service, for Plan Years beginning before January 1, 2002), death, or disability. Such amount may also be distributed upon:

(1) Termination of the Plan, as permitted in Article VIII.

(2) The attainment of age 59 1/2 as permitted in the WITHDRAWAL BENEFITS SECTION of this article or in the definition of Normal Retirement Date in the DEFINITIONS SECTION of Article I.

(3) The hardship of the Participant as permitted in the WITHDRAWAL BENEFITS SECTION of this article.

All distributions that may be made pursuant to one or more of the foregoing distributable events will be a retirement benefit and shall be distributed to the Participant according to the distribution of benefits provisions of Article VI. In addition, distributions that are triggered by the termination of the Plan must be made in a lump sum. A lump sum shall include a distribution of an annuity contract.

SECTION 5.05—WITHDRAWAL BENEFITS.

A Participant may withdraw any part of his Vested Account resulting from Rollover Contributions. A Participant may make such a withdrawal at any time.

A Participant who has attained age 59 1/2 may withdraw any part of his Vested Account resulting from the following Contributions:

Elective Deferral Contributions
Matching Contributions
Qualified Nonelective Contributions

A Participant may make such a withdrawal at any time.

A Participant may withdraw any part of his Vested Account resulting from the following Contributions:

Elective Deferral Contributions
Matching Contributions

in the event of hardship due to an immediate and heavy financial need. Withdrawals from the Participant's Account resulting from Elective Deferral Contributions shall be limited to the amount of the Participant's Elective Deferral Contributions plus income allocable thereto credited to his Account as of December 31, 1988.

Immediate and heavy financial need shall be limited to: (i) expenses incurred or necessary for medical care that would be deductible under Code Section 213(d) (determined without regard to whether the expenses exceed 7.5% of adjusted gross income); (ii) the purchase (excluding mortgage payments) of a principal residence for the

Participant; (iii) payment of tuition, related educational fees, and room and board expenses, for the next 12 months of post-secondary education for the Participant, his spouse, children, or dependents (as defined in Code Section 152 without regard to Code Sections 152(b)(1), (b)(2), and (d)(1)(B)); (iv) payments necessary to prevent the eviction of the Participant from, or foreclosure on the mortgage of, the Participant's principal residence; (v) payments for funeral or burial expenses for the Participant's deceased parent, spouse, child, or dependent (as defined in Code Section 152 without regard to Code Section 152(d))1)(B)); (vi) expenses to repair damage to the Participant's principal residence that would qualify for a casualty loss deduction under Code Section 165 (determined without regard to whether the loss exceeds 10% of adjusted gross income); or (vii) any other distribution which is deemed by the Commissioner of Internal Revenue to be made on account of immediate and heavy financial need as provided in Treasury regulations.

No withdrawal shall be allowed which is not necessary to satisfy such immediate and heavy financial need. Such withdrawal shall be deemed necessary only if all of the following requirements are met: (i) the distribution is not in excess of the amount of the immediate and heavy financial need (including amounts necessary to pay any Federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution); (ii) the Participant has obtained all distributions, other than hardship distributions, and all nontaxable loans currently available under all plans maintained by the Employer; and (iii) the Plan, and all other plans maintained by the Employer, provide that the Participant's elective contributions and participant contributions will be suspended for at least six months after receipt of the hardship distribution. The Plan will suspend elective contributions and participant contributions for six months as provided in the preceding sentence. A Participant shall not cease to be an Eligible Participant, as defined in the EXCESS AMOUNTS SECTION of Article III, merely because his elective contributions or participant contributions are suspended.

A request for withdrawal shall be made in such manner and in accordance with such rules as the Employer will prescribe for this purpose (including by means of voice response or other electronic means under circumstances the Employer permits). Withdrawals shall be a retirement benefit and shall be distributed to the Participant according to the distribution of benefits provisions of Article VI. A forfeiture shall not occur solely as a result of a withdrawal.

SECTION 5.06—DISTRIBUTIONS UNDER QUALIFIED DOMESTIC RELATIONS ORDERS.

The Plan specifically permits distributions to an Alternate Payee under a qualified domestic relations order as defined in Code Section 414(p), at any time, irrespective of whether the Participant has attained his earliest retirement age, as defined in Code Section 414(p), under the Plan. A distribution to an Alternate Payee before the Participant has attained his earliest retirement age is available only if the order specifies that distribution shall be made prior to the earliest retirement age or allows the Alternate Payee to elect a distribution prior to the earliest retirement age.

Nothing in this section shall permit a Participant to receive a distribution at a time otherwise not permitted under the Plan nor shall it permit the Alternate Payee to receive a form of payment not permitted under the Plan.

The benefit payable to an Alternate Payee shall be subject to the provisions of the SMALL AMOUNTS SECTION of Article X if the value of the benefit (disregarding the portion, if any, of the benefit resulting from the Participant's Rollover Contributions) does not exceed $5,000.

The Plan Administrator shall establish reasonable procedures to determine the qualified status of a domestic relations order. Upon receiving a domestic relations order, the Plan Administrator shall promptly notify the Participant and each Alternate Payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the qualified status of the order. Within a reasonable period of time after receiving the domestic relations order, the Plan Administrator shall determine the qualified status of the order and shall notify the Participant and each Alternate Payee, in writing, of its determination. The Plan Administrator shall provide notice under this paragraph by mailing to the individual's address specified in the domestic relations order, or in a manner consistent with Department

of Labor regulations. The Plan Administrator may treat as qualified any domestic relations order entered before January 1, 1985, irrespective of whether it satisfies all the requirements described in Code Section 414(p).

If any portion of the Participant's Vested Account is payable during the period the Plan Administrator is making its determination of the qualified status of the domestic relations order, a separate accounting shall be made of the amount payable. If the Plan Administrator determines the order is a qualified domestic relations order within 18 months of the date amounts are first payable following receipt of the order, the payable amounts shall be distributed in accordance with the order. If the Plan Administrator does not make its determination of the qualified status of the order within the 18-month determination period, the payable amounts shall be distributed in the manner the Plan would distribute if the order did not exist and the order shall apply prospectively if the Plan Administrator later determines the order is a qualified domestic relations order.

The Plan shall make payments or distributions required under this section by separate benefit checks or other separate distribution to the Alternate Payee(s).

ARTICLE VI

DISTRIBUTION OF BENEFITS

SECTION 6.01—AUTOMATIC FORMS OF DISTRIBUTION.

Unless an optional form of benefit is selected pursuant to a qualified election within the election period (see the ELECTION PROCEDURES SECTION of this article), the automatic form of benefit payable to or on behalf of a Participant is determined as follows:

(a) Retirement Benefits. The automatic form of retirement benefit for a Participant who does not die before his Annuity Starting Date shall be a single sum payment.

(b) Death Benefits. The automatic form of death benefit for a Participant who dies before his Annuity Starting Date shall be a single sum payment to the Participant's Beneficiary.

SECTION 6.02—OPTIONAL FORMS OF DISTRIBUTION.

(a) Retirement Benefits. The optional forms of retirement benefit shall be the following: a fixed period installment option and a fixed payment installment option. A single sum payment is also available. That portion of a Participant's Account that is held in the Qualifying Employer Securities Fund may be distributed in kind.

The fixed period installment option is an optional form of benefit under which the Participant elects to receive substantially equal annual payments over a fixed period of whole years. The annual payment may be paid in annual, semi-annual, quarterly, or monthly installments as elected by the Participant. The Participant may elect to receive additional payments.

The fixed payment installment option is an optional form of benefit under which the Participant elects to receive a specified dollar amount each year. The annual payment may be paid in annual, semi-annual, quarterly, or monthly installments as elected by the Participant. The Participant may elect to receive additional payments.

Under the installment options the amount payable in the Participant's first Distribution Calendar Year, as defined in the DEFINITIONS SECTION of Article VII, must satisfy the minimum distribution requirements of Article VII for such year. Distributions for later Distribution Calendar Years must satisfy the minimum distribution requirements of Article VII for such years. If the Participant's Annuity Starting Date does not occur until his second Distribution Calendar Year, the amount payable for such year must satisfy the minimum distribution requirements of Article VII for both the first and second Distribution Calendar Years.

Election of an optional form is subject to the qualified election provisions of the ELECTION PROCEDURES SECTION of this article and the distribution requirements of Article VII.

Any annuity contract distributed shall be nontransferable. The terms of any annuity contract purchased and distributed by the Plan to a Participant or spouse shall comply with the requirements of this Plan.

(b) Death Benefits. The optional forms of death benefit are a single sum payment and any annuity that is an optional form of retirement benefit.

Election of an optional form is subject to the qualified election provisions of the ELECTION PROCEDURES SECTION of this article and the distribution requirements of Article VII.

SECTION 6.03—ELECTION PROCEDURES.

The Participant or Beneficiary shall make any election under this section in writing. The Plan Administrator may require such individual to complete and sign any necessary documents as to the provisions to be made. Any election permitted under (a) and (b) below shall be subject to the qualified election provisions of (c) below.

(a) Retirement Benefits. A Participant may elect his Beneficiary and may elect to have retirement benefits distributed under any of the optional forms of retirement benefit available in the OPTIONAL FORMS OF DISTRIBUTION SECTION of this article.

(b) Death Benefits. A Participant may elect his Beneficiary and may elect to have death benefits distributed under any of the optional forms of death benefit available in the OPTIONAL FORMS OF DISTRIBUTION SECTION of this article.

If the Participant has not elected an optional form of distribution for the death benefit payable to his Beneficiary, the Beneficiary may, for his own benefit, elect the form of distribution, in like manner as a Participant.

(c) Qualified Election. The Participant or Beneficiary may make an election at any time during the election period. The Participant or Beneficiary may revoke the election made (or make a new election) at any time and any number of times during the election period. An election is effective only if it meets the consent requirements below.

(1) Election Period for Retirement Benefits. The Participant may make an election as to retirement benefits at any time before the Annuity Starting Date.

(2) Election Period for Death Benefits. A Participant may make an election as to death benefits at any time before he dies. The Beneficiary's election period begins on the date the Participant dies and ends on the date benefits begin.

(3) Consent to Election. If the Participant's Vested Account (disregarding the portion, if any, of his Account resulting from Rollover Contributions) exceeds $5,000, any benefit that is immediately distributable requires the consent of the Participant.

The consent of the Participant to a benefit that is immediately distributable must not be made before the date the Participant is provided with the notice of the ability to defer the distribution. Such consent shall be in writing.

The consent shall not be made more than 90 days before the Annuity Starting Date. The consent of the Participant shall not be required to the extent that a distribution is required to satisfy Code Section 401(a)(9) or 415.

In addition, upon termination of this Plan, if the Plan does not offer an annuity option (purchased from a commercial provider), and if the Employer (or any entity within the same Controlled Group) does not maintain another defined contribution plan (other than an employee stock ownership plan as defined in Code Section 4975(e)(7)), the Participant's Account balance will, without the Participant's consent, be distributed to the Participant. However, if any entity within the same Controlled Group maintains another defined contribution plan (other than an employee stock ownership plan as defined in Code Section 4975(e)(7)) then the Participant's Account will

be transferred, without the Participant's consent, to the other plan if the Participant does not consent to an immediate distribution.

A benefit is immediately distributable if any part of the benefit could be distributed to the Participant before the Participant attains the older of Normal Retirement Age or age 62.

Spousal consent is needed to name a Beneficiary other than the Participant's spouse. If the Participant names a Beneficiary other than his spouse, the spouse has the right to limit consent only to a specific Beneficiary. The spouse can relinquish such right. Such consent shall be in writing. The spouse's consent shall be witnessed by a plan representative or notary public. The spouse's consent must acknowledge the effect of the election, including that the spouse had the right to limit consent only to a specific Beneficiary and that the relinquishment of such right was voluntary. Unless the consent of the spouse expressly permits designations by the Participant without a requirement of further consent by the spouse, the spouse's consent must be limited to the Beneficiary, class of Beneficiaries, or contingent Beneficiary named in the election.

Spousal consent is not required, however, if the Participant establishes to the satisfaction of the plan representative that the consent of the spouse cannot be obtained because there is no spouse or the spouse cannot be located. A spouse's consent under this paragraph shall not be valid with respect to any other spouse. A Participant may revoke a prior election without the consent of the spouse. Any new election will require a new spousal consent, unless the consent of the spouse expressly permits such election by the Participant without further consent by the spouse. A spouse's consent may be revoked at any time within the Participant's election period.

SECTION 6.04—NOTICE REQUIREMENTS.

Optional Forms of Retirement Benefit and Right to Defer. The Plan Administrator shall furnish to the Participant a written explanation of the right of the Participant to defer distribution until the benefit is no longer immediately distributable. Such notice shall include a written explanation of the optional forms of retirement benefit in the OPTIONAL FORMS OF DISTRIBUTION SECTION of this article, including a general description of the material features and an explanation of relative values of these options, in a manner that would satisfy the notice requirements of Code Section 417(a)(3) and section 1.417(a)(3)-1 of the regulations.

The Plan Administrator shall furnish the written explanation by a method reasonably calculated to reach the attention of the Participant no less than 30 days, and no more than 90 days, before the Annuity Starting Date.

However, distribution may begin less than 30 days after the notice described in this subparagraph is given, provided the Plan Administrator clearly informs the Participant that he has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and if applicable, a particular distribution option), and the Participant, after receiving the notice, affirmatively elects a distribution.

ARTICLE VII

REQUIRED MINIMUM DISTRIBUTIONS

SECTION 7.01—APPLICATION.

The optional forms of distribution are only those provided in Article VI. An optional form of distribution shall not be permitted unless it meets the requirements of this article. The timing of any distribution must meet the requirements of this article. Unless otherwise specified, the provisions of this article apply to calendar years beginning after December 31, 2002.

SECTION 7.02—DEFINITIONS.

For purposes of this article, the following terms are defined:

Designated Beneficiary means the individual who is designated by the Participant (or the Participant's surviving spouse) as the Beneficiary of the Participant's interest under the Plan and who is the designated beneficiary under Code Section 401(a)(9) and section 1.401(a)(9)-4 of the regulations.

Distribution Calendar Year means a calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year that contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin under (b)(2) of the REQUIRED MINIMUM DISTRIBUTIONS SECTION of this article. The required minimum distribution for the Participant's first Distribution Calendar Year will be made on or before the Participant's Required Beginning Date. The required minimum distribution for other Distribution Calendar Years, including the required minimum distribution for the Distribution Calendar Year in which the Participant's Required Beginning Date occurs, will be made on or before December 31 of that Distribution Calendar Year.

5-percent Owner means a Participant who is treated as a 5-percent Owner for purposes of this article. A Participant is treated as a 5-percent Owner for purposes of this article if such Participant is a 5-percent owner as defined in Code Section 416 at any time during the Plan Year ending with or within the calendar year in which such owner attains age 70 1/2.

Once distributions have begun to a 5-percent Owner under this article, they must continue to be distributed, even if the Participant ceases to be a 5-percent Owner in a subsequent year.

Life Expectancy means life expectancy as computed by use of the Single Life Table in Q&A-1 in section 1.401(a)(9)-9 of the regulations.

Participant's Account Balance means the Account balance as of the last Valuation Date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the Account as of dates in the valuation calendar year after the Valuation Date and decreased by distributions made in the valuation calendar year after the Valuation Date. The Account balance for the valuation

calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the Distribution Calendar Year if distributed or transferred in the valuation calendar year.

Required Beginning Date means, for a Participant who is a 5-percent Owner, April 1 of the calendar year following the calendar year in which he attains age 70 1/2.

Required Beginning Date means, for any Participant who is not a 5-percent Owner, April 1 of the calendar year following the later of the calendar year in which he attains age 70 1/2 or the calendar year in which he retires.

The preretirement age 70 1/2 distribution option is only eliminated with respect to Participants who reach age 70 1/2 in or after a calendar year that begins after the later of December 31, 1998, or the adoption date of the amendment which eliminated such option. The preretirement age 70 1/2 distribution option is an optional form of benefit under which benefits payable in a particular distribution form (including any modifications that may be elected after benefits begin) begin at a time during the period that begins on or after January 1 of the calendar year in which the Participant attains age 70 1/2 and ends April 1 of the immediately following calendar year.

The options available for Participants who are not 5-percent Owners and attained age 70 1/2 in calendar years before the calendar year that begins after the later of December 31, 1998, or the adoption date of the amendment which eliminated the preretirement age 70 1/2 distribution option shall be the following. Any such Participant attaining age 70 1/2 in years after 1995 may elect by April 1 of the calendar year following the calendar year in which he attained age 70 1/2 (or by December 31, 1997 in the case of a Participant attaining age 70 1/2 in 1996) to defer distributions until April 1 of the calendar year following the calendar year in which he retires. If no such election is made, the Participant shall begin receiving distributions by April 1 of the calendar year following the year in which the Participant attained age 70 1/2 (or by December 31, 1997 in the case of a Participant attaining age 70 1/2 in 1996). Any such Participant attaining age 70 1/2 in years prior to 1997 may elect to stop distributions that are not purchased annuities and recommence by April 1 of the calendar year following the calendar year in which he retires. There shall be a new Annuity Starting Date upon recommencement.

SECTION 7.03—REQUIRED MINIMUM DISTRIBUTIONS.

(a) General Rules.

(1) The requirements of this article shall apply to any distribution of a Participant's interest and will take precedence over any inconsistent provisions of this Plan.

(2) All distributions required under this article shall be determined and made in accordance with the regulations under Code Section 401(a)(9) and the minimum distribution incidental benefit requirement of Code Section 401(a)(9)(G).

(b) Time and Manner of Distribution.

(1) Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.

(2) Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(i) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later, except to the extent that an election is made to receive distributions in accordance with the

5-year rule under (e) below. Under the 5-year rule, the Participant's entire interest will be distributed to the Designated Beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(ii) If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, except to the extent that an election is made to receive distributions in accordance with the 5-year rule under (e) below. Under the 5-year rule, the Participant's entire interest will be distributed to the Designated Beneficiary by

December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(iii) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(iv) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse are required to begin, this (b)(2), other than (b)(2)(i), will apply as if the surviving spouse were the Participant.

For purposes of this (b)(2) and (d) below, unless (b)(2)(iv) above applies, distributions are considered to begin on the Participant's Required Beginning Date. If (b)(2)(iv) above applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under (b)(2)(i) above. If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under (b)(2)(i) above), the date distributions are considered to begin is the date distributions actually commence.

(3) Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with (c) and (d) below. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Code Section 401(a)(9) and the regulations thereunder.

(c) Required Minimum Distributions During Participant's Lifetime.

(1) Amount of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be

distributed for each Distribution Calendar Year is the lesser of:

(i) the quotient obtained by dividing the Participant's Account Balance by the distribution period in the Uniform Lifetime Table set forth in Q&A-2 in section 1.401(a)(9)-9 of the regulations, using the Participant's age as of the Participant's birthday in the Distribution Calendar Year; or

(ii) if the Participant's sole Designated Beneficiary for the Distribution Calendar Year is the Participant's spouse, the quotient obtained by dividing the Participant's Account Balance by the number in the Joint and Last Survivor Table set forth in Q&A-3 in section

1.401(a)(9)-9 of the regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the Distribution Calendar Year.

(2) Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this (c) beginning with the first Distribution Calendar Year and continuing up to, and including, the Distribution Calendar Year that includes the Participant's date of death.

(d) Required Minimum Distributions After Participant's Death.

(1) Death On or After Date Distributions Begin.

(i) Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account Balance by the longer of the remaining Life Expectancy of the Participant or the remaining Life Expectancy of the Participant's Designated Beneficiary, determined as follows:

A. The Participant's remaining Life Expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

B. If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, the remaining Life Expectancy of the surviving spouse is calculated for each Distribution Calendar Year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For Distribution Calendar Years after the year of the surviving spouse's death, the remaining Life Expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

C. If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, the Designated Beneficiary's remaining Life Expectancy is calculated using the age of the Beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(ii) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no Designated Beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account Balance by the Participant's remaining Life Expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) Death Before Date Distributions Begin.

(i) Participant Survived by Designated Beneficiary. If the Participant dies before the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account Balance by the remaining Life Expectancy of the Participant's Designated Beneficiary, determined as provided in (d)(1)

above, except to the extent that an election is made to receive distributions in accordance with the 5-year rule under (e) below. Under the 5-year rule, the Participant's entire interest will be distributed to the Designated Beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(ii) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(iii) Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole Designated Beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under (b)(2)(i) above, this (d)(2) will apply as if the surviving spouse were the Participant.

(e) Election of 5-year Rule. Participants or Beneficiaries may elect on an individual basis whether the 5-year rule in (b)(2) and (d)(2) above applies to distributions after the death of a Participant who has a Designated Beneficiary. The election must be made no later than the earlier of September 30 of the calendar year in which the distribution would be required to begin under (b)(2) above if no such election is made, or by September 30 of the calendar year which contains the fifth anniversary of the Participant's (or, if applicable, surviving spouse's) death.

SECTION 7.04—TRANSITION RULES.

To the extent the Plan was effective before 2003, required minimum distributions were made pursuant to (a) and (b) below:

(a) 2000 and Before. Required minimum distributions for calendar years after 1984 and before 2001 were made in accordance with Code Section 401(a)(9) and the proposed regulations thereunder published in the Federal Register on July 27, 1987 (the 1987 Proposed Regulations).

(b) 2001 and 2002. Required minimum distributions for calendar years 2001 and 2002 were made pursuant to the proposed regulations under Code Section 401(a)(9) published in the Federal Register on January 17, 2001 (the 2001 Proposed Regulations). Distributions were made in 2001 under the 1987 Proposed Regulations prior to June 14, 2001, and the special transition rule in Announcement 2001-82, 2001-2 C.B. 123, applied.

ARTICLE VIII

TERMINATION OF THE PLAN

The Employer expects to continue the Plan indefinitely but reserves the right to terminate the Plan in whole or in part at any time upon giving written notice to all parties concerned. Complete discontinuance of Contributions constitutes complete termination of the Plan.

The Account of each Participant shall be 100% vested and nonforfeitable as of the effective date of complete termination of the Plan. The Account of each Participant who is included in the group of Participants deemed to be affected by the partial termination of the Plan shall be 100% vested and nonforfeitable as of the effective date of the partial termination of the Plan. The Participant's Vested Account shall continue to participate in the earnings credited, expenses charged, and any appreciation or depreciation of the Investment Fund until his Vested Account is distributed.

A Participant's Vested Account that does not result from the Contributions listed below may be distributed to the Participant after the effective date of the complete termination of the Plan:

Elective Deferral Contributions

Qualified Nonelective Contributions

A Participant's Vested Account resulting from such Contributions may be distributed upon complete termination of the Plan, but only if neither the Employer nor any Controlled Group member maintain another defined contribution plan (other than an employee stock ownership plan as defined in Code Section 4975(e)(7) or 409(a), a simplified employee pension plan as defined in Code Section 408(k), a SIMPLE IRA plan as defined in Code Section 408(p), a plan or contract that satisfies the requirements of Code Section 403(b), or a plan described in Code Section 457(b) or (f)) at any time during the period beginning on the date of complete termination of the Plan and ending 12 months after all assets have been distributed from the Plan. Such distribution is made in a lump sum. A distribution under this article shall be a retirement benefit and shall be distributed to the Participant according to the provisions of Article VI. However, the fixed period and fixed payment installment options shall not be available.

If a Participant or Beneficiary is receiving payments under the fixed period or fixed payment installment option, the Vested Account shall be paid to such person in a single sum.

The Participant's entire Vested Account shall be paid in a single sum to the Participant as of the effective date of complete termination of the Plan if (i) the requirements for distribution of Elective Deferral Contributions in the above paragraph are met and (ii) consent of the Participant is not required in the ELECTION PROCEDURES SECTION of Article VI to distribute a benefit that is immediately distributable. This is a small amounts payment. The small amounts payment is in full settlement of all benefits otherwise payable.

Upon complete termination of the Plan, no more Employees shall become Participants and no more Contributions shall be made.

The assets of this Plan shall not be paid to the Employer at any time, except that, after the satisfaction of all liabilities under the Plan, any assets remaining may be paid to the Employer. The payment may not be made if it would contravene any provision of law.

ARTICLE IX

ADMINISTRATION OF THE PLAN

SECTION 9.01—ADMINISTRATION.

Subject to the provisions of this article, the Plan Administrator has complete control of the administration of the Plan. The Plan Administrator has all the powers necessary for it to properly carry out its administrative duties. Not in limitation, but in amplification of the foregoing, the Plan Administrator has complete discretion to construe or interpret the provisions of the Plan, including ambiguous provisions, if any, and to determine all questions that may arise under the Plan, including all questions relating to the eligibility of Employees to participate in the Plan and the amount of benefit to which any Participant or Beneficiary may become entitled. The Plan Administrator's decisions upon all matters within the scope of its authority shall be final.

Unless otherwise set out in the Plan or Annuity Contract, the Plan Administrator may delegate recordkeeping and other duties which are necessary to assist it with the administration of the Plan to any person or firm which agrees to accept such duties. The Plan Administrator shall be entitled to rely upon all tables, valuations, certificates and reports furnished by the consultant or actuary appointed by the Plan Administrator and upon all opinions given by any counsel selected or approved by the Plan Administrator.

The Plan Administrator shall receive all claims for benefits by Participants, former Participants and Beneficiaries. The Plan Administrator shall determine all facts necessary to establish the right of any Claimant to benefits and the amount of those benefits under the provisions of the Plan. The Plan Administrator may establish rules and procedures to be followed by Claimants in filing claims for benefits, in furnishing and verifying proofs necessary to determine age, and in any other matters required to administer the Plan.

SECTION 9.02—EXPENSES.

Expenses of the Plan, to the extent that the Employer does not pay such expenses, may be paid out of the assets of the Plan provided that such payment is consistent with ERISA. Such expenses include, but are not limited to, expenses for bonding required by ERISA; expenses for recordkeeping and other administrative services; fees and expenses of the Trustee or Annuity Contract; expenses for investment education service; and direct costs that the Employer incurs with respect to the Plan. Expenses that relate solely to a specific Participant or Alternate Payee may be assessed against such Participant or Alternate Payee as provided in the service and expense agreement or such other documents duly entered into by or with regard to the Plan that govern such matters.

SECTION 9.03—RECORDS.

All acts and determinations of the Plan Administrator shall be duly recorded. All these records, together with other documents necessary for the administration of the Plan, shall be preserved in the Plan Administrator's custody.

Writing (handwriting, typing, printing), photostating, photographing, microfilming, magnetic impulse, mechanical or electrical recording, or other forms of data compilation shall be acceptable means of keeping records.

SECTION 9.04—INFORMATION AVAILABLE.

Any Participant in the Plan or any Beneficiary may examine copies of the Plan description, latest annual report, any bargaining agreement, this Plan, the Annuity Contract, or any other instrument under which the Plan was established or is operated. The Plan Administrator shall maintain all of the items listed in this section in its office, or in such other place or places as it may designate in order to comply with governmental regulations. These items may be examined during reasonable business hours. Upon the written request of a Participant or Beneficiary receiving

benefits under the Plan, the Plan Administrator shall furnish him with a copy of any of these items. The Plan Administrator may make a reasonable charge to the requesting person for the copy.

SECTION 9.05—CLAIM PROCEDURES.

A Claimant must submit any necessary forms and needed information when making a claim for benefits under the Plan.

If a claim for benefits under the Plan is wholly or partially denied, the Plan Administrator shall provide adequate written notice to the Claimant whose claim for benefits under the Plan has been denied. The notice must be furnished within 90 days of the date that the claim is received by the Plan without regard to whether all of the information necessary to make a benefit determination is received. The Claimant shall be notified in writing within this initial 90-day period if special circumstances require an extension of the time needed to process the claim. The notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan Administrator's decision is expected to be rendered. In no event shall such extension exceed a period of 90 days from the end of the initial 90-day period.

The Plan Administrator's notice to the Claimant shall: (i) specify the reason or reasons for the denial; (ii) reference the specific Plan provisions on which the denial is based; (iii) describe any additional material and information needed for the Claimant to perfect his claim for benefits; (iv) explain why the material and information is needed; and (v) inform the Claimant of the Plan's appeal procedures and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under ERISA section 502(a) following an adverse benefit determination on appeal.

Any appeal made by a Claimant must be made in writing to the Plan Administrator within 60 days after receipt of the Plan Administrator's notice of denial of benefits. If the Claimant appeals to the Plan Administrator, the Claimant may submit written comments, documents, records, and other information relating to the claim for benefits. The Claimant shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits. The Plan Administrator shall review the claim taking into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

The Plan Administrator shall provide adequate written notice to the Claimant of the Plan's benefit determination on review. The notice must be furnished within 60 days of the date that the request for review is received by the Plan without regard to whether all of the information necessary to make a benefit determination on review is received. The Claimant shall be notified in writing within this initial 60-day period if special circumstances require an extension of the time needed to process the claim. The notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan Administrator expects to render the determination on review. In no event shall such extension exceed a period of 60 days from the end of the initial 60-day period.

In the event the benefit determination is being made by a committee or board of trustees that hold regularly scheduled meetings at least quarterly, the above paragraph shall not apply. The benefit determination must be made by the date of the meeting of the committee or board that immediately follows the Plan's receipt of a request for review, unless the request for review is filed within 30 days preceding the date of such meeting. In such case, the benefit determination must be made by the date of the second meeting following the Plan's receipt of the request for review. The date of the receipt of the request for review shall be determined without regard to whether all of the information necessary to make a benefit determination on review is received. The Claimant shall be notified in writing within this initial period if special circumstances require an extension of the time needed to process the claim. The notice shall indicate the special circumstances requiring an extension of time and the date by which the committee or board expects to render the determination on review. In no event shall such benefit determination be made later than

the third meeting of the committee or board following the Plan's receipt of the request for review. The Plan Administrator shall provide adequate written notice to the Claimant of the Plan's benefit determination on review as soon as possible, but not later than five days after the benefit determination is made.

If the claim for benefits is wholly or partially denied on review, the Plan Administrator's notice to the Claimant shall: (i) specify the reason or reasons for the denial; (ii) reference the specific Plan provisions on which the denial is based; (iii) include a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits; and (iv) include a statement of the Claimant's right to bring a civil action under ERISA section 502(a).

A Claimant may authorize a representative to act on the Claimant's behalf with respect to a benefit claim or appeal of an adverse benefit determination. Such authorization shall be made by completion of a form furnished for that purpose. In the absence of any contrary direction from the Claimant, all information and notifications to which the Claimant is entitled shall be directed to the authorized representative.

The Plan Administrator shall perform periodic examinations, reviews, or audits of benefit claims to determine whether claims determinations are made in accordance with the governing Plan documents and, where appropriate, Plan provisions have been consistently applied with respect to similarly situated Claimants.

SECTION 9.06—DELEGATION OF AUTHORITY.

All or any part of the administrative duties and responsibilities under this article may be delegated by the Plan Administrator to a retirement committee. The duties and responsibilities of the retirement committee shall be set out in a separate written agreement.

SECTION 9.07—EXERCISE OF DISCRETIONARY AUTHORITY.

The Employer, Plan Administrator, and any other person or entity who has authority with respect to the management, administration, or investment of the Plan may exercise that authority in its/his full discretion, subject only to the duties imposed under ERISA. This discretionary authority includes, but is not limited to, the authority to make any and all factual determinations and interpret all terms and provisions of the Plan documents relevant to the issue under consideration. The exercise of authority will be binding upon all persons; will be given deference in all courts of law to the greatest extent allowed under law; and will not be overturned or set aside by any court of law unless found to be arbitrary and capricious or made in bad faith.

SECTION 9.08—TRANSACTION PROCESSING.

Transactions (including, but not limited to, investment directions, trades, loans, and distributions) shall be processed as soon as administratively practicable after proper directions are received from the Participant or other parties. No guarantee is made by the Plan, Plan Administrator, Trustee, Insurer, or Employer that such transactions will be processed on a daily or other basis, and no guarantee is made in any respect regarding the processing time of such transactions.

Notwithstanding any other provision of the Plan, the Employer, the Plan Administrator, or the Trustee reserves the right to not value an investment option on any given Valuation Date for any reason deemed appropriate by the Employer, the Plan Administrator, or the Trustee.

Administrative practicality will be determined by legitimate business factors (including, but not limited to, failure of systems or computer programs, failure of the means of the transmission of data, force majeure, the failure of a service provider to timely receive values or prices, and correction for errors or omissions or the errors or omissions of

any service provider) and in no event will be deemed to be less than 14 days. The processing date of a transaction shall be binding for all purposes of the Plan and considered the applicable Valuation Date for any transaction.

SECTION 9.09—VOTING AND TENDER OF QUALIFYING EMPLOYER SECURITIES.

Voting rights with respect to Qualifying Employer Securities will be passed through to Participants. Participants will be allowed to direct the voting rights of Qualifying Employer Securities for any matter put to the vote of shareholders. Before each meeting of shareholders, the Governing Board shall cause to be sent to each person with power to control such voting rights a copy of any notice and any other information provided to shareholders and, if applicable, a form for instructing the Trustee how to vote at such meeting (or any adjournment thereof) the number of full and fractional shares subject to such person's voting control. The Trustee may establish a deadline in advance of the meeting by which such forms must be received in order to be effective.

Each Participant shall be entitled to one vote for each share credited to his Account.

If some or all of the Participants have not directed or have not timely directed the Trustee on how to vote, then the Trustee shall vote such Qualifying Employer Securities in the same proportion as those shares of Qualifying Employer Securities for which the Trustee has received proper direction for such matter.

Tender rights or exchange offers for Qualifying Employer Securities will be passed through to Participants. As soon as practicable after the commencement of a tender or exchange offer for Qualifying Employer Securities, the Governing Board shall cause each person with power to control the response to such tender or exchange offer to be advised in writing the terms of the offer and, if applicable, to be provided with a form for instructing the Trustee, or for revoking such instruction, to tender or exchange shares of Qualifying Employer Securities, to the extent permitted under the terms of such offer. In advising such persons of the terms of the offer, the Governing Board may include statements from the board of directors setting forth its position with respect to the offer.

If some or all of the Participants have not directed or have not timely directed the Trustee on how to tender, then the Trustee shall tender such Qualifying Employer Securities in the same proportion as those shares of Qualifying Employer Securities for which the Trustee has received proper direction for such matter.

If the tender or exchange offer is limited so that all of the shares that the Trustee has been directed to tender or exchange cannot be sold or exchanged, the shares that each Participant directed to be tendered or exchanged shall be deemed to have been sold or exchanged in the same ratio that the number of shares actually sold or exchanged bears to the total number of shares that the Trustee was directed to tender or exchange.

The Trustee shall hold the Participant's individual directions with respect to voting rights or tender decisions in confidence and, except as required by law, shall not divulge or release such individual directions to anyone associated with the Employer. The Employer may require verification of the Trustee's compliance with the directions received from Participants by any independent auditor selected by the Employer, provided that such auditor agrees to maintain the confidentiality of such individual directions.

The Governing Board may develop procedures to facilitate the exercise of votes or tender rights, such as the use of facsimile transmissions for the Participants located in physically remote areas.

ARTICLE X

GENERAL PROVISIONS

SECTION 10.01—AMENDMENTS.

The Employer may amend this Plan at any time, including any remedial retroactive changes (within the time specified by Internal Revenue Service regulations), to comply with any law or regulation issued by any governmental agency to which the Plan is subject. The Governing Board shall also have the authority to amend this Plan at any time as long as such amendment does not materially increase the cost of the Plan to the Employer.

An amendment may not allow reversion or diversion of Plan assets to the Employer at any time, except as may be required to comply with any law or regulation issued by any governmental agency to which the Plan is subject.

An amendment may not eliminate or reduce a section 411(d)(6) protected benefit, as defined in Q&A-1 in section 1.411(d)-4 of the regulations, that has already accrued, except as provided in 1.411(d)-3 or 1.411(d)-4 of the regulations. This is generally the case even if such elimination or reduction is contingent upon the Employee's consent. However, the Plan may be amended to eliminate or reduce section 411(d)(6) protected benefits with respect to benefits not yet accrued as of the later of the amendment's adoption date or the effective date without violating Code Section 411(d)(6). Notwithstanding the preceding provisions, a Participant's Account may be reduced to the extent permitted under Code Section 412(c)(8).

If, as a result of an amendment, an Employer Contribution is removed that is not 100% immediately vested when made, the applicable vesting schedule shall remain in effect after the date of such amendment. The Participant shall not become immediately 100% vested in such Contributions as a result of the elimination of such Contribution except as otherwise specifically provided in the Plan.

An amendment shall not decrease a Participant's vested interest in the Plan. If an amendment to the Plan, or a deemed amendment in the case of a change in top-heavy status of the Plan as provided in the MODIFICATION OF VESTING REQUIREMENTS SECTION of Article XI, changes the computation of the percentage used to determine that portion of a Participant's Account attributable to Employer Contributions which is nonforfeitable (whether directly or indirectly), in the case of an Employee who is a Participant as of the later of the date such amendment or change is adopted or the date it becomes effective, the nonforfeitable percentage (determined as of such date) of such Employee's right to his Account attributable to Employer Contributions shall not be less than his percentage computed under the Plan without regard to such

amendment or change. Furthermore, each Participant or former Participant

(a) who has completed at least three Years of Service on the date the election period described below ends (five Years of Service if the Participant does not have at least one Hour of Service in a Plan Year beginning after December 31, 1988) and

(b) whose nonforfeitable percentage will be determined on any date after the date of the change

may elect, during the election period, to have the nonforfeitable percentage of his Account that results from Employer Contributions determined without regard to the amendment. This election may not be revoked. If after the Plan is changed, the Participant's nonforfeitable percentage will at all times be as great as it would have been if the change had not been made, no election needs to be provided. The election period shall begin no later than the date the Plan amendment is adopted, or deemed adopted in the case of a change in the top-heavy status of the Plan, and end no earlier than the 60th day after the latest of the date the amendment is adopted (deemed adopted) or

becomes effective, or the date the Participant is issued written notice of the amendment (deemed amendment) by the Employer or the Plan Administrator.

For an amendment adopted after August 9, 2006, with respect to a Participant's Account attributable to Employer Contributions accrued as of the later of the adoption or effective date of the amendment and earnings, the vested percentage of the Participant will be the greater of the vested percentage under the old vesting schedule or the vested percentage under the new vesting schedule.

SECTION 10.02—DIRECT ROLLOVERS.

Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this section, a Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

In the event of a mandatory distribution of an Eligible Rollover Distribution greater than $1,000 in accordance with the SMALL AMOUNTS SECTION of this article (or which is a small amounts payment under Article VIII at complete termination of the Plan), if the Participant does not elect to have such distribution paid directly to an Eligible Retirement Plan specified by the Participant in a Direct Rollover or to receive the distribution directly, the Plan Administrator will pay the distribution in a Direct Rollover to an individual retirement plan designated by the Plan Administrator.

In the event of any other Eligible Rollover Distribution to a Distributee in accordance with the SMALL AMOUNTS SECTION of this article (or which is a small amounts payment under Article VIII at complete termination of the Plan), if the Distributee does not elect to have such distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover or to receive the distribution directly, the Plan Administrator will pay the distribution to the Distributee.

A mandatory distribution is a distribution to a Participant that is made without the Participant's consent and is made to the Participant before he attains the older of age 62 or his Normal Retirement Age.

SECTION 10.03—MERGERS AND DIRECT TRANSFERS.

The Plan may not be merged or consolidated with, nor have its assets or liabilities transferred to, any other retirement plan, unless each Participant in this Plan would (if that plan then terminated) receive a benefit immediately after the merger, consolidation, or transfer that is equal to or greater than the benefit the Participant would have been entitled to receive immediately before the merger, consolidation, or transfer (if this Plan had then terminated). The Employer may enter into merger agreements or direct transfer of assets agreements with the employers under other retirement plans which are qualifiable under Code Section 401(a), including an elective transfer, and may accept the direct transfer of plan assets, or may transfer plan assets, as a party to any such agreement. The Employer shall not consent to, or be a party to a merger, consolidation, or transfer of assets with a plan which is subject to the survivor annuity requirements of Code Section 401(a)(11) if such action would result in a survivor annuity feature being maintained under this Plan. The Employer will not transfer any amounts attributable to elective deferral contributions, qualified matching contributions, and qualified nonelective contributions unless the transferee plan provides that the limitations of section 1.401(k)-1(d) of the regulations shall apply to such amounts (including post-transfer earnings thereon), unless the amounts could have been distributed at the time of the transfer (other than for hardship), and the transfer is an elective transfer described in Q&A-3(b)(1) in section 1.411(d)-4 of the regulations.

Notwithstanding any provision of the Plan to the contrary, to the extent any optional form of benefit under the Plan permits a distribution prior to the Employee's retirement, death, disability, or Severance from Employment, and prior to plan termination, the optional form of benefit is not available with respect to benefits attributable to assets

(including the post-transfer earnings thereon) and liabilities that are transferred, within the meaning of Code Section 414(l), to this Plan from a money purchase pension plan qualified under Code Section 401(a) (other than any portion of those assets and liabilities attributable to voluntary employee contributions). The limitations of section 1.401(k)-1(d) of the regulations applicable to elective deferral contributions, qualified matching contributions, and qualified nonelective contributions shall continue to apply to any amounts attributable to such contributions (including post-transfer earnings thereon) transferred to this Plan, unless the amounts could have been distributed at the time of the transfer (other than for hardship), and the transfer is an elective transfer described in Q&A-3(b)(1) in section 1.411(d)-4 of the regulations.

The Plan may accept a direct transfer of plan assets on behalf of an Eligible Employee. If the Eligible Employee is not an Active Participant when the transfer is made, the Eligible Employee shall be deemed to be an Active Participant only for the purpose of investment and distribution of the transferred assets. Employer Contributions shall not be made for or allocated to the Eligible Employee, until the time he meets all of the requirements to become an Active Participant.

The Plan shall hold, administer, and distribute the transferred assets as a part of the Plan. The Plan shall maintain a separate account for the benefit of the Employee on whose behalf the Plan accepted the transfer in order to reflect the value of the transferred assets.

A Participant's section 411(d)(6) protected benefits, as defined in Q&A-1 in section 1.411(d)-4 of the regulations, may not be eliminated by reason of transfer or any transaction amending a plan or plans to transfer benefits except as provided below.

A Participant's section 411(d)(6) protected benefits may be eliminated or reduced upon transfer between qualified defined contribution plans if the conditions in Q&A-3(b)(1) in section 1.411(d)-4 of the regulations are met. The transfer must meet all of the other applicable qualification requirements.

A Participant's section 411(d)(6) protected benefits may be eliminated or reduced if a transfer is an elective transfer of certain distributable benefits between qualified plans (both defined benefit and defined contribution) and the conditions in Q&A-3(c)(1) in section 1.411(d)-4 of the regulations are met. The rules applicable to distributions under the plan would apply to the transfer, but the transfer would not be treated as a distribution for purposes of the minimum distribution requirements of Code Section 401(a)(9). Beginning January 1, 2002, if the Participant is eligible to receive an immediate distribution of his entire nonforfeitable accrued benefit in a single sum

distribution that would consist entirely of an eligible rollover distribution under Code Section 401(a)(31), such transfer will be accomplished as a direct rollover under Code Section 401(a)(31).

SECTION 10.04—PROVISIONS RELATING TO THE INSURER AND OTHER PARTIES.

The obligations of an Insurer shall be governed solely by the provisions of the Annuity Contract. The Insurer shall not be required to perform any act not provided in or contrary to the provisions of the Annuity Contract. Each Annuity Contract when purchased shall comply with the Plan. See the CONSTRUCTION SECTION of this article.

Any issuer or distributor of investment contracts or securities is governed solely by the terms of its policies, written investment contract, prospectuses, security instruments, and any other written agreements entered into with the Trustee with regard to such investment contracts or securities.

Such Insurer, issuer or distributor is not a party to the Plan, nor bound in any way by the Plan provisions. Such parties shall not be required to look to the terms of this Plan, nor to determine whether the Employer, the Plan Administrator, the Trustee, or the Named Fiduciary have the authority to act in any particular manner or to make any contract or agreement.

Until notice of any amendment or termination of this Plan or a change in Trustee has been received by the Insurer at its home office or an issuer or distributor at their principal address, they are and shall be fully protected in assuming that the Plan has not been amended or terminated and in dealing with any party acting as Trustee according to the latest information which they have received at their home office or principal address.

SECTION 10.05—EMPLOYMENT STATUS.

Nothing contained in this Plan gives an Employee the right to be retained in the Employer's employ or to interfere with the Employer's right to discharge any Employee.

SECTION 10.06—RIGHTS TO PLAN ASSETS.

An Employee shall not have any right to or interest in any assets of the Plan upon termination of employment or otherwise except as specifically provided under this Plan, and then only to the extent of the benefits payable to such Employee according to the Plan provisions.

Any final payment or distribution to a Participant or his legal representative or to any Beneficiaries of such Participant under the Plan provisions shall be in full satisfaction of all claims against the Plan, the Named Fiduciary, the Plan Administrator, the Insurer, the Trustee, and the Employer arising under or by virtue of the Plan.

SECTION 10.07—BENEFICIARY.

Each Participant may name a Beneficiary to receive any death benefit that may arise out of his participation in the Plan. The Participant may change his Beneficiary from time to time. Unless a qualified election has been made, for purposes of distributing any death benefits before the Participant's Retirement Date, the Beneficiary of a Participant who has a spouse shall be the Participant's spouse. The Participant's Beneficiary designation and any change of Beneficiary shall be subject to the provisions of the ELECTION PROCEDURES SECTION of Article VI.

It is the responsibility of the Participant to give written notice to the Plan Administrator of the name of the Beneficiary on a form furnished for that purpose. The Plan Administrator shall maintain records of Beneficiary designations for Participants before their Retirement Dates. However, the Plan Administrator may delegate to another party the responsibility of maintaining records of Beneficiary designations. In that event, the written designations made by Participants shall be filed with such other party. If a party other than the Insurer maintains the records of Beneficiary designations and a Participant dies before his Retirement Date, such other party shall certify to the Insurer the Beneficiary designation on its records for the Participant.

If there is no Beneficiary named or surviving when a Participant dies, the Participant's Beneficiary shall be the Participant's surviving spouse, or where there is no surviving spouse, the executor or administrator of the Participant's estate.

Except to the extent otherwise provided in a qualified domestic relations order (as defined in Code Section 414(p)):

(i) Any actual designation of a spouse as a Participant's Beneficiary on a form accepted by the Plan Administrator hereunder shall continue to be valid and will not be revoked notwithstanding a later divorce of the spouse from the Participant, until and unless the Participant changes his designated Beneficiary in accordance with the procedures established by the Plan Administrator.

(ii) If the Participant's spouse is deemed to be the Participant's Beneficiary at any time on account of an absence of any other valid Beneficiary designation and the Participant and spouse divorce, the Participant's former spouse shall not be treated as a Beneficiary hereunder until and unless the

Participant specifically designates such person as his Beneficiary in accordance with the procedures established by the Plan Administrator.

(iii) If a Participant remarries after a divorce, the new spouse will automatically be treated as the sole designated Beneficiary hereunder until and unless a waiver and designation of an alternate Beneficiary are thereafter delivered in accordance with the procedures established by the Plan Administrator.

SECTION 10.08—NONALIENATION OF BENEFITS.

Benefits payable under the Plan are not subject to the claims of any creditor of any Participant or Beneficiary. A Participant or Beneficiary does not have any rights to alienate, anticipate, commute, pledge, encumber, or assign such benefits. The preceding sentences shall also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant according to a domestic relations order, unless such order is determined by the Plan Administrator to be a qualified domestic relations order, as defined in Code Section 414(p), or any domestic relations order entered before January 1, 1985. The preceding sentences shall not apply to any offset of a Participant's benefits provided under the Plan against an amount the Participant is required to pay the Plan with respect to a judgment, order, or decree issued, or a settlement entered into, on or after August 5, 1997, which meets the requirements of Code Sections 401(a)(13)(C) or (D).

SECTION 10.09—CONSTRUCTION.

The validity of the Plan or any of its provisions is determined under and construed according to Federal law and, to the extent permissible, according to the laws of the state in which the Employer has its principal office. In case any provision of this Plan is held illegal or invalid for any reason, such determination shall not affect the

remaining provisions of this Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had never been included.

In the event of any conflict between the provisions of the Plan and the terms of any Annuity Contract issued hereunder, the provisions of the Plan control.

SECTION 10.10—LEGAL ACTIONS.

No person employed by the Employer; no Participant, former Participant, or their Beneficiaries; nor any other person having or claiming to have an interest in the Plan is entitled to any notice of process. A final judgment entered in any such action or proceeding shall be binding and conclusive on all persons having or claiming to have an interest in the Plan.

SECTION 10.11—SMALL AMOUNTS.

If consent of the Participant is not required for a benefit that is immediately distributable in the ELECTION PROCEDURES SECTION of Article VI, a Participant's entire Vested Account shall be paid in a single sum as of the earliest of his Retirement Date, the date he dies, or the date he has a Severance from Employment for any other reason (the date the Employer provides notice to the record keeper of the Plan of such event, if later). For purposes of this section, if the Participant's Vested Account is zero, the Participant shall be deemed to have received a distribution of such Vested Account. If a Participant would have received a distribution under the first sentence of this paragraph but for the fact that the Participant's consent was needed to distribute a benefit which is immediately distributable, and if at a later time consent would not be needed to distribute a benefit that is immediately distributable and such Participant has not again become an Employee, such Vested Account shall be paid in a single sum. This is a small amounts payment.

If a small amounts payment is made as of the date the Participant dies, the small amounts payment shall be made to the Participant's Beneficiary. If a small amounts payment is made while the Participant is living, the small amounts payment shall be made to the Participant. The small amounts payment is in full settlement of all benefits otherwise payable.

No other small amounts payments shall be made.

SECTION 10.12—WORD USAGE.

The masculine gender, where used in this Plan, shall include the feminine gender and the singular words, where used in this Plan, shall include the plural, unless the context indicates otherwise.

The words "in writing" and "written," where used in this Plan, shall include any other forms, such as voice response or other electronic system, as permitted by any governmental agency to which the Plan is subject.

SECTION 10.13—CHANGE IN SERVICE METHOD.

(a) Change of Service Method Under This Plan. If this Plan is amended to change the method of crediting service from the elapsed time method to the hours method for any purpose under this Plan, the Employee's service shall be equal to the sum of (1), (2), and (3) below:

(1) The number of whole years of service credited to the Employee under the Plan as of the date the change is effective.

(2) One year of service for the computation period in which the change is effective if he is credited with the required number of Hours of Service. For that portion of the computation period ending on the date of the change (for the first day of the computation period if the change is made on the first day of the computation period), the Employee will be credited with the greater of (i) his actual Hours of Service or (ii) the number of Hours of Service that is equivalent to the fractional part of a year of elapsed time service credited as of the date of the change, if any. In determining the equivalent Hours of Service, the Employee shall be credited with 190 Hours of Service for each month and any fractional part of a month in such fractional part of a year. The number of months and any fractional part of a month shall be determined by multiplying the fractional part of a year, expressed as a decimal, by 12. For the remaining portion of the computation period (the period beginning on the second day of the computation period and ending on the last day of the computation period if the change is made on the first day of the computation period), the Employee will be credited with his actual Hours of Service.

(3) The Employee's service determined under this Plan using the hours method after the end of the computation period in which the change in service method was effective.

If this Plan is amended to change the method of crediting service from the hours method to the elapsed time method for any purpose under this Plan, the Employee's service shall be equal to the sum of (4), (5), and (6) below:

(4) The number of whole years of service credited to the Employee under the Plan as of the beginning of the computation period in which the change in service method is effective.

(5) The greater of (i) the service that would be credited to the Employee for that entire computation period using the elapsed time method or (ii) the service credited to him under the Plan as of the date the change is effective.

(6) The Employee's service determined under this Plan using the elapsed time method after the end of the applicable computation period in which the change in service method was effective.

(b) Transfers Between Plans with Different Service Methods. If an Employee has been a participant in another plan of the Employer that credited service under the elapsed time method for any purpose that under this Plan is determined using the hours method, then the Employee's service shall be equal to the sum of (1), (2), and (3) below:

(1) The number of whole years of service credited to the Employee under the other plan as of the date he became an Eligible Employee under this Plan.

(2) One year of service for the applicable computation period in which he became an Eligible Employee if he is credited with the required number of Hours of Service. For that portion of such computation period ending on the date he became an Eligible Employee (for the first day of such computation period if he became an Eligible Employee on the first day of such computation period), the Employee will be credited with the greater of (i) his actual Hours of Service or (ii) the number of Hours of Service that is equivalent to the fractional part of a year of elapsed time service credited as of the date he became an Eligible Employee, if any. In determining the equivalent Hours of Service, the Employee shall be credited with 190 Hours of Service for each month

and any fractional part of a month in such fractional part of a year. The number of months and any fractional part of a month shall be determined by multiplying the fractional part of a year, expressed as a decimal, by 12. For the remaining portion of such computation period (the period beginning on the second day of such computation period and ending on the last day of such computation period if he became an Eligible Employee on the first day of such computation period), the Employee will be credited with his actual Hours of Service.

(3) The Employee's service determined under this Plan using the hours method after the end of the computation period in which he became an Eligible Employee.

If an Employee has been a participant in another plan of the Employer that credited service under the hours method for any purpose that under this Plan is determined using the elapsed time method, then the Employee's service shall be equal to the sum of (4), (5), and (6) below:

(4) The number of whole years of service credited to the Employee under the other plan as of the beginning of the computation period under that plan in which he became an Eligible Employee under this Plan.

(5) The greater of (i) the service that would be credited to the Employee for that entire computation period using the elapsed time method or (ii) the service credited to him under the other plan as of the date he became an Eligible Employee under this Plan.

(6) The Employee's service determined under this Plan using the elapsed time method after the end of the applicable computation period under the other plan in which he became an Eligible Employee.

If an Employee has been a participant in a Controlled Group member's plan that credited service under a different method than is used in this Plan, in order to determine entry and vesting, the provisions in (b) above shall apply as though the Controlled Group member's plan was a plan of the Employer.

Any modification of service contained in this Plan shall be applicable to the service determined pursuant to this section.

SECTION 10.14—MILITARY SERVICE.

Notwithstanding any provision of this Plan to the contrary, the Plan shall provide contributions, benefits, and service credit with respect to qualified military service in accordance with Code Section 414(u).

SECTION 10.15—INDEMNIFICATION.

To the extent not prohibited by state or federal law, the Employer agrees to, and shall indemnify and hold harmless, as the case may be, each Employee, officer or director of the Employer, or of an affiliate, who has responsibilities with respect to the operation or administration of the Plan, or the management or investment of any of the assets of the Plan, from all claims for liability, loss, damage or expense (including payment of reasonable expenses in connection with the defense against such claim) which result from any exercise or failure to exercise any of the indemnified person's responsibilities with respect to the Plan, other than by reason of gross negligence.

ARTICLE XI

TOP-HEAVY PLAN REQUIREMENTS

SECTION 11.01—APPLICATION.

The provisions of this article shall supersede all other provisions in the Plan to the contrary. The provisions of this article shall apply for purposes of determining whether the Plan is a Top-heavy Plan for Plan Years beginning after December 31, 2001, and whether the Plan satisfies the minimum benefit requirements of Code Section 416(c) for such years.

For the purpose of applying the Top-heavy Plan requirements of this article, all members of the Controlled Group shall be treated as one Employer. The term Employer, as used in this article, shall be deemed to include all members of the Controlled Group, unless the term as used clearly indicates only the Employer is meant.

The accrued benefit or account of a participant that results from deductible employee contributions shall not be included for any purpose under this article.

The minimum vesting and contribution provisions of the MODIFICATION OF VESTING REQUIREMENTS and MODIFICATION OF CONTRIBUTIONS SECTIONS of this article shall not apply to any Employee who is included in a group of Employees covered by a collective bargaining agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and one or more employers, including the Employer, if there is evidence that retirement benefits were the subject of good faith bargaining between such representatives. For this purpose, the term "employee representatives" does not include any organization more than half of whose members are employees who are owners, officers, or executives.

SECTION 11.02—DEFINITIONS.

For purposes of this article the following terms are defined:

Aggregation Group means:

(a) each of the Employer's qualified plans in which a Key Employee is a participant during the Plan Year containing the Determination Date (regardless of whether the plans have terminated) or one of the four preceding Plan Years,

(b) each of the Employer's other qualified plans which allows the plan(s) described in (a) above to meet the nondiscrimination requirement of Code Section 401(a)(4) or the minimum coverage requirement of Code Section 410, and

(c) any of the Employer's other qualified plans not included in (a) or (b) above which the Employer desires to include as part of the Aggregation Group. Such a qualified plan shall be included only if the Aggregation Group would continue to satisfy the requirements of Code Sections 401(a)(4) and 410.

The plans in (a) and (b) above constitute the "required" Aggregation Group. The plans in (a), (b), and (c) above constitute the "permissive" Aggregation Group.

Compensation means compensation as defined in the CONTRIBUTION LIMITATION SECTION of Article III.

Determination Date means as to any plan, for any plan year subsequent to the first plan year, the last day of the preceding plan year. For the first plan year of the plan, the Determination Date is the last day of that year.

Key Employee means any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the Determination Date is:

(a) an officer of the Employer having Compensation for the Plan Year greater than $130,000 (as adjusted under Code Section 416(i)(1) for Plan Years beginning after December 31, 2002),

(b) a 5-percent owner of the Employer, or

(c) a 1-percent owner of the Employer having Compensation for the Plan Year of more than $150,000.

The determination of who is a Key Employee shall be made according to Code Section 416(i)(1) and the applicable regulations and other guidance of general applicability issued thereunder.

Nonkey Employee means any Employee who is not a Key Employee.

Top-heavy Plan means a plan that is top-heavy for any plan year. This Plan shall be top-heavy if any of the following conditions exist:

(a) The Top-heavy Ratio for this Plan exceeds 60 percent and this Plan is not part of any required Aggregation Group or permissive Aggregation Group.

(b) This Plan is a part of a required Aggregation Group, but not part of a permissive Aggregation Group, and the Top-heavy Ratio for the required Aggregation Group exceeds 60 percent.

(c) This Plan is a part of a required Aggregation Group and part of a permissive Aggregation Group and the Top-heavy Ratio for the permissive Aggregation Group exceeds 60 percent.

Top-heavy Ratio means:

(a) If the Employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the Employer has not maintained any defined benefit plan which during the five-year period ending on the Determination Date(s) has or has had accrued benefits, the Top-heavy Ratio for this Plan alone or for the required or permissive Aggregation Group, as appropriate, is a fraction, the numerator of which is the sum of the account balances of all Key Employees as of the Determination Date(s) (including any part of any account balance distributed in the one-year period ending on the Determination Date(s) and distributions under a terminated plan which if it had not been terminated would have been required to be included in the Aggregation Group), and the denominator of which is the sum of all account balances (including any part of any account balance distributed in the one-year period ending on the Determination Date(s) and distributions under a terminated plan which if it had not been terminated would have been required to be included in the Aggregation Group), both computed in accordance with Code Section 416 and the regulations thereunder. In the case of a distribution made for a reason other than Severance from Employment, death, or disability, this provision shall be applied by substituting "five-year period" for "one-year period." Both the numerator and denominator of the Top-heavy Ratio are increased to reflect any contribution not actually made as of the Determination Date, but which is required to be taken into account on that date under Code Section 416 and the regulations thereunder.

(b) If the Employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the Employer maintains or has maintained one or more defined benefit plans which during the five-year period ending on the Determination Date(s) has or has had accrued benefits, the Top-heavy Ratio for any required or permissive Aggregation Group, as appropriate, is a fraction, the numerator of which is the sum of the account balances under the aggregated defined contribution plan or plans of all Key Employees determined in accordance with (a) above, and the present value of accrued benefits under the aggregated defined benefit plan or plans for all Key Employees as of the Determination Date(s), and the denominator of which is the sum of the account balances under the aggregated defined contribution plan or plans for all participants, determined in accordance with (a) above, and the present value of accrued benefits under the defined benefit plan or plans for all participants as of the Determination Date(s), all determined in accordance with Code Section 416 and the regulations thereunder. The accrued benefits under a defined benefit plan in both the numerator and denominator of the Top-heavy Ratio are increased for any distribution of an accrued benefit made in the one-year period ending on the Determination Date (and distributions under a terminated plan which if it had not been terminated would have been required to be included in the Aggregation Group). In the case of a distribution made for a reason other than Severance from Employment, death, or disability, this provision shall be applied by substituting "five-year period" for "one-year period."

(c) For purposes of (a) and (b) above, the value of account balances and the present value of accrued benefits will be determined as of the most recent Valuation Date that falls within or ends with the 12-month period ending on the Determination Date, except as provided in Code Section 416 and the regulations thereunder for the first and second plan years of a defined benefit plan. The account balances and accrued benefits of a participant (i) who is not a Key Employee but who was a Key Employee in a prior year or (ii) who has not been credited with at least one hour of service with any employer maintaining the plan at any time during the one-year period ending on the Determination Date will be disregarded. The calculation of the Top-heavy Ratio and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Code Section 416 and the regulations thereunder. Deductible employee contributions will not be taken into account for purposes of computing the Top-heavy Ratio. When aggregating plans, the value of account balances and accrued benefits will be calculated with reference to the Determination Dates that fall within the same calendar year.

The accrued benefit of a participant other than a Key Employee shall be determined under (i) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer, or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Code Section 411(b)(1)(C).

SECTION 11.03—MODIFICATION OF VESTING REQUIREMENTS.

If a Participant's Vesting Percentage determined under Article I is not at least as great as his Vesting Percentage would be if it were determined under a schedule permitted in Code Section 416, the following shall apply. During any Plan Year in which the Plan is a Top-heavy Plan, the Participant's Vesting Percentage shall be the greater of the Vesting Percentage determined under Article I or the schedule below.

VESTING SERVICE (whole years)	NONFORFEITABLE PERCENTAGE.

Less than 3	0
3 or more	100

The schedule above shall not apply to Participants who are not credited with an Hour of Service after the Plan first becomes a Top-heavy Plan. The Vesting Percentage determined above applies to the portion of the Participant's Account that is multiplied by a Vesting Percentage to determine his Vested Account, including benefits accrued before the effective date of Code Section 416 and benefits accrued before this Plan became a Top-heavy Plan.

If, in a later Plan Year, this Plan is not a Top-heavy Plan, a Participant's Vesting Percentage shall be determined under Article I. A Participant's Vesting Percentage determined under either Article I or the schedule above shall never be reduced and the election procedures of the AMENDMENTS SECTION of Article X shall apply when changing to or from the schedule as though the automatic change were the result of an amendment.

The part of the Participant's Vested Account resulting from the minimum contributions required pursuant to the MODIFICATION OF CONTRIBUTIONS SECTION of this article (to the extent required to be nonforfeitable under Code Section 416(b)) may not be forfeited under Code Section 411(a)(3)(B) or (D).

SECTION 11.04—MODIFICATION OF CONTRIBUTIONS.

During any Plan Year in which this Plan is a Top-heavy Plan, the Employer shall make a minimum contribution as of the last day of the Plan Year for each Nonkey Employee who is an Employee on the last day of the Plan Year and who was an Active Participant at any time during the Plan Year. A Nonkey Employee is not required to have a minimum number of Hours of Service or minimum amount of Compensation in order to be entitled to this minimum. A Nonkey Employee who fails to be an Active Participant merely because his Compensation is less than a stated amount or merely because of a failure to make mandatory participant contributions or, in the case of a cash or deferred arrangement, elective contributions shall be treated as if he were an Active Participant. The minimum is the lesser of (a) or (b) below:

(a) 3 percent of such person's Compensation for such Plan Year.

(b) The "highest percentage" of Compensation for such Plan Year at which the Employer's Contributions are made for or allocated to any Key Employee. The highest percentage shall be determined by dividing the Employer Contributions made for or allocated to each Key Employee during the Plan Year by the amount of his Compensation for such Plan Year, and selecting the greatest quotient (expressed as a percentage). To determine the highest percentage, all of the Employer's defined contribution plans within the Aggregation Group shall be treated as one plan. The minimum shall be the amount in (a) above if this Plan and a defined benefit plan of the Employer are required to be included in the Aggregation Group and this Plan enables the defined benefit plan to meet the requirements of Code Section 401(a)(4) or 410.

For purposes of (a) and (b) above, Compensation shall be limited by Code Section 401(a)(17).

If the Employer's contributions and allocations otherwise required under the defined contribution plan(s) are at least equal to the minimum above, no additional contribution shall be required. If the Employer's total contributions and allocations are less than the minimum above, the Employer shall contribute the difference for the Plan Year.

The minimum contribution applies to all of the Employer's defined contribution plans in the aggregate which are Top-heavy Plans. A minimum contribution under a profit sharing plan shall be made without regard to whether or not the Employer has profits.

If a person who is otherwise entitled to a minimum contribution above is also covered under another defined contribution plan of the Employer's which is a Top-heavy Plan during that same Plan Year, any additional contribution required to meet the minimum above shall be provided in this Plan.

If a person who is otherwise entitled to a minimum contribution above is also covered under a defined benefit plan of the Employer's that is a Top-heavy Plan during that same Plan Year, the minimum benefits for him shall not be duplicated. The defined benefit plan shall provide an annual benefit for him on, or adjusted to, a straight life basis equal to the lesser of:

(c) 2 percent of his average compensation multiplied by his years of service, or

(d) 20 percent of his average compensation.

Average compensation and years of service shall have the meaning set forth in such defined benefit plan for this purpose.

For purposes of this section, any employer contribution made according to a salary reduction or similar arrangement shall not apply in determining if the minimum contribution requirement has been met, but shall apply in determining the minimum contribution required. Matching contributions, as defined in Code Section 401(m), shall be taken into account for purposes of satisfying the minimum contribution requirements of Code Section 416(c)(2) and the Plan. Matching contributions that are used to satisfy the minimum contribution requirements shall be treated as matching contributions for purposes of the actual contribution percentage test and other requirements of Code Section 401(m).

The requirements of this section shall be met without regard to any Social Security contribution.

By executing this Plan, the Primary Employer acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the Plan's legal and tax implications.

Executed this 25th day of February, 2008.

NATURE'S SUNSHINE PRODUCTS, INC.

By: \s\ Stephen M. Bunker

CFO
Title

Defined Contribution Plan CL2006

NATURE'S SUNSHINE PRODUCTS, INC.
SUPPLEMENTAL ELECTIVE DEFERRAL PLAN
(restated January 1, 2008)

This is the Supplemental Elective Deferral Plan of Nature's Sunshine Products, Inc. as restated effective January 1. 2008. It is effective as of January 1, 2008 except as otherwise provided in this Plan.

This Plan as herein restated shall govern the benefits of any Member whose employment terminates on or after January 1, 2008 and the terms of this Plan as it existed prior to its restatement effective January 1, 2008 shall be disregarded.

This Plan is intended to comply with the provisions of Code Section 409A. For the period from January 1, 2005 through December 31, 2007, the Plan shall be administered and interpreted in accordance with a good faith interpretation of Code Section 409A and the guidance issued by the government relating thereto so as to avoid adverse tax consequences to participants in the Plan, including any transitional provisions of such guidance, notwithstanding the provisions of the Plan as it existed previous to this restatement. Subject to the foregoing sentences of this paragraph, the benefits of a Member whose employment terminates prior to January 1, 2008 shall be governed by the Plan as it existed at the time the employment terminated.

ARTICLE I

NAME

1.1 Name. The Plan shall be known as the "NATURE'S SUNSHINE PRODUCTS, INC. SUPPLEMENTAL ELECTIVE DEFERRAL PLAN" and is hereinafter sometimes referred to as the "Plan".

ARTICLE II

PURPOSE

2.1 Purpose. This Plan has been created for the primary purpose of providing certain selected employees and non-employee directors of the Employer with the ability to defer the receipt of income, including amounts that cannot be deferred under the Tax Deferred Retirement Plan of the Employer due to limitations in the law. The Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and shall be administered as such.

ARTICLE III

DEFINITIONS

When used herein, the following words shall have the meanings indicated, unless the context clearly indicates otherwise:

3.1 Account. The words "ACCOUNT" shall mean the Deferral Account described in Section 5.2 and the Employer Contribution Account described in Section 5.3.

3.2 Beneficiary. The word "BENEFICIARY" shall mean the person or persons entitled to receive benefits upon the death of a Member under this Plan.

3.3 Code. The word "CODE" shall mean the Internal Revenue Code of 1986, as amended.

3.4 Commencement Date. The words "Commencement Date" with respect to benefits payable on account of the Termination Date of the Member shall mean the Termination Date of the Member, provided, however, if the Member is a Specified Employee as of the Termination Date, then the Commencement Date shall be the date that is six months after the Termination Date.

(a) "Specified Employee" means a Member who as of the Termination Date of the Member is considered a Key Employee of the Employer or a Related Employer, any stock of which is publicly traded (whether on an established securities market or otherwise) as of the Termination Date.

(b) A Member is considered a "Key Employee" for the entire 12 month period beginning on a January 1 (this January 1 is referred to herein as the applicable effective date) if the Member meets the requirements of Code Section 416(i)(1)(A)(i), (ii), or (iii) (applying the applicable regulations thereunder but disregarding Code Section 416(i)(5)) at anytime during the 12-month period ending on the September 30 immediately preceding the applicable effective date. For example, if the Member met the applicable requirements of Code Section 416(i) listed above at anytime during the 12 month period from October 1, 2006 to September 30, 2007, then for the entire 2008 calendar year the Member will be considered a Key Employee.

(c) "Related Employer" means (i) a corporation which is a member of a controlled group of corporations (within the meaning of Section 1563(a) of the Code determined without regard to Sections 1563(a)(4) and (e)(3)(C) thereof) which includes the Employer, and (ii) any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code and regulations thereunder) with the Employer.

The words "Commencement Date" with respect to benefits payable on account of the Disability of the Member shall mean the date as of which the Plan Administrator determines that the Member has suffered a Disability. "Disability" for this purpose and for purposes of Article VII means an impairment which

results in the Member being disabled within the meaning of Section 409A(a)(2)(C) of the Code as determined by the Plan Administrator.

3.5 Compensation. The word "COMPENSATION" with respect to employees of the Employer has the following meaning:

(a) "Compensation" shall mean the total of all amounts paid by the Employer by reason of services performed by the Member, including any bonus pay.

(b) Notwithstanding the foregoing, the Member's Compensation shall be determined without taking into account any of the following:

(1) Contributions or payments by the Employer for or on account of the Member under any employee benefit plan, including but not limited to

any qualified pension plan and any health or welfare plan;

(2) Compensation that is not subject to employer income tax withholding under Code Section 3402 (or any successor thereof);

(3) Income caused by the exercise of stock options;

(4) Income attributable to benefits received under any long term disability plan maintained by the Company; and

(5) Automobile, moving or entertainment allowances; reimbursements for medical, professional or transportation expenses; excess group term life insurance coverage or other life insurance coverage; tuition refunds; expense reimbursements and other fringe benefits including such things as physical exams, Christmas gifts and service awards.

(c) Notwithstanding the foregoing, a Member's Compensation shall include contributions made on behalf of the Member under a salary reduction agreement to any plan of the Employer qualifying under Code Sections 125, 401(k), or 408(k), and any amounts deferred at the election of the Member pursuant to the terms of this Plan.

The word "COMPENSATION" with respect to members of the Board of Directors of the Employer who are not employees of the Employer shall mean the total amount paid for services as a member of the Board of Directors of the Employer.

3.6 Deferral Account. The words "DEFERRAL ACCOUNT" means the account maintained on the books of the Employer as described in Section 5.2.

3.7 Effective Date. The original "EFFECTIVE DATE" of this Plan was May 15, 1998. The effective date of this restatement is January 1, 2008.

3.8 Eligible Person. The word "Eligible Person" means any member of the Board of Directors of the Employer who is not an employee of the Employer, each employee who is an officer of the Employer, and each employee who is in an employment position that has the title of director. In addition, Eligible Person includes any other employee who is a member of a select group of management or highly compensated employee for purposes of ERISA designated as eligible by the Plan Administrator; provided, however, such employee shall be an Eligible Person only so long as so designated by the Plan Administrator which designation can be changed by the Plan Administrator at anytime in its sole discretion.

If the Plan Administrator determines that an employee who is a Member hereunder is no longer a member of a select group of management or highly compensated employees described in Section 201(2) of ERISA, such Member shall cease to be an Eligible Person hereunder and any deferral elections of the Member hereunder shall cease at the end of the year during which the determination is made.

3.9 Employer. The word "EMPLOYER" shall mean Nature's Sunshine Products, Inc. or any successor thereof, if its successor shall adopt this Plan.

3.10 Employer Contribution Account. The words "EMPLOYER CONTRIBUTION ACCOUNT" shall mean the account maintained on the books of the Employer as described in Section 5.3.

3.11 Member. The word "MEMBER" means a person who has become a participant in the Plan.

3.12 Plan. The word "PLAN" shall mean the Supplemental Elective Deferral Plan set forth in and by this document, as the same may be amended from time to time.

3.13 Plan Administrator. The words "Plan Administrator" shall mean the person or committee designated by the Employer to administer this Plan. In the absence of an effective designation, it shall mean the Employer.

3.14 Plan Year. The words "PLAN YEAR" shall mean the calendar year.

3.15 Tax Deferred Retirement Plan. The words "TAX DEFERRED RETIREMENT PLAN" shall mean the Nature's Sunshine Products, Inc. Tax Deferred Retirement Plan, and any successor to that Plan.

3.16 Termination Date. The words "TERMINATION DATE" mean the date as of which the Plan Administrator reasonably determines that no further personal services to the Employer or any Affiliate, whether as an employee or otherwise, will be provided by the Member (or reasonably determines that the anticipated level of bona fide services by the Member to be performed after such date is no more than 20 percent of the average level of services provided during the immediately preceding 36-month period (or the full period during which services were rendered if less than 36 months)). For purposes of this determination, the Member shall be treated as continuing to provide personal services for purposes of this Plan during the period up to six months that the Member is on military leave, sick leave or other bona fide leave of absence, or treated as continuing to provide personal service during the entire

period of such leave if the Member retains the right to reemployment under applicable law or by contract at the end of such leave.

"Affiliate" means (i) a corporation which is a member of a controlled group of corporations (within the meaning of Section 1563(a) of the Code determined without regard to Sections 1563(a)(4) and (e)(3)(C) thereof) which includes the Employer, provided that the phrase "more than 50 percent" shall be substituted for the phrase "at least 80 percent" in Section 1563(a)(1) of the Code, and (ii) any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code as modified by Section 415(h) of the Code and regulations thereunder) with the Employer.

3.16 Year of Employment. The words "Year of Employment" from a date shall mean a period of service for the Employer of one full year from such date. Periods of service will be aggregated, whether or not such periods were completed consecutively, using a decimal date chart selected by the Plan Administrator.

3.17 Unforeseeable Emergency. The words "Unforeseeable Emergency" of a Member mean a severe financial hardship to the Member resulting from an illness or accident of the Member, the spouse of the Member, the beneficiary of the Member or a dependent of the Member (as defined in Code Section 152, without regard to Code Sections 152(b)(1), (b)(2) and (d)(1)(B)), loss of the Member's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Member that is determined by the Plan Administrator to be an "unforeseeable emergency" within the meaning of Code Section 409A(a)(2)(B)(ii).

ARTICLE IV

ELIGIBILITY

4.1 Participation. An Eligible Person shall be entitled to make elective deferrals in accordance with the terms of this Plan. A Member shall cease to be eligible to make further elective deferrals under this Plan as of the end of the year during which the Member ceases to be an Eligible Person.

ARTICLE V

ACCOUNTS

5.1 Deferral Election.

(a) To the extent permitted by (b) below, each Member may elect to defer the receipt of a portion of his or her Compensation. The Plan Administrator may provide for separate elections with respect to regular salary and bonus payments. The election for a year must be made prior to the beginning of that year during which the services are performed to which the Compensation relates and it cannot be modified on or after the beginning of such year

with respect to that year. An election that is made or is effective for the immediately preceding year shall remain effective for the next year (and cannot be modified on or after the beginning of that next year with respect to that next year) if it is not affirmatively cancelled or amended by the Member in writing under the applicable rules and procedures established by the Plan Administrator prior to the first day of that next year.

Notwithstanding the forgoing, a Member who first becomes a Member during a year may make an election within 30 days of the date he or she first becomes a Member which election shall apply to Compensation relating to services performed after the election is made. For purposes of determining when a Member first becomes a Member of the Plan, any other plan of the Employer that must be aggregated with this Plan for purposes of applying the requirements of Code Section 409A shall be treated as part of this Plan.

An election shall be in writing and shall conform to the applicable rules and procedures established by the Plan Administrator.

(b) A Member who is an employee of the Employer may not elect to defer more than 75 percent of the regular salary of the Member which relates to the year to which the election relates and may not elect to defer more than 75 percent of the bonus payments which relate to the year to which the election relates.

(c) Notwithstanding the restrictions on the modification of elections of (a) above, the deferral elections of a Member who elects under Section 6.5 to receive a distribution upon an Unforeseeable Emergency shall be cancelled as of the date of the distribution under Section 6.5. The cancellation shall be applicable to all payroll periods of the year ending after the cancellation. Following a cancellation, no further elections of deferral may be made with respect to Compensation for services rendered during that year.

5.2 Establishment and Determination of Elective Account. The Employer shall establish an Elective Deferral Account on its books for each Member. The Deferral Account balance of a Member shall be adjusted as follows:

(a) Under rules established by the Plan Administrator, the Employer shall credit to the Deferral Account of the Member the amount specified in a proper election of the Member under Section 5.1 at the time such amount is removed from the Compensation of the Member and invested by the Employer. The Compensation actually paid to the Member for the period by the Employer shall be reduced by the amount credited to the Deferral Account under this Section 5.2(a).

(b) As of the end of each applicable period as established by the Plan Administrator (which may be daily or monthly or some other period selected from time to time by the Plan Administrator), and as of the date the benefit is payable under Article VII, the Employer shall adjust the Deferral Account of a Member under rules established by the Plan Administrator to reflect the increase or decrease that would have been incurred by the account during that applicable period if the account had been invested for the applicable period in the investments selected in advance by the Member from those made available by the Plan Administrator, or to

the extent no selection has properly been made, by adjusting the account to reflect the increase or decrease that would have been incurred by the account for the applicable period if the account had been invested for the applicable period in the fixed income fund selected in its sole discretion by the Plan Administrator.

(c) The Plan Administrator shall prescribe such rules as it deems necessary or appropriate regarding the adjustments to be made to the Deferral Accounts to reflect the timing of investment elections made by the Member and the timing of amounts being credited or debited to the Deferral Accounts.

The Deferral Account balance of a Member shall be debited with the amount paid to or on behalf of the Member under this Plan related to that account.

5.3 Establishment and Determination of Employer Contribution Account. The Employer shall establish an Employer Contribution Account on its books for each Member. The Employer Contribution Account of a Member shall be adjusted as follows:

(a) At the end of each Plan Year (and at such other times, if any, during a Plan Year as the Employer in its discretion shall select), the Employer shall credit to the Employer Contribution Account of a Member such amount, if any, as the Employer in its sole discretion may determine, which credit for a Plan Year for a Member may be zero and which credit for a Plan Year may vary among the Members as the Employer in its sole discretion may determine (including the possibility of no credit for some Members and varying amounts for other Members).

(b) As of the end of each applicable period as established by the Plan Administrator (which may be daily or monthly or some other period selected from time to time by the Plan Administrator), and as of the date the benefit is payable under Article VII, the Employer shall adjust the Employer Contribution Account of a Member under rules established by the Plan Administrator to reflect the increase or decrease that would have been incurred by the account for the applicable period if the account had been invested for the applicable period in the investments selected in advance by the Member from those made available by the Plan Administrator, or to the extent no selection has properly been made, by adjusting the account to reflect the increase or decrease that would have been incurred by the account for the applicable period if the account had been invested for the applicable period in the fixed income fund selected in its sole discretion by the Plan Administrator.

(c) The Plan Administrator shall prescribe such rules as it deems necessary or appropriate regarding the adjustments to be made to the Employer Contribution Account to reflect the timing of investment elections made by the Member and the timing of amounts being credited or debited to the Employer Contribution Account.

The Employer Contribution Account balance of a Member shall be debited with the amount paid to or on behalf of the Member under this Plan related to that account.

5.4 Statement of Accounts. The Plan Administrator shall provide to each Member within one hundred twenty (120) days after the close of each Plan Year, a statement in such form as the Plan Administrator selects setting forth the balance, if any, in the Accounts of the Member as of the last day of the Plan Year just ended.

5.5 Accounting Device Only. The Deferral Account and the Employer Contribution Account shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Member under this Plan. The Accounts shall not constitute or be treated as a trust fund of any kind.

ARTICLE VI

VESTING IN EMPLOYER CONTRIBUTIONS

6.1 Vesting in Employer Contributions. The Employer Contribution Account of a Member will be subject to a vesting schedule. A Member shall be vested in his or her Employer Contribution Account in accordance with the following schedule based upon Years of Employment from January 1, 2008:

Years of Employment	Vesting Percent
Less than 1	-0-
1	33 %
2	67 %
3 or more	100 %

Notwithstanding the foregoing, a Member shall be fully vested in all amounts credited to his or her Employer Contribution Account in the event of:

(a) Death of the Member; or

(b) Termination of the employment of the Member on account of Disability or after attainment of age 65.

The word "Disability" for purposes of this Article VI shall mean any medically determinable physical or mental impairment which is considered a "disability" under the terms of the most recent long term disability plan or policy of the Employer.

ARTICLE VII

PAYMENT OF ACCOUNTS

7.1 Benefit Payment. Upon the earlier of the Disability of the Member or the Termination Date of a Member, the Member shall be entitled to: (1) a payment equal to the amount

credited to his/her Elective Deferral Account as of his or her Commencement Date, and (2) a payment equal to the vested portion of his/her Employer Contribution Account as of the Commencement Date. The payment shall commence to be paid within 60 days of the Commencement Date on a date selected by the Plan Administrator in its sole discretion.

7.2 Form of Payment. The amount due the Member shall be paid in one of the following forms as selected by the Member in his or her initial election form or in a subsequent election that is valid in accordance with the terms of the Plan as it existed at the time the election was made:

(a) substantially equal monthly installments over three years; or

(b) substantially equal monthly installments over five years; or

(c) a single lump sum payment.

In the event payment is made in installments, the Account used to measure the amount due the Member shall continue to be adjusted for interest under rules prescribed by the Plan Administrator in accordance with the provisions of Section 5.2(b) and Section 5.3(b). In the event no form of payment is properly elected, the amount due the Member shall be paid in the form of installment payments over five years. Notwithstanding the foregoing, in the event the sum of the accounts of the Member at the Commencement Date does not exceed the limit of Code Section 402(g)(1)(B), determined as of the Commencement Date, such benefits shall be paid in the form of a single lump sum payment to the Member without regard to the form of payment elected by the Member.

7.3 Changes in Form of Payment. Prior to January 1, 2009, a Member may change his or her election of the form of payment for a Commencement Date to another form available under Section 7.2 by submitting a written election form to the Plan Administrator; provided such election shall not be effective for a Commencement Date that is less than 12 months from the date the election form was received by the Plan Administrator unless it is received at least 30 days before the Termination Date and the Plan Administrator, in its sole discretion, approves the form of payment selected. Notwithstanding the forgoing, a Member may not change a form of election on or after January 1, 2008 with respect to payments that would otherwise be received in 2008 or to cause payments to be made in 2008.

On and after January 1, 2009, a Member may change his or her election of the form of payment to another form available under Section 7.2 by submitting a written election form to the Plan Administrator; provided

(a) such election shall not take effect for a Commencement Date that is less than 12 months from the date the election form was received by the Plan Administrator; and

(b) if the Commencement Date is based upon a Termination Date, then notwithstanding any other provisions of this Plan the payment or payments to which the Member is entitled shall not commence to be paid to the Member until 5 years from the date that the payment or payments would otherwise have commenced if the election to change the form of payment had not been made.

7.4 Payment to Beneficiary. In the event a Member dies before receiving his or her full benefit under this Plan, the Employer shall pay any remaining amount due on behalf of the Member hereunder to the Beneficiary of the Member. Such payment shall be in the form of a single cash payment. The payment shall be paid within 60 days of the date of death on such date as the Plan Administrator in its sole discretion shall select. A Member may designate a Beneficiary on the form prescribed by and delivered to the Plan Administrator. If no Beneficiary is properly designated under this Plan, then the Beneficiary shall be the person entitled under the terms of the Tax Deferred Retirement Plan to receive any death benefits payable under the Tax Deferred Retirement Plan on account of the death of that Member. If there is no Beneficiary after application of the foregoing provisions of this Section, then the payment shall be made to the estate of the Member. If under these rules the benefits are payable to the estate of the Member, and either the Plan Administrator cannot locate a qualified representative of the deceased Member's estate, or if administration of the estate is not otherwise required, the Plan Administrator in its discretion may make the distribution to the deceased Member's heirs at law, determined in accordance with the law of the State of the Member's domicile in effect as of the date of the Member's death.

7.5 Distribution During Employment. Prior to the Commencement Date, a Member may request a distribution of the amount credited to his or her Account in the event of an Unforeseeable Emergency. The Plan Administrator shall determine, in a non-discriminatory manner, whether a Member has an Unforeseeable Emergency. A distribution may be made under this Section only if such distribution does not exceed the amount required to meet the immediate financial need created by the Unforeseeable Emergency as determined by the Plan Administrator applying the provisions of the applicable regulations under Code Section 409A (taking into account the tax costs of the distribution) and is not reasonably available from other resources of the Member as determined by the Plan Administrator applying the provisions of the applicable regulations under Code Section 409A, including reimbursement or compensation from insurance, liquidation of assets to the extent the liquidation does not cause severe financial hardship, and the cancellation of deferrals under this Plan and any other plan of the Employer.

7.6 Discretionary Distribution for Taxes. The Plan is intended to comply with the provisions of Code Section 409A. In the event the Plan fails to meet the requirements of Code Section 409A and the regulations promulgated thereunder, the Plan Administrator may, in the Plan Administrator's sole discretion, distribute to the affected Member(s) the amount(s) such Member(s) are required to include in income as a result of such failure of the Plan to comply with Code Section 409A and such regulations. In the event of such a distribution, the affected Member(s)'s benefits hereunder shall be adjusted to reflect the value of the amount so distributed.

At the discretion of the Plan Administrator, the amount necessary to pay the: (A) Federal Insurance Contributions Act tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2) (the "FICA Amount"), and/or (B) Railroad Retirement Act tax imposed under Code Sections 3201, 3211, 3231(e)(1) and 3231(e)(8) (the "RRTA Amount) on compensation deferred under the Plan, may be distributed to the affected Member and the benefits of such Member hereunder shall be adjusted to reflect the value of the amount so distributed. Additionally, in its discretion, the Plan Administrator may provide for the distribution to the affected Member of the amount necessary to pay the income tax at source on wages imposed under Code Section 3401 or the corresponding withholding provisions of applicable state, local, or foreign tax laws as a result of the distribution of the FICA Amount or RRTA

Amount, and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. In no event however, shall the total amount distributed pursuant to this paragraph to a particular Member with respect to the Member's deferrals under the Plan exceed the aggregate of the FICA Amount and the RRTA Amount with respect to such deferrals, and the income tax withholding related to such FICA Amount or RRTA Amount. The benefits of such Member hereunder shall be adjusted to reflect the value of the amount so distributed.

ARTICLE VIII

ADMINISTRATION OF THE PLAN

8.1 Plan Administration. The Plan Administrator shall have the authority to interpret the Plan and issue such administrative procedures as it deems appropriate. The Plan Administrator shall have the duty and responsibility of maintaining records, making the requisite calculations and disbursing the payments hereunder. The Plan Administrator's interpretations, determinations, regulations and calculations shall be final and binding on all persons and parties concerned.

8.2 Claims Procedure. The Plan Administrator shall establish reasonable procedures for the submission and review of claims with respect to benefits under the Plan. A copy of the claims procedures for the Plan shall be available from the Plan Administrator. The failure of a claimant to follow the claims procedures with respect to a claim, including the review procedures, shall result in the loss of the right to bring an action in court with respect to the claim.

8.3 Amendment and Termination. The Employer may amend or terminate the Plan at any time, provided, however, that (1) no such amendment or termination shall adversely affect the benefit to which a Member is entitled under Article VII prior to the date of such amendment or termination unless the change is necessary to keep the Plan in compliance with the applicable provisions of the law, including Code Section 409A, and (2) no such amendment or termination shall cancel or revoke an election made by the Member under Section 5.2 for the year in which the amendment or termination occurs prior to the end of that year unless to do so is determined by the Employer in good faith not to violate Code Section 409A. In the event of a termination, benefits shall be retained under the terms of the Plan until the Member reaches his or her Commencement Date under the Plan (or the earlier death of the Member); provided, however, the Employer may elect to make distribution earlier to the Member if the Employer determines in good faith that such distribution does not constitute a violation of Code Section 409A. The liabilities of this Plan relating to a Member may in the discretion of the Employer be transferred to another plan or program of the Employer, provided that the Employer determines in good faith that the transfer and the provisions of the plan or program receiving the transfer applicable to the transfer do not result in any change to the benefits being transferred that would cause such benefits to be subject to income taxation under the Code prior to distribution to the Member.

Except as otherwise expressly provided in other sections of this Plan, the payment of any benefits under the Plan may not be accelerated, including upon the amendment or termination of the Plan or a person ceasing to be an Eligible Person, except in a manner that the Employer determines in good faith does not violate Code Section 409A.

8.4 Payments. Subject to Section 8.9, the Employer will pay all benefits arising under this Plan. There shall be deducted from each payment any federal, state or local withholding or taxes or charges which may be required under applicable law as determined by the Employer.

8.5 Non-assignability of Benefits. The benefits payable hereunder or the right to receive future benefits under the Plan may not be anticipated, alienated, pledged, encumbered, or subjected to any charge or legal process, and if any attempt is made to do so, or a person eligible for any benefits becomes bankrupt, the interest under the Plan of the person affected may be terminated by the Plan Administrator which, in its sole discretion, may cause the same to be held or applied for the benefit of one or more of the dependents of such person or make any other disposition of such benefits that it deems appropriate.

8.6 Status of Plan. Nothing contained herein shall be construed as providing for assets to be held in trust or escrow or any other form of asset segregation for the Member or for any other person or persons to whom benefits are to be paid pursuant to the terms of this plan, the Member's only interest hereunder being the right to receive the benefits set forth herein. To the extent any person acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Employer.

8.7 Indemnification. To the extent permitted by law, the Employer shall indemnify each member of the Board of Directors and any other employee of the Employer to whom duties are assigned with respect to this Plan, against expenses (including any amount paid in settlement) reasonably incurred by him/her in

connection with any claims against him/her by reason of his/her conduct in the performance of his/her duties under the Plan, except in relation to matters as to which he/she acted fraudulently or in bad faith in the performance of such duties. This right of indemnification shall be in addition to any other right to which the Board or other person may be entitled as a matter of law or otherwise, and shall pass to the estate of a deceased person.

8.8 Reports and Records. The Plan Administrator and those to whom the Plan Administrator has delegated duties under the Plan shall keep records of all their proceedings and actions and shall maintain books of account, records, and other data as shall be necessary for the proper administration of the Plan and for compliance with applicable law.

8.9 Finances. The costs of the Plan shall be borne by the Employer. The rights of the Member (or of his Beneficiary) to benefits under the Plan shall be solely those of an unsecured general creditor of the Employer. Any assets acquired by or held by the Employer or set aside in a trust that may be established by the Employer shall not be deemed to be held as security for the performance of the obligations of the Employer under this Plan. Notwithstanding the foregoing, to the extent under the terms of any trust set up by an Employer payments are made by the Trustee of said Trust to the Member with respect to benefits under this Plan, such payments shall satisfy the obligations of the Employer hereunder to the extent of the payments made.

8.10 Nonguarantee of Employment. Nothing contained in this Plan shall be construed as a contract of employment between the Employer and any Member, or as a right of any

Member to be continued in employment of the Employer, or as a limitation on the right of the Employer to discharge any of its employees, with or without cause.

8.11 Applicable Law. All questions pertaining to the construction, validity and effect of the Plan shall be determined in accordance with the laws of the United States and to the extent not pre-empted by such laws, by the laws of the State of Utah.

8.12 Headings. The headings of Sections and Articles in this Plan are for convenience purposes only and shall in no way control or be used in the interpretation of the content of the Sections or Articles or this Plan as a whole.

8.13 Number and Gender. Where the context requires, the singular shall include the plural and the plural shall include the singular, and any gender shall include both other genders.

Dated this 4th day of September, 2008.

NATURE'S SUNSHINE PRODUCTS, INC.

By: \s\ Stephen M. Bunker

Name: Stephen M. Bunker

Title: Chief Financial Officer

EMPLOYMENT AGREEMENT

This Agreement, is effective as of the 1st day of November, 1994 (the "Effective Date"), and is by and between NATURE'S SUNSHINE PRODUCTS, INC., a Utah Corporation, having its principal place of business in Provo, Utah ("NSP"), and **DOUGLAS FAGGIOLI** the undersigned individual ("Employee").

RECITALS

WHEREAS, NSP is in the business of (i) manufacturing and selling numerous consumer products and services, including but not limited to herbs, vitamins, minerals, health foods, food supplements, skin care products and other health-related products, and (ii) distribution of products and services by the method of multilevel marketing/direct sales distribution;

WHEREAS, Employee has been employed by NSP since **April 18, 1983**; and

WHEREAS, both NSP and Employee desire to embody the terms and conditions of Employee's employment in a written agreement which shall supersede and revoke any and all prior agreements of employment, whether written or oral.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereby agree as follows:

GENERAL PROVISIONS

1. Employment: NSP hereby employs Employee and Employee hereby agrees to serve NSP as **Vice President-Finance, Chief Financial Officer**. Employee shall devote Employee's full time and efforts to NSP during the term of Employee's employment and shall act with complete loyalty to NSP.

NSP may assign Employee such additional or substitute titles and duties as NSP shall determine in its sole discretion. Employee shall at all times act in a professional manner. Employee shall perform the duties set forth in Exhibit "A", attached hereto, and such other duties as NSP may specify, in a competent and responsible manner and to NSP's reasonable satisfaction. Employee agrees to abide by the policies and procedures as may be set forth in handbooks, manuals and other materials provided by NSP.

2. Term: The term of Employee's employment shall be twelve months, and shall hereinafter be referred to as the "Initial Term." The Initial Term shall begin as of the Effective Date. Unless and until Employee's employment with NSP is terminated by NSP or Employee for any reason or no reason, at the end of the Initial Term this Agreement shall automatically be renewed and extended for additional periods of twelve months each and Employee's employment with NSP shall continue during the extended period.

3. Compensation:

(a) Base Salary: As compensation, NSP shall pay Employee a base salary of **$123,500 per year** ("Base Salary"). Base Salary shall be paid according to NSP's payroll schedule.

(b) Discretionary Bonus: Employee shall also be eligible to participate in the executive bonus program or any successor program (the "EBP"). Payment of any bonus under the EBP is in NSP's sole discretion according to the then current practice and criteria established by NSP.

(c) Employee's Benefits: Until Employee's employment is terminated, Employee shall be entitled to all standard employee benefits then in effect for employees of NSP holding comparable titles or positions (the "Benefits").

4. Termination:

(a) Discretionary Termination by NSP: NSP may terminate Employee's employment at will, subject to this Agreement and NSP's obligation to pay Severance Pay to Employee as provided in Section 5.

(b) Discretionary Termination by Employee: Employee may terminate Employee's employment by giving NSP at least two weeks' notice of said resignation.

(c) Termination for Cause by NSP: Notwithstanding anything in this Agreement, during the Initial Term and thereafter NSP may terminate Employee's employment immediately for Cause. For purposes of this Agreement, "Cause" shall include (i) material breach by Employee of this Agreement, (ii) performance by Employee deemed unsatisfactory to NSP acting reasonably, provided NSP's expectations for specific improvement are communicated to Employee in writing with a ninety day probation period allowed for the requisite improvement, (iii) Employee's dishonesty or violation of company rules by Employee including that certain Confidentiality Agreement by and between NSP and Employee, or (iv) Employee's conviction of or entrance of a plea of *nolo contendere* to a felony or to any other crime punishable by incarceration.

(d) Termination upon Death or Incapacity of Employee: Employee's employment with NSP shall, at the exclusive election of NSP, terminate upon the death or Incapacity of Employee. For purposes of Sections 4 and 5, termination of Employee's employment by reason of Employee's death or Incapacity shall be considered termination of Employee's employment by NSP *without* Cause and Employee shall receive the Severance Pay, if any, pursuant to Section 5.

(e) Definition of Incapacity: In this Agreement, "Incapacity" shall mean that Employee is for a period of 95 consecutive days or more, unable to perform Employee's duties effectively, for reasons such as emotional, mental or physical illness, deficiency or disability. In this Agreement, if any question arises as to the "Incapacity" of Employee, NSP shall promptly engage three physicians who are members of the American Medical Association to examine Employee and determine if Employee is able to perform the duties of Employee's employment with NSP. In the event Employee appears to have mental capacity to act, one of said three physicians shall be selected by Employee, one shall be selected by NSP, and one shall be selected by the other two physicians. The decision of the three physicians shall be conclusive for all purposes of this Agreement.

5. Effect of Termination on Compensation:

(a) Discretionary Termination by NSP: If Employee's employment is terminated by NSP *without Cause*, Employee shall be entitled to receive as severance pay ("Severance Pay") the following: (i) an amount equal to Base Salary for the twelve (12)) months from the date of termination (the "Severance Pay Period") and (ii) continuation of any coverage in effect at the date of termination for Employee and his or her family at NSP's expense under NSP's major medical and life insurance plans during the Severance Pay Period.

(b) Non-Renewal by NSP Without Cause; Death; Incapacity: If NSP *without Cause* does *not* renew Employee's employment at the end of the Initial Term, or the end of any employment period thereafter, or if Employee's employment is terminated by reason of Employee's death or Incapacity, then Employee (or Employee's estate or designated beneficiary, as the case may be) shall receive Severance Pay for the applicable Severance Pay Period.

(c) Termination by Employee; Termination or Non-Renewal by NSP For Cause: If Employee's employment is (i) terminated by Employee, or (ii) terminated for Cause or for Cause not renewed by NSP, Employee shall receive only Employee's Base Salary and the Benefits earned through the date of such termination.

(d) Payment: At the option of NSP, Severance Pay may be distributed in a lump sum or in regular biweekly checks over the Severance Pay Period. Any Severance Pay is subject to required payroll deductions and withholdings.

(e) Limitation: Except as provided in this Section 5, Employee shall not be entitled to any further or other Severance Pay, Base Salary, Benefits, compensation, damages or other amounts. Employee understands and agrees that notwithstanding anything in this Agreement, NSP's obligation to pay any Base Salary, benefits or Severance Pay after termination of employment depends upon Employee's compliance with the agreements and covenants of Sections 6 through 9. *Except as otherwise expressly provided in this Agreement, Employee shall not receive any health or life insurance coverage after the date of termination, except COBRA benefits, if any, as and to the extent prescribed by law.*

PROTECTION OF NSP

6. Noncompetition and Nonsolicitation:

(a) Definitions: In this Section 6, the "Restricted Territory" shall mean the United States and any country where (on the date the notice terminating Employee's employment is received) NSP is doing business or planning to do business within the next year through a subsidiary or joint venture. In this Section 6, the "Restrictive Period" shall mean the period **(i)** *commencing* with the Effective Date, and **(ii)** *ending* one year after the later of **(x)** the date of termination of Employee's employment (whether or not employment is terminated by NSP or Employee, or for Cause or otherwise), or **(y)** the date of final payment of Severance Pay was paid to Employee (or would have been paid but for a breach of this Agreement by Employee or for Cause termination of Employee's employment).

(b) Employee Noncompetition and Nonsolicitation Covenants: Employee hereby covenants and agrees that Employee shall not, directly or indirectly, in the Restricted Territory during the Restricted Period, do any of the following:

(i) own an interest in (other than less than one percent of a publicly traded company), operate, join, control, participate in or be a distributor, agent, consultant, independent contractor, employee, officer, director, partner, principal or shareholder of *any individual, person or entity having a majority of its gross sales from distribution of herbs and/or vitamins*;

(ii) plan for or organize any business which competes or would compete with*any herb or vitamin product of NSP,* or combine with any other employee or representative of NSP to organize any such competitive business;

(iii) solicit, induce or influence (or seek to induce or influence) any person under contract with NSP (including any associate or distributor of NSP) to terminate or alter his or her relationship with NSP; or

(iv) solicit any customer of NSP where the identity or any significant information about such customer was or is Confidential Information of NSP (as such term is defined in that certain Confidentiality Agreement by and between Employee and NSP).

(c) Extension of Restrictive Period: Employee agrees that NSP, in its sole discretion, may extend the Restrictive Period and the foregoing restrictive covenants in Section 6(b) for up to an additional year. To do so, NSP must (i) give Employee at least ninety days prior notice of its intention to extend the restrictive covenant, and (ii) pay Employee an amount equal to the Base Salary for and during the period of such extension. Any such payments shall be paid according to NSP's regular payroll schedule.

(d) Intentions: It is the intention of the parties that the foregoing restrictive covenant be enforced as written, and, in any other event, enforced to the greatest extent (but to no greater extent) in time, territory and degree of participation as permitted by applicable law.

7. Non-Disparagement: Employee hereby also covenants not to disparage, orally or in writing, NSP or its management (including NSP's products, practices and policies) to any NSP employee, associate, distributor or member of the public or press. Employee understands and agrees that Employee may lose any right to Severance Pay if Employee breaches this covenant not to disparage.

8. Acknowledgement: Employee acknowledges that Employee's covenants and agreements in Sections 6 and 7 are reasonable and necessary to protect the legitimate interests and Confidential Information of NSP. Employee acknowledges that Section 6 is not so broad as to prevent Employee from earning a livelihood or practicing Employee's chosen profession after termination of Employee's employment. The parties acknowledge and agree that the compensation and benefits provided for under this Agreement are in substantial part consideration for Employee's covenants in Sections 6 and 7.

9. Enforcement: For any breach of Section 6, 7, 8 or 9, Employee agrees that NSP is entitled to equitable and other injunctive relief which may include, but shall not be limited to restraining Employee from rendering any service or performing or participating in any activity in breach of this Agreement. However, no remedy available under this Agreement (including this Section 9) is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other available remedy or now hereafter existing at law or in equity, by statute or otherwise.

MISCELLANEOUS

10. Entire Agreement: This Agreement (including the recitals and Exhibit "A", attached hereto) sets forth the entire agreement and understanding between Employee and NSP and cannot be modified or altered, nor can any provision hereof be waived, except in writing signed by Employee and a duly authorized officer of NSP.

11. Interpretation: The Section and other headings in this Agreement are for reference only and shall not affect the construction of this Agreement. Whenever the context requires, the singular shall include the plural, the plural shall include the singular, and the whole shall include any part thereof.

12. Invalidity of Provision: If any provisions in this Agreement are held invalid, illegal or unenforceable in any respect for any reason, such invalid, illegal or unenforceable provision(s) shall be limited, construed or eliminated to the extent necessary to remove such invalidity, illegality or unenforceability and the other provisions of this Agreement shall not be affected thereby.

13. **Binding Effect:** This Agreement shall inure to the benefit of and be binding upon Employee and Employee's heirs and personal representatives, and upon NSP and its successors and assigns. Employee's covenants and agreements of Sections 6 through 9 shall survive the termination of Employee's employment by any means, reason or party.

14. **Waiver:** No waiver of any provision of this Agreement shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

15. **Notice:** Any notice given under this Agreement shall be in writing and shall be sufficient if personally delivered or sent by registered or certified mail and addressed, if to Employee, to Employee's address set forth in NSP's records, or if to NSP, to its principal office. Such notice shall be deemed given when delivered if delivered personally, or, if sent by registered or certified mail, at the earlier of actual receipt or three days after mailing in United States mail, addressed as aforesaid with postage prepaid.

16. **Governing Law:** This Agreement shall be governed by the laws of the State of Utah and any litigation arising out of it shall be conducted in applicable state courts located in Utah County or federal courts located in Salt Lake County, Utah. The parties expressly consent to such jurisdiction and venue.

AGREED TO AND ACCEPTED AS OF THE DATE FIRST ABOVE WRITTEN:

Employee:	Employer:
DOUGLAS FAGGIOLI	**NATURE'S SUNSHINE PRODUCTS, INC.**
\s\ Douglas Faggioli	By \s\ Brent F. Ashworth
Signature	Name Brent F. Ashworth
	Title Vice President – Legal

EXHIBIT "A"
TO
EMPLOYMENT AGREEMENT
BETWEEN
NATURE'S SUNSHINE PRODUCTS, INC.
AND
DOUGLAS FAGGIOLI

Duties of Employee

EMPLOYMENT AGREEMENT

This Agreement, is effective as of the 20th day of June, 2003 (the "Effective Date"), and is by and between NATURE'S SUNSHINE PRODUCTS, INC., a Utah Corporation, having its principal place of business in Provo, Utah ("NSP"), and the undersigned individual ("Employee").

RECITALS

WHEREAS, NSP is in the business of (i) manufacturing and selling numerous consumer products and services, including but not limited to herbs, vitamins, minerals, health foods, food supplements, skin care products and other health-related products, and (ii) distribution of products and services by the method of multilevel marketing/direct sales distribution; and

WHEREAS, Employee has been employed by NSP since December 18, 1989; and

WHEREAS, both NSP and Employee desire to embody the terms and conditions of Employee's employment in a written agreement which shall supersede and revoke any and all prior agreements of employment, whether written or oral.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereby agree as follows:

GENERAL PROVISIONS

1. Employment: NSP hereby employs Employee and Employee hereby agrees to serve NSP as its Vice President, International Europe. Employee shall devote Employee's full time and efforts to NSP during the term of Employee's employment and shall act with complete loyalty to NSP.

NSP may assign Employee such additional or substitute titles and duties as NSP shall determine in its sole discretion. Employee shall at all times act in a professional manner. Employee shall perform the duties set forth in Exhibit "A", attached hereto, and such other duties as NSP may specify, in a competent and responsible manner and to NSP's reasonable satisfaction. Employee agrees to abide by the policies and procedures as may be set forth in handbooks, manuals and other materials provided by NSP.

2. Term: The term of Employee's employment shall be twelve months, and shall hereinafter be referred to as the "Initial Term." The Initial Term shall begin as of the Effective Date. Unless and until Employee's employment with NSP is terminated by NSP or Employee for any reason or no reason, at the end of the Initial Term this Agreement shall automatically be renewed and extended for additional periods of twelve months each and Employee's employment with NSP shall continue during the extended period.

3. Compensation:

(a) Base Salary: As compensation, NSP shall pay Employee a base salary of $117,772 per year ("Base Salary"). Base Salary shall be paid according to NSP's payroll schedule.

(b) Discretionary Bonus: Employee shall also be eligible to participate in the executive bonus program or any successor program (the "EBP"). Payment of any bonus under the EBP is in NSP's sole discretion according to the then current practice and criteria established by NSP.

(c) Employee's Benefits: Until Employee's employment is terminated, Employee shall be entitled to all standard employee benefits then in effect for employees of NSP holding comparable titles or positions (the "Benefits").

(d) Stock Option: In addition to the base salary and bonus provided for in Sections 3(a) and 3(b) above NSP may from time to time grant to Employee options (the "Options") to purchase shares of NSP's common stock (the "Option Stock"), pursuant to the price, terms and conditions set forth in NSP's 1995 Stock Option Plan, as amended from time to time.

4. Termination:

(a) Discretionary Termination by NSP: Notwithstanding anything in this Agreement, during the Initial Term and thereafter NSP may terminate Employee's employment immediately for Cause. NSP may terminate Employee's employment at will, subject to this Agreement and NSP's obligation to pay Severance Pay to Employee as provided in Section 5.

(b) Discretionary Termination by Employee: Employee may terminate Employee's employment by giving NSP at least two weeks' notice of said resignation.

(c) Termination for Cause by NSP: Notwithstanding anything in this Agreement, during the Initial Term and thereafter NSP may terminate Employee's employment immediately for Cause. For purposes of this Agreement, "Cause" shall include (i) material breach by Employee of this Agreement, (ii) performance by Employee deemed unsatisfactory to NSP acting reasonably, provided NSP's expectations for specific improvement are communicated to Employee in writing with a ninety (90) day probation period allowed for the requisite improvement, (iii) Employee's dishonesty or violation of company rules by Employee including that certain Confidentiality Agreement by and between NSP and Employee, or (iv) Employee's conviction of or entrance of a plea of *nolo contendere* to a felony or to any other crime punishable by incarceration.

(d) Termination upon Death or Incapacity of Employee: Employee's employment with NSP shall, at the exclusive election of NSP, terminate upon the death or Incapacity of Employee. For purposes of Sections 4 and 5, termination of Employee's employment by reason of Employee's death or Incapacity shall be considered termination of Employee's employment by NSP *without* Cause and Employee shall receive the Severance Pay, if any, pursuant to Section 5.

(e) Definition of Incapacity: In this Agreement, "Incapacity" shall mean that Employee is for a period of ninety-five (95) consecutive days or more, unable to perform Employee's duties effectively, for reasons such as emotional, mental or physical illness, deficiency or disability. In this Agreement, if any question arises as to the "Incapacity" of Employee, NSP shall promptly engage three physicians who are members of the American Medical Association to examine Employee and determine if Employee is able to perform the duties of Employee's employment with NSP. In the event Employee appears to have mental capacity to act, one of said three physicians shall be selected by Employee, one shall be selected by NSP, and one shall be selected by the other two physicians. The decision of the three physicians shall be conclusive for all purposes of this Agreement.

5. Effect of Termination on Compensation:

(a) Discretionary Termination by NSP: If Employee's employment is terminated by NSP *without Cause*, Employee shall be entitled to receive as severance pay ("Severance

Pay") the following: (i) an amount equal to Base Salary for the twelve (12) months from the date of termination (the "Severance Pay Period") and (ii) continuation of any coverage in effect at the date of termination for Employee and his or her family at NSP's expense under NSP's major medical and life insurance plans during the Severance Pay Period.

(b) Non-Renewal by NSP Without Cause; Death; Incapacity: If NSP *without Cause* does *not* renew Employee's employment at the end of the Initial Term, or the end of any employment period thereafter, or if Employee's employment is terminated by reason of Employee's death or Incapacity, then Employee (or Employee's estate or designated beneficiary, as the case may be) shall receive Severance Pay during the Severance Pay Period.

(c) Termination by Employee; Termination or Non-Renewal by NSP For Cause: If Employee's employment is (i) terminated by Employee, or (ii) terminated for Cause or for Cause not renewed by NSP, Employee shall receive only Employee's Base Salary and the Benefits earned through the date of such termination.

(d) Payment: At the option of NSP, Severance Pay may be distributed in a lump sum or in regular biweekly checks over the Severance Pay Period. Any Severance Pay is subject to required payroll deductions and withholdings.

(e) Limitation: Except as provided in this Section 5, Employee shall not be entitled to any further or other Severance Pay, Base Salary, Benefits, compensation, damages or other amounts. Employee understands and agrees that notwithstanding anything in this Agreement, NSP's obligation to pay any Base Salary, benefits or Severance Pay after termination of employment depends upon Employee's compliance with the agreements and covenants of Sections 6 through 9. *Except as otherwise expressly provided in this Agreement, Employee shall not receive any health or life insurance coverage after the date of termination, except COBRA benefits, if any, as and to the extent prescribed by law.*

PROTECTION OF NSP

6. Noncompetition and Nonsolicitation:

(a) Definitions: In this Section 6, the "Restricted Territory" shall mean the United States and any country where (on the date the notice terminating Employee's employment is received) NSP is doing business or planning to do business within the next year through a subsidiary or joint venture. In this Section 6, the "Restrictive Period" shall mean the period **(i)** *commencing* with the Effective Date, and **(ii)** *ending* one year after the later of (x) the date of termination of Employee's employment (whether or not employment is terminated by NSP or Employee, or for Cause or otherwise), or (y) the date of final payment of Severance Pay was paid to Employee (or would have been paid but for a breach of this Agreement by Employee or for Cause termination of Employee's employment).

(b) Employee Noncompetition and Nonsolicitation Covenants: Employee hereby covenants and agrees that Employee shall not, directly or indirectly, in the Restricted Territory during the Restricted Period, do any of the following:

(i) own an interest in (other than less than one percent of a publicly traded company), operate, join, control, participate in or be a distributor, agent, consultant, independent contractor, employee, officer, director, partner, principal or shareholder of *any individual, person or entity having ten percent (10%) or more of its gross sales from distribution of herbs and/or vitamins*;

(ii) plan for or organize any business which competes or would compete with*any herb or vitamin product of NSP,* or combine with any other employee or representative of NSP to organize any such competitive business;

(iii) solicit, induce or influence (or seek to induce or influence) any person under contract with NSP (including any associate or distributor of NSP) to terminate or alter his or her relationship with NSP; or

(iv) solicit any customer of NSP where the identity or any significant information about such customer was or is Confidential Information of NSP (as such term is defined in that certain Confidentiality Agreement by and between Employee and NSP).

(c) Extension of Restrictive Period: Employee agrees that NSP, in its sole discretion, may extend the Restrictive Period and the foregoing restrictive covenants in Section 6(b) for up to an additional year. To do so, NSP must (i) give Employee at least ninety days prior notice of its intention to extend the restrictive covenant, and (ii) pay Employee an amount equal to the Base Salary for and during the period of such extension. Any such payments shall be paid according to NSP's regular payroll schedule.

(d) Intentions: It is the intention of the parties that the foregoing restrictive covenant be enforced as written, and, in any other event, enforced to the greatest extent (but to no greater extent) in time, territory and degree of participation as permitted by applicable law.

7. Non-Disparagement: Employee hereby also covenants not to disparage, orally or in writing, NSP or its management (including NSP's products, practices and policies) to any NSP employee, associate, distributor or member of the public or press. Employee understands and agrees that Employee may lose any right to Severance Pay if Employee breaches this covenant not to disparage.

8. Acknowledgement: Employee acknowledges that Employee's covenants and agreements in Sections 6 and 7 are reasonable and necessary to protect the legitimate interests and Confidential Information of NSP. Employee acknowledges that Section 6 is not so broad as to prevent Employee from earning a livelihood or practicing Employee's chosen profession after termination of Employee's employment. The parties acknowledge and agree that the compensation and benefits provided for under this Agreement are in substantial part consideration for Employee's covenants in Sections 6 and 7.

9. Enforcement: For any breach of Section 6, 7, 8 or 9, Employee agrees that NSP is entitled to equitable and other injunctive relief which may include, but shall not be limited to restraining Employee from rendering any service or performing or participating in any activity in breach of this Agreement. However, no remedy available under this Agreement (including this Section 9) is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other available remedy or now hereafter existing at law or in equity, by statute or otherwise.

MISCELLANEOUS

10. Entire Agreement: This Agreement (including the recitals and Exhibit "A", attached hereto) sets forth the entire agreement and understanding between Employee and NSP and cannot be modified or altered, nor can any provision hereof be waived, except in writing signed by Employee and a duly authorized officer of NSP.

11. Interpretation: The Section and other headings in this Agreement are for reference only and shall not affect the construction of this Agreement. Whenever the context requires, the singular shall include the plural, the plural shall include the singular, and the whole shall include any part thereof.

12. Invalidity of Provision: If any provisions in this Agreement are held invalid, illegal or unenforceable in any respect for any reason, such invalid, illegal or unenforceable provision(s) shall be limited, construed or eliminated to the extent necessary to remove such invalidity, illegality or unenforceability and the other provisions of this Agreement shall not be affected thereby.

13. Binding Effect: This Agreement shall inure to the benefit of and be binding upon Employee and Employee's heirs and personal representatives, and upon NSP and its successors and assigns. Employee's covenants and agreements of Sections 6 through 9 shall survive the termination of Employee's employment by any means, reason or party.

14. Waiver: No waiver of any provision of this Agreement shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

15. Notice: Any notice given under this Agreement shall be in writing and shall be sufficient if personally delivered or sent by registered or certified mail and addressed, if to Employee, to Employee's address set forth in NSP's records, or if to NSP, to its principal office. Such notice shall be deemed given when delivered if delivered personally, or, if sent by registered or certified mail, at the earlier of actual receipt or three days after mailing in United States mail, addressed as aforesaid with postage prepaid.

16. Governing Law: This Agreement shall be governed by the laws of the State of Utah and any litigation arising out of it shall be conducted in applicable state courts located in Utah County or federal courts located in Salt Lake County, Utah. The parties expressly consent to such jurisdiction and venue.

AGREED TO AND ACCEPTED AS OF THE DATE FIRST ABOVE WRITTEN:

Employee:

ROBERT W. SHAFFER

\s\ Robert W. Shaffer
Signature

Employer:

NATURE'S SUNSHINE PRODUCTS, INC.

By \s\Douglas Faggioli

Name Douglas Faggioli

Title C.O.O.

EXHIBIT "A"
TO
EMPLOYMENT AGREEMENT
BETWEEN
NATURE'S SUNSHINE PRODUCTS, INC.
AND
ROBERT W. SHAFFER

03062
NATURE'S SUNSHINE PRODUCTS, INC.
JOB DESCRIPTION

Job Title: Vice President-International-Europe
Department: International
Reports to: President-International

Effective: March, 2002
Status: Exempt

GENERAL SUMMARY

Performs the following types of duties: directs, coordinates and administers certain international operations under assigned area of responsibility; responsible for the attainment of profitability, sales growth and other strategic goals for international business units; manages efforts of general managers; works to develop current and long-range objectives, policies and procedures; supports conceptual, strategic and policy formulation functions related to assigned areas or responsibility; is a member of the International Executive Committee; performs other related duties as assigned.

ESSENTIAL DUTIES & RESPONSIBILITIES

40%	Directs the development of international strategies, budgets and personnel plans to achieve corporate objectives. Directly supervises the activities of international general managers and department staff members as assigned.
20%	Participates with the Vice President of International in business decision making, strategic planning and operating plans for international units of the company to ensure achievement of objectives.
20%	Develops and interprets company policies. Plans, organizes, staffs and directs efforts associated with the management of existing international businesses.
20%	Provides strategic information to the Vice President of International concerning the operation of international business units. Further analyzes international business performances and situations by frequent international travel to local business units.

KNOWLEDGE, SKILLS, AND ABILITIES REQUIRED

Knowledge: Broad and extensive international business knowledge specific to direct sales and MLM business.

Skill: Highly developed analytical, marketing, communication and leadership skills involving worldwide operations.
Ability to deal effectively at the highest corporate level and with members of NSP's international businesses. To provide effective support and counsel to the Vice President of International.

EXPERIENCE/EDUCATION

The equivalent of a Masters degree in international business plus more than five years international, general, and marketing/sales management experience in the direct sales or MLM industry, with two of the five years acting as a General Manager in a foreign country.

EMPLOYMENT AGREEMENT

This Agreement, is effective as of the 16th day of April, 2001 (the "Effective Date"), and is by and between NATURE'S SUNSHINE PRODUCTS, INC., a Utah Corporation, having its principal place of business in Provo, Utah ("NSP"), and the undersigned individual ("Employee").

RECITALS

WHEREAS, NSP is in the business of (i) manufacturing and selling numerous consumer products and services, including but not limited to herbs, vitamins, minerals, health foods, food supplements, skin care products and other health-related products, and (ii) distribution of products and services by the method of multilevel marketing/direct sales distribution; and

WHEREAS, both NSP and Employee desire to embody the terms and conditions of Employee's employment in a written agreement which shall supersede and revoke any and all prior agreements of employment, whether written or oral.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereby agree as follows:

GENERAL PROVISIONS

1. Employment: NSP hereby employs Employee and Employee hereby agrees to serve NSP as its Vice President Health Sciences/Educational Sciences. Employee shall devote Employee's full time and efforts to NSP during the term of Employee's employment and shall act with complete loyalty to NSP.

NSP may assign Employee such additional or substitute titles and duties as NSP shall determine in its sole discretion. Employee shall at all times act in a professional manner. Employee shall perform the duties set forth in Exhibit "A", attached hereto, and such other duties as NSP may specify, in a competent and responsible manner and to NSP's reasonable satisfaction. Employee agrees to abide by the policies and procedures as may be set forth in handbooks, manuals and other materials provided by NSP.

2. Term: The term of Employee's employment shall be twelve months, and shall hereinafter be referred to as the "Initial Term." The Initial Term shall begin as of the Effective Date. Unless and until Employee's employment with NSP is terminated by NSP or Employee for any reason or no reason, at the end of the Initial Term this Agreement shall automatically be renewed and extended for additional periods of twelve months each and Employee's employment with NSP shall continue during the extended period.

3. Compensation:

(a) Base Salary: As compensation, NSP shall pay Employee a base salary of $125,000 per year ("Base Salary"). Base Salary shall be paid according to NSP's payroll schedule.

(b) Discretionary Bonus: Employee shall also be eligible to participate in the executive bonus program or any successor program (the "EBP"). Payment of any bonus under the EBP is in NSP's sole discretion according to the then current practice and criteria established by NSP.

(c) Employee's Benefits: Until Employee's employment is terminated, Employee shall be entitled to all standard employee benefits then in effect for employees of NSP holding comparable titles or positions (the "Benefits").

(d) Stock Option: In addition to the base salary and bonus provided for in Sections 3(a) and 3(b) above NSP may from time to time grant to Employee options (the "Options") to purchase shares of NSP's common stock (the "Option Stock"), pursuant to the price, terms and conditions set forth in NSP's 1995 Stock Option Plan, as amended from time to time.

4. Termination:

(a) Discretionary Termination by NSP: Notwithstanding anything in this Agreement, during the Initial Term and thereafter NSP may terminate Employee's employment immediately for Cause. NSP may terminate Employee's employment at will, subject to this Agreement and NSP's obligation to pay Severance Pay to Employee as provided in Section 5.

(b) Discretionary Termination by Employee: Employee may terminate Employee's employment by giving NSP at least two weeks' notice of said resignation.

(c) Termination for Cause by NSP: Notwithstanding anything in this Agreement, during the Initial Term and thereafter NSP may terminate Employee's employment immediately for Cause. For purposes of this Agreement, "Cause" shall include (i) material breach by Employee of this Agreement, (ii) performance by Employee deemed unsatisfactory to NSP acting reasonably, provided NSP's expectations for specific improvement are communicated to Employee in writing with a ninety (90) day probation period allowed for the requisite improvement, (iii) Employee's dishonesty or violation of company rules by Employee including that certain Confidentiality Agreement by and between NSP and Employee, or (iv) Employee's conviction of or entrance of a plea of *nolo contendere* to a felony or to any other crime punishable by incarceration.

(d) Termination upon Death or Incapacity of Employee: Employee's employment with NSP shall, at the exclusive election of NSP, terminate upon the death or Incapacity of Employee. For purposes of Sections 4 and 5, termination of Employee's employment by reason of Employee's death or Incapacity shall be considered termination of Employee's employment by NSP *without* Cause and Employee shall receive the Severance Pay, if any, pursuant to Section 5.

(e) Definition of Incapacity: In this Agreement, "Incapacity" shall mean that Employee is for a period of ninety-five (95) consecutive days or more, unable to perform Employee's duties effectively, for reasons such as emotional, mental or physical illness, deficiency or disability. In this Agreement, if any question arises as to the "Incapacity" of Employee, NSP shall promptly engage three physicians who are members of the American Medical Association to examine Employee and determine if Employee is able to perform the duties of Employee's employment with NSP. In the event Employee appears to have mental capacity to act, one of said three physicians shall be selected by Employee, one shall be selected by NSP, and one shall be selected by the other two physicians. The decision of the three physicians shall be conclusive for all purposes of this Agreement.

5. Effect of Termination on Compensation:

(a) Discretionary Termination by NSP: If Employee's employment is terminated by NSP *without Cause*, Employee shall be entitled to receive as severance pay ("Severance Pay") the following: (i) an amount equal to Base Salary for the three (3) months from the date of termination (the "Severance Pay Period") and (ii) continuation of any coverage in effect at the date of termination for Employee and his or her family at NSP's expense under NSP's major medical and life insurance plans during the Severance Pay Period.

(b) Non-Renewal by NSP Without Cause; Death; Incapacity: If NSP *without Cause* does *not* renew Employee's employment at the end of the Initial Term, or the end of any

employment period thereafter, or if Employee's employment is terminated by reason of Employee's death or Incapacity, then Employee (or Employee's estate or designated beneficiary, as the case may be) shall receive Severance Pay during the Severance Pay Period.

(c) Termination by Employee; Termination or Non-Renewal by NSP For Cause: If Employee's employment is (i) terminated by Employee, or (ii) terminated for Cause or for Cause not renewed by NSP, Employee shall receive only Employee's Base Salary and the Benefits earned through the date of such termination.

(d) Payment: At the option of NSP, Severance Pay may be distributed in a lump sum or in regular biweekly checks over the Severance Pay Period. Any Severance Pay is subject to required payroll deductions and withholdings.

(e) Limitation: Except as provided in this Section 5, Employee shall not be entitled to any further or other Severance Pay, Base Salary, Benefits, compensation, damages or other amounts. Employee understands and agrees that notwithstanding anything in this Agreement, NSP's obligation to pay any Base Salary, benefits or Severance Pay after termination of employment depends upon Employee's compliance with the agreements and covenants of Sections 6 through 9. *Except as otherwise expressly provided in this Agreement, Employee shall not receive any health or life insurance coverage after the date of termination, except COBRA benefits, if any, as and to the extent prescribed by law.*

PROTECTION OF NSP

6. Noncompetition and Nonsolicitation:

(a) Definitions: In this Section 6, the "Restricted Territory" shall mean the United States and any country where (on the date the notice terminating Employee's employment is received) NSP is doing business or planning to do business within the next year through a subsidiary or joint venture. In this Section 6, the "Restrictive Period" shall mean the period **(i)** *commencing* with the Effective Date, and **(ii)** *ending* one year after the later of (x) the date of termination of Employee's employment (whether or not employment is terminated by NSP or Employee, or for Cause or otherwise), or (y) the date of final payment of Severance Pay was paid to Employee (or would have been paid but for a breach of this Agreement by Employee or for Cause termination of Employee's employment).

(b) Employee Noncompetition and Nonsolicitation Covenants: Employee hereby covenants and agrees that Employee shall not, directly or indirectly, in the Restricted Territory during the Restricted Period, do any of the following:

(i) own an interest in (other than less than one percent of a publicly traded company), operate, join, control, participate in or be a distributor, agent, consultant, independent contractor, employee, officer, director, partner, principal or shareholder of *any individual, person or entity having ten percent (10%) or more of its gross sales from distribution of herbs and/or vitamins*;

(ii) plan for or organize any business which competes or would compete with*any herb or vitamin product of NSP,* or combine with any other employee or representative of NSP to organize any such competitive business;

(iii) solicit, induce or influence (or seek to induce or influence) any person under contract with NSP (including any associate or distributor of NSP) to terminate or alter his or her relationship with NSP; or

(iv) solicit any customer of NSP where the identity or any significant information about such customer was or is Confidential Information of NSP (as such term is defined in that certain Confidentiality Agreement by and between Employee and NSP).

(c) Extension of Restrictive Period: Employee agrees that NSP, in its sole discretion, may extend the Restrictive Period and the foregoing restrictive covenants in Section 6(b) for up to an additional year. To do so, NSP must (i) give Employee at least ninety days prior notice of its intention to extend the restrictive covenant, and (ii) pay Employee an amount equal to the Base Salary for and during the period of such extension. Any such payments shall be paid according to NSP's regular payroll schedule.

(d) Intentions: It is the intention of the parties that the foregoing restrictive covenant be enforced as written, and, in any other event, enforced to the greatest extent (but to no greater extent) in time, territory and degree of participation as permitted by applicable law.

7. Non-Disparagement: Employee hereby also covenants not to disparage, orally or in writing, NSP or its management (including NSP's products, practices and policies) to any NSP employee, associate, distributor or member of the public or press. Employee understands and agrees that Employee may lose any right to Severance Pay if Employee breaches this covenant not to disparage.

8. Acknowledgement: Employee acknowledges that Employee's covenants and agreements in Sections 6 and 7 are reasonable and necessary to protect the legitimate interests and Confidential Information of NSP. Employee acknowledges that Section 6 is not so broad as to prevent Employee from earning a livelihood or practicing Employee's chosen profession after termination of Employee's employment. The parties acknowledge and agree that the compensation and benefits provided for under this Agreement are in substantial part consideration for Employee's covenants in Sections 6 and 7.

9. Enforcement: For any breach of Section 6, 7, 8 or 9, Employee agrees that NSP is entitled to equitable and other injunctive relief which may include, but shall not be limited to restraining Employee from rendering any service or performing or participating in any activity in breach of this Agreement. However, no remedy available under this Agreement (including this Section 9) is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other available remedy or now hereafter existing at law or in equity, by statute or otherwise.

MISCELLANEOUS

10. Entire Agreement: This Agreement (including the recitals and Exhibit "A", attached hereto) sets forth the entire agreement and understanding between Employee and NSP and cannot be modified or altered, nor can any provision hereof be waived, except in writing signed by Employee and a duly authorized officer of NSP.

11. Interpretation: The Section and other headings in this Agreement are for reference only and shall not affect the construction of this Agreement. Whenever the context requires, the singular shall include the plural, the plural shall include the singular, and the whole shall include any part thereof.

12. Invalidity of Provision: If any provisions in this Agreement are held invalid, illegal or unenforceable in any respect for any reason, such invalid, illegal or unenforceable provision(s) shall be limited, construed or eliminated to the extent necessary to remove such invalidity, illegality or unenforceability and the other provisions of

this Agreement shall not be affected thereby.

13. Binding Effect: This Agreement shall inure to the benefit of and be binding upon Employee and Employee's heirs and personal representatives, and upon NSP and its successors and assigns. Employee's covenants and agreements of Sections 6 through 9 shall survive the termination of Employee's employment by any means, reason or party.

14. Waiver: No waiver of any provision of this Agreement shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

15. Notice: Any notice given under this Agreement shall be in writing and shall be sufficient if personally delivered or sent by registered or certified mail and addressed, if to Employee, to Employee's address set forth in NSP's records, or if to NSP, to its principal office. Such notice shall be deemed given when delivered if delivered personally, or, if sent by registered or certified mail, at the earlier of actual receipt or three days after mailing in United States mail, addressed as aforesaid with postage prepaid.

16. Governing Law: This Agreement shall be governed by the laws of the State of Utah and any litigation arising out of it shall be conducted in applicable state courts located in Utah County or federal courts located in Salt Lake County, Utah. The parties expressly consent to such jurisdiction and venue.

AGREED TO AND ACCEPTED AS OF THE DATE FIRST ABOVE WRITTEN:

Employee:

WILLIAM KELLER

\s\ William J. Keller
Signature

Employer:

NATURE'S SUNSHINE PRODUCTS, INC.

By \s\ Jerry L. McLaughlin

Name Jerry L. McLaughlin

Title VP RD/QA/CSO

EXHIBIT "A"
TO
EMPLOYMENT AGREEMENT
BETWEEN
NATURE'S SUNSHINE PRODUCTS, INC.
AND
WILLIAM KELLER

Duties of Employee

06071
NATURE'S SUNSHINE PRODUCTS, INC.
JOB DESCRIPTION

Job Title: Vice President of Health Sciences and Educational Services — Effective: April, 2001
Department: R&D Health Sciences — Status: Exempt
Reports to: VP R&D/QA (CSO)

GENERAL SUMMARY

Performs the following types of duties: leads company's Health Science and Educational Services activities; participates in the development of company products; reviews current literature and research related to the industry and investigates product development opportunities to achieve leading-edge product performance; participates with CSO and other executives in strategic planning, contributing a pharmacologists scientific viewpoint to product, market strategy, business and resource allocation decisions; coordinates educational services with Marketing, International, and Sales; directs the efforts of researching and answering health related questions worldwide; performs other related duties as assigned.

ESSENTIAL DUTIES & RESPONSIBILITIES

20%	Coordinates educational services with Marketing, International, and Sales. Recruits lecturers, from among the scientific staff, who can help Sales with conference calls, TV promotions, seminars, meetings, written communications, etc. to promote NSP and its products to our Managers, Distributors, and the consuming public.
10%	Directs Health sciences in researching and answering health-related questions for customers worldwide.
10%	Supervises the logging and reviewing of technical inquiries and adverse effect reports regarding NSP products. Informs regulatory agencies of clusters of such reports, when necessary, and makes recommendations in emergency situations such as recalls.
10%	Serves on the committee for new and improved products. Contributes to new product concepts and developments. Reviews the literature and advises the committee and NSP regarding new developments, untoward effects, and all relevant health matters.
10%	Supervises the NSP reference library, the acquisition of new books and periodicals, and the subscriptions to on-line information services regarding health and science.
10%	Supervises clinical trials involving NSP products. Organizes and coordinates the Investigational Review Board.

10%	Supports international registrations of NSP products; works with R&D in developing products for new International markets.
10%	Supervises the review of product literature, tapes, etc. for accuracy as to claims and assures that all claims are accurate and are properly documented.
10%	Presents lectures and seminars, domestically and internationally, to help promote nutritional science, NSP, and its products.

KNOWLEDGE, SKILLS, AND ABILITIES REQUIRED

Knowledge: Thorough knowledge of herbs, vitamins, and other dietary supplements.
Skill: Skilled in scientific research and laboratory procedures.
Ability to communicate effectively with people at all levels of knowledge, from scientists and doctors to Managers and Distributors.

EXPERIENCE/EDUCATION

Ph.D. in pharmacology and/or related experience desirable. A minimum of ten years of related experience in either an academic or industrial environment.

EMPLOYMENT AGREEMENT

This Agreement, is effective as of the 20th day of September, 1999 (the "Effective Date"), and is by and between NATURE'S SUNSHINE PRODUCTS, INC., a Utah Corporation, having its principal place of business in Provo, Utah ("NSP"), and **JOHN DEWYZE** the undersigned individual ("Employee").

RECITALS

WHEREAS, NSP is in the business of (i) manufacturing and selling numerous consumer products and services, including but not limited to herbs, vitamins, minerals, health foods, food supplements, skin care products and other health-related products, and (ii) distribution of products and services by the method of multilevel marketing/direct sales distribution;

WHEREAS, Employee has been employed by NSP since **June 24, 1997**; and

WHEREAS, both NSP and Employee desire to embody the terms and conditions of Employee's employment in a written agreement which shall supersede and revoke any and all prior agreements of employment, whether written or oral.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereby agree as follows:

GENERAL PROVISIONS

1. Employment: NSP hereby employs Employee and Employee hereby agrees to serve NSP as **Vice President, Operations**. Employee shall devote Employee's full time and efforts to NSP during the term of Employee's employment and shall act with complete loyalty to NSP.

NSP may assign Employee such additional or substitute titles and duties as NSP shall determine in its sole discretion. Employee shall at all times act in a professional manner. Employee shall perform the duties set forth in Exhibit "A", attached hereto, and such other duties as NSP may specify, in a competent and responsible manner and to NSP's reasonable satisfaction. Employee agrees to abide by the policies and procedures as may be set forth in handbooks, manuals and other materials provided by NSP.

2. Term: The term of Employee's employment shall be twelve months, and shall hereinafter be referred to as the "Initial Term." The Initial Term shall begin as of the Effective Date. Unless and until Employee's employment with NSP is terminated by NSP or Employee for any reason or no reason, at the end of the Initial Term this Agreement shall automatically be renewed and extended for additional periods of twelve months each and Employee's employment with NSP shall continue during the extended period.

3. Compensation:

(a) Base Salary: As compensation, NSP shall pay Employee a base salary of **$136,886.62 per year** ("Base Salary"). Base Salary shall be paid according to NSP's payroll schedule.

(b) Discretionary Bonus: Employee shall also be eligible to participate in the executive bonus program or any successor program (the "EBP"). Payment of any bonus under the EBP is in NSP's sole discretion according to the then current practice and criteria established by NSP.

(c) Employee's Benefits: Until Employee's employment is terminated, Employee shall be entitled to all standard employee benefits then in effect for employees of NSP holding comparable titles or positions (the "Benefits").

4. Termination:

(a) Discretionary Termination by NSP: NSP may terminate Employee's employment at will, subject to this Agreement and NSP's obligation to pay Severance Pay to Employee as provided in Section 5.

(b) Discretionary Termination by Employee: Employee may terminate Employee's employment by giving NSP at least two weeks' notice of said resignation.

(c) Termination for Cause by NSP: Notwithstanding anything in this Agreement, during the Initial Term and thereafter NSP may terminate Employee's employment immediately for Cause. For purposes of this Agreement, "Cause" shall include (i) material breach by Employee of this Agreement, (ii) performance by Employee deemed unsatisfactory to NSP acting reasonably, provided NSP's expectations for specific improvement are communicated to Employee in writing with a ninety day probation period allowed for the requisite improvement, (iii) Employee's dishonesty or violation of company rules by Employee including that certain Confidentiality Agreement by and between NSP and Employee, or (iv) Employee's conviction of or entrance of a plea of *nolo contendere* to a felony or to any other crime punishable by incarceration.

(d) Termination upon Death or Incapacity of Employee: Employee's employment with NSP shall, at the exclusive election of NSP, terminate upon the death or Incapacity of Employee. For purposes of Sections 4 and 5, termination of Employee's employment by reason of Employee's death or Incapacity shall be considered termination of Employee's employment by NSP *without* Cause and Employee shall receive the Severance Pay, if any, pursuant to Section 5.

(e) Definition of Incapacity: In this Agreement, "Incapacity" shall mean that Employee is for a period of 95 consecutive days or more, unable to perform Employee's duties effectively, for reasons such as emotional, mental or physical illness, deficiency or disability. In this Agreement, if any question arises as to the "Incapacity" of Employee, NSP shall promptly engage three physicians who are members of the American Medical Association to examine Employee and determine if Employee is able to perform the duties of Employee's employment with NSP. In the event Employee appears to have mental capacity to act, one of said three physicians shall be selected by Employee, one shall be selected by NSP, and one shall be selected by the other two physicians. The decision of the three physicians shall be conclusive for all purposes of this Agreement.

5. Effect of Termination on Compensation:

(a) Discretionary Termination by NSP: If Employee's employment is terminated by NSP *without Cause*, Employee shall be entitled to receive as severance pay ("Severance Pay") the following: (i) an amount equal to Base Salary for the twelve (12)) months from the date of termination (the "Severance Pay Period") and (ii) continuation of any coverage in effect at the date of termination for Employee and his or her family at NSP's expense under NSP's major medical and life insurance plans during the Severance Pay Period.

(b) Non-Renewal by NSP Without Cause; Death; Incapacity: If NSP *without Cause* does *not* renew Employee's employment at the end of the Initial Term, or the end of any employment period thereafter, or if Employee's employment is terminated by reason of Employee's death or Incapacity, then Employee (or Employee's estate or designated beneficiary, as the case may be) shall receive Severance Pay for the applicable Severance Pay Period.

(c) Termination by Employee; Termination or Non-Renewal by NSP For Cause: If Employee's employment is (i) terminated by Employee, or (ii) terminated for Cause or for Cause not renewed by NSP, Employee shall receive only Employee's Base Salary and the Benefits earned through the date of such termination.

(d) Payment: At the option of NSP, Severance Pay may be distributed in a lump sum or in regular biweekly checks over the Severance Pay Period. Any Severance Pay is subject to required payroll deductions and withholdings.

(e) Limitation: Except as provided in this Section 5, Employee shall not be entitled to any further or other Severance Pay, Base Salary, Benefits, compensation, damages or other amounts. Employee understands and agrees that notwithstanding anything in this Agreement, NSP's obligation to pay any Base Salary, benefits or Severance Pay after termination of employment depends upon Employee's compliance with the agreements and covenants of Sections 6 through 9. *Except as otherwise expressly provided in this Agreement, Employee shall not receive any health or life insurance coverage after the date of termination, except COBRA benefits, if any, as and to the extent prescribed by law.*

PROTECTION OF NSP

6. Noncompetition and Nonsolicitation:

(a) Definitions: In this Section 6, the "Restricted Territory" shall mean the United States and any country where (on the date the notice terminating Employee's employment is received) NSP is doing business or planning to do business within the next year through a subsidiary or joint venture. In this Section 6, the "Restrictive Period" shall mean the period **(i)** *commencing* with the Effective Date, and **(ii)** *ending* one year after the later of **(x)** the date of termination of Employee's employment (whether or not employment is terminated by NSP or Employee, or for Cause or otherwise), or **(y)** the date of final payment of Severance Pay was paid to Employee (or would have been paid but for a breach of this Agreement by Employee or for Cause termination of Employee's employment).

(b) Employee Noncompetition and Nonsolicitation Covenants: Employee hereby covenants and agrees that Employee shall not, directly or indirectly, in the Restricted Territory during the Restricted Period, do any of the following:

(i) own an interest in (other than less than one percent of a publicly traded company), operate, join, control, participate in or be a distributor, agent, consultant, independent contractor, employee, officer, director, partner, principal or shareholder of *any individual, person or entity having a majority of its gross sales from distribution of herbs and/or vitamins*;

(ii) plan for or organize any business which competes or would compete with*any herb or vitamin product of NSP,* or combine with any other employee or representative of NSP to organize any such competitive business;

(iii) solicit, induce or influence (or seek to induce or influence) any person under contract with NSP (including any associate or distributor of NSP) to terminate or alter his or her relationship with NSP; or

(iv) solicit any customer of NSP where the identity or any significant information about such customer was or is Confidential Information of NSP (as such term is defined in that certain Confidentiality Agreement by and between Employee and NSP).

(c) Extension of Restrictive Period: Employee agrees that NSP, in its sole discretion, may extend the Restrictive Period and the foregoing restrictive covenants in Section 6(b) for up to an additional year. To do so, NSP must (i) give Employee at least ninety days prior notice of its intention to extend the restrictive covenant, and (ii) pay Employee an amount equal to the Base Salary for and during the period of such extension. Any such payments shall be paid according to NSP's regular payroll schedule.

(d) Intentions: It is the intention of the parties that the foregoing restrictive covenant be enforced as written, and, in any other event, enforced to the greatest extent (but to no greater extent) in time, territory and degree of participation as permitted by applicable law.

7. Non-Disparagement: Employee hereby also covenants not to disparage, orally or in writing, NSP or its management (including NSP's products, practices and policies) to any NSP employee, associate, distributor or member of the public or press. Employee understands and agrees that Employee may lose any right to Severance Pay if Employee breaches this covenant not to disparage.

8. Acknowledgement: Employee acknowledges that Employee's covenants and agreements in Sections 6 and 7 are reasonable and necessary to protect the legitimate interests and Confidential Information of NSP. Employee acknowledges that Section 6 is not so broad as to prevent Employee from earning a livelihood or practicing Employee's chosen profession after termination of Employee's employment. The parties acknowledge and agree that the compensation and benefits provided for under this Agreement are in substantial part consideration for Employee's covenants in Sections 6 and 7.

9. Enforcement: For any breach of Section 6, 7, 8 or 9, Employee agrees that NSP is entitled to equitable and other injunctive relief which may include, but shall not be limited to restraining Employee from rendering any service or performing or participating in any activity in breach of this Agreement. However, no remedy available under this Agreement (including this Section 9) is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other available remedy or now hereafter existing at law or in equity, by statute or otherwise.

MISCELLANEOUS

10. Entire Agreement: This Agreement (including the recitals and Exhibit "A", attached hereto) sets forth the entire agreement and understanding between Employee and NSP and cannot be modified or altered, nor can any provision hereof be waived, except in writing signed by Employee and a duly authorized officer of NSP.

11. Interpretation: The Section and other headings in this Agreement are for reference only and shall not affect the construction of this Agreement. Whenever the context requires, the singular shall include the plural, the plural shall include the singular, and the whole shall include any part thereof.

12. Invalidity of Provision: If any provisions in this Agreement are held invalid, illegal or unenforceable in any respect for any reason, such invalid, illegal or unenforceable provision(s) shall be limited, construed or eliminated to the extent necessary to remove such invalidity, illegality or unenforceability and the other provisions of this Agreement shall not be affected thereby.

13. **Binding Effect:** This Agreement shall inure to the benefit of and be binding upon Employee and Employee's heirs and personal representatives, and upon NSP and its successors and assigns. Employee's covenants and agreements of Sections 6 through 9 shall survive the termination of Employee's employment by any means, reason or party.

14. **Waiver:** No waiver of any provision of this Agreement shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

15. **Notice:** Any notice given under this Agreement shall be in writing and shall be sufficient if personally delivered or sent by registered or certified mail and addressed, if to Employee, to Employee's address set forth in NSP's records, or if to NSP, to its principal office. Such notice shall be deemed given when delivered if delivered personally, or, if sent by registered or certified mail, at the earlier of actual receipt or three days after mailing in United States mail, addressed as aforesaid with postage prepaid.

16. **Governing Law:** This Agreement shall be governed by the laws of the State of Utah and any litigation arising out of it shall be conducted in applicable state courts located in Utah County or federal courts located in Salt Lake County, Utah. The parties expressly consent to such jurisdiction and venue.

AGREED TO AND ACCEPTED AS OF THE DATE FIRST ABOVE WRITTEN:

Employee:	Employer:
JOHN DEWYZE	**NATURE'S SUNSHINE PRODUCTS, INC.**
\s\ John DeWyze	By \s\ Daniel P. Howells
Signature	
	Name Daniel P. Howells
	Title President – CEO

EXHIBIT "A"
TO
EMPLOYMENT AGREEMENT
BETWEEN
NATURE'S SUNSHINE PRODUCTS, INC.
AND
JOHN DEWYZE

Duties of Employee

EMPLOYMENT AGREEMENT

This Agreement, is effective as of the 1st day of June, 2001 (the "Effective Date"), and is by and between NATURE'S SUNSHINE PRODUCTS, INC., a Utah Corporation, having its principal place of business in Provo, Utah ("NSP"), and the undersigned individual ("Employee").

RECITALS

WHEREAS, NSP is in the business of (i) manufacturing and selling numerous consumer products and services, including but not limited to herbs, vitamins, minerals, health foods, food supplements, skin care products and other health-related products, and (ii) distribution of products and services by the method of multilevel marketing/direct sales distribution; and

WHEREAS, both NSP and Employee desire to embody the terms and conditions of Employee's employment in a written agreement which shall supersede and revoke any and all prior agreements of employment, whether written or oral.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereby agree as follows:

GENERAL PROVISIONS

1. Employment: NSP hereby employs Employee and Employee hereby agrees to serve NSP as its Vice President U.S. Sales and Marketing. Employee shall devote Employee's full time and efforts to NSP during the term of Employee's employment and shall act with complete loyalty to NSP.

NSP may assign Employee such additional or substitute titles and duties as NSP shall determine in its sole discretion. Employee shall at all times act in a professional manner. Employee shall perform the duties set forth in Exhibit "A", attached hereto, and such other duties as NSP may specify, in a competent and responsible manner and to NSP's reasonable satisfaction. Employee agrees to abide by the policies and procedures as may be set forth in handbooks, manuals and other materials provided by NSP.

2. Term: The term of Employee's employment shall be twelve months, and shall hereinafter be referred to as the "Initial Term." The Initial Term shall begin as of the Effective Date. Unless and until Employee's employment with NSP is terminated by NSP or Employee for any reason or no reason, at the end of the Initial Term this Agreement shall automatically be renewed and extended for additional periods of twelve months each and Employee's employment with NSP shall continue during the extended period.

3. Compensation:

(a) Base Salary: As compensation, NSP shall pay Employee a base salary of $102,960 per year ("Base Salary"). Base Salary shall be paid according to NSP's payroll schedule.

(b) Discretionary Bonus: Employee shall also be eligible to participate in the executive bonus program or any successor program (the "EBP"). Payment of any bonus under the EBP is in NSP's sole discretion according to the then current practice and criteria established by NSP.

(c) Employee's Benefits: Until Employee's employment is terminated, Employee shall be entitled to all standard employee benefits then in effect for employees of NSP holding comparable titles or positions (the "Benefits").

(d) Stock Option: In addition to the base salary and bonus provided for in Sections 3(a) and 3(b) above NSP may from time to time grant to Employee options (the "Options") to

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purchase shares of NSP's common stock (the "Option Stock"), pursuant to the price, terms and conditions set forth in NSP's 1995 Stock Option Plan, as amended from time to time.

4. Termination:

(a) Discretionary Termination by NSP: Notwithstanding anything in this Agreement, during the Initial Term and thereafter NSP may terminate Employee's employment immediately for Cause. NSP may terminate Employee's employment at will, subject to this Agreement and NSP's obligation to pay Severance Pay to Employee as provided in Section 5.

(b) Discretionary Termination by Employee: Employee may terminate Employee's employment by giving NSP at least two weeks' notice of said resignation.

(c) Termination for Cause by NSP: Notwithstanding anything in this Agreement, during the Initial Term and thereafter NSP may terminate Employee's employment immediately for Cause. For purposes of this Agreement, "Cause" shall include (i) material breach by Employee of this Agreement, (ii) performance by Employee deemed unsatisfactory to NSP acting reasonably, provided NSP's expectations for specific improvement are communicated to Employee in writing with a ninety (90) day probation period allowed for the requisite improvement, (iii) Employee's dishonesty or violation of company rules by Employee including that certain Confidentiality Agreement by and between NSP and Employee, or (iv) Employee's conviction of or entrance of a plea of *nolo contendere* to a felony or to any other crime punishable by incarceration.

(d) Termination upon Death or Incapacity of Employee: Employee's employment with NSP shall, at the exclusive election of NSP, terminate upon the death or Incapacity of Employee. For purposes of Sections 4 and 5, termination of Employee's employment by reason of Employee's death or Incapacity shall be considered termination of Employee's employment by NSP *without* Cause and Employee shall receive the Severance Pay, if any, pursuant to Section 5.

(e) Definition of Incapacity: In this Agreement, "Incapacity" shall mean that Employee is for a period of ninety-five (95) consecutive days or more, unable to perform Employee's duties effectively, for reasons such as emotional, mental or physical illness, deficiency or disability. In this Agreement, if any question arises as to the "Incapacity" of Employee, NSP shall promptly engage three physicians who are members of the American Medical Association to examine Employee and determine if Employee is able to perform the duties of Employee's employment with NSP. In the event Employee appears to have mental capacity to act, one of said three physicians shall be selected by Employee, one shall be selected by NSP, and one shall be selected by the other two physicians. The decision of the three physicians shall be conclusive for all purposes of this Agreement.

5. Effect of Termination on Compensation:

(a) Discretionary Termination by NSP: If Employee's employment is terminated by NSP *without Cause*, Employee shall be entitled to receive as severance pay ("Severance Pay") the following: (i) an amount equal to Base Salary for the three (3) months from the date of termination (the "Severance Pay Period") and (ii) continuation of any coverage in effect at the date of termination for Employee and his or her family at NSP's expense under NSP's major medical and life insurance plans

during the Severance Pay Period.

(b) Non-Renewal by NSP Without Cause; Death; Incapacity: If NSP *without Cause* does *not* renew Employee's employment at the end of the Initial Term, or the end of any employment period thereafter, or if Employee's employment is terminated by reason of Employee's death or Incapacity, then Employee (or Employee's estate or designated

beneficiary, as the case may be) shall receive Severance Pay during the Severance Pay Period.

(c) Termination by Employee; Termination or Non-Renewal by NSP For Cause: If Employee's employment is (i) terminated by Employee, or (ii) terminated for Cause or for Cause not renewed by NSP, Employee shall receive only Employee's Base Salary and the Benefits earned through the date of such termination.

(d) Payment: At the option of NSP, Severance Pay may be distributed in a lump sum or in regular biweekly checks over the Severance Pay Period. Any Severance Pay is subject to required payroll deductions and withholdings.

(e) Limitation: Except as provided in this Section 5, Employee shall not be entitled to any further or other Severance Pay, Base Salary, Benefits, compensation, damages or other amounts. Employee understands and agrees that notwithstanding anything in this Agreement, NSP's obligation to pay any Base Salary, benefits or Severance Pay after termination of employment depends upon Employee's compliance with the agreements and covenants of Sections 6 through 9. *Except as otherwise expressly provided in this Agreement, Employee shall not receive any health or life insurance coverage after the date of termination, except COBRA benefits, if any, as and to the extent prescribed by law.*

PROTECTION OF NSP

6. Noncompetition and Nonsolicitation:

(a) Definitions: In this Section 6, the "Restricted Territory" shall mean the United States and any country where (on the date the notice terminating Employee's employment is received) NSP is doing business or planning to do business within the next year through a subsidiary or joint venture. In this Section 6, the "Restrictive Period" shall mean the period **(i)** *commencing* with the Effective Date, and **(ii)** *ending* one year after the later of (x) the date of termination of Employee's employment (whether or not employment is terminated by NSP or Employee, or for Cause or otherwise), or (y) the date of final payment of Severance Pay was paid to Employee (or would have been paid but for a breach of this Agreement by Employee or for Cause termination of Employee's employment).

(b) Employee Noncompetition and Nonsolicitation Covenants: Employee hereby covenants and agrees that Employee shall not, directly or indirectly, in the Restricted Territory during the Restricted Period, do any of the following:

(i) own an interest in (other than less than one percent of a publicly traded company), operate, join, control, participate in or be a distributor, agent, consultant, independent contractor, employee, officer, director, partner, principal or shareholder of *any individual, person or entity having ten percent (10%) or more of its gross sales from distribution of herbs and/or vitamins*;

(ii) plan for or organize any business which competes or would compete with*any herb or vitamin product of NSP,* or combine with any other employee or representative of NSP to organize any such competitive business;

(iii) solicit, induce or influence (or seek to induce or influence) any person under contract with NSP (including any associate or distributor of NSP) to terminate or alter his or her relationship with NSP; or

(iv) solicit any customer of NSP where the identity or any significant information about such customer was or is Confidential Information of NSP (as such term is defined in that certain Confidentiality Agreement by and between Employee and NSP).

(c) Extension of Restrictive Period: Employee agrees that NSP, in its sole discretion, may extend the Restrictive Period and the foregoing restrictive covenants in Section 6(b) for up to an additional year. To do so, NSP must (i) give Employee at least ninety days prior notice of its intention to extend the restrictive covenant, and (ii) pay Employee an amount equal to the Base Salary for and during the period of such extension. Any such payments shall be paid according to NSP's regular payroll schedule.

(d) Intentions: It is the intention of the parties that the foregoing restrictive covenant be enforced as written, and, in any other event, enforced to the greatest extent (but to no greater extent) in time, territory and degree of participation as permitted by applicable law.

7. Non-Disparagement: Employee hereby also covenants not to disparage, orally or in writing, NSP or its management (including NSP's products, practices and policies) to any NSP employee, associate, distributor or member of the public or press. Employee understands and agrees that Employee may lose any right to Severance Pay if Employee breaches this covenant not to disparage.

8. Acknowledgement: Employee acknowledges that Employee's covenants and agreements in Sections 6 and 7 are reasonable and necessary to protect the legitimate interests and Confidential Information of NSP. Employee acknowledges that Section 6 is not so broad as to prevent Employee from earning a livelihood or practicing Employee's chosen profession after termination of Employee's employment. The parties acknowledge and agree that the compensation and benefits provided for under this Agreement are in substantial part consideration for Employee's covenants in Sections 6 and 7.

9. Enforcement: For any breach of Section 6, 7, 8 or 9, Employee agrees that NSP is entitled to equitable and other injunctive relief which may include, but shall not be limited to restraining Employee from rendering any service or performing or participating in any activity in breach of this Agreement. However, no remedy available under this Agreement (including this Section 9) is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other available remedy or now hereafter existing at law or in equity, by statute or otherwise.

MISCELLANEOUS

10. Entire Agreement: This Agreement (including the recitals and Exhibit "A", attached hereto) sets forth the entire agreement and understanding between Employee and NSP and cannot be modified or altered, nor can any provision hereof be waived, except in writing signed by Employee and a duly authorized officer of NSP.

11. Interpretation: The Section and other headings in this Agreement are for reference only and shall not affect the construction of this Agreement. Whenever the context requires, the singular shall include the plural, the plural shall include the singular, and the whole shall include any part thereof.

12. Invalidity of Provision: If any provisions in this Agreement are held invalid, illegal or unenforceable in any respect for any reason, such invalid, illegal or unenforceable provision(s) shall be limited, construed or eliminated to the extent necessary to remove such invalidity, illegality or unenforceability and the other provisions of this Agreement shall not be affected thereby.

13. Binding Effect: This Agreement shall inure to the benefit of and be binding upon Employee and Employee's heirs and personal representatives, and upon NSP and its successors and assigns. Employee's covenants and agreements of Sections 6 through 9 shall survive the termination of Employee's employment by any means, reason or party.

14. Waiver: No waiver of any provision of this Agreement shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

15. Notice: Any notice given under this Agreement shall be in writing and shall be sufficient if personally delivered or sent by registered or certified mail and addressed, if to Employee, to Employee's address set forth in NSP's records, or if to NSP, to its principal office. Such notice shall be deemed given when delivered if delivered personally, or, if sent by registered or certified mail, at the earlier of actual receipt or three days after mailing in United States mail, addressed as aforesaid with postage prepaid.

16. Governing Law: This Agreement shall be governed by the laws of the State of Utah and any litigation arising out of it shall be conducted in applicable state courts located in Utah County or federal courts located in Salt Lake County, Utah. The parties expressly consent to such jurisdiction and venue.

AGREED TO AND ACCEPTED AS OF THE DATE FIRST ABOVE WRITTEN:

Employee:	Employer:
GREGORY R. HALLIDAY	**NATURE'S SUNSHINE PRODUCTS, INC.**
\s\ Gregory Halliday	By \s\ Douglas Faggioli
Signature	Name _____
	Title _____

EXHIBIT "A"
TO
EMPLOYMENT AGREEMENT
BETWEEN
NATURE'S SUNSHINE PRODUCTS, INC.
AND
GREGORY R. HALLIDAY

Duties of Employee

EMPLOYMENT AGREEMENT

This Agreement, is effective as of the 20th day of September, 1999 (the "Effective Date"), and is by and between NATURE'S SUNSHINE PRODUCTS, INC., a Utah Corporation, having its principal place of business in Provo, Utah ("NSP"), and **CRAIG HUFF** the undersigned individual ("Employee").

RECITALS

WHEREAS, NSP is in the business of (i) manufacturing and selling numerous consumer products and services, including but not limited to herbs, vitamins, minerals, health foods, food supplements, skin care products and other health-related products, and (ii) distribution of products and services by the method of multilevel marketing/direct sales distribution;

WHEREAS, Employee has been employed by NSP since **January 1, 1998**; and

WHEREAS, both NSP and Employee desire to embody the terms and conditions of Employee's employment in a written agreement which shall supersede and revoke any and all prior agreements of employment, whether written or oral.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereby agree as follows:

GENERAL PROVISIONS

1. Employment: NSP hereby employs Employee and Employee hereby agrees to serve NSP as **Vice President-Finance, Chief Financial Officer**. Employee shall devote Employee's full time and efforts to NSP during the term of Employee's employment and shall act with complete loyalty to NSP.

NSP may assign Employee such additional or substitute titles and duties as NSP shall determine in its sole discretion. Employee shall at all times act in a professional manner. Employee shall perform the duties set forth in Exhibit "A", attached hereto, and such other duties as NSP may specify, in a competent and responsible manner and to NSP's reasonable satisfaction. Employee agrees to abide by the policies and procedures as may be set forth in handbooks, manuals and other materials provided by NSP.

2. Term: The term of Employee's employment shall be twelve months, and shall hereinafter be referred to as the "Initial Term." The Initial Term shall begin as of the Effective Date. Unless and until Employee's employment with NSP is terminated by NSP or Employee for any reason or no reason, at the end of the Initial Term this Agreement shall automatically be renewed and extended for additional periods of twelve months each and Employee's employment with NSP shall continue during the extended period.

3. Compensation:

(a) Base Salary: As compensation, NSP shall pay Employee a base salary of **$138,240.96 per year** ("Base Salary"). Base Salary shall be paid according to NSP's payroll schedule.

(b) Discretionary Bonus: Employee shall also be eligible to participate in the executive bonus program or any successor program (the "EBP"). Payment of any bonus under the EBP is in NSP's sole discretion according to the then current practice and criteria established by NSP.

(c) Employee's Benefits: Until Employee's employment is terminated, Employee shall be entitled to all standard employee benefits then in effect for employees of NSP holding comparable titles or positions (the "Benefits").

4. Termination:

(a) Discretionary Termination by NSP: NSP may terminate Employee's employment at will, subject to this Agreement and NSP's obligation to pay Severance Pay to Employee as provided in Section 5.

(b) Discretionary Termination by Employee: Employee may terminate Employee's employment by giving NSP at least two weeks' notice of said resignation.

(c) Termination for Cause by NSP: Notwithstanding anything in this Agreement, during the Initial Term and thereafter NSP may terminate Employee's employment immediately for Cause. For purposes of this Agreement, "Cause" shall include (i) material breach by Employee of this Agreement, (ii) performance by Employee deemed unsatisfactory to NSP acting reasonably, provided NSP's expectations for specific improvement are communicated to Employee in writing with a ninety day probation period allowed for the requisite improvement, (iii) Employee's dishonesty or violation of company rules by Employee including that certain Confidentiality Agreement by and between NSP and Employee, or (iv) Employee's conviction of or entrance of a plea of *nolo contendere* to a felony or to any other crime punishable by incarceration.

(d) Termination upon Death or Incapacity of Employee: Employee's employment with NSP shall, at the exclusive election of NSP, terminate upon the death or Incapacity of Employee. For purposes of Sections 4 and 5, termination of Employee's employment by reason of Employee's death or Incapacity shall be considered termination of Employee's employment by NSP *without* Cause and Employee shall receive the Severance Pay, if any, pursuant to Section 5.

(e) Definition of Incapacity: In this Agreement, "Incapacity" shall mean that Employee is for a period of 95 consecutive days or more, unable to perform Employee's duties effectively, for reasons such as emotional, mental or physical illness, deficiency or disability. In this Agreement, if any question arises as to the "Incapacity" of Employee, NSP shall promptly engage three physicians who are members of the American Medical Association to examine Employee and determine if Employee is able to perform the duties of Employee's employment with NSP. In the event Employee appears to have mental capacity to act, one of said three physicians shall be selected by Employee, one shall be selected by NSP, and one shall be selected by the other two physicians. The decision of the three physicians shall be conclusive for all purposes of this Agreement.

5. Effect of Termination on Compensation:

(a) Discretionary Termination by NSP: If Employee's employment is terminated by NSP *without Cause*, Employee shall be entitled to receive as severance pay ("Severance Pay") the following: (i) an amount equal to Base Salary for the twelve (12)) months from the date of termination (the "Severance Pay Period") and (ii) continuation of any coverage in effect at the date of termination for Employee and his or her family at NSP's expense under NSP's major medical and life insurance plans during the Severance Pay Period.

(b) Non-Renewal by NSP Without Cause; Death; Incapacity: If NSP *without Cause* does *not* renew Employee's employment at the end of the Initial Term, or the end of any employment period thereafter, or if Employee's employment is terminated by reason of Employee's death or Incapacity, then Employee (or Employee's estate or designated beneficiary, as the case may be) shall receive Severance Pay for the applicable Severance Pay Period.

(c) Termination by Employee; Termination or Non-Renewal by NSP For Cause: If Employee's employment is (i) terminated by Employee, or (ii) terminated for Cause or for Cause not renewed by NSP, Employee shall receive only Employee's Base Salary and the Benefits earned through the date of such termination.

(d) Payment: At the option of NSP, Severance Pay may be distributed in a lump sum or in regular biweekly checks over the Severance Pay Period. Any Severance Pay is subject to required payroll deductions and withholdings.

(e) Limitation: Except as provided in this Section 5, Employee shall not be entitled to any further or other Severance Pay, Base Salary, Benefits, compensation, damages or other amounts. Employee understands and agrees that notwithstanding anything in this Agreement, NSP's obligation to pay any Base Salary, benefits or Severance Pay after termination of employment depends upon Employee's compliance with the agreements and covenants of Sections 6 through 9. *Except as otherwise expressly provided in this Agreement, Employee shall not receive any health or life insurance coverage after the date of termination, except COBRA benefits, if any, as and to the extent prescribed by law.*

PROTECTION OF NSP

6. Noncompetition and Nonsolicitation:

(a) Definitions: In this Section 6, the "Restricted Territory" shall mean the United States and any country where (on the date the notice terminating Employee's employment is received) NSP is doing business or planning to do business within the next year through a subsidiary or joint venture. In this Section 6, the "Restrictive Period" shall mean the period **(i)** *commencing* with the Effective Date, and **(ii)** *ending* one year after the later of **(x)** the date of termination of Employee's employment (whether or not employment is terminated by NSP or Employee, or for Cause or otherwise), or **(y)** the date of final payment of Severance Pay was paid to Employee (or would have been paid but for a breach of this Agreement by Employee or for Cause termination of Employee's employment).

(b) Employee Noncompetition and Nonsolicitation Covenants: Employee hereby covenants and agrees that Employee shall not, directly or indirectly, in the Restricted Territory during the Restricted Period, do any of the following:

(i) own an interest in (other than less than one percent of a publicly traded company), operate, join, control, participate in or be a distributor, agent, consultant, independent contractor, employee, officer, director, partner, principal or shareholder of *any individual, person or entity having a majority of its gross sales from distribution of herbs and/or vitamins*;

(ii) plan for or organize any business which competes or would compete with*any herb or vitamin product of NSP,* or combine with any other employee or representative of NSP to organize any such competitive business;

(iii) solicit, induce or influence (or seek to induce or influence) any person under contract with NSP (including any associate or distributor of NSP) to terminate or alter his or her relationship with NSP; or

(iv) solicit any customer of NSP where the identity or any significant information about such customer was or is Confidential Information of NSP (as such term is defined in that certain Confidentiality Agreement by and between Employee and NSP).

(c) Extension of Restrictive Period: Employee agrees that NSP, in its sole discretion, may extend the Restrictive Period and the foregoing restrictive covenants in Section 6(b) for up to an additional year. To do so, NSP must (i) give Employee at least ninety days prior notice of its intention to extend the restrictive covenant, and (ii) pay Employee an amount equal to the Base Salary for and during the period of such extension. Any such payments shall be paid according to NSP's regular payroll schedule.

(d) Intentions: It is the intention of the parties that the foregoing restrictive covenant be enforced as written, and, in any other event, enforced to the greatest extent (but to no greater extent) in time, territory and degree of participation as permitted by applicable law.

7. Non-Disparagement: Employee hereby also covenants not to disparage, orally or in writing, NSP or its management (including NSP's products, practices and policies) to any NSP employee, associate, distributor or member of the public or press. Employee understands and agrees that Employee may lose any right to Severance Pay if Employee breaches this covenant not to disparage.

8. Acknowledgement: Employee acknowledges that Employee's covenants and agreements in Sections 6 and 7 are reasonable and necessary to protect the legitimate interests and Confidential Information of NSP. Employee acknowledges that Section 6 is not so broad as to prevent Employee from earning a livelihood or practicing Employee's chosen profession after termination of Employee's employment. The parties acknowledge and agree that the compensation and benefits provided for under this Agreement are in substantial part consideration for Employee's covenants in Sections 6 and 7.

9. Enforcement: For any breach of Section 6, 7, 8 or 9, Employee agrees that NSP is entitled to equitable and other injunctive relief which may include, but shall not be limited to restraining Employee from rendering any service or performing or participating in any activity in breach of this Agreement. However, no remedy available under this Agreement (including this Section 9) is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other available remedy or now hereafter existing at law or in equity, by statute or otherwise.

MISCELLANEOUS

10. Entire Agreement: This Agreement (including the recitals and Exhibit "A", attached hereto) sets forth the entire agreement and understanding between Employee and NSP and cannot be modified or altered, nor can any provision hereof be waived, except in writing signed by Employee and a duly authorized officer of NSP.

11. Interpretation: The Section and other headings in this Agreement are for reference only and shall not affect the construction of this Agreement. Whenever the context requires, the singular shall include the plural, the plural shall include the singular, and the whole shall include any part thereof.

12. Invalidity of Provision: If any provisions in this Agreement are held invalid, illegal or unenforceable in any respect for any reason, such invalid, illegal or

unenforceable provision(s) shall be limited, construed or eliminated to the extent necessary to remove such invalidity, illegality or unenforceability and the other provisions of this Agreement shall not be affected thereby.

13. Binding Effect: This Agreement shall inure to the benefit of and be binding upon Employee and Employee's heirs and personal representatives, and upon NSP and its successors and assigns. Employee's covenants and agreements of Sections 6 through 9 shall survive the termination of Employee's employment by any means, reason or party.

14. Waiver: No waiver of any provision of this Agreement shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

15. Notice: Any notice given under this Agreement shall be in writing and shall be sufficient if personally delivered or sent by registered or certified mail and addressed, if to Employee, to Employee's address set forth in NSP's records, or if to NSP, to its principal office. Such notice shall be deemed given when delivered if delivered personally, or, if sent by registered or certified mail, at the earlier of actual receipt or three days after mailing in United States mail, addressed as aforesaid with postage prepaid.

16. Governing Law: This Agreement shall be governed by the laws of the State of Utah and any litigation arising out of it shall be conducted in applicable state courts located in Utah County or federal courts located in Salt Lake County, Utah. The parties expressly consent to such jurisdiction and venue.

AGREED TO AND ACCEPTED AS OF THE DATE FIRST ABOVE WRITTEN:

Employee:	Employer:
CRAIG HUFF	**NATURE'S SUNSHINE PRODUCTS, INC.**
\s\ Craig Huff Signature	By \s\ Daniel P. Howells Name Daniel P. Howells Title President & CEO

NATURE'S SUNSHINE PRODUCTS, INC.
1995 STOCK OPTION PLAN

TABLE OF CONTENTS

NATURE'S SUNSHINE PRODUCTS, INC.
1995 STOCK OPTION PLAN

I. THE PLAN

1.1 Purpose

The purpose of this Plan is to promote the success of the Company by providing an additional means through the grant of stock options to attract, motivate, retain and reward key employees, including officers, whether or not directors, of the Company with incentives for high levels of individual performance and improved financial performance of the Company. "Corporation" means Nature's Sunshine Products, Inc., a Utah corporation, and "Company" means the Corporation and its Subsidiaries, collectively. These terms and other capitalized terms are defined in Article IV.

1.2 Administration and Authorization; Power and Procedure

(a) Committee. This Plan shall be administered by and all Options to Eligible Employees shall be authorized by the Committee. Action of the Committee with respect to the administration of this Plan shall be taken pursuant to a majority vote or by written consent of its members.

(b) Plan Options; Interpretation; Powers of Committee. Subject to the express provisions of this Plan, the Committee shall have the authority:

(i) to determine from among those persons eligible the particular Eligible Employees who will receive any Options;

(ii) to grant Options to Eligible Employees, determine the price at which the Options may be exercised (equal to at least Fair Market Value), the amount of securities to be subject to such Options, and determine the other specific terms and conditions of such Options consistent with the express limits of this Plan, and establish the installments (if any) in which such Options shall become exercisable, or determine that no delayed exercisability is required, and establish the events of termination of such Options;

(iii) to approve the forms of Option Agreements (which need not be identical either as to type of option or as among Participants);

(iv) to construe and interpret this Plan and any agreements defining the rights and obligations of the Company and employee Participants under this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan;

(v) to cancel, modify, or waive the Corporation's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding Options held by Eligible Employees, subject to any required consent under Section 3.6;

(vi) to accelerate or extend the exercisability or extend the term of any or all such outstanding Options within the maximum ten-year term of Options under Section 1.6; and

(vii) to make all other determinations and take such other action as contemplated by this Plan or as may be necessary or advisable for the administration of this Plan and the effectuation of its purposes.

(c) Binding Determinations. Any action taken by, or inaction of, the Corporation, any Subsidiary, the Board or the Committee relating or pursuant to this Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. No member of the Board or Committee, or officer of the Corporation or any Subsidiary, shall be liable for any such action or inaction of the entity or body, of another person or except in circumstances involving bad faith, of himself or herself. Subject only to compliance with the express provisions hereof, the Board and Committee may act in their absolute discretion in matters within their authority related to this Plan.

(d) Reliance on Experts. In making any determination or in taking or not taking any action under this Plan, the Committee or the Board, as the case may be, may obtain and may rely upon the advice of experts, including professional advisors to the Corporation. No director, officer or agent of the Company shall be liable for any such action or determination taken or made or omitted in good faith.

(e) Delegation. The Committee may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Company.

1.3 Participation

Options may be granted by the Committee only to those persons that the Committee determines to be Eligible Employees. An Eligible Employee who has been granted an Option may, if otherwise eligible, be granted additional Options if the Committee shall so determine. Non-Employee Directors shall not be eligible to receive any Options through this Plan.

1.4 Shares Available for Options

Subject to the provisions of Section 3.2, the capital stock that may be delivered under this Plan shall be shares of the Corporation's authorized but unissued Common Stock and any shares of its Common Stock held as treasury shares. The shares may be delivered for any lawful consideration.

(a) Number of Shares. The maximum number of shares of Common Stock that may be issued pursuant to Options granted to Eligible Employees under this Plan is 1,100,000 shares, subject to adjustments contemplated by Section 3.2.

(b) Calculation of Available Shares and Replenishment. Shares subject to outstanding Options that are derivative securities (as defined in Rule 16a-1(c) under the Exchange Act) shall be reserved for issuance. If any Option shall expire or be canceled or terminated without having been exercised in full, the unpurchased share subject thereto shall again be available for the purposes of the Plan, subject to any applicable limitations under Rule 16b-3. If the Corporation withholds shares of Common Stock pursuant to Section 3.5, the number of shares that would have been deliverable with respect to an Option but that are withheld pursuant to the provisions of Section 3.5 may in effect not be issued, but the aggregate number of shares issuable with respect to the applicable Option and under the Plan shall be reduced by the number of shares withheld and such shares shall not be available for additional Options under this Plan.

1.5 Grant of Options

Subject to the express provisions of this Plan, the Committee shall determine the number of shares of Common Stock subject to each Option and the exercise price thereof. Each Option shall be evidenced by an Option Agreement signed by the Corporation and by the Participant.

1.6 Term of Options

Each Option and all executory rights or obligations under the related Option Agreement shall expire on such date as shall be determined by the Committee but not later than ten (10) years after the Grant date.

1.7 Limitations on Exercise of Options

(a) Provisions for Exercise. No Option shall be exercisable until at least six months after the later of (i) the initial Grant Date or (ii) stockholder approval of the Plan, and once exercisable an Option shall remain exercisable until the expiration or earlier termination of the Option, unless the Committee otherwise provides. Notwithstanding the foregoing, the Committee may reduce or eliminate the six month requirement for Participants who are not subject to Section 16 of the Exchange Act.

(b) Procedure. Any exercisable Option shall be deemed to be exercised when the Treasurer of the Corporation receives written notice of such exercise from the Participant, together with the required payment made in accordance with Section 2.2(b) or 5.3, as the case may be.

(c) Fractional Shares/Minimum Issue. Fractional share interests shall be disregarded, but may be accumulated. The Committee, however, may determine in the case of

Eligible Employees that cash, other securities or other property will be paid or transferred in lieu of any fractional share interests. No fewer than 100 shares may be purchased on exercise of any Option at one time unless the number purchased is the total number at the time available for purchase under the Option.

1.8 Acceptance of Notes to Finance Exercise

The Corporation may, with the Committee's approval, accept one or more notes from any Eligible Employee in connection with the exercise or receipt of any outstanding Option, provided that any such note shall be subject to the following terms and conditions:

(a) The principal of the note shall not exceed the amount required to paid to the Corporation upon the exercise or receipt of one or more Options under the Plan and the note shall be delivered directly to the Corporation in consideration of such exercise or receipt.

(b) The initial term of the note shall be determined by the Committee; provided that the term of the note, including extensions, shall not exceed a period of 10 years.

(c) The note shall provide for full recourse to the Employee Participant and shall bear interest at a rate determined by the Committee but not less than the applicable imputed interest rate specified by the Code.

(d) If the employment of the Employee Participant terminates, the unpaid principal balance of the note shall become due and payable on the 10th business day after such termination; provided, however, that if a sale of such shares would cause such Employee Participant to incur liability under Section 16(b) of the Exchange Act, the unpaid balance shall become due and payable on the 10th business day after the first day on which a sale of such shares could have been made without incurring such liability assuming for these purposes that there are no other transactions by the Employee Participant subsequent to such termination.

(e) The note shall be secured by a pledge of any shares or rights financed thereby in compliance with applicable law.

(f) The terms, repayment provisions, and collateral release provisions of the note and the pledge securing the note shall conform with applicable rules and regulations of the Federal Reserve Board as then in effect.

1.9 No Transferability

Options may be exercised only by, and shares issuable pursuant to an Option shall be issued only to (or registered only in the name of), the Participant or, if the Participant has died, the Participant's Beneficiary or, if the Participant has suffered a Disability, the Participant's Personal Representative, if any, or if there is none, the Participant, or (to the extent permitted by applicable law and Rule 16b-3) to a third party pursuant to such conditions and procedures as the

Committee may establish. Other than by will or the laws of descent and distribution or pursuant to a QDRO or other exception to transfer restrictions under Rule 1 6b-3 (except to the extent not permitted in the case of an Incentive Stock Option), no right or benefit under this Plan or any Option, shall be transferable by the Participant or shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge (other than to the Corporation) and any such attempted action shall be void. The Corporation shall disregard any attempt at transfer, assignment or other alienation prohibited by the preceding sentences and shall deliver such shares of Common Stock in accordance with the provisions of this Plan. The designation of a Beneficiary hereunder shall not constitute a transfer for these purposes.

II. EMPLOYEE OPTIONS

2.1 Grants

One or more Options may be granted under this Article to any Eligible Employee. Each Option granted may be either an Option intended to be an Incentive Stock Option, or an Option not so intended, and such intent shall be indicated in the applicable Option Agreement.

2.2 Option Price

(a) Pricing Limits. The purchase price per share of the Common Stock covered by each Option shall be determined by the Committee at the time the Option is granted, but in the case of Incentive Stock Options shall not be less than 100% (110% in the case of a Participant who owns or is deemed to own under Section 424(d) of the Code more than 10% of the total combined voting power of all classes of stock of the Corporation) of the Fair Market Value of the Common Stock on the Grant Date.

(b) Payment Provisions. The purchase price of any shares purchased on exercise of an Option granted under this Article shall be paid in full at the time of each purchase in one or a combination of the following methods: (i) in cash or by electronic funds transfer; (ii) by check payable to the order of the Corporation; (iii) if authorized by the Committee or specified in the applicable Option Agreement, by a promissory note of the Participant consistent with the requirements of Section 1.8; (iv) by notice and third party payment in such manner as may be authorized by the Committee; or (v) by the delivery of shares of Common Stock of the Corporation already owned by the Participant, provided, however, that the Committee may in its absolute discretion limit the Participant's ability to exercise an Option by delivering such shares. Shares of Common Stock used to satisfy the exercise price of an Option shall be valued at their Fair Market Value on the date of exercise and any such shares used in payment shall have been owned by the Participant at least six months prior to the date of exercise.

2.3 Limitations on Grant and Terms of Incentive Stock Options

(a) $100,000 Limit. To the extent that the aggregate "fair market value" of stock with

respect to which incentive stock options first become exercisable by a Participant in any calendar year exceeds $100,000, taking into account both Common Stock ubject to Incentive Stock Options under this Plan and stock subject to incentive stock options under all other plans of the Company, such options shall be treated as nonqualified stock options. For this purpose, the "fair market value" of the stock subject to options shall be determined as of the date the options were optioned. In reducing the number of options treated as incentive stock options to meet the $100,000 limit, the most recently granted options shall be reduced first. To the extent a reduction of simultaneously granted options is necessary to meet the $100,000 limit, the Committee may, in the manner and to the extent permitted by law, designate which shares of Common Stock are to be treated as shares acquired pursuant to the exercise of an Incentive Stock Option.

(b) Option Period. Each Incentive Stock Option and all rights thereunder shall expire no later than ten years after the Grant Date.

(c) Other Code Limits. There shall be imposed in any Option Agreement relating to Incentive Stock Options such terms and conditions as from time to time are required in order that the Option be an "incentive stock option" as that term is defined in Section 422 of the Code.

2.4 Limits on 10% Holders

No Incentive Stock Option may be granted to any person who, at the time the Option is granted, owns (or is deemed to own under Section 424(d) of the Code) shares of outstanding Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation, unless the exercise price of such Option is at least 110% of the Fair Market Value of the stock subject to the Option and such Option by its terms is not exercisable after the expiration of five years from the date such Option is granted.

2.5 Option Repricing/Cancellation and Regrant/Waiver of Restrictions

Subject to Section 1.4 and Section 3.6 and the specific limitations on Options contained in this Plan, the Committee from time to time may authorize, generally or in specific cases only, for the benefit of any Eligible Employee, any adjustment in the exercise price, the number of shares subject to or the term of, an Option granted under this Article by cancellation of an outstanding Option and a subsequent regranting of an Option, by amendment, by substitution of an outstanding Option, by waiver or by other legally valid means. Such amendment or other action may result among other changes in an exercise price which is higher or lower than the exercise or purchase price of the original or prior Option, provide for a greater or lesser number of shares subject to the Option, or provide for a longer or shorter vesting or exercise period.

III. OTHER PROVISIONS

3.1 Rights of Eligible Employees, Participants and Beneficiaries

(a) Employment Status. Status as an Eligible Employee shall not be construed as a commitment that any Option will be granted under this Plan to an Eligible Employee or to Eligible Employees generally.

(b) No Employment Contract. Nothing contained in this Plan (or in any other documents related to this Plan or to any Option) shall confer upon any Eligible Employee or other Participant any right to continue in the employ or other service of the Company or constitute any contract or agreement of employment or other service, nor shall interfere in any way with the right of the Company to change such person's compensation or other benefits or to terminate the employment of such person, with or without cause, but nothing contained in this Plan or any document related hereto shall adversely affect any independent contractual right of such person without his or her consent thereto.

(c) Plan Not Funded. No Participant, Beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly otherwise provided) of the Company by reason of any Option hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company and any Participant, Beneficiary or other person.

3.2 Adjustments; Acceleration

(a) Adjustments. If there shall occur any extraordinary dividend or other extraordinary distribution in respect of the Common Stock (whether in the form of cash, Common Stock, other securities, or other property), or any recapitalization, stock split (including a stock split in the form of a stock dividend), reverse stock split, reorganization, merger, combination, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Corporation, or there shall occur any other like corporate transaction or event in respect of the Common Stock, then the Committee shall, in such manner and to such extent (if any) as it deems appropriate and equitable (1) proportionately adjust any or all of (a) the number and type of shares of Common Stock(or other securities) which thereafter may be made the subject of Options (including the specific maximum and numbers of shares set forth elsewhere in this Plan), (b) the number, amount and type of shares of Common Stock (or other securities or property) subject to any or all outstanding Options, (c) the grant, purchase, or exercise price of any or all outstanding Options, (d) the securities issuable upon exercise of any outstanding Options, or (2) in the case of an extraordinary dividend or other distribution,

merger, reorganization, consolidation, combination, sale of assets, split up, exchange, or spin off, make provision for a cash payment or for the substitution or exchange of any or all outstanding Options or the securities deliverable to the holder of any or all outstanding Options based upon the distribution or consideration payable to holders of the Common Stock of the Corporation upon or in respect of such event; provided, however, in each case, that with respect to Incentive Stock Options, no such adjustment shall be made which would cause the Plan to violate Section 424(a) of the Code or arty successor provisions thereto.

(b) Acceleration of Options Upon Change in Control. As to any Eligible Employee Participant, unless prior to a Change in Control Event the Committee determines that, upon its occurrence, there shall be no acceleration of benefits under Options or determines that only certain or limited benefits under Options shall be accelerated and the extent to which they shall be accelerated, and/or establishes a different time in respect of such Event for such acceleration, then upon the occurrence of a Change in Control Event each Option shall become immediately exercisable. The Committee may override the limitations on acceleration in this Section 3.2(b) by express provision in the Option Agreement and may accord any Eligible Employee a right to refuse any acceleration, whether pursuant to the Option Agreement or otherwise, in such circumstances as the Committee may approve.Any acceleration of Options shall comply with applicable regulatory requirements, including, without limitation, Section 422 of the Code.

(c) Possible Early Termination of Accelerated Options. If any Option or other right to acquire Common Stock under this Plan has been fully accelerated as permitted by Section 3.2(b) but is not exercised prior to (i) a dissolution of the Corporation, or (ii) a reorganization event described in Section 3.2(a) that the Corporation does not survive, or (iii) the consummation of reorganization event described in Section 3.2(a) that results in a Change of Control approved by the Board, and no provision has been made for the survival, substitution, exchange or other settlement of such Option or right, such Option or right shall thereupon terminate.

3.3 Effect of Termination of Employment

The Committee shall establish in respect of each Option granted to an Eligible Employee the effect of a termination of employment on the rights and benefits thereunder and in so doing may make distinctions based upon the cause of termination.

3.4 Compliance with Laws

This Plan, the granting and vesting of Options under this Plan and the issuance and delivery of shares of Common Stock under this Plan or under Options granted hereunder are subject to compliance with all applicable federal and state laws, rules and

regulations (including, but not limited to, state and federal securities laws and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Corporation, be necessary or advisable in connection therewith. Any securities delivered under this Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Corporation, provide such assurances and representations to the Corporation as the Corporation may deem necessary or desirable to assure compliance with all applicable legal requirements.

3.5 Tax Withholding

(a) Cash or Shares. Upon any exercise or vesting of any Option or upon the disposition of shares of Common Stock acquired pursuant to the exercise of an Incentive Stock Option prior to satisfaction of the holding period requirements of Section 422 of the Code, the Company shall have the right at its option to (i) require the Participant (or Personal Representative or Beneficiary, as the case may be) to pay or provide for payment of the amount of any taxes which the Company may be required to withhold with respect to such transaction or (ii) deduct from any amount payable in cash the amount of any taxes which the Company may be required to withhold with respect to such cash amount. In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Plan, the Committee may grant (either at the time the Option is granted or thereafter) to the Participant the right to elect, pursuant to such rules and subject to such conditions as the Committee may establish, to have the Corporation reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of shares valued at theft then Fair Market Value, to satisfy such withholding obligation.

(b) Tax Loans. The Committee may, in its discretion, authorize a loan to an Eligible Employee in the amount of any taxes which the Company may be required to withhold with respect to shares of Common Stock received (or disposed of, as the case may be) pursuant to a transaction described in subsection (a) above. Such a loan shall be for a term, at a rate of interest and pursuant to such other terms and conditions as the Committee, under applicable law, may establish and such loan must comply with the provisions of Section 1.8.

3.6 Plan Amendment, Termination and Suspension

(a) Board Authorization. The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. No Options may be granted during any suspension of this Plan or after termination of this Plan, but the Committee shall retain jurisdiction as to Options then outstanding in accordance with the terms of this Plan.

(b) Stockholder Approval. If any amendment would (i) materially increase the benefits accruing to Participants under this Plan, (ii) materially increase the

aggregate number of securities that may be issued under this Plan, or (iii) materially modify the requirements as to eligibility for participation in this Plan, then to the extent then required by Rule 1 6b-3 to secure benefits thereunder or to avoid liability under Section 16 of the Exchange Act(and Rules thereunder) or required under Section 425 of the Code or any other applicable law, or deemed necessary or advisable by the Board, such amendment shall be subject to stockholder approval.

(c) Amendments to Options. Without limiting any other express authority of the Committee under but subject to the express limits of this Plan, the Committee by agreement or resolution may waive conditions of or limitation on Options to Eligible Employees that the Committee in the prior exercise of its discretion has imposed, without the consent of a Participant, and may make other changes to the terms and conditions of Options that do not affect in any manner materially adverse to the Employee Participant, his or her rights and benefits under an Option.

(d) Limitations on Amendment to Plan and Options. No amendment, suspension or termination of the Plan or change of or affecting any outstanding Option shall, without written consent of the Participant, affect in any manner materially adverse to the Participant any rights or benefits of the Participant or obligations of the Corporation under any Option granted under this Plan prior to the effective date of such change. Changes contemplated by Section 3.2 shall not be deemed to constitute changes or amendments for purposes of this Section 3.6.

3.7 Privileges of Stock Ownership

Except as otherwise expressly authorized by the Committee or this Plan, a Participant shall not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by him or her. No adjustment will be made for dividends or other rights as a stockholders for which a record date is prior to such date of delivery.

3.8 Effective Date of the Plan

This Plan shall be effective as of December 20, 1995, the date of Board approval, subject to stockholder approval within 12 months thereafter.

3.9 Term of the Plan

No Option shall be granted more than three years after the effective date of this Plan (the “termination date”). Unless otherwise expressly provided in this Plan or in an applicable Option Agreement, any Option theretofore granted may extend beyond such date, and all authority of the Committee with respect to Options hereunder shall continue during any suspension of this Plan and in respect of outstanding Options on such termination date.

3.10 Governing Law; Construction; Severability

(a) Choice of Law. This Plan, the Options, all documents evidencing Options and all other related documents shall be governed by, and construed in accordance with the laws of the State of Utah.

(b) Severability. If any provision shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

(c) Plan Construction. It is the intent of the Corporation that this Plan and Options hereunder satisfy and be interpreted in a manner that in the case of Participants who are or may be subject to Section 16 of the Exchange Act satisfies the applicable requirements of Rule 16b-3 so that such persons will be entitled to the benefits of Rule 16b-3 or other exemptive rules under Section 16 of the Exchange Act and will not be subjected to avoidable liability thereunder; if any provision of this Plan or of any Option would otherwise frustrate or conflict with the intent expressed above, that provision to the extent possible shall be interpreted and deemed amended so as to avoid such conflict, but to the extent of any remaining irreconcilable conflict with such intent as to such persons in the circumstances, such provision shall be deemed void.

3.11 Captions

Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

3.12 Effect of Change of Subsidiary Status

For purposes of this Plan and any Option hereunder, if an entity ceases to be a Subsidiary a termination of employment shall be deemed to have occurred with respect to each employee of such Subsidiary who does not continue as an employee of another entity within the Company.

3.13 Non-Exclusivity of Plan

Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Committee to grant options or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority.

IV. DEFINITIONS

4.1 Definitions

(a) "Beneficiary" shall mean the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive the benefits specified in the Option Agreement and under this Plan in the event of a Participant's death, and shall mean the Participant's personal representative, executor or administrator if no other Beneficiary is identified and able to act under the circumstances.

(b) "Board" shall mean the Board of Directors of the Corporation.

(c) "Change in Control Event" shall mean any of the following:

(i) Approval by the stockholders of the Corporation of the dissolution or liquidation of the Corporation;

(ii) Approval by the stockholders of the Corporation of an agreement to merge or consolidate, or otherwise reorganize, with or into one or more entities that are not Subsidiaries, as a result of which less than 50% of the outstanding voting securities of the surviving or resulting entity immediately after the reorganization are, or will be, owned by stockholders of the Corporation immediately before such reorganization (assuming for purposes of such determination that there is no change in the record ownership of the Corporation's securities from the record date for such approval until such reorganization and that such record owners hold no securities of the other parties to such reorganization);

(iii) Approval by the stockholders of the Corporation of the sale of substantially all of the Corporation's business and/or assets to a person or entity which is not a Subsidiary;

(iv) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) (other than a person having such ownership at the time of adoption of this Plan) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing more than 50% of the combined voting power of the Corporation's then outstanding securities entitled to then vote generally in the election of directors of the Corporation; or

(v) During any period not longer than two consecutive years, individuals who at the beginning of such period constituted the Board cease to constitute at least a majority thereof, unless the election, or the nomination for election by the Corporation's stockholders, of each new Board member was approved by a vote of at least three- fourths of the Board members then still in office who were Board members at the beginning of such period (including for

these purposes, new members whose election or nomination was so approved).

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(e) "Commission" shall mean the Securities and Exchange Commission.

(f) "Committee" shall mean a committee appointed by the Board to administer this Plan, which committee shall be comprised only of two or more directors or such greater number of directors as may be required under applicable law, each of whom, during such time as one or more Participants may be subject to Section 16 of the Exchange Act, shall be Disinterested.

(g) "Common Stock" shall mean the Common Stock of the Corporation and such other securities or property as may become subject to Options, pursuant to an adjustment made under Section 3.2 of this Plan.

(h) "Company" shall mean, collectively, the Corporation and its Subsidiaries.

(i) "Corporation" shall mean Natures Sunshine Products, Inc., a Utah corporation, and its successors.

(j) "Disinterested shall mean disinterested within the meaning of any applicable regulatory requirements, including Rule 16b-3.

(k) "Eligible Employee" shall mean an officer (whether or not a director) or key employee of the Company.

(1) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

(m) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

(n) "Fair Market Value" shall mean (i) if the stock is listed or admitted to trade on a national securities exchange, the closing sales price of the stock on the Composite Tape, as published in the Western Edition of The Wall Street Journal, of the principal national securities exchange on which the stock is so listed or admitted to trade, on such date, or, if there is no trading of the stock on such date, then the closing price of the stock as quoted on such Composite Tape on the next preceding date on which there was trading in such shares; (ii) if the stock is not listed or admitted to trade on a national securities exchange, the last sales price for the stock on such date, as furnished by the National Association of Securities Dealers, Inc. ("NASD") through the NASDAQ National Market Reporting System or a similar organization if the NASD is no longer reporting such information; (iii) if the stock is not listed or admitted to trade

on a national securities exchange and is not reported on the National Market Reporting System, the mean between the bid and asked price for the stock on such date, as furnished by the NASD or a similar organization; or (iv) if the stock is not listed or admitted to trade on a national securities exchange, is not reported on the National Market Reporting System and if bid and asked prices for the stock are not furnished by the NASD or a similar organization, the value as established by the Committee at such time for purposes of this Plan.

(o) "Grant Date" shall mean the date upon which the Committee took the action granting an Option or such later date as the Committee designates as the Grant Date at the time of the Option is granted.

(p) "Incentive Stock Option' shall mean an Option which is designated as an incentive stock option within the meaning of Section 422A of the Code, the award of which contains such provisions as are necessary to comply with that section.

(q) "Nonqualified Stock Option shall mean an Option that is designated as a Nonqualified Stock Option and shall include any Option intended as an Incentive Stock Option that fails to meet the applicable legal requirements thereof. Any Option granted hereunder that is not designated as an Incentive Stock Option shall be deemed to be designated a Nonqualified Stock Option under this Plan and not an incentive stock option under the Code.

(r) "Non-Employee Director" shall mean a member of the Board of Directors of the Corporation who is not an officer or employee of the Company.

(s) "Option" shall mean an option to purchase Common Stock under this Plan. The Committee shall designate any Option granted to an Eligible Employee as a Nonqualified Stock Option or an Incentive Stock Option.

(t) "Option Agreement" shall mean any writing setting forth the terms of an Option that has been authorized by the Committee.

(u) "Option Period" shall mean the period beginning on the Grant Date and ending on the expiration date of such Option.

(v) "Participant" shall mean an Eligible Employee who has been granted an Option under thisPlan.

(w) "Personal Representative" shall mean the person or persons who, upon the disability or incompetence of a Participant, shall have acquired on behalf of the Participant, by legal proceeding or otherwise, the power to exercise the rights or receive benefits under this Plan and who shall have become the legal representative of the Participant.

(x) "Plan" shall mean this 1995 Stock Option Plan.

(y) "QDRO" shall mean a qualified domestic relations order as defined in Section 414(p) of the Code or Title I, Section 206(d)(3) of ERISA (to the same extent as if this Plan were subject thereto), or the applicable rules thereunder.

(aa) "Retirement" shall mean retirement with the consent of the Company.

(bb) "Rule 16b-3" shall mean Rule 16b-3 as promulgated by the Commission pursuant to the Exchange Act.

(cc) "Securities Act" shall mean the Securities Act of 1933, as amended from time to time.

(dd) "Subsidiary" shall mean any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Corporation.

(ee) "Total Disability" shall mean a "permanent and total disability within the meaning of Section 22(e)(3) of the Code and such other disabilities, infirmities, afflictions or conditions as the Committee by rule may include.

Exhibit 10.11

NATURE'S SUNSHINE PRODUCTS, INC.
STOCK OPTION AGREEMENT

THIS STOCK OPTION AGREEMENT (this "Agreement") is dated as of the th day of199 (the "Award Date"), between NATURE'S SUNSHINE PRODUCTS, INC., a Utah corporation (the "Corporation"), and ("Employee").

A. The Corporation has adopted, subject to the approval of the shareholders of the Corporation, the Nature's Sunshine Products, Inc. 1995 Stock Option Plan (the "Plan"); and

B. Pursuant to the Plan and as evidenced by this Agreement, the Corporation has granted to Employee a certain stock option, defined in Section 1, hereof, which option is not intended as and shall not be deemed to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code, as may be amended.

NOW, THEREFORE, in consideration of services rendered and to be rendered by Employee for the Corporation, the Corporation and Employee hereby agree to the provisions set forth herein.

1. Option Granted. This Agreement evidences the grant to Employee, as of the Award Date, subject to shareholder approval of the Plan, of an option to purchase an aggregate of ( ) shares of Common Stock under the Plan subject to adjustment as provided in the Plan (the "Option").

2. Exercise Price. The Option entitles Employee to purchase all or any portion of the Option shares at a price per share of Dollars and Cents ($), exercisable from time to time, subject to the provisions of this Agreement and the Plan. Such price is the Fair Market Value of the shares on the Award Date.

3. Exercisability of Option. The Option may be exercised beginning on . To the extent Employee does not in any year purchase all or any portion of the shares to which Employee is entitled to purchase, Employee has the cumulative right thereafter to purchase any shares not so purchased and such right shall continue until the Option terminates. When the Option terminates for any reason, no additional shares may be purchased under this Option.

4. Acceleration in Exercisability of Option. Notwithstanding anything to the contrary contained herein, the date of exercisability of the Option or a portion of the shares thereof as provided herein shall be accelerated to the later of (i) the date of shareholder approval of the Plan, (ii) July 20, 1996 or (iii) the twentieth day following the end of any quarter (beginning with the quarter of 199), where the Corporation achieves (i) an increase in consolidated net income in such quarter of 25 percent over consolidated net income for the corresponding quarter in the

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preceding year, and (ii) an increase in consolidated sales revenue of 25 percent over consolidated sales for the corresponding quarter in the preceding year. The amount of shares subject to acceleration of exercisability shall be as follows: shares for each full percent over 25 percent that consolidated net income in such quarter is increased over consolidated net income for the corresponding quarter for the preceding year. For example, if consolidated net income in the second quarter of 1996 is 28% higher than consolidated net income in the second quarter of 1995, then shares subject to the Option shall be exercisable on July 20, 1996, the twentieth day following such quarter. For purposes of this Agreement, increases in consolidated net income and consolidated sales revenue shall be conclusively determined by the Committee applying generally accepted accounting principles consistently applied.

5. Termination of Option. The Option shall terminate and be of no further force or effect upon*any* of the following:

(i) the tenth annual anniversary of the Award Date;

(ii) three months (or such later date as the Committee may in its sole discretion specify) after termination of Employee's employment with the Corporation for any reason other than for cause (as determined by the Committee in its sole discretion), or Employee's death or disability (as determined by the Committee in its sole discretion);

(iii) on the date of termination of Employee's employment with the Corporation if such termination is for cause (as determined by the Committee in its sole discretion);

(iv) twelve months after termination of Employee's employment with the Corporation because of Employee's disability (as determined by the Committee in its sole discretion); or

(vi) twelve months after Employee's death.

6. Securities Laws. The Committee may from time to time impose such conditions on the exercise of the Option as it deems necessary or advisable to ensure that rights granted under the Plan satisfy the requirements of applicable federal and state securities laws. Such conditions may include, without limitation, the partial or complete suspension of the right to exercise the Option.

7. Nontransferability of Option. The Option may not be transferred or assigned by Employee or exercised by anyone other than Employee except pursuant to (i) Employee's will, (ii) applicable laws of descent and distribution, or (iii) a QDRO.

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8. Interpretation. The Option and this Agreement are subject to, and the Corporation and Employee hereby agree to be bound by, all of the provisions of the Plan. Such provisions are incorporated herein and made a part hereof by this reference. Employee acknowledges receiving a copy of the Plan. Capitalized terms not otherwise defined in this Agreement shall have the meaning assigned to such terms in the Plan.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

Corporation: Nature's Sunshine Products, Inc.

By _____

Title _____

Employee: _____

(Signature)

(Address)

(City, State, Zip Code)

Nature's Sunshine Products
Code of Conduct

This Code of Conduct summarizes the guiding principles of honesty, integrity and lawful conduct expected of every employee, officer and member of the Board of Directors ("Director") of Nature's Sunshine Products, Inc. and its affiliates ("NSP" or "the Company"). All Company personnel are required to abide by and uphold a high standard of ethics. All such persons are expected to maintain integrity and honesty in their dealings with other employees, officers, Directors and affiliates of the Company, as well as with customers, vendors, distributors, shareholders, outside contractors, and government officials. This guide does not purport to present a comprehensive code addressing every legal or ethical issue that NSP personnel may confront, nor does it summarize all laws, regulations and policies that apply to our business, but it provides basic principles to guide NSP personnel. Any employee, officer, or Director who believes that any other employee, officer or Director may be in violation of this Code or any applicable law, is expected to report that information to (i) the General Counsel's Office, (ii) the Audit Committee of the Board or Directors or (iii) through the anonymous hotline procedures provided by NSP. Any person found in violation of reasonable standards of ethics may be subject to disciplinary action, up to and including dismissal from association with NSP.

Conflicts of Interest

Employees, officers and Directors ("NSP Personnel") are prohibited from engaging in any activity, practice or conduct that conflicts, or appears to conflict, with the interests of the Company, its customers, or its suppliers. No NSP Personnel may be employed by, own more than one percent of the publicly traded stock in, have a financial or material interest in, or be an independent distributor of any business that is a direct competitor of NSP. Direct competitors include all firms with which NSP competes for distributors or which sell similar products to those of NSP. NSP Personnel may not at any time seek, directly or indirectly, any object of value, including payments, fees, loans, services, gifts, entertainment, or other favors from any person or firm as a condition or result of their doing business with NSP. NSP Personnel are required to notify and obtain approval from at least a vice president level employee of (i) any gratuitous payment, fee, service, gift or favor from vendors of any value greater than $50 or (ii) any entertainment having a value of over $200 in any one calendar year.

NSP Personnel who obtain "free" or "discounted" products through NSP product benefits may provide such products only for the individual's immediate family use and may not sell or resell such products. NSP Personnel and any immediate household members, including their spouses or dependent children, may not be "independent distributors" with authorization to sell, distribute, or build business "downlines" with NSP products. This prohibition applies to NSP Personnel and any other individual employed by Nature's Sunshine Products, Inc., its subsidiaries, joint ventures or any other related business entity.

Compliance with all laws

Compliance with all applicable governmental laws, rules and regulations, both in letter and in spirit, is one of the foundations on which the Company's ethical policies are built, and accordingly, all NSP Personnel must strive to understand and take responsibility to comply with the governmental rules and regulations of the countries, states and communities in which the Company operates. The Company's officers and senior financial officials must also focus, in particular, on understanding the governmental rules and regulations applicable to disclosures in the Company's periodic Securities and Exchange Commission ("SEC") reports.

If a federal, state, local, international or foreign law conflicts with a policy in this Code, NSP Personnel must comply with the law; however, if a local custom or policy in the territory in which an NSP officer or employee works conflicts with this Code, then the officer or employee must comply with this Code. Any questions regarding such conflicts or the interpretation of policies contained in this Code should be brought to the attention of the General Counsel's Office in order to determine the most appropriate course of action. The General Counsel's Office shall notify the Audit Committee of the board of directors of any significant such conflicts.(1)

Protection of Confidential Information

NSP Personnel may not, without the written consent of NSP's General Counsel, during the term of employment or thereafter, use or disclose to others any confidential information regarding NSP. Confidential information includes: customer lists, formulas, business and technical information, data, documents, any information on current or past employees and their performance, information related to distributors, and all other confidential information including any trade secrets that are in the possession of the Company and that are not considered to be in the public domain. This obligation to protect confidential information is contained in Confidentiality Agreements that are signed by all employees.

Media Inquiries

Any NSP Personnel receiving a media inquiry or contact should refer the media to Corporate Communications for appropriate response.

Insider Trading

NSP Personnel who have access to, or knowledge of, confidential information about the Company are not permitted to use or share that information for stock trading purposes or for any other purpose except the lawful conduct of NSP business and only in strict compliance with all

(1) See also Addendum, NSP Code of Ethics for CEO and Senior Financial Officers.

applicable laws and SEC regulations. All material, non-public information, whether positive or negative, should be considered confidential information. The prohibitions against insider trading also include information that NSP Personnel might acquire during the course of their employment with the Company about any of our affiliated companies, clients or companies being considered for acquisition. For NSP Personnel to use any such information for their personal financial benefit or to "tip" others is unethical and illegal. Any questions about this policy and what information is considered confidential should be directed to the General Counsel's Office.

Foreign Corrupt Practices Act (Bribery)

The U.S. Foreign Corrupt Practices Act (FCPA) and the laws of many of the countries in which the Company operates prohibit offering or making, directly or indirectly, any payment, gift, entertainment, or providing any improper benefit to any foreign government official, party official, political candidate, or any person likely to serve as a conduit of any such payment, gift or benefit, if for the purpose of obtaining or retaining any business or securing any other improper benefit for the company. All of these terms should be interpreted very broadly, and any questions should be referred to the General Counsel's Office. Under very narrow circumstances, some limited "facilitating payments" may be lawfully made, but the Company does not permit any such payments unless approved, in advance, by the General Counsel's Office. Violations of the FCPA and other national anti-corruption statutes may subject the Company and individuals to civil and criminal penalties. The Company's policy is to comply fully with the FCPA.(2)

Fair Dealing

NSP Personnel must attempt at all times to deal fairly and in good faith with the Company's customers, vendors, affiliates, distributors, shareholders, outside contractors, and government officials. NSP's policy is to compete fairly and honestly and never through illegal or unethical business practices.

Reporting Suspicious, Unethical or Illegal Conduct

If any NSP Personnel believes that actions have occurred, may be taking place or may be about to take place that violate or would violate this Code, he or she must bring the matter to the attention of the General Counsel's Office. NSP Personnel are encouraged to talk to the General Counsel to the Company or the Audit Committee in the case of Directors and officers about observed illegal or unethical behavior and, when in doubt, about the best course of action in a particular situation. NSP has also established anonymous hotline procedures for employees to communicate suspicious, unethical or illegal conduct.(3)

(2) See also NSP Foreign Corrupt Practices Act Policy.
(3) See NSP Policy # 325 (Whistleblower Policy).

Sanctions/Embargoes

It is NSP's policy to comply fully with U.S. economic sanctions and embargoes that may prohibit or restrict U.S. persons, corporations or foreign subsidiaries from doing business with certain countries, groups or individuals. These sanctions may prohibit investment in certain countries and transactions by third parties that would be prohibited for U.S. persons and companies. Any questions about the application of sanctions or embargoes should be directed to the General Counsel's Office.

Accurate Record-Keeping

The Company requires honest and accurate recording and reporting of information in order to make responsible business decisions. Moreover, U.S. laws require that all books and records be maintained accurately and prohibit the knowing submission of false and/or incomplete information. All of the Company's books, records, accounts and financial statements must be maintained in reasonable detail and reflect accurately the Company's transactions. Because our records may become public, all NSP Personnel should avoid derogatory remarks, exaggeration, or other inappropriate remarks in e-mail or other documentation.

Discrimination/Harassment

The diversity of NSP personnel is a tremendous asset to the Company. NSP is firmly committed to providing equal opportunity in all aspects of the Company's operations and does not tolerate any illegal discrimination or harassment of any kind. NSP is an equal opportunity employer.(4)

Antitrust

The United States and many foreign countries have laws that encourage fair competition and prohibit acts that restrain trade or otherwise limit competition. These laws generally prohibit a variety of anti-competitive practices such as agreements regarding prices, competitive bidding or certain agreements regarding clients and geography or markets. It is NSP's policy to fully comply with these statutes, which may contain both criminal and civil sanctions.

Health and Safety

NSP is committed to providing a safe, productive and drug-free work environment, and to promoting the general health and well being of all employees. The Company will comply with

(4) See NSP Policy #308 (Sexual Harassment Policy).

all federal, state and local health and safety laws, rules and regulations. Each employee should endeavor to conduct the Company's business in a manner that does not endanger the health and safety of any other employee or customer. Employees should report any unsafe conditions, circumstances, or accidents to their supervisors immediately. These policies are jeopardized when employees illegally use drugs and alcohol on the job, come to work under the influence, or manufacture, possess, distribute, or sell drugs in the workplace. Therefore, in order to achieve the objectives of safety, productivity, health, and well being in the workplace, the company establishes the following policy:

A. It is a violation of company policy for any employee to manufacture, possess, sell, trade, or offer for sale illegal drugs and alcohol, or otherwise engage in the use of illegal drugs and alcohol on the job.

B. It is a violation of company policy for anyone to report to work under the influence of alcohol or illegal drugs.

C. It is a violation of company policy for anyone to use prescription drugs illegally.

D. Violations of this policy are subject to disciplinary action up to and including termination of employment. (5)

SEC Reports

See Addendum, Code of Ethics for CEO and Senior Financial Officers, for special obligations with respect to SEC reports.

Waivers

The provisions of this Code are binding on all NSP Personnel and its affiliates. In the rare event that an exception to this Code is appropriate, it shall only be authorized by the Board of Directors or a committee thereof.

Enforcement

Disciplinary action, including termination of employment, may be taken, not only against individuals who authorize or participate in violations of this policy, but also against:

A. Any employee who may have deliberately failed to report improper or illegal conduct;

(5) See NSP Policies #400 (Safety) and #410 (Drug-Free Workplace Policy and Testing Program).

B. Any employee who may have deliberately withheld relevant and material information, or who may have been uncooperative in a company investigation, and

C. Any employee who may have been convicted of a crime or who may have been arrested, or jailed for conduct deemed contrary to the company's mission, products, services, or public image.

The standards in this Code of Conduct are important to the Company's success and must be taken seriously by all NSP Personnel. Violations of these standards will not be tolerated and may result in discipline, up to and including discharge and/or possible legal action, where warranted.

ADDENDUM

Nature's Sunshine Products

Code of Ethics for CEO and Senior Financial Officers

The Chief Executive Officer ("CEO") and all senior financial and accounting officers of Nature's Sunshine Products, Inc. (the "Company") have important and vital roles in the corporate governance of the Company. This Code of Ethics (the "Code") has been adopted by the Board of Directors of the Company to establish standards of conduct designed to promote (1) honest and ethical conduct by such senior officers, (2) full, fair, accurate, timely and understandable disclosure in the Company periodic reports filed with the Securities and Exchange Commission (the "SEC") and (3) compliance by such senior officers with applicable governmental laws, rules and regulations.

The provisions of this Code shall apply to the Company's CEO, Chief Financial Officer ("CFO), Director of Finance, Controller, principal accounting officer, and persons performing similar functions (each individually, a "Senior Officer" and collectively, the "Senior Officers"). Each Senior Officer must conduct himself or herself in accordance with this Code and seek to avoid even the appearance of improper behavior. Senior Officers should also refer to the Company's Code of Business Conduct, which supplements and is in addition to this code.

Each Senior Officer shall certify, by February 15 of each fiscal year that he or she has read and understood this Code and will abide by it. A form of the certification is attached hereto as Exhibit A. Any waiver, including an implicit waiver, of this Code may be made only by the Board of Directors, and any such waiver will be promptly publicly disclosed as required by law and/or stock exchange regulation. Any amendment or other change to this Code will also be promptly publicly disclosed as required by law and/or stock exchange regulation.

The following standards shall apply to the Senior Officers under this Code:

I. Honest and Ethical Conduct.

Each Senior Officer shall:

1. always conduct himself or herself in an honest and ethical manner;

2. act with the highest standards of personal and professional integrity;

3. respect the confidentiality of information acquired during the course of employment with the Company and not use any such confidential information for personal gain;

4. achieve responsible use of and control over all assets and resources employed or entrusted to him or her;

5. proactively promote and advocate ethical behavior in the Company's work environment; and

6. ensure that he or she discloses, to the Board of Directors, or a designated committee of the Board, any material facts or information that come into the Senior Officer's possession concerning any "related party" transaction with the Company. A "related party" is any director, executive officer, nominee for election as director or securityholder who is known to hold more than five percent of any class of the Company's voting securities, and any member of the immediate family (as such term is defined under the NASDAQ corporate governance rules) of any of the foregoing persons. A related party also includes any entity that is affiliated with a director, executive officer, a nominee for election as a director or significant securityholder.

All actual or apparent conflicts of interest between personal and professional relationships must be handled honestly, ethically and in accordance with the policies specified in this Code.

II. Rules to Promote Full, Fair, Accurate, Timely and Understandable Disclosure.

To the extent consistent with each Senior Officer's duties and responsibilities, each Senior Officer must take the following steps to ensure full, fair, accurate, timely and understandable disclosure in the reports and documents that the Company files with the SEC and in other public communications made by the Company:

1. Carefully review a draft of each periodic SEC report and related documents for accuracy and completeness before each report is filed with the SEC, with particular focus on disclosures issues within his or her area of responsibility.

2. Carefully review a draft of each financial press release or other public communications by the Company before each such communication is released to the public.

3. Upon request of the Company's Audit Committee, meet with its members and others involved in the financial reporting and audit processes to discuss the draft report referred to in item (1) above.

4. Bring to the attention of the Audit Committee matters that such Senior Officer believes could compromise the integrity of the Company's financial reports, evidence disagreements on accounting matters and or constitute a possible violation of this Code.

5. Actively support the Company's CFO (by cooperating fully with periodic SEC report reviews, proactively identifying potential areas of weaknesses and providing corrective policy recommendations) to help establish and maintain disclosure controls and procedures that ensure that material information is included in each periodic SEC report.

6. Consult with the Audit Committee on a regular basis to identify any short-comings or concerns with respect to the Company's internal financial reporting or disclosure controls.

7. Confirm that neither the Company's internal auditor function, nor its outside accountants, are aware of any material misstatements or omissions in any draft periodic SEC report referred to in item (1) above, or have any concerns about the "Management's Discussion and Analysis" section of such periodic report.

8. Always act in good faith, responsibly, with due care, competence and diligence, without misrepresenting materials facts or allowing independent judgment to be subordinated.

III. Compliance with Applicable Governmental Laws, Rules and Regulations.

Compliance with applicable governmental laws, rules and regulations, both in letter and in spirit, is one of the foundations on which the Company's ethical policies are built, and accordingly, each Senior Officer must strive to:

1. Understand and take responsibility to comply with the governmental rules and regulations of the countries, states and communities in which the Company operates, with particular focus on understanding the governmental rules and regulations applicable to disclosures in the Company's periodic SEC reports.

2. If a federal, state, local, international or foreign law conflicts with a policy in this Code, a Senior Officer must comply with the law; however, if a local custom or policy in the territory in which a Senior Officer works conflicts with this Code, then the Senior Officer must comply with this Code. Any questions regarding such conflicts or the interpretation of policies contained in this Code should be brought to the attention of the Audit Committee in order to determine the most appropriate course of action.

IV. Reporting any Violations of this Code.

If a Senior Officer believes that actions have occurred, may be taking place or may be about to take place that violate or would violate this Code, he or she must bring the matter to the attention of the Company in accordance with the procedures established under the Company's Code of Business Conduct or Auditing and Accounting Complaint Policy, as applicable. Senior Officers are encouraged to talk to the securities counsel to the Company or the Audit Committee about observed illegal or unethical behavior and, when in doubt, about the best course of action in a particular situation.

V. Remedial Action

A violation of this Code will subject a Senior Officer to disciplinary action, up to and including a discharge from the Company and, where appropriate, may subject the Senior Officer to civil liability and criminal prosecution.

Adopted by the Board of Directors on February 24, 2004.

EXHIBIT A

Certification Regarding Code of Ethics
for CEO and Senior Financial Officers
Nature's Sunshine Products, Inc.

The undersigned hereby certifies that he or she has read and will abide by the Code of Ethics for CEO and Senior Financial Officers (the "Code") approved by the Board of Directors on February 24, 2004, or as subsequently amended, and that he or she knows such failure may constitute a violation of federal securities laws and regulations which may subject him or her to civil liabilities and criminal penalties. The undersigned acknowledges that he or she has read and understood the Code and will abide by it. The undersigned further acknowledges that failure to observe the provisions of the Code shall be a basis for dismissal for cause and/or referral to appropriate authorities.

_____
Name

_____
Signature

_____
Date

EXHIBIT 21

SUBSIDIARIES

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

Name	Jurisdiction of Incorporation
Nature's Sunshine Products Direct, Inc.	Utah
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.	Utah
Nature's Sunshine Produtos Naturais Ltda.	Brazil
Nature's Sunshine Marketing, Ltda.	Brazil
Nature's Sunshine, Japan Co., Ltd.	Japan
Nature's Sunshine Products N.S.P. de Venezuela, C.A.	Venezuela
Nature's Sunshine Products de Centroamérica	Costa Rica
Nature's Sunshine Products de Panamá, S.A.	Panama
Nature's Sunshine Products de Guatemala, S.A.	Guatemala
Nature's Sunshine Products de El Salvador, S.A. de C.V.	El Salvador
Nature's Sunshine Products del Peru, S.A.	Peru
Nature's Sunshine Products del Ecuador, S.A.	Ecuador
Nature's Sunshine Products de Honduras, S.A.	Honduras
Nature's Sunshine Products de Nicaragua, S.A.	Nicaragua
Nature's Sunshine Products (Israel) Ltd.	Israel
Nature's Sunshine Products of Russia, Inc.	Utah
Nature's Sunshine Products Poland Sp. z.o.o.	Poland.
Nature's Sunshine Products Dominicana, S.A.	Dominican Republic
Nature's Sunshine Products International Distribution B.V.	Netherlands
Nature's Sunshine Products International Holdings C.V.	Netherlands
NSP Casualty Insurance Company, Inc.	Hawaii
Consolidated Distribution Network, Inc.	Utah
Quality Nutrition International, Inc.	Utah
Synergy Worldwide 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 K.K.	Japan
Synergy Worldwide (S) PTE Ltd.	Singapore
Synergy Worldwide Nutrition Israel Ltd.	Israel
Synergy Worldwide (HK)Ltd.	Hong Kong
Synergy Worldwide Europe B.V.	Netherlands
PT Nature's Sunshine Products Indonesia	Indonesia
Synergy Worldwide Japan Ltd. (Y.K.)	Japan
NATR Distribution (M) SDN. BHD.	Malaysia
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. Enespi Alam Indo	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.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-59497 and 333-08139 on Forms S-8 of our reports dated October 6, 2008, relating to the consolidated financial statements and financial statement schedule of Nature Sunshine Products, Inc. and subsidiaries (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement discussed in Note 2) and the effectiveness of Nature Sunshine Products, Inc. and subsidiaries internal control over financial reporting (which report expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of material weaknesses and a scope limitation on expressing an opinion on Management' Report on Internal Control over Financial Reporting), appearing in this Annual Report on Form 10-K of Nature Sunshine Products, Inc. and subsidiaries for the year ended December 31, 2006.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
October 6, 2008

EXHIBIT 31.1

I, Douglas Faggioli, President and Chief Executive Officer of Nature's Sunshine Products, Inc., certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2006 of Nature's Sunshine Products, Inc.;

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/ DOUGLAS FAGGIOLI
President and Chief Executive Officer
October 6, 2008

EXHIBIT 31.2

I, Stephen M. Bunker, Executive Vice President, Chief Financial Officer and Treasurer of Nature's Sunshine Products, Inc., certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2006 of Nature's Sunshine Products, Inc.;

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
October 6, 2008

EXHIBIT 32.1

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

In connection with the accompanying report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas Faggioli, President and Chief Executive Officer of Nature's Sunshine Products, Inc. (the "Company"), hereby certify 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/ DOUGLAS FAGGIOLI
Douglas Faggioli
President and Chief Executive Officer
October 6, 2008

EXHIBIT 32.2

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

In connection with the accompanying report on Form 10-K for the year ended December 31, 2006 and 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:

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
October 6, 2008