

NATURES SUNSHINE PRODUCTS INC  
Form 10-K  
October 07, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

**x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007**

OR

**o 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.**

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(Exact name of Registrant as specified in its charter)

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

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

**75 East 1700 South**  
**Provo, Utah 84606**

(Address of principal executive offices and zip code)

**(801) 342-4300**

(Registrant's telephone number, including area code)

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

**None**

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

**Common Stock, no par value.**

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

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

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

Indicate by check mark 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.

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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.

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**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, 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**

**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

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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.

Preceding the filing of this report, we filed the Annual Report on Form 10-K for the fiscal year ended December 31, 2006. We are currently preparing and expect to file the following reports with the SEC subsequent to the filing of this Report: Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, and June 30, 2008.

## 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.

Given the significant delay in the filing of our annual report on Form 10-K for 2007, certain amounts and discussions, as indicated, have been updated to include relevant 2008 and current information as far as practicable to do so.

## Restatement of Previously Issued Financial Statements

On October 6, 2008, 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. The restatement of our 2004 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 above. The Company used all available information in determining the impact of adjustments identified as a result of Management's review. The restatement is discussed



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in greater detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on October 6, 2008.

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**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 the United States, Japan, 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

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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, 2007, 2006, and 2005, herbal products accounted for approximately 52.9, 54.0, and 53.7 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, 2007, 2006, and 2005, vitamin and mineral supplements accounted for approximately 41.6, 40.3, and 40.5 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, 2007, 2006, and 2005, personal care products accounted for approximately 2.3, 2.4, 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, 2007, 2006, and 2005, other products accounted for approximately 3.2, 3.3, and 3.3 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.

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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, 2007, 2006, and 2005 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,



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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.

**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 in 2007 and 2006, and \$1.8 million in 2005, respectively. During the three years in the period ended December 31, 2007, 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 41.7 percent of net sales in 2007. Outside of the United States, Japan continues to be our largest market, representing 12.4 percent of net sales during 2007. 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.

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Year Ended December 31,	2007		2006		2005	
Sales Revenue:						
United States	\$	152,943	41.7%	\$	157,132	43.4%
Foreign						
Japan		45,554	12.4		52,301	14.4
Russia		34,314	9.4		28,394	7.8
Other		133,836	36.5		124,395	34.4
Total Foreign		213,704	58.3		205,090	56.6
	\$	366,647	100.0%	\$	362,222	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;

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- 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

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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.



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***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.

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***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 2007, we recognized approximately 58.3 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 products. In the event we were to lose any significant suppliers and experience any difficulties in finding or transitioning to alternative suppliers, it could result in product shortages or product back orders, which could harm our business. There can be no assurance that suppliers will be able to provide us 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.

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***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.***

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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.

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

In order to provide a high level of product availability to our independent 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.

***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 local laws and regulations change and require us to treat our independent Distributors as employees, or if our Distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors, under existing laws and interpretations, we may be held responsible for a variety of obligations that are imposed upon employers relating to their employees, including employment related taxes and penalties. Our Distributors also operate in jurisdictions, where local legislation and governmental agencies require us to collect and remit taxes such as sales tax or value added taxes. In addition, there is the possibility that some jurisdictions could seek to hold the Company responsible for false product claims or the negligent actions of an independent Distributor. 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.



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*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.

***Item 2. Properties***

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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 2007, 2006, and 2005, we spent approximately \$5.2 million, \$5.3 million, and \$3.7 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.

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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**

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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.

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**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.

**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 \$0.6 million related to this litigation, which is included in accrued liabilities.

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

None.



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**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.

2007	Market Prices		2006	Market Prices	
	Best Ask	Best Bid		High/Best Ask	Low/Best Bid
First Quarter	\$ 12.60	\$ 11.45	First Quarter	\$ 18.88	\$ 10.23
Second Quarter	12.35	10.20	Second Quarter through April 4, 2006	12.64	7.83
			Second Quarter from April 5, 2006	12.00	8.46
Third Quarter	14.45	11.50	Third Quarter	12.25	8.15
Fourth Quarter	12.50	8.10	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

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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.

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This sale is exempt from the registration requirement of Section 5 of the Securities Act pursuant to Section 4(2) of the Securities Act.

**Dividends**

There were approximately 842 shareholders of record as of June 30, 2008. During 2007 and 2006, 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	
<b>Total</b>	<b>282,890</b>	<b>\$ 11.95</b>	

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**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 four years in the period ended December 31, 2007, as well as selected consolidated balance sheet data as of December 31, 2007, 2006, 2005, 2004, and 2003. In light of the substantial time, effort and expense incurred to complete the restatement of our consolidated financial statements for 2004, we have determined that extensive additional efforts would be required to restate 2003. In particular, turnover of relevant personnel and limitations of systems and data all limit our ability to reconstruct additional financial information for 2003. Previously published information for 2003 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
2007	\$ 366,647	\$ 70,996	\$ 143,884	\$ 148,706	\$ 3,061	\$ 4,465	\$ (8,237)
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	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
2007	\$ 32,017	1.42%	\$ 35,249	\$ 28,282	\$ 165,338	\$ 27,986	\$ 60,392
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	34,181	1.53	35,444	35,869	143,981	3,491	75,854
2003	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
2007	\$ 0.20	\$ (0.53)	\$ (0.53)	15,495	15,495
2006	0.20	(0.23)	(0.23)	15,344	15,344
2005	0.20	0.23	0.23	15,211	15,515
2004	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
<b>2007</b>	<b>24,115</b>	<b>706,519</b>	<b>1,170</b>
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

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

The following discussion highlights the principal factors that have affected our financial condition, results of operations, liquidity and capital resources for the periods described. This discussion should be read in conjunction with our Consolidated Financial Statements and the related notes in Item 8 of this 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.

**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 2007, we experienced healthy net sales revenue growth overseas in our Nature's Sunshine Products International business segment of approximately 15%, while our domestic business segment sales remained flat and our Synergy Worldwide business segment experienced a decline in net sales revenue of approximately 18% due primarily to the loss of several key distributor networks. 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 increases in audit fees, the implementation of new internal control procedures, and increase in our reserve for foreign tax contingencies, resulting in a decrease in operating net income for 2007. On our consolidated balance sheet, we maintained a fairly consistent profile from 2006 to 2007, with the exception of a liability related to unrecognized tax positions of \$25.9 million in accordance with FASB Financial Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes*, and a corresponding decrease in accrued liabilities of \$15.8 million and an increase in other assets of \$10.1 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.

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

*Revenue Recognition*

Net sales revenue and related volume incentive expenses are recorded when persuasive evidence of an arrangement exists, collectability is reasonably assured, the amount is fixed and determinable, and title and risk of loss have passed, generally when the merchandise has been delivered. 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.

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*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 \$5.5 million and \$3.8 million at December 31, 2007 and 2006, respectively.

*Impairment of Long-Lived Assets*

The Company reviews its long-lived assets, such as property, plant and equipment and intangible assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company uses an estimate of future undiscounted net cash flows of the related assets or groups of assets over their remaining lives in measuring whether the assets are recoverable. An impairment loss is calculated by determining the difference between the carrying values and the fair values of these assets. At December 31, 2007 and 2006, the Company did not consider any of its long-lived assets to be impaired.

*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.

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As of December 31, 2007, we have foreign income tax net operating loss carryforwards of \$7.7 million that will expire at various dates from 2008 through 2012. The Company has approximately \$3.3 million 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 \$11.3 million 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, 2007 will be accounted for as a reduction of income tax expense.

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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 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.

**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,		
	2007	2006	2005
Net sales revenue	100.0%	100.0%	100.0%
<b>Costs and Expenses:</b>			
Cost of goods sold	19.4	19.0	19.2
Volume incentives	39.2	40.3	41.0
Selling, general and administrative	40.6	38.5	36.5
	<b>99.2</b>	<b>97.8</b>	<b>96.7</b>
Operating Income	<b>0.8</b>	2.2	3.3
<b>Other Income (Expense):</b>			
Interest and other income, net	<b>0.4</b>	0.4	0.2
Interest expense		(0.2)	(0.2)
Foreign exchange (losses) gains, net			(0.1)
	<b>0.4</b>	0.2	(0.1)
Income Before Provision for Income Taxes	<b>1.2</b>	2.4	3.2
Provision for Income Taxes	<b>3.5</b>	3.4	2.2
Net (Loss) Income	<b>(2.3)%</b>	(1.0)%	1.0%

*Year Ended December 31, 2007 as Compared to the Year Ended December 31, 2006*

With this Annual Report, we have presented our financial statements for our fiscal years 2007 and 2006, 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 year 2007.

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*Net Sales Revenue*

Consolidated net sales revenue for the year ended December 31, 2007, was \$366.6 million compared to \$362.2 million in 2006, an increase of approximately 1.2 percent. During 2007, 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 24,100 and 24,300 at December 31, 2007 and 2006, respectively. Active Distributors totaled approximately 698,700 and 668,600 at December 31, 2007 and 2006, 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 were \$148.3 million and \$148.4 million for the years ended December 31, 2007 and 2006, respectively.

NSP International net sales revenue increased to \$149.8 million in 2007 compared to \$130.6 million in 2006, an increase of approximately 14.7 percent. The increase in international net sales revenue in 2007 compared to 2006 is primarily the result of continued growth in our operations in Russia, Ukraine, Venezuela, and Japan. Price increases are planned in various international markets 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 \$68.6 million in 2007 compared to \$83.2 million in 2006, a decrease of approximately 17.6 percent. The decrease in Synergy Worldwide net sales is primarily due to the loss of key distributor networks as a result of increased competition in the United States and Japanese markets with growth remaining flat in the other markets in which Synergy Worldwide operates. Further information related to the NSP United States, NSP International and Synergy Worldwide business segments is set forth in Note 12 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 slightly in 2007 compared to 2006 primarily as a result of increased provisions for obsolete inventory.

*Volume Incentives*



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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 2007 as compared to 2006, 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 \$9.1 million in 2007 compared to 2006, from \$139.6 million to \$148.7 million. Approximately \$3.4 million is the result of expenses related to the continued growth of the Company's international segments, as well as \$1.1 of expenses related to new Synergy Worldwide markets. Professional fees increased \$3.0 million as a result of continued work on becoming current in our SEC filings. In addition, bonuses to participants in the Company's discretionary bonus plan increased approximately \$1.3 million in 2007 compared to 2006. Selling, general and administrative expenses as a percent of net sales revenue increased to 40.6 percent in 2007 compared to 38.5 percent in 2006. 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

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general administrative expenses. The amount, excluding capital expenditures, spent on research and development activities remained constant at \$1.9 million for 2007 and 2006.

*Income Taxes*

The effective income tax rate was 285 percent for 2007, compared to 141 percent for 2006. The effective rate for 2007 differed from the federal statutory rate of 35 percent primarily related to (i) additional liabilities associated with uncertain tax positions which increased the effective rate by 104 percent, (ii) additional tax contingencies which increased the effective rate by approximately 16 percent, (iii) change in deferred tax asset valuation allowances which increased the effective rate by approximately 61 percent, (iv) a taxable gain on the sale of intercompany assets eliminated for book purposes which increased the effective rate by approximately 25 percent, (v) an intercompany loan translation and instrument which increased the effective rate by 18 percent, and (vi) foreign and state tax rate differentials, as well as permanent nondeductible or deductible items accounting for the remaining increase.

The effective rate for 2006 differed from the federal statutory rate of 35 percent primarily related to additional non-income tax contingencies which increased the effective rate by approximately 54 percent, and change in deferred tax asset valuation allowances which increased the effective rate by approximately 29 percent, a taxable gain on the sale of intercompany assets eliminated for book purposes which increased the effective rate by approximately 13 percent, a foreign exchange tax gain on an intercompany payable which increased the effective rate by 10 percent, and foreign and state tax rate differentials, as well as permanent nondeductible or deductible items account for the remaining increase.

***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.

*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.

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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.

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.

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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 12 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 continued growth of the Company's international segment as well as costs 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.

## **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, 2007, we had \$45.3 million in cash and cash equivalents and \$4.8 million in short-term investments, which was available to be used along with our normal cash flows from operations to fund any unanticipated shortfalls in future cash flows.

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As of December 31, 2007, working capital was \$32.0 million, compared to \$24.0 million as of December 31, 2006.

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

	Year Ended December 31,		
	2007	2006	2005
Operating activities	\$ 12,832	\$ 14,252	\$ 17,012
Investing activities	(5,701)	(3,959)	(3,679)
Financing activities	(1,604)	(9,303)	(7,256)

*Operating Activities*

For the year ended December 31, 2007, we generated cash from operating activities of \$12.8 million compared to \$14.3 million in 2006. The decrease in cash generated from operating activities was primarily due to our net loss of \$8.2 million for 2007 compared to our net loss of \$3.6 million the previous year, as well as a decrease in the collections of accounts receivable balances and the timing of payments and accruals for income taxes payable. This decrease was offset by a decrease in the use of cash for the purchasing of inventory, the timing of payments of accrued liabilities, and a decrease in deferred tax benefits. Cash flows provided by operating activities in 2005 were approximately \$17.0 million.

*Investing Activities*

For the year ended December 31, 2007, net cash flow used in investing activities was approximately \$5.7 million which included \$4.3 million related to capital expenditures for equipment, computer systems, and software, and \$1.0 million for the acquisition of intangibles related to the purchase of product formulations.

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.

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.

*Financing Activities*

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For the years ended December 31, 2007, 2006, and 2005, cash flows used for financing activities were approximately \$1.6 million, \$9.3 million, and \$7.3 million, respectively.

In 2006, we used funds of \$7.0 million to pay off our outstanding line of credit.

During 2005, we used cash of approximately \$11.4 million to purchase approximately 513,000 shares in a Dutch Auction tender of \$22.15 per share. These Dutch Auction tenders were open to all shareholders of the Company, including employees. As of December 31, 2007, there were no plans approved by the Board of Directors to purchase any additional shares.

During 2007, 2006, and 2005, we used cash of \$3.1 million, \$3.1 million, and \$3.1 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 \$1.3 million, \$0.6 million, and \$7.7 million for the years ended December 31, 2007, 2006, and 2005, respectively.

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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.

**CONTRACTUAL OBLIGATIONS**

The following table summarizes information about contractual obligations as of December 31, 2007 (*in thousands*):

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>After 5 years</b>
Operating leases obligations	\$ 8,900	\$ 4,145	\$ 3,633	\$ 968	\$ 154
Purchase obligations(1)	9,206	9,206			
Other long-term liabilities reflected on the balance sheet(2)	1,674				1,674
<b>Total</b>	<b>\$ 19,780</b>	<b>\$ 13,351</b>	<b>\$ 3,633</b>	<b>\$ 968</b>	<b>\$ 1,828</b>

(1) Purchase obligations include non-cancelable purchase agreements for both botanical and non-botanical raw materials related to our forecasted 2008 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**

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

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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. 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 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.

Table of Contents**Foreign Currency Risk**

During the year ended December 31, 2007, approximately 58.3 percent of our net sales revenue and approximately 55.2 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.

<b>Year ended December 31</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Canada (Dollar)	<b>1.1</b>	1.1	1.2
Japan (Yen)	<b>117.7</b>	116.3	109.9
Mexico (Peso)	<b>10.9</b>	10.9	10.9
Venezuela (Bolívar)	<b>2,145.9</b>	2,145.9	2,100.8

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 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 2005, 2006, or 2007.

**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 which either mature within the next 12 months or have characteristics of marketable securities. On December 31, 2007, we had investments of \$4.8 million of which \$3.6 million were municipal obligations, which carry an average fixed interest rate of 4.9 percent and mature over a 5-year period. A hypothetical 1.0 percent change in interest rates would not have had a material effect on our liquidity, financial position, or results of operations. A portion of our long-term investments are auction rate securities. While the recent auction failures will limit our ability to liquidate these investments for some period of time, we do not believe the auction failures will materially impact our ability to fund our working capital needs, capital expenditures, or other business requirements.

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Nature's Sunshine Products, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, 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, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2007 the Company changed its method of accounting for uncertain tax positions to conform with Financial Accounting Interpretation No. 48, Accounting for Uncertainty in Income Taxes.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 6, 2008 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah

October 6, 2008



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## NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

*(Amounts in thousands)*

As of December 31	2007	2006
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 45,299	\$ 39,061
Accounts receivable, net of allowance for doubtful accounts of \$739 and \$1,129, respectively	7,450	6,409
Investments available for sale	4,755	6,054
Inventories	35,249	38,639
Deferred income tax assets	8,071	5,727
Prepaid expenses and other current assets	8,153	6,049
Total current assets	108,977	101,939
Property, plant and equipment, net	28,282	30,581
Investment securities	1,674	1,594
Restricted investments	2,075	
Intangible assets	1,656	755
Deferred income tax assets	5,828	5,732
Other assets	16,846	7,746
	\$ 165,338	\$ 148,347
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 7,009	6,529
Accrued volume incentives	15,922	15,247
Accrued liabilities	44,322	43,816
Deferred revenue	5,207	4,814
Income taxes payable	4,500	7,565
Total current liabilities	76,960	77,971
Liability related to unrecognized tax positions	25,888	
Deferred compensation payable	1,674	1,594
Other liabilities	424	596
Total long-term liabilities	27,986	2,190
Commitments and Contingencies (Notes 8 and 11)		
Shareholders' Equity:		
Common stock, no par value; 20,000 shares authorized, 15,510 and 15,348 shares issued and outstanding at December 31, 2007 and 2006, respectively	66,619	64,795
Retained earnings	9,112	20,451
Accumulated other comprehensive loss	(15,339)	(17,060)
Total shareholders' equity	60,392	68,186
	\$ 165,338	\$ 148,347

See accompanying notes to consolidated financial statements.





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## NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

Year Ended December 31	2007	2006	2005
Net Sales Revenue (net of the rebate portion of volume incentives of \$43,927, \$41,344, and \$39,453, respectively)	\$ 366,647	\$ 362,222	\$ 351,684
Costs and Expenses:			
Cost of goods sold	70,996	68,745	67,593
Volume incentives	143,884	145,827	144,125
Selling, general and administrative	148,706	139,645	128,381
	363,586	354,217	340,099
Operating Income	3,061	8,005	11,585
Other Income (Expense):			
Interest and other income, net	1,409	1,319	821
Interest expense	(69)	(609)	(730)
Foreign exchange gains (losses), net	64	(86)	(253)
	1,404	624	(162)
Income Before Provision for Income Taxes	4,465	8,629	11,423
Provision for Income Taxes	12,702	12,194	7,919
Net (Loss) Income	\$ (8,237)	\$ (3,565)	\$ 3,504
Basic Net (Loss) Income Per Common Share	\$ (0.53)	\$ (0.23)	\$ 0.23
Diluted Net (Loss) Income Per Common Share	\$ (0.53)	\$ (0.23)	\$ 0.23
Basic Common Shares Outstanding	15,495	15,344	15,211
Diluted Common Shares Outstanding	15,495	15,344	15,515

See accompanying notes to consolidated financial statements.

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## NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

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

*(Amounts in thousands)*

	Shares	Common Stock Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2005	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)
<b>Balance at December 31, 2006</b>	<b>15,348</b>	<b>64,795</b>	<b>20,451</b>	<b>(17,060)</b>	<b>68,186</b>
<b>Common stock issued under stock option plan</b>	<b>162</b>	<b>1,252</b>			<b>1,252</b>
		<b>246</b>			<b>246</b>

## Tax benefit related to exercise of stock options

Share-based compensation expense			326				326
Cash dividends					(3,102)		(3,102)
<b>Components of comprehensive income (loss):</b>							
Foreign currency translation (net of tax of \$1,066)						1,625	
Net unrealized gains on investment securities (net of tax of \$63)						96	
Net loss					(8,237)		
<b>Total comprehensive loss</b>							<b>(6,516)</b>
Balance at December 31, 2007	15,510	\$	66,619	\$	9,112	\$	(15,339) \$ 60,392

See accompanying notes to consolidated financial statements.

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## NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(Amounts In Thousands)*

Year Ended December 31	2007	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net (loss) income	\$ (8,237)	\$ (3,565)	\$ 3,504
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Provision for doubtful accounts	(208)	(441)	460
Depreciation and amortization	6,409	6,224	5,959
Share-based compensation expense	326		
Tax benefit from stock option exercises	(246)	(215)	3,426
Loss (gain) on sale of property, plant and equipment	(18)	50	(42)
Deferred income taxes	(1,450)	(2,685)	1,108
Amortization of bond discount	48	69	72
Purchase of trading investment securities	(149)	(167)	(261)
Proceeds from sale of trading investment securities	173	570	531
Realized and unrealized (gains) losses on investments	(171)	(157)	68
Amortization of prepaid taxes related to gain on intercompany sales	1,471	1,280	
Foreign exchange gains	433	497	701
Changes in assets and liabilities (excluding the effects of FIN 48 reclassification as discussed in Note 8):			
Accounts receivable	(857)	2,720	1,281
Inventories	3,780	(3,423)	84
Prepaid expenses and other current assets	(1,826)	178	483
Other assets	(323)	(951)	(5,876)
Accounts payable	358	(893)	(31)
Accrued volume incentives	383	(235)	2,408
Accrued liabilities	15,480	11,121	2,357
Deferred revenue	393	137	(425)
Income taxes payable	(3,017)	4,411	1,400
Deferred compensation payable	80	(273)	(195)
Net cash provided by operating activities	12,832	14,252	17,012
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(4,456)	(2,718)	(4,284)
Proceeds from sale of investments available for sale	1,432	1,396	1,718
Purchase of investments available for sale		(1,901)	(1,317)
Purchase of restricted investments	(2,075)		
Purchase of intangible assets	(1,000)	(763)	
Proceeds from sale of property, plant and equipment	398	27	204
Net cash used in investing activities	(5,701)	(3,959)	(3,679)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Advances on line of credit		4,643	27,000
Payments on line of credit		(11,643)	(27,500)
Repurchase and retirement of common stock			(11,363)
Payments of cash dividends	(3,102)	(3,069)	(3,053)
Proceeds from exercise of stock options	1,252	551	7,660
Tax benefit from stock option exercises	246	215	

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Net cash used in financing activities	(1,604)	(9,303)	(7,256)
Effect of exchange rates on cash and cash equivalents	711	196	(895)
Net increase in cash and cash equivalents	6,238	1,186	5,182
Cash and cash equivalents at beginning of the year	39,061	37,875	32,693
Cash and cash equivalents at end of the year	\$ 45,299	\$ 39,061	\$ 37,875
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 11,140	\$ 6,015	\$ 2,867
Cash paid for interest	85	297	388
Supplemental disclosure of noncash investing and financing activities:			
Purchases of property, plant and equipment included in accounts payable	\$ 78	\$ 138	\$ 133

See accompanying notes to consolidated financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**Nature of Operations**

Nature s Sunshine Products, Inc. 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, 2007, 2006, and 2005, 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.



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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

**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 10). 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.

**Restricted Investments**

The Company's restricted investments include auction rate preferred investments totaling \$2,075 with Merrill Lynch with investment grades of AAA (original date of purchase) as of December 31, 2007. Auction rate preferred investments are similar in nature to auction rates securities in that they are long-term bonds or preferred stocks that act like short-term debt; however unlike auction rates securities, these investments require at least 200% collateral by the issuer. Interest rates for these investments reset in Dutch auctions held weekly. These investments are carried at par, which approximates fair value. The auction process for auction rate investments historically provided a liquid market for these investments. However, in the second half of 2007, this process began to deteriorate. While the Company's portfolio was not affected by the auction rate process in 2007, the investments held by the Company experienced auction failures during the first quarter of 2008. An unsuccessful auction is an event when there are fewer securities bid for than are available for sale. As a result, the Company has reclassified these securities as

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long-term investments. Given that all of the securities experienced successful auctions prior to December 31, 2007 and the Company has the ability and intent to hold the investments until a successful auction occurs, management does not believe that the current state of the credit markets requires the Company to adjust the fair value of its portfolio of auction rate securities. In addition, the Company has collected all interest payable on the auction rate investments as they are due.

If the auction rate investments continue to experience unsuccessful auctions, or if the credit rating of the auction rate security issuer or the third party insurer of the issuers of the investments underlying the securities deteriorates, management may be required to adjust the carrying value of the auction rate security through an impairment charge. While the recent auction failures will limit the Company's ability to liquidate these investments for some period of time, management does not believe the auction failures will impact the Company's ability to fund working capital needs, capital expenditures, or other business requirements. The Company will continue to monitor the state of the credit markets and its potential impact, if any, on the fair value and classification of its portfolio of auction rate securities.

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

**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 \$1,656 and \$755 at December 31, 2007 and 2006, respectively.

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

The Company reviews its long-lived assets, such as property, plant and equipment and intangible assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company uses an estimate of future undiscounted net cash flows of the related assets or groups of assets over their remaining lives in measuring whether the assets are recoverable. An impairment loss is calculated by determining the difference between the carrying values and the fair values of these assets. At December 31, 2007 and 2006, 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 2005, 2006, or 2007.

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

**Revenue Recognition**

Net sales revenue and related volume incentive expenses are recorded when persuasive evidence of an arrangement exists, collectibility 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 \$9,453, \$10,131, and \$9,110 were reported as net sales revenue for the years ended December 31, 2007, 2006, and 2005, 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, 2007, 2006, and 2005 totaled approximately \$1,547, \$1,453, and \$1,665, respectively.

**Research and Development**

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All research and development costs are expensed as incurred and classified in selling, general and administrative expense. Total research and development expenses were approximately \$1,940, \$1,920, and \$1,754 in 2007, 2006, and 2005, 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 8).

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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.

In July 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48 ( 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 . Under FIN 48, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts.

**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.

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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
<b>Year Ended December 31, 2007</b>			
Basic EPS	\$ (8,237)	15,495	\$ (0.53)
Effect of options			
Diluted EPS	\$ (8,237)	15,495	\$ (0.53)
<b>Year Ended December 31, 2006</b>			
Basic EPS	\$ (3,565)	15,344	\$ (0.23)
Effect of options			
Diluted EPS	\$ (3,565)	15,344	\$ (0.23)
<b>Year Ended December 31, 2005</b>			
Basic EPS	\$ 3,504	15,211	\$ 0.23
Effect of options		304	
Diluted EPS	\$ 3,504	15,515	\$ 0.23

Because of net losses in the years ended December 31, 2007 and 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, there were outstanding options to purchase 15 shares of common stock 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 Statements 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.



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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:

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

Year ended December 31		2005
Net Income	As reported	\$ 3,504
	Stock option expense, net of tax	(199)
	Pro forma	3,305
Basic Earnings Per Share	As reported	\$ 0.23
	Stock option expense, net of tax	(0.01)
	Pro forma	0.22
Diluted Earnings Per Share	As reported	\$ 0.23
	Stock option expense, net of tax	(0.01)
	Pro forma	0.22

There were no stock option grants for the year ended December 31, 2006 or 2005.

**Comprehensive Income (Loss)**

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

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), 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, 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.

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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 the standard did not have a material effect on the Company's 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

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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

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: INVENTORIES**

The composition of inventories is as follows:

<b>As of December 31</b>	<b>2007</b>		<b>2006</b>	
Raw materials	\$	8,175	\$	8,670
Work in process		912		1,224
Finished goods		26,162		28,745
	\$	35,249	\$	38,639

**NOTE 3: PROPERTY, PLANT AND EQUIPMENT**

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

<b>As of December 31</b>	<b>2007</b>		<b>2006</b>	
Land and improvements	\$	2,208	\$	2,208
Buildings and improvements		29,387		28,624
Machinery and equipment		17,018		16,724
Furniture and fixtures		25,476		27,066
		74,089		74,622
Accumulated depreciation and amortization		(45,807)		(44,041)
	\$	28,282	\$	30,581

Depreciation expense was \$6,310, \$6,216, and \$5,959 for the years ended December 31, 2007, 2006, and 2005, respectively.

**NOTE 4: INTANGIBLE ASSETS**

The Company acquired certain product formulations during the years ended December 31, 2007 and 2006. At December 31, 2007 and 2006, the product formulations had a carrying amount of \$1,763 and \$763, accumulated

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

amortization of \$107 and \$8, and a net amount of \$1,656 and \$755, respectively. The estimated useful life of the product formulations is estimated to be 15 years.

Amortization expense for intangible assets for the years ended December 31, 2007 and 2006 was \$99 and \$8, respectively. Estimated amortization expense for the five succeeding fiscal years and thereafter is as follows:

<b>Year Ending December 31:</b>	<b>Estimated Amortization Expense</b>
2008	\$ 118
2009	118
2010	118
2011	118
2012	118
Thereafter	1,066
<b>Total</b>	<b>\$ 1,656</b>

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

**NOTE 5: INVESTMENT SECURITIES**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>As of December 31, 2007</b>				
Municipal obligations	\$ 3,536	\$ 36	\$ (6)	\$ 3,566
U.S. Government Securities Funds	680	3		683
Equity securities	239	267		506
Total short-term investment securities	\$ 4,455	\$ 306	\$ (6)	\$ 4,755
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>As of December 31, 2006</b>				
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

Contractual maturities of municipal obligations fair value at December 31, 2007, are as follows:

Mature after one year through five years	\$ 1,733
Mature after five years	1,833
Total	\$ 3,566

During 2007, 2006, and 2005, the proceeds from the sales of available-for-sale securities were \$1,432, \$1,396, and \$1,718, respectively. The gross realized gains on sales of available-for-sale securities (net of tax) were \$0, \$14, and \$23 for the years ended December 31, 2007, 2006, and 2005, respectively. The gross realized losses on the sales of available-for-sale securities were \$0, \$5, and \$3 for the years ended December 31, 2007, 2006, and 2005, respectively.

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The Company's trading securities portfolio totaled \$1,674 and \$1,594 at December 31, 2007 and 2006, respectively, and generated gains of \$171 and \$148 for the years ended December 31, 2007 and 2006, respectively, and a loss of \$88 for the year ended December 31, 2005.

As of December 31, 2007 and 2006, the Company had unrealized losses of \$6 and \$31, respectively, in its municipal obligations investments. These losses are due to the interest rate sensitivity of these investments.



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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

**NOTE 6: ACCRUED LIABILITIES**

The composition of accrued liabilities is as follows:

<b>As of December 31</b>	<b>2007</b>	<b>2006</b>
Tax contingencies (See Note 11)	\$ 6,624	\$ 16,826
Sales, use, and property tax	8,833	5,568
Salaries and employee benefits	8,545	4,750
Convention costs	5,517	3,839
Other	14,803	12,833
<b>Total</b>	<b>\$ 44,322</b>	<b>\$ 43,816</b>

**NOTE 7: ACCUMULATED OTHER COMPREHENSIVE LOSS**

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

	<b>Foreign Currency Translation Adjustments</b>	<b>Net Unrealized Gains (Losses) On Available-For-Sale Securities</b>	<b>Total Accumulated Other Comprehensive Loss</b>
Balance as of January 1, 2005	\$ (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)
Activity, net of tax	1,625	96	1,721
Balance as of December 31, 2007	\$ (15,529)	\$ 190	\$ (15,339)

**NOTE 8: INCOME TAXES**

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

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<b>Year Ended December 31</b>	<b>2007</b>		<b>2006</b>		<b>2005</b>	
Domestic	\$	265	\$	1,138	\$	(1,345)
Foreign		4,200		7,491		12,768
Total	\$	4,465	\$	8,629	\$	11,423

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

Components of the provision (benefit) for income taxes for each of the three years in the period ended December 31, 2007 are as follows:

Year Ended December 31	2007	2006	2005
Current:			
Federal	\$ 5,161	\$ 3,848	\$ (782)
State	1,196	388	(280)
Foreign	7,795	10,643	7,873
Subtotal	14,152	14,879	6,811
Deferred:			
Federal	(1,324)	(2,173)	1,163
State	(527)	237	(163)
Foreign	401	(749)	108
Subtotal	(1,450)	(2,685)	1,108
Total provision for income taxes	\$ 12,702	\$ 12,194	\$ 7,919

The income tax benefits associated with employee exercises of options under the nonqualified stock option plan decreased the income taxes payable by \$246, \$215, and \$3,426 in 2007, 2006, and 2005, 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	2007	2006	2005
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of U.S. federal income tax benefit	10.6	4.8	(3.5)
Foreign taxes	17.1	(3.1)	0.8
Valuation allowance change	61.1	29.3	(2.3)
Tax contingencies	16.0	54.0	38.6
Foreign exchange gains	(0.7)	9.9	
Gain on sale of intercompany assets	25.2	12.9	
Charitable contributions	(0.9)	(2.5)	(0.6)
Extra territorial income		(2.6)	(2.9)
Foreign tax rate differential	5.6		(5.6)
Intercompany loan translation adjustment	18.1		
Unrecognized tax benefits	104.4		
Meals and entertainment	2.4	1.2	0.9
Tax adjustment for inflation	(7.1)	(0.7)	(0.9)
Domestic manufacturing deduction	(3.7)	(0.9)	

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Nondeductible foreign expenses	6.2	2.1	2.3
Other	(4.8)	1.9	7.5
Effective income tax rate	284.5%	141.3%	69.3%

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

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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

<b>As of December 31</b>	<b>2007</b>	<b>2006</b>
Inventory	\$ 1,829	\$ 2,087
Accrued liabilities	5,560	3,264
Impaired investments	757	750
Deferred compensation	785	613
Amortization of intangibles	1,014	1,129
Bad debts	497	492
Net operating losses	4,304	2,346
Capital losses	688	785
Foreign tax and withholding credits	3,953	3,953
Non-income tax accruals	3,013	1,918
Health insurance accruals	730	596
Cumulative translation adjustment outside basis	1,302	1,050
Accelerated depreciation	139	
Other deferred tax assets	2,328	2,319
Valuation allowance	(11,290)	(7,822)
Total deferred tax assets	15,609	13,480
Accelerated depreciation		(489)
Other deferred tax liabilities	(2,446)	(2,324)
Total deferred tax liabilities	(2,446)	(2,813)
Total deferred taxes, net	\$ 13,163	\$ 10,667

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

<b>Year Ended December 31</b>	<b>2007</b>	<b>2006</b>
Net current deferred tax assets	\$ 8,071	\$ 5,727
Net non-current deferred tax assets	5,828	5,732
Total net deferred tax assets	13,899	11,459
Net current deferred tax liabilities	(312)	(338)
Net non-current deferred tax liabilities	(424)	(454)
Total net deferred tax liabilities	(736)	(792)
Total deferred tax assets, net	\$ 13,163	\$ 10,667

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

Management has provided a valuation allowance of \$11,290 and \$7,822 as of December 31, 2007 and 2006, respectively, for certain deferred tax assets, including foreign net operating losses and foreign tax credits, for which management cannot conclude it is more likely than not that they will be realized. The Company reviewed its tax positions and increased its valuation allowance by approximately \$3,468 and \$2,525 for 2007 and 2006, respectively, and decreased its valuation allowance by \$259 for 2005.

At December 31, 2007, foreign subsidiaries had unused operating loss carryovers of approximately \$7,705. Generally, the tax net operating losses will expire at various dates from 2008 through 2012. 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.

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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 2007 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions which have open tax years from 2000 through 2007. 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.

The Company adopted the provisions of FIN 48 on January 1, 2007, which did not result in a cumulative-effect adjustment. The total liability for unrecognized tax benefits at January 1, 2007, including accrued interest and penalties of approximately \$2,501, was approximately \$11,156 all of which would favorably impact the Company's effective tax rate if recognized. The Company accounts for interest expense and penalties for unrecognized tax benefits as part of its income tax provision. The Company anticipates that unrecognized tax benefits will increase approximately \$2,000 to \$3,600 within the next twelve months due to additional transactions related to commissions and transfer pricing.

During the twelve-month period ended December 31, 2007, the Company added approximately \$4,728 to its liability for unrecognized tax benefits all of which would favorably impact its effective tax rate if recognized. Included in this amount is approximately \$1,773 for the twelve-month period ended December 31, 2007, related to interest expense and penalties. In addition, the Company recorded an unrecognized tax benefit related to the lapse of applicable statute of limitations of approximately \$64 all of which favorably impacted its effective tax rate. The total outstanding balance for liabilities related to unrecognized tax benefits at December 31, 2007 was \$15,820, which is included the liability related to unrecognized tax positions in the consolidated financial statements.

Prior to the adoption of FIN 48 in 2007, the company has historically recorded uncertain tax positions in accordance with SFAS No. 5, and has included such amounts in accrued liabilities. In conjunction with the adoption of FIN 48, as of December 31, 2007, the Company has reclassified such tax uncertainties out of accrued liabilities in accordance with FIN 48 as follows:

- 1) Reduction in accrued liabilities of approximately \$15,820
- 2) Increase in other assets (due to competent authority and royalty benefits) of approximately \$10,068
- 3) Increase in liability related to unrecognized tax positions of approximately \$25,888

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

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax positions is as follows for the year ended December 31, 2007:

		2007
Unrecognized tax benefits, opening balance	\$	13,030
Tax positions taken in a prior period		
Gross increases		
Gross decreases		
Tax positions taken in the current period		
Gross increases		8,592
Gross decreases		
Settlements with taxing authorities		
Lapse of applicable statute of limitations		(8)
Unrecognized tax benefits, ending balance	\$	21,614



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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

**NOTE 9: CAPITAL TRANSACTIONS****Common Stock**

During 2007 and 2006, the Company did not repurchase any shares of common stock. During 2005, the Company repurchased 513 shares of common stock for a total of \$11,363 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 2007, 2006, and 2005 consisted of the following:

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at January 1, 2005	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
Granted	140	11.85

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Forfeited or canceled	(102)	10.74
Exercised	(163)	7.69
Options outstanding at December 31, 2007	307	\$ 12.01

The weighted average grant date fair value of options granted was \$3.85 for the year ended December 31, 2007. The aggregate intrinsic values on the dates of exercise of options exercised during the years ended December 31, 2007, 2006, and 2005 were \$623, \$567, and \$9,981, 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.

During the year ended December 31, 2007, the Company issued 140 nonqualified stock options outside the stock option plan. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the year ended December 31, 2007:

	<b>2007</b>
Expected life (in years)	3.5
Risk-free interest rate	4.5%
Expected volatility	42.88%
Dividend yield	1.76%

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## NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Expected option lives and volatilities are based on historical data of the Company. Our risk free interest rate is calculated as the average U.S. Treasury bill rate that corresponds with the option life. The Company has paid cash dividends totaling \$3,102, \$3,069, and \$3,053 for the years ended December 31, 2007, 2006, and 2005, respectively.

Share-based compensation expense from nonqualified stock options for the years ended December 31, 2007 was approximately \$326 and the related tax benefit was approximately \$124. There was no share-based compensation expense in 2006 and 2005. As of December 31, 2007, there was approximately \$86 of total unrecognized share-based compensation cost related to grants described above that will be recognized over a weighted-average period of 0.25 years.

The following table summarizes information about options outstanding and exercisable at December 31, 2007.

Range of Option Prices Per Share	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price Per Share	Options Outstanding	Weighted- Avg. Exercise Price Per Share	
\$6.87 to \$9.99	32	4.9	\$ 8.35	32	\$	8.35
\$10.00 to \$11.99	163	5.1	11.73	23		11.02
\$12.00 to \$19.71	112	1.4	13.45	112		13.45
	307	3.7	\$ 12.01	167	\$	12.14

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2007 was \$36.

**NOTE 10: EMPLOYEE BENEFIT PLANS****Deferred Compensation Plans**

The Company sponsors a qualified deferred compensation plan, which qualifies under Section 401(k) of the Internal Revenue Code. The Company makes matching contributions of 100 percent of employee contributions up to a maximum of five percent of the employee's compensation. The Company's contributions to the plan vest after a period of three years. During 2007, 2006, and 2005, the Company

contributed to the plan approximately \$1,087, \$887, and \$970, 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 \$1,674 and \$1,594 as of December 31, 2007 and December 31, 2006, 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 \$3,580, \$2,325, and \$2,449 for the years ended December 31,

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

2007, 2006, and 2005, 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 11: 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 \$5,358, \$5,496, and \$3,863 in connection with operating leases during 2007, 2006, and 2005, respectively. The approximate aggregate commitments under non-cancelable operating leases in effect at December 31, 2007 were as follows:

<b>Year Ending December 31</b>		
2008	\$	4,145
2009		2,528
2010		1,105
2011		619
2012		349
Thereafter		154
	\$	8,900

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, 2007, the Company has entered into non-cancelable purchase agreements for \$9,206 related to fiscal year 2008 production needs.

**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,

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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.



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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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 \$2,306 and \$1,503 for product liability and employee medical claims at December 31, 2007 and 2006, respectively, and such amounts are included in accrued liabilities on the Company's consolidated balance sheets.

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

**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 \$600 and \$836 related to this litigation at December 31, 2007 and 2006, respectively, which is included in accrued liabilities.

**Tax Contingencies**

The Company has reserved for uncertain tax positions and certain state sales 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 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 position 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, the Company accrued \$21,093 (including estimated interest and penalties) in accrued liabilities in the accompanying consolidated balance sheets for such uncertain tax positions and various other tax contingencies. During 2007, in conjunction with the adoption of FIN 48, the Company reclassified all uncertain tax contingencies (including interest and penalties) out of accrued liabilities as discussed in Note 8. As of December 31, 2007, accrued liabilities includes \$14,393 related to non-income tax contingencies. While management believes that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of those matters cannot presently be determined. The Company is not able at this time to predict the ultimate outcomes of those matters or to estimate the effect the ultimate outcomes, if greater than the amounts accrued, would have on the financial condition 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 12: 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.

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

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

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.

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## NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Operating business segment information for the years ended December 31, 2007, 2006, and 2005 is as follows:

Year Ended December 31	2007	2006	2005
Sales Revenue:			
Nature s Sunshine Products:			
United States	\$ 148,254	\$ 148,374	\$ 148,325
International	149,822	130,596	119,988
	298,076	278,970	268,313
Synergy Worldwide	68,571	83,252	83,371
Total sales revenue	366,647	362,222	351,684
Operating Expenses:			
Nature s Sunshine Products:			
United States	153,522	152,446	149,265
International	137,123	118,976	104,262
	290,645	271,422	253,527
Synergy Worldwide	72,941	82,795	86,572
Total operating expenses	363,586	354,217	340,099
Operating Income (Loss):			
Nature s Sunshine Products:			
United States	(5,268)	(4,072)	(940)
International	12,699	11,620	15,726
	7,431	7,548	14,786
Synergy Worldwide	(4,370)	457	(3,201)
Total operating income	3,061	8,005	11,585
Other Income (Expense), net	1,404	624	(162)
Income Before Provision for Income Taxes	\$ 4,465	\$ 8,629	\$ 11,423

Year Ended December 31	2007	2006	2005
Capital Expenditures:			
Nature s Sunshine Products:			
United States	\$ 3,000	\$ 1,488	\$ 2,896
International	422	630	609
	3,422	2,118	3,505
Synergy Worldwide	974	605	868
Total capital expenditures	\$ 4,396	\$ 2,723	\$ 4,373
Depreciation and Amortization:			
Nature s Sunshine Products:			
United States	\$ 3,729	\$ 4,074	\$ 3,834
International	1,161	854	1,175
	4,890	4,928	5,009
Synergy Worldwide	1,519	1,296	950

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Total depreciation and amortization	\$	<b>6,409</b>	\$	6,224	\$	5,959
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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

As of December 31	2007	2006
Assets:		
Nature s Sunshine Products		
United States	\$ 93,322	\$ 86,045
International	47,223	39,420
	<b>140,545</b>	125,465
Synergy Worldwide	24,793	22,882
Total Assets	\$ 165,338	\$ 148,347

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, 2007, 2006, and 2005 as follows:

Year Ended December 31	2007	2006	2005
Sales Revenue:			
United States	\$ 152,943	\$ 157,132	\$ 158,052
Japan	45,554	52,301	55,540
Russia	34,314	28,394	23,710
Other	133,836	124,395	114,382
Total Sales Revenue	\$ 366,647	\$ 362,222	\$ 351,684

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

As of December 31	2007	2006
Long-Lived Assets		
United States	\$ 25,022	\$ 25,601
Other	4,916	5,735
Total Long-Lived Assets	\$ 29,938	\$ 31,336

**NOTE 13: RELATED PARTY TRANSACTIONS**

The Company maintains split-dollar life insurance policies on certain executives. The cash surrender value of \$294 and \$313 related to such policies is recorded in other assets as of December 31, 2007 and 2006, respectively.



**NOTE 14: 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, 2007, the Company has declared quarterly cash dividends of five cents per common share.

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**NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

**NOTE 15: 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, 2007, June 30, 2007, September 30, 2007, and December 31, 2007.

	<b>March 31, 2007</b>	<b>For the Quarter Ended</b>		
		<b>June 30, 2007</b>	<b>September 30, 2007</b>	<b>December 31, 2007</b>
Net sales revenue	\$ 91,986	\$ 89,831	\$ 86,574	\$ 98,256
Cost of goods sold	19,106	17,934	15,744	18,212
Volume incentives	37,809	35,385	34,346	36,344
Selling, general and administrative	36,305	34,720	39,056	38,625
Operating income (loss)	(1,234)	1,792	(2,572)	5,075
Other income (expense)	949	160	426	(131)
Income (loss) before income taxes	(285)	1,952	(2,146)	4,944
Taxes	2,622	3,506	1,887	4,687
Net income (loss)	(2,907)	(1,554)	(4,033)	257
Basic net income (loss) per share	(0.19)	(0.10)	(0.26)	0.02
Diluted net income (loss) per share	(0.19)	(0.10)	(0.26)	0.02

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.

	<b>March 31, 2006</b>	<b>For the Quarter Ended</b>		
		<b>June 30, 2006</b>	<b>September 30, 2006</b>	<b>December 31, 2006</b>
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)

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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)

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.

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

NONE

Table of Contents**Item 9A. Controls and Procedures**

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

## OVERVIEW

Management identified certain material weaknesses which are described in the 2006 10-K. During 2007 and through the date of this filing, management has been focused on remediating these material weaknesses. This overview provides a summary of the status of each of the previously identified material weaknesses, followed by a discussion of management's evaluation of disclosure controls and procedures, management's report on internal control over financial reporting, and management's efforts to remediate the material weaknesses, as set forth in the table below.

As shown below, one material weakness reported as of December 31, 2006 was remediated as of December 31, 2007. Other material weaknesses reported as of December 31, 2006 remain material weaknesses as of December 31, 2007, for which management continues to remediate.

<b>Material Weakness Reported as of December 31, 2006</b>	<b>Status as of December 31, 2007</b>	<b>Status as of the Date of this Filing</b>
<b>Control Environment:</b>		
Accounting Policies	Remediated	Remediated
Maintenance of Risk Assessment Programs	Remediation in process	Remediation in process
<b>Application of GAAP</b>	Remediation in process	Remediation in process
Accounting for Income Taxes	Remediation in process	Remediation in process
Financial Reporting Process	Remediation in process	Remediation in process
Monitoring of Service Provider	Remediation in process	Remediation in process
<b>Information Technology:</b>		
Access Control	Remediation in process	Remediation in process
Change Management	Remediation in process	Remediation in process
Spreadsheets	Remediation in process	Remediation in process

**Evaluation of Disclosure Controls and Procedures**

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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, 2007, as a result of the existence of material weaknesses in our internal control over financial reporting.

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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 remaining 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 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, with the participation of our CEO and our CFO, assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. Management's assessment of internal control over financial reporting



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was conducted using the criteria in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ).

Management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2007, based on the criteria established in COSO because of the continued existence of material weaknesses related to the control environment, application of generally accepted accounting principles ( GAAP ), accounting for income taxes, the financial reporting process, monitoring of a service provider, and information technology systems. Certain of these material weaknesses have resulted in adjustments to the Company s consolidated financial statements for the year ended December 31, 2007. A description of the material weaknesses relating to each of these areas as of December 31, 2007 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 area:

- *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.

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, 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 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

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based on sales reported by the service provider, and certain cash and inventory shipment reconciliation procedures. These monitoring processes and procedures were not, however, 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.

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- *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.

Deloitte & Touche LLP, the Company's independent registered public accounting firm, issued its attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2007, and expressed an adverse opinion.

**Changes in Internal Control Over Financial Reporting**

Management has evaluated whether any changes in our internal control over financial reporting that occurred during the period from January 1, 2007 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 the 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.

- Formalized our accounting policies in 2007 in conjunction with our enhancement of our documentation of internal control processes and procedures, and we have performed 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 over financial reporting and internal controls over financial reporting.
- Established an outsourced agreement 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 controls over financial reporting. This included visits during 2007 to certain material foreign locations.
- Performed a complete management assessment of internal controls over financial reporting 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:

*Maintenance of Risk Assessment Programs* Management has, in conjunction with the assessment of internal controls for 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.

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Application of GAAP We have implemented procedures to address revenue recognition issues. 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 reconciliations 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.

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*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 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 determine that additional measures are necessary to address control deficiencies. Moreover, we may decide to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Nature's Sunshine Products, Inc.:

We have audited Nature's Sunshine Products, Inc. and subsidiaries (the "Company") internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of 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:

- *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.

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- 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, 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, they 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, their process lacked timely and complete financial statement reviews, effective journal entry controls, and appropriate reconciliation processes. Further, they 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 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 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 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 resulted in a more than reasonable possibility that material misstatements in their financial statements would not be prevented or detected. Specifically, they 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, 2007, of the Company and this report does not affect our report on such financial statements and financial statement schedule.

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In our opinion, because of the effect of the material weaknesses identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007, of the Company and our report dated October 6, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
October 6, 2008

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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.

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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.

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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.

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.

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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



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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.

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, Pauline Hughes Francis, and Robert K. Bowen; 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

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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.

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**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](http://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;