# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended September 30, 2001**

**OR**

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

**For the transition period from ________________to __________________**

**0-8707**
(Commission File Number)

# NATURE'S SUNSHINE PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **Utah**<br>(State or other jurisdiction of incorporation or organization) | **87-0327982**<br>(IRS employer identification no.) |
| **75 East 1700 South, Provo, Utah**<br>(Address of principal executive offices) | **84606**<br>(Zip code) |

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or such shorter period that the Registrant was required to file such report(s)), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

The number of shares of common stock, no par value, outstanding as of November 7, 2001, was 16,272,539.

NATURE'S SUNSHINE PRODUCTS, INC.
FORM 10-Q

For The Quarter Ended September 30, 2001

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | September 30, 2001 | December 31, 2000 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 26,447 | $ 28,803 |
| Accounts receivable, net | 7,360 | 7,326 |
| Inventories | 29,248 | 26,043 |
| Deferred income tax assets | 2,090 | 2,174 |
| Prepaid expenses and other | 8,739 | 8,631 |
| Total Current Assets | 73,884 | 72,977 |
| PROPERTY, PLANT AND EQUIPMENT, net | 34,347 | 25,293 |
| LONG-TERM INVESTMENTS | 12,558 | 10,715 |
| INTANGIBLE AND OTHER ASSETS, net | 8,978 | 9,462 |
| | $ 129,767 | $ 118,447 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short-term debt | $ --- | $ 385 |
| Accounts payable | 5,900 | 4,961 |
| Accrued volume incentives | 11,145 | 9,807 |
| Accrued liabilities | 12,547 | 12,060 |
| Income taxes payable | 4,535 | 2,194 |
| Total Current Liabilities | 34,127 | 29,407 |
| LONG-TERM LIABILITIES: | | |
| Deferred income tax liabilities | 719 | 2,814 |
| Deferred compensation | 1,361 | 1,342 |
| Total Long-Term Liabilities | 2,080 | 4,156 |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, no par value; 20,000 shares authorized, 19,446 shares issued | 36,375 | 37,435 |
| Retained earnings | 113,656 | 102,347 |
| Treasury stock, at cost, 3,159 and 3,020 shares, respectively | (43,429) | (43,391) |
| Accumulated other comprehensive loss | (13,042) | (11,507) |
| Total Shareholders' Equity | 93,560 | 84,884 |
| | $ 129,767 | $ 118,447 |

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

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

| | Three Months Ended September 30, 2001 | Three Months Ended September 30, 2000 |
|---|---|---|
| SALES | $ 77,944 | $ 77,145 |
| COSTS AND EXPENSES: | | |
| Cost of goods sold | 14,146 | 13,696 |
| Volume incentives | 34,006 | 33,940 |
| Selling, general and administrative | 23,231 | 22,186 |
| | 71,383 | 69,822 |
| OPERATING INCOME | 6,561 | 7,323 |
| OTHER INCOME, net | 200 | 20 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 6,761 | 7,343 |
| PROVISION FOR INCOME TAXES | 2,542 | 2,871 |

| | | |
|---|---|---|
| NET INCOME | 4,219 | 4,472 |
| OTHER COMPREHENSIVE LOSS, net of tax: | | |
| Foreign currency translation adjustments | (700 ) | (588 ) |
| Unrealized holding gain (loss) on marketable securities | (74 ) | 226 |
| Reclassification adjustment for gains included in net income | --- | 1 |
| | (774) | (361 ) |
| COMPREHENSIVE INCOME | $ 3,445 | $ 4,111 |
| BASIC NET INCOME PER COMMON SHARE | $ 0.26 | $ 0.27 |
| WEIGHTED AVERAGE BASIC SHARES | 16,311 | 16,736 |
| DILUTED NET INCOME PER COMMON SHARE | $ 0.25 | $ 0.27 |
| WEIGHTED AVERAGE DILUTED SHARES | 17,129 | 16,764 |

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

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2001** | **2000** |
| SALES | $ 241,398 | $ 238,260 |
| COSTS AND EXPENSES: | | |
| Cost of goods sold | 43,414 | 41,858 |
| Volume incentives | 106,218 | 105,832 |
| Selling, general and administrative | 72,019 | 68,614 |
| | 221,651 | 216,304 |
| OPERATING INCOME | 19,747 | 21,956 |
| OTHER INCOME, net | 854 | 781 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 20,601 | 22,737 |
| PROVISION FOR INCOME TAXES | 7,664 | 8,878 |
| NET INCOME | 12,937 | 13,859 |
| OTHER COMPREHENSIVE LOSS, net of tax: | | |
| Foreign currency translation adjustments | (1,472 ) | (1,107 ) |
| Unrealized holding gain (loss) on marketable securities | (50 ) | 144 |
| Reclassification adjustment for gains included in net income | (13 ) | (40 ) |
| | (1,535 ) | (1,003 ) |
| COMPREHENSIVE INCOME | $ 11,402 | $ 12,856 |
| BASIC NET INCOME PER COMMON SHARE | $ 0.79 | $ 0.82 |
| WEIGHTED AVERAGE BASIC SHARES | 16,286 | 16,929 |
| DILUTED NET INCOME PER COMMON SHARE | $ 0.77 | $ 0.81 |
| WEIGHTED AVERAGE DILUTED SHARES | 16,761 | 17,029 |

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

NATURE’S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents
(Amounts In Thousands)
*(Unaudited)*

**Nine Months Ended**

| | September 30, | |
|---|---|---|
| | 2001 | 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 12,937 | $ 13,859 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,895 | 4,883 |
| Tax benefit from stock option exercise | 195 | --- |
| Loss on sale of property, plant and equipment | 30 | 17 |
| Deferred income taxes | (2,011 ) | 919 |
| Deferred compensation | 19 | 337 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (34 ) | (2,303 ) |
| Inventories | (3,205 ) | (533 ) |
| Prepaid expenses and other assets | (108 ) | 327 |
| Accounts payable | 939 | 235 |
| Accrued volume incentives | 1,338 | 1,111 |
| Accrued liabilities | 487 | 2,633 |
| Income taxes payable | 2,341 | 945 |
| Cumulative currency translation adjustments | (898 ) | (882 ) |
| Net Cash Provided by Operating Activities | 16,925 | 21,548 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (13,185 ) | (3,029 ) |
| Purchase (Sale) of long-term investments, net | (1,907 ) | 576 |
| Payments received (Advances) on long-term receivables | 194 | (278 ) |
| Purchase of other assets | (605 ) | (1,548 ) |
| Proceeds from sale of property, plant and equipment | 102 | 65 |
| Net Cash Used in Investing Activities | (15,401 ) | (4,214 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payment of cash dividends | (1,628 ) | (1,695 ) |
| Purchase of treasury stock | (2,177 ) | (3,588 ) |
| Repayments of short-term debt | (385 ) | (473 ) |
| Proceeds from exercise of stock options | 884 | 29 |
| Net Cash Used in Financing Activities | (3,306 ) | (5,727 ) |
| EFFECT OF EXCHANGE RATES ON CASH | (574 ) | (225 ) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (2,356 ) | 11,382 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 28,803 | 18,433 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | $ 26,447 | $ 29,815 |

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

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts In Thousands, Except Per-Share Information)
*(Unaudited)*

(1) INTERIM FINANCIAL STATEMENT POLICIES AND DISCLOSURES

The unaudited, condensed consolidated financial statements of Nature's Sunshine Products, Inc. and subsidiaries included herein have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally required in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes the following disclosures are adequate to make the information presented not misleading.

These condensed consolidated financial statements reflect all adjustments, which in the opinion of management are necessary to present fairly the financial position as of September 30, 2001, and the results of operations and cash flows for the periods presented. All of the adjustments which have been made in these condensed consolidated financial statements are of a normal recurring nature. Operating results for the three and nine months ended September 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The Company suggests that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

(2) INVENTORIES

| Inventories consist of the following: | September 30, 2001 | December 31, 2000 |
|---|---|---|
| Raw materials | $ 7,710 | $ 6,400 |
| Work in process | 1,139 | 1,345 |
| Finished goods | 20,399 | 18,298 |
| | $ 29,248 | $ 26,043 |

(3) NET INCOME PER COMMON SHARE

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

As of September 30, 2001, the Company had outstanding options to purchase a total of 3,832 shares of common stock. These options were all granted at fair market value and have a weighted-average exercise price of $8.04 per share.

Following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for the three and nine months ended September 30, 2001 and 2000:

| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
|---|---|---|---|
| Three Months Ended September 30, 2001 | | | |
| Basic EPS | $ 4,219 | 16,311 | $ 0.26 |
| Effect of stock options | | 818 | |
| Diluted EPS | $ 4,219 | 17,129 | $ 0.25 |
| | | | |
| Three Months Ended September 30, 2000 | | | |
| Basic EPS | $ 4,472 | 16,736 | $ 0.27 |
| Effect of stock options | | 28 | |
| Diluted EPS | $ 4,472 | 16,764 | $ 0.27 |
| | | | |
| Nine Months Ended September 30, 2001 | | | |
| Basic EPS | $ 12,937 | 16,286 | $ 0.79 |
| Effect of stock options | | 475 | |
| Diluted EPS | $ 12,937 | 16,761 | $ 0.77 |
| | | | |
| Nine Months Ended September 30, 2000 | | | |
| Basic EPS | $ 13,859 | 16,929 | $ 0.82 |
| Effect of stock options | | 100 | |
| Diluted EPS | $ 13,859 | 17,029 | $ 0.81 |

For the three months ended September 30, 2001 and 2000, there were outstanding options to purchase 386 and 3,240 shares of common stock, respectively, that were not included in the computation of Diluted EPS, as their effect would have been anti-dilutive. For the nine months ended September 30, 2001 and 2000, there were outstanding options to purchase 604 and 1,095 shares of common stock, respectively, that were not included in the computation of Diluted EPS, as their effect would have been anti-dilutive.

## (4) EQUITY TRANSACTIONS

The Company has declared consecutive quarterly cash dividends since 1988. The most recent quarterly cash dividend of 3 1/3 cents per common share was declared on October 29, 2001, to shareholders of record on November 9, 2001, and is payable on November 16, 2001.

On February 6, 2001, the Board of Directors authorized the repurchase of up to 1,000 shares of the Company's common stock as market conditions warrant. For the nine months ended September 30, 2001, the Company repurchased approximately 258 shares of common stock under this approval.

## (5) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. SFAS No. 142 provides guidance on how to account for goodwill and intangible assets after an acquisition is complete. This statement eliminates the amortization of goodwill and requires that it be assessed for impairment at each reporting date. The Company anticipates that the adoption of this pronouncement will not have a material effect on the Company's consolidated financial statements.

## (6) ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| | Foreign Currency Adjustments | Unrealized Gains on Available-for-Sale Securities | Total Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance as of December 31, 2000 | $ (11,710) | $ 203 | $ (11,507) |
| Current period change | (1,472) | (63) | (1,535) |
| Balance as of September 30, 2001 | $ (13,182) | $ 140 | $ (13,042) |

## (7) SEGMENT INFORMATION

The Company has four operating segments based on geographic location. These operating segments are components of the Company for which separate information is available that is evaluated regularly by management in deciding how to allocate resources and assess performance. The Company evaluates performance based on operating income (loss). Intersegment sales are eliminated in consolidation and are not material.

Operating segment information is as follows:

| | Three Months Ended September 30, 2001 | Three Months Ended September 30, 2000 | Nine Months Ended September 30, 2001 | Nine Months Ended September 30, 2000 |
|---|---|---|---|---|
| Sales Revenue: | | | | |
| United States | $ 42,760 | $ 42,375 | $ 134,439 | $ 135,974 |
| Latin America | 17,631 | 20,397 | 56,637 | 59,718 |

| | | | | |
|---|---|---|---|---|
| Asia Pacific | 11,864 | 9,870 | 33,502 | 28,865 |
| Other | 5,689 | 4,503 | 16,820 | 13,703 |
| | 77,944 | 77,145 | 241,398 | 238,260 |
| Operating Expenses: | | | | |
| United States | 38,165 | 37,379 | 119,831 | 119,622 |
| Latin America | 16,582 | 19,125 | 53,596 | 56,704 |
| Asia Pacific | 11,249 | 8,873 | 32,295 | 26,688 |
| Other | 5,387 | 4,445 | 15,929 | 13,290 |
| | 71,383 | 69,822 | 221,651 | 216,304 |
| Operating Income: | | | | |
| United States | 4,595 | 4,996 | 14,608 | 16,352 |
| Latin America | 1,049 | 1,272 | 3,041 | 3,014 |
| Asia Pacific | 615 | 997 | 1,207 | 2,177 |
| Other | 302 | 58 | 891 | 413 |
| | 6,561 | 7,323 | 19,747 | 21,956 |
| Other Income | 200 | 20 | 854 | 781 |
| Income Before Provision for Income Taxes | $ 6,761 | $ 7,343 | $ 20,601 | $ 22,737 |

Segment assets are as follows:

| | September 30, 2001 | December 31, 2000 |
|---|---|---|
| Assets | | |
| United States | $ 77,617 | $ 66,232 |
| Latin America | 28,255 | 29,434 |
| Asia Pacific | 18,961 | 17,858 |
| Other | 4,934 | 4,923 |
| | $ 129,767 | $ 118,447 |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements, the notes thereto and management's discussion and analysis included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

RESULTS OF OPERATIONS

The following table identifies (i) the relationship that net income items disclosed in the condensed consolidated financial statements have to total sales, and (ii) the amount and percent of change of such items compared to the corresponding prior period.

(Dollar Amounts in Thousands)
*(Unaudited)*

| **(i) Income and Expense Items as a Percent of Sales Three Months Ended September 30** | | | **(ii) Three Months Ended September 30 2001 to 2000** | |
|---|---|---|---|---|
| **2001** | **2000** | **Income and Expense Items** | **Amount of Increase (Decrease)** | **Percent of Change** |
| 100.0% | 100.0% | Sales | $ 799 | 1.0% |
| 18.2 | 17.7 | Cost of goods sold | 450 | 3.3 |
| 43.6 | 44.0 | Volume incentives | 66 | 0.2 |
| 29.8 | 28.8 | SG&A expenses | 1,045 | 4.7 |
| 91.6 | 90.5 | Total operating expenses | 1,561 | 2.2 |
| 8.4 | 9.5 | Operating income | (762) | (10.4) |
| 0.3 | 0.0 | Other income, net | 180 | 900.0 |
| 8.7 | 9.5 | Income before provision for income taxes | (582) | (7.9) |
| 3.3 | 3.7 | Provision for income taxes | (329) | (11.5) |
| 5.4% | 5.8% | Net income | $ (253) | (5.7)% |

The following table identifies (i) the relationship that net income items disclosed in the condensed consolidated financial statements have to total sales, and (ii) the amount and percent of change of such items compared to the corresponding prior period.

(Dollar Amounts in Thousands)
*(Unaudited)*

| **(i) Income and Expense Items as a Percent of Sales Three Months Ended September 30** | | | **(ii) Three Months Ended September 30 2001 to 2000** | |
|---|---|---|---|---|
| **2001** | **2000** | **Income and** | **Amount of Increase** | **Percent of** |

| | | Expense Items | (Decrease) | Change |
|---|---|---|---|---|
| 100.0% | 100.0% | Sales | $ 3,138 | 1.3% |
| | | | | |
| 18.0 | 17.6 | Cost of goods sold | 1,556 | 3.7 |
| 44.0 | 44.4 | Volume incentives | 386 | 0.4 |
| 29.8 | 28.8 | SG&A expenses | 3,405 | 5.0 |
| 91.8 | 90.8 | Total operating expenses | 5,347 | 2.5 |
| | | | | |
| 8.2 | 9.2 | Operating income | (2,209) | (10.1) |
| 0.4 | 0.3 | Other income, net | 73 | 9.3 |
| | | | | |
| 8.6 | 9.5 | Income before provision for income taxes | (2,136) | (9.4) |
| | | | | |
| 3.2 | 3.7 | Provision for income taxes | (1,214) | (13.7) |
| | | | | |
| 5.4% | 5.8% | Net income | $ (922) | (6.7)% |

SALES

Sales for the three months ended September 30, 2001, were $77.9 million compared to $77.1 million for the same period in the prior year, an increase of approximately 1.0 percent. Sales for the nine months ended September 30, 2001, were $241.4 million compared to $238.3 million for the same period in the prior year, an increase of approximately 1.3 percent. The increase in sales for the three and nine months ended September 30, 2001, compared to the same periods in the prior year is attributable to sales growth throughout the Company's international operations, excluding Latin America, as well as growth in the Company's United States operations for the three months ended September 30, 2001.

The Company's United States operations reported sales of $42.7 and $134.4 million for the three and nine months ended September 30, 2001, an increase of approximately 0.9 percent and a decrease of approximately 1.1 percent, respectively, over the same periods in the prior year.

The Company's international operations reported record sales of $35.2 million and $107.0 million for the three and nine months ended September 30, 2001, an increase of approximately 1.2 percent and 4.6 percent, respectively, over the same periods in the prior year. International sales accounted for approximately 45 percent and 44 percent of consolidated sales for the three and nine months ended September 30, 2001.

Sales in Latin America were $17.6 million and $56.6 million for the three and nine months ended September 30, 2001, a decrease of approximately 13.6 percent and 5.2 percent, respectively, over the same periods in the prior year. The sales decrease experienced in Latin America was primarily due to regulations imposed by the Brazilian government to restrict the importation of nutritional supplements. Brazil reported sales for the nine months ended September 30, 2001, of $9.0 million compared to $17.9 million for the same period in the prior year. The Company's operations in Brazil are expected to continue to be negatively impacted in terms of sales and income. The decrease in sales for Brazil was offset, in part, by strong sales growth in Mexico, Venezuela and Ecuador.

Sales in Asia Pacific were $11.9 million and $33.5 million for the three and nine months ended September 30, 2001, an increase of approximately 20.2 percent and 16.1 percent, respectively, over the same periods in the prior year. The sales growth experienced in the Company's Asia Pacific markets is the result of continued sales increases experienced in South Korea, as well as sales increases generated from Synergy Japan, which the Company acquired on October 31, 2000.

Sales in the Company's other markets were $5.7 million and $16.8 million for the three and nine months ended September 30, 2001, an increase of approximately 26.3 percent and 22.7 percent, respectively, over the same periods in the prior year. The sales growth experienced in the Company's other markets is primarily due to the results of its operations in Russia and Israel.

The Company's independent sales force consists of Managers and Distributors. A Distributor interested in earning additional income by committing more time and effort to selling the Company's products may attain the rank of "Manager." Appointment as a Manager is dependent upon attaining certain purchase volume levels and demonstrating leadership abilities. The number of Managers at September 30, 2001, was approximately 17,900 compared to approximately 16,100 at December 31, 2000. The number of Distributors at September 30, 2001, was approximately 579,000 compared to approximately 589,000 at December 31, 2000.

COST OF GOODS SOLD

For the three and nine months ended September 30, 2001, the Company experienced an increase in cost of goods sold, as a percent of sales, compared to the same periods in the prior year. The increase in cost of goods sold was primarily the result of currency devaluations in certain international markets, as well as the increase in international sales where cost of goods sold is higher than in the Company's United States operations. Management expects cost of goods sold to remain relatively constant as a percent of sales during the remainder of 2001 compared to the nine months ended September 30, 2001.

VOLUME INCENTIVES

Volume incentives are payments to independent sales force members for reaching certain levels of sales performance and organizational development and are an integral part of the Company's direct sales marketing program. Volume incentives vary slightly, on a percentage basis, by product due to the Company's pricing policies. For the three and nine months ended September 30, 2001, the Company experienced a slight decrease in volume incentives, as a percent of sales, compared to the same periods in the prior year. The decrease in volume incentives is primarily the result of increased international sales where volume incentives are lower, as a percent of sales, than in the United States. Management expects volume incentives to decrease slightly, as a percent of sales, during the remainder of 2001 compared to the nine months ended September 30, 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the three and nine months ended September 30, 2001, increased, as a percent of sales, compared to the same periods in the prior year primarily as the result of increased expenditures associated with the integration of Synergy Japan. Eliminating the expenses associated with the Synergy Japan acquisition, selling, general and administrative expenses, as a percent of sales, would have remained constant. Management expects selling, general and administrative expenses to decrease slightly, as a percent of sales, for the remainder of 2001 compared to the nine months ended September 30, 2001, as the result of increased sales and the continued control of selling, general and administrative expenses.

SEGMENT INFORMATION

See information included in the condensed consolidated financial statements under Item 1 Note 7.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased approximately $2.4 million for the nine months ended September 30, 2001, compared to December 31, 2000. The decrease in cash and cash equivalents is primarily the result of continued cash requirements for the expansion of the Company's manufacturing facility, as well as an increase in inventory to ensure product availability during the conversion of the new manufacturing facility. The Company also contracted with a third party by entering into an exclusive agreement to manufacture a proprietary line of herbs and vitamins, whereby the Company made a $2.0 million equity investment and provided a loan of $1.0 million, which can be converted into common stock.

On March 2, 2000, the Company announced its plans to complete the manufacturing, research and development and quality assurance areas of its recent facility expansion. Construction began during the third quarter of 2000. The cost of this project is expected to be approximately $14.0 million of which $11.6 million had been paid as of September 30, 2001. Completion of this project is scheduled for the second quarter of 2002. The Company anticipates this expansion as well as other capital projects to be funded from working capital.

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

## LEGAL PROCEEDINGS

The Company is a defendant in various lawsuits which are incidental to the Company’s business. Management, after consultation with legal counsel, believes that the ultimate disposition of these matters will not have a material effect upon the Company’s consolidated results of operations or financial position.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Management’s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q may contain forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements may relate but not be limited to projections of revenues, income or loss, capital expenditures, plans for growth and future operations, financing needs, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. When used in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and elsewhere in this Form 10-Q the words “estimates”, “expects”, “anticipates”, “projects”, “plans”, “intends” and variations of such words and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company conducts its business in several countries and intends to continue to expand its international operations. Sales revenue, operating income and net income are affected by fluctuations in currency exchange rates, interest rates and other uncertainties inherent in doing business and selling product in more than one currency. In addition, the Company's operations are exposed to risks associated with changes in social, political and economic conditions inherent in international operations, including changes in the laws and policies that govern international investment in countries where it has 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 nine months ended September 30, 2001, approximately 44 percent of the Company's revenue and 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 sales and expenses are translated at average exchange rates for the reported periods. Therefore, the Company's sales and expenses will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Given the uncertainty of exchange rate fluctuations, the Company cannot estimate the affect of these fluctuations on the Company's future business, product pricing, results of operations or financial condition. Changes in currency exchange rates affect the relative prices at which the Company sells its products. The Company regularly monitors its foreign currency risks and periodically takes measures to reduce the impact of foreign exchange rate fluctuations on the Company's operating results. The Company does not use derivative instruments for hedging, trading or speculating on foreign currency exchange rate fluctuations.

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

| **Nine Months Ended September 30,** | **2001** | **2000** |
|---|---|---|
| Brazil | 2.3 | 1.8 |
| Japan | 120.7 | 107.1 |
| Mexico | 9.4 | 9.4 |
| South Korea | 1,288.7 | 1,118.6 |
| Venezuela | 715.8 | 674.3 |

### INTEREST RATE RISK

The Company has investments, which by nature are subject to market risk. At September 30, 2001, the Company had investments totaling $12.6 million of which $5.1 million were equity investments and $7.5 million were municipal obligations, which carry a fixed interest rate of 5.2 percent and mature between one and five years. A hypothetical one percent change in interest rates would not have a material affect on the Company's liquidity, financial condition or results of operations.

## PART II OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) No exhibits are required to be filed by Item 601 of Regulation S-K.

b) No reports were filed on Form 8-K during the quarter for which this report is filed.

### Other Items

There were no other items to be reported under Part II of this report.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATURE'S SUNSHINE PRODUCTS, INC.

Date: November 9, 2001

/s/ Daniel P. Howells

Daniel P. Howells, President & Chief Executive Officer

Date: November 9, 2001

/s/ Craig D. Huff

Craig D. Huff, Chief Financial Officer