

NATURES SUNSHINE PRODUCTS INC
Form 10-Q
August 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____.

Commission File Number: 001-34483

NATURE S SUNSHINE PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

Utah
(State or other jurisdiction of
incorporation or organization)

87-0327982
(IRS Employer
Identification No.)

2500 West Executive Parkway, Suite 100

Lehi, Utah 84043

(Address of principal executive offices and zip code)

(801) 341-7900

(Registrant's telephone number including area code)

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

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

Indicate by check mark 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 (Check one).

Large accelerated filer

Accelerated filer

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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 number of shares of Common Stock, no par value, outstanding on July 25, 2014, was 16,202,840 shares.

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NATURE'S SUNSHINE PRODUCTS, INC.

FORM 10-Q

For the Quarter Ended June 30, 2014

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated herein by reference in this report may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies. All statements (other than statements of historical fact) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as believe, hope, may, anticipate, should, intend, plan, will, expect, positioned, strategy and similar expressions, and are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. For example, information appearing under Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. 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 more fully described in this report, including the risks set forth under Risk Factors in Item 1A, is included from time to time in our reports filed with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for the year ended December 31, 2013, as well as our quarterly reports on Form 10-Q, particularly under the captions Forward-Looking Statements and Risk Factors. but include the following:

- any negative consequences resulting from the economy, including the availability of liquidity to us, our Distributors and our suppliers or the willingness of our customers to purchase products;
- our relationship with, and our ability to influence the actions of, our Distributors, and other third parties with whom we do business;
- improper action by our employees or Distributors;
- negative publicity related to our products or direct selling organization;
- changing consumer preferences and demands;
- our reliance upon, or the loss or departure of any member of, our senior management team which could negatively impact our Distributor relations and operating results;
- the competitive nature of our business;
- regulatory matters governing our products, our direct selling program, or the direct selling market in which we operate;
- legal challenges to our direct selling program;
- risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third party importers, pricing and currency devaluation risks, especially in countries such as Venezuela, Ukraine, Russia and Belarus;
- uncertainties relating to the application of transfer pricing, duties, value-added taxes, and other tax regulations, and changes thereto;
- our dependence on increased penetration of existing markets;
- our reliance on our information technology infrastructure;

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- the sufficiency of trademarks and other intellectual property rights;
- changes in tax laws, treaties or regulations, or their interpretation;
- taxation relating to our Distributors;
- product liability claims; and
- share price volatility related to, among other things, speculative trading.

All forward-looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in or incorporated by reference into this report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report. Throughout this report, we refer to Nature's Sunshine Products, Inc., together with its subsidiaries, as we, us, our Company or the Company.

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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 68,555	\$ 77,247
Accounts receivable, net of allowance for doubtful accounts of \$663 and \$1,087, respectively	9,010	10,206
Investments available for sale	2,024	2,006
Inventories	40,477	41,910
Deferred income tax assets	5,596	5,711
Income tax receivable	8,447	6,665
Prepaid expenses and other	5,330	4,849
Total current assets	139,439	148,594
Property, plant and equipment, net	41,066	32,022
Investment securities	1,022	971
Intangible assets, net	779	853
Deferred income tax assets	13,930	9,928
Other assets	8,943	7,244
	\$ 205,179	\$ 199,612
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,800	\$ 5,664
Accrued volume incentives	19,322	19,206
Accrued liabilities	29,087	34,893
Deferred revenue	3,745	4,173
Current installments of long-term debt and revolving credit facility	572	2,267
Income taxes payable	1,575	2,366
Total current liabilities	60,101	68,569
Liability related to unrecognized tax benefits	13,223	12,402
Long-term debt and revolving credit facility	10,000	10,000
Deferred compensation payable	1,022	971
Other liabilities	2,638	2,411
	86,984	94,353

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Commitments and contingencies

Shareholders' equity:

Common stock, no par value, 50,000 shares authorized, 16,203 and 16,179 shares issued and outstanding as of June 30, 2014, and December 31, 2013, respectively	85,414	83,122
Retained earnings	45,762	36,100
Accumulated other comprehensive loss	(12,981)	(13,963)
Total shareholders' equity	118,195	105,259
	\$ 205,179	\$ 199,612

See accompanying notes to condensed consolidated financial statements.

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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share information)

(Unaudited)

	Three Months Ended June 30,	
	2014	2013
Net sales revenue	\$ 94,325	\$ 93,675
Cost of sales	(23,372)	(22,630)
Gross profit	70,953	71,045
Operating expenses:		
Volume incentives	34,834	34,525
Selling, general and administrative	30,305	28,709
Operating income	5,814	7,811
Other income (loss), net	(378)	1,482
Income before provision for income taxes	5,436	9,293
Provision for income taxes	2,202	3,241
Net income	\$ 3,234	\$ 6,052
Basic and diluted net income per common share		
Basic:		
Net income	\$ 0.20	\$ 0.38
Diluted:		
Net income	\$ 0.20	\$ 0.38
Weighted average basic common shares outstanding	16,187	15,896
Weighted average diluted common shares outstanding	16,224	16,112
Dividends declared per common share	\$ 0.10	\$ 0.10

See accompanying notes to condensed consolidated financial statements.

NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

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	Three Months Ended	
	June 30,	
	2014	2013
Net income	\$ 3,234	\$ 6,052
Foreign currency translation gain (loss) (net of tax)	793	(2,040)
Net unrealized gains on investment securities (net of tax)	8	6
Total comprehensive income	\$ 4,035	\$ 4,018

See accompanying notes to condensed consolidated financial statements.

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NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share information)

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
Net sales revenue	\$ 190,078	\$ 190,154
Cost of sales	(46,478)	(47,075)
Gross profit	143,600	143,079
Operating expenses:		
Volume incentives	70,551	69,500
Selling, general and administrative	60,063	58,826
Operating income	12,986	14,753
Other income (loss), net	(1,493)	1,812
Income before provision for income taxes	11,493	16,565
Provision (benefit) for income taxes	(1,406)	5,649
Net income	\$ 12,899	\$ 10,916
Basic and diluted net income per common share		
Basic:		
Net income	\$ 0.80	\$ 0.69
Diluted:		
Net income	\$ 0.79	\$ 0.68
Weighted average basic common shares outstanding	16,183	15,860
Weighted average diluted common shares outstanding	16,392	16,079
Dividends declared per common share	\$ 0.20	\$ 0.20

See accompanying notes to condensed consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

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	Six Months Ended June 30,		
	2014		2013
Net income	\$	12,899	\$ 10,916
Foreign currency translation gain (loss) (net of tax)		971	(3,926)
Net unrealized gains on investment securities (net of tax)		11	30
Total comprehensive income	\$	13,881	\$ 7,020

See accompanying notes to condensed consolidated financial statements.

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NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,899	\$ 10,916
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	110	19
Depreciation and amortization		