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**UNITED STATES DISTRICT COURT  
DISTRICT OF UTAH, CENTRAL DIVISION**

\_\_\_\_\_  
Rick Kader, Peter Rathmann, Fred Crosetto, )  
Lee Tiah Hong, Jane, and Loh Chee Kuang, ) **CONSOLIDATED CLASS ACTION**  
 ) **COMPLAINT**  
 )  
Plaintiffs, )  
 ) Master File No. 2:06cv00267 TS/SA  
v. )  
 ) Judge Ted Stewart  
Nature's Sunshine Products, Inc., Craig D. Huff, )  
Franz L. Cristiani and Douglas Faggioli, )  
 ) (Consolidated with 2:06cv00287 DB,  
Defendants, ) 2:06cv00311 DAK; 2:06cv00350 BSJ and  
 ) 2:06cv00442 DB)

\_\_\_\_\_  
**IN RE NATURE'S SUNSHINE PRODUCTS,**  
**INC. SECURITIES LITIGATION**

\_\_\_\_\_  
This Document Relates to: ALL ACTIONS

Plaintiffs, individually and on behalf of all other persons similarly situated, by plaintiffs' undersigned attorneys, for plaintiffs' complaint, allege upon the investigation made by and through plaintiffs' counsel, which has included, among other things, interviewing witnesses and reviewing relevant public filings made by Nature's Sunshine Products, Inc. ("Nature" or the "Company") with the Securities and Exchange Commission (the "SEC"), press releases, news articles, analyst reports, court filings, and media reports concerning the Company. This Class Action Complaint (the "Complaint") is based upon plaintiffs' personal knowledge as to plaintiffs' own acts, and upon information and belief as to all other matters, except where indicated otherwise.

### **NATURE OF ACTION**

1. Plaintiffs bring this action as a class action on behalf of themselves and all other persons or entities who purchased Nature common stock on the open market, other than defendants and certain related persons and entities, during the period from April 23, 2002 through April 5, 2006 (the "Class Period"), to recover damages caused to the Class by defendants' violations of the federal securities laws.

### **SUMMARY OF THE COMPLAINT**

2. Plaintiffs assert three claims against defendants for violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5(a)-(c) promulgated thereunder and Section 20(a) of the Exchange Act.

3. The first claim is for violation of Section 10(b) and Rule 10b-5(a) and Rule 10b-5(c) for engaging in a scheme to deceive Nature's independent auditors, KPMG, LLP ("KPMG"). The fraudulent scheme was designed to illicit unqualified or "clean" audit opinions and "clean" review opinions from KPMG, in order to deceive the SEC and investors about the

reliability and accuracy of the Company's financial statements and to artificially inflate the Company's stock price, permitting Huff and Faggioli to sell millions of dollars worth of Nature stock at a profit during the Class Period.

4. Defendants knowingly made materially misleading statements to KPMG in furtherance of the scheme and knew that this fraudulent scheme would result in KPMG issuing unqualified audit opinions and review opinions with respect to Nature's financial statements and the public dissemination of materially false and misleading financial statements that would be relied upon by investors and inflate the price of Nature stock.

5. In furtherance of this scheme, defendants deceived KPMG by misrepresenting facts to KPMG in order to cover-up fraudulent activity in connection with the audit of the Company--with the purpose and intent of issuing materially inaccurate financial statements during the Class Period that nonetheless bore the imprimatur of an unqualified or "clean" audit opinion and review opinions by KPMG.

6. KPMG has stated in a letter to the SEC that Nature's CEO, Douglas Faggioli ("Faggioli"), knowingly misrepresented to KPMG on at least two occasions that he was not aware of any financial fraud at the Company, when in fact, based on the Company's internal investigation, Faggioli, at the time he made the representations, was aware of a serious financial fraud. Faggioli's representations to KPMG were thus false. Moreover, Faggioli personally approved at least one payment in violation of the Foreign Corrupt Practices Act.

7. The class period for this first claim under Section 10(b) of the Exchange Act and Rule 10b-5(a) and Rule 10b-5(c), thereunder is from April 23, 2002 through April 5, 2006.

8. Class Plaintiffs' second claim is asserted under Section 10(b) of the Exchange Act and Rule 10b-5(b) thereunder, for issuing materially false and misleading statements to investors

during the Class Period. Defendants issued and filed with the SEC materially false and misleading Sarbanes-Oxley Act (“SOX”) certifications, Form 10-Q quarterly reports, and press releases in which defendants falsely represented to investors that defendants believed the Company’s financial statements accurately reflected the financial condition of the Company and that defendants had disclosed to KPMG any fraud that involved management or other employees. In fact, during the Class Period, CEO Faggioli and Audit Committee Chairman Franz Cristiani (“Cristiani”) were aware of a substantial fraud that materially impacted the reliability and accuracy of the Company’s financial statements. As a result of the fraud, KPMG has resigned as auditors, and the Company has not filed any financial statements for more than twelve months. The class period for this claim under Section 10(b) of the Exchange Act and Rule 10b-5(b), thereunder is from March 16, 2005 through April 5, 2006.

9. Class Plaintiffs’ third claim is asserted under Section 20(a) of the Exchange Act for control person liability against defendants Faggioli, Craig D. Huff (“Huff”) and Cristiani based on the Company’s violations of Section 10(b) and Rule 10b-5(a), (b) and (c), thereunder. The class period for the §20(a) claims is co-extensive with each of the predicate §10(b) violations to which the §20(a) claims pertain.

10. On each occasion from February 17, 2006 through April 5, 2006, when partial disclosures of the fraud involving Nature’s management were revealed to the market, the price of Nature’s common stock fell, damaging investors.

#### **PARTIES**

11. Plaintiffs Rick Kader and Peter Rathmann purchased Nature common stock during the Class Period and were damaged thereby. Their PSLRA certifications are attached hereto.

12. Lead Plaintiffs Fred Crosetto, Lee Tiah Hong, Jane, and Loh Chee Kuang purchased Nature common stock during the Class Period and were damaged thereby. Lead Plaintiffs' PSLRA certifications have been previously filed with the Court.

13. Defendant Nature is a Utah Corporation with its principal place of business in Provo, Utah. Nature and its subsidiaries engage in the manufacture and marketing of nutritional and personal care products through a multi-level marketing structure. According to the Company's most recent annual report filed with the SEC for fiscal year 2004, more than half of the Company's revenues were derived from the Company's operations abroad through wholly owned foreign subsidiaries. Throughout the Class Period the Company's stock was listed on the NASDAQ National Market. The Company's stock was de-listed from the NASDAQ effective on market open April 5, 2006 due to the Company's failure to issue the required annual and quarterly reports and financial statements. Subsequently, the Company's stock began trading over-the-counter and is quoted on the "Pink Sheets" under ticker "NATR.PK", where it remains today.

14. Defendant Douglas Faggioli ("Faggioli") is the President, CEO and a Director of the Company. He has held those positions since November 2003. Prior to that time, he served as Executive Vice President, COO, and Director. On March 29, 2006 Faggioli stepped down as President, CEO and Director of the Company pending the outcome of the Company's internal investigation regarding the fraud alleged herein. Faggioli, however, remained on the Company's payroll during this interim period. On August 24, 2006 the Company announced that it had re-appointed Faggioli as the Company's President and CEO—despite the fact that an internal investigation had recommended his termination due to his involvement in potential criminal activity and other certain improprieties set forth herein.. As CEO, Faggioli reviewed each of the Company's press releases and financial statements filed with the SEC

described herein and had full responsibility for their contents. To that end, Faggioli signed certain annual reports of the Company and signed SOX certifications attesting to the accuracy of the Company's financial statements. Faggioli has been a Certified Public Accountant since 1984.

15. Defendant Craig D. Huff ("Huff") served as the Company's Executive Vice President, Chief Financial Officer, and Vice President of Finance and Treasurer from 1998 through March 27, 2006, when he resigned from these positions. As CFO, Huff reviewed each of the Company's press releases and financial statements filed with the SEC described herein and had full responsibility for their contents. To that end, Huff signed certain annual reports of the Company and signed SOX certifications attesting to the accuracy of the Company's financial statements. Huff is a Certified Public Accountant since 1994. Prior to 1994, Huff was an Accounting Certificate Holder in the State of Utah from 1985 to 1994.

16. Defendant Franz L. Cristiani ("Cristiani") is a former member of the Company's board of directors and served as Chairman of the Audit Committee ("Audit Committee") from 2004 until his resignation in April 2006. Prior to that time, Cristiani served as a member of the Audit Committee. From 1964 until his retirement in 1999, Cristiani was employed by Arthur Andersen, the defunct international public accounting firm, including 23 years as a partner. Since retiring, he has provided consulting services to various companies, served on the board of directors of Accuray, BioMarin Pharmaceutical, MTI Technology and Vitasoy USA, and has served as an adjunct professor at the graduate school of business at the University of San Francisco. Cristiani is a Certified Public Accountant.

17. The Audit Committee's duties are governed by the Audit Committee's Charter filed with the SEC on April 15, 2004 (the "Charter"). The Charter states in relevant part:

***Purpose***

The purpose of the Audit Committee ("Committee") is to oversee the processes of accounting and financial reporting of Nature's Sunshine Products, Inc. (the "Company") and the audits and financial statements of the Company.

\* \* \* \*

***Oversight of the Company's Auditors***

The Committee shall ensure receipt of a written report from the independent auditors at least annually regarding (a) the independent auditors' internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues, and (c) to assess the auditors' independence, all relationships between the independent auditors and the Company, including each non-audit service provided to the Company and at least the matters set forth in Independent Standards Board No. 1.

\* \* \* \*

***Disclosure and Financial Statements***

The Committee shall discuss with the independent auditors and then disclose the matters required to be discussed and disclosed by SAS 61, including any difficulties the independent auditors encountered in the course of the audit work, any restrictions on the scope of the independent auditors' activities or on access to requested information, and any significant disagreements with management.

\* \* \* \*

The Committee shall review the CEO and CFO's disclosure and certifications under Sections 302 and 906 of the Sarbanes-Oxley Act and shall review the adequacy and effectiveness of the Company's internal control system and procedures.

\* \* \* \*

***Compliance and Regulatory Oversight Responsibilities***

The Committee shall review and approve all "related party transactions", as that term is defined in Item 404 of Regulation S-K.

The Committee shall establish procedures for the receipt, retention, and treatment of complaints received by the Company from its employees regarding accounting, internal accounting controls, and auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Committee shall ascertain annually from the independent auditors whether the Company has issues under Section 10A(b) of the Exchange Act.

The Committee shall review with management and the independent auditors any correspondence with regulators and any published reports that raise material issues regarding the Company's accounting policies.

18. As a member of the Audit Committee and later as Chairman thereof, Cristiani reviewed certain of the Company's financial statements filed with the SEC described herein and had responsibility for their contents.

19. Defendants Faggioli, Huff and Cristiani are collectively referred to herein as the "Individual Defendants."

20. Each of the Individual Defendants are Certified Public Accountants and each possess more than twenty years experience in the field of accounting, with specific expertise in the area of public company accounting.

21. Pursuant to the Company's "Code of Ethics for CEO and Senior Financial Officers," which both Faggioli and Huff were required to sign on or about February 24, 2004, Faggioli and Huff each certified that he would, among other things:

1. Carefully review a draft of each periodic SEC report and related documents for accuracy and completeness before each such report is filed with the SEC, with particular focus on disclosure issues within his or her area of responsibility.

2. Carefully review a draft of each financial press release or other public communications by the Company before each such communication is released to the public.

3. Bring to the attention of the Audit Committee matters that such Senior Officer believes could compromise the integrity of the Company's financial reports, evidence disagreements on accounting matters and or constitute a possible violation of this Code.

4. Consult with the Audit Committee on a regular basis to identify any short-comings or concerns with respect to the Company's internal financial reporting or disclosure controls.

5. If a Senior Officer believes that actions have occurred, may be taking place or may be about to take place that violate or would violate this Code, he or she must bring the matter to the attention of the Company.

6. Always act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing independent judgment to be subordinated.

7. Assume responsibility to comply with the governmental rules and regulations.

22. By virtue of their positions at Nature, the Individual Defendants had access to the adverse and undisclosed information about Nature's business conditions and financial results. The Individual Defendants directly participated in the management of Nature, were directly involved in the operations of Nature at the highest levels, were privy to information concerning the undisclosed business conditions and financial results of Nature and were involved in the dissemination of the materially false and misleading statements and information alleged herein.

23. By reason of their particularly important positions as executive officers and/or directors of Nature, the Individual Defendants were at all relevant times controlling persons within the meaning of Section 20 of the Exchange Act. Because of their executive and directorial positions with Nature, the Individual Defendants had access to the adverse and undisclosed information about Nature's business conditions and financial results. Further, as particularized herein, the Individual Defendants were able to and did control the contents of various reports and public statements regarding Nature. Any acts attributed to Nature were caused and/or influenced by the Individual Defendants by virtue of their controlling-person positions at Nature.

24. As the senior officers and/or directors of a publicly-held company whose securities were, and are, registered with the SEC pursuant to the Exchange Act, traded on the NASDAQ, and governed by the provisions of the federal securities laws, the Individual Defendants had a duty to promptly disseminate accurate and truthful information about the undisclosed and material business conditions of Nature, so that the market price of Nature's publicly-traded securities would be based upon truthful and accurate information. The Individual

Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations. By virtue of their positions of control and authority at Nature, the Individual Defendants had the power to and did control the content of the various public statements concerning Nature, its business conditions and financial results during the Class Period and, in fact, made many of the challenged statements described herein. Accordingly, the Individual Defendants were responsible for the accuracy of the public statements and releases detailed herein and are primarily liable for the misrepresentations contained therein.

### **JURISDICTION AND VENUE**

25. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78b-1 and 78t(a), and Rule 10b-5(a)-(c) promulgated thereunder by the SEC, 17 C.F.R. §240.10b-5.

26. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337 and Section 27 of the Exchange Act, 15 U.S.C. § 78aa.

27. Venue is proper in this District pursuant to Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b). Defendants maintain their principal executive offices in this District and many of the acts, practices and transactions complained of herein occurred in substantial part in this District.

28. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

### **PLAINTIFFS' CLASS ACTION ALLEGATIONS**

29. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil

Procedure 23(a) and (b)(3) on behalf of all those who purchased or otherwise acquired the securities of Nature during the Class Period and who suffered damages (the "Class"). Excluded from the Class are defendants, the officers and directors of the Company, members of their immediate families and their legal representatives, heirs, successors, or assigns and any entity in which defendants have or had a controlling interest.

30. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to plaintiffs at this time and can only be ascertained through appropriate discovery, plaintiffs believe that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Nature or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

31. Plaintiffs' claims are typical of the claims of the members of the Class as plaintiffs purchased Nature stock during the Class Period and all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

32. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation.

33. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether defendants misrepresented material facts and omitted to state material facts necessary to prevent the statements made to the investing public from being misleading during the Class Period concerning its financial statements;

(c) whether defendants engaged in a scheme to deceive and defraud in violation of the Exchange Act;

(d) whether defendants acted knowingly or recklessly with reference to the alleged violations of the Exchange Act during the Class Period;

(d) whether the market prices of the Company's common stock was artificially inflated or distorted during the Class Period because of defendants' conduct complained of herein; and

(e) whether the members of the Class have sustained damages and the proper measure of such damages.

34. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

**FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD**

35. On March 16, 2005, Nature filed its annual report on Form 10-K with the SEC, dated March 15, 2005. The Form 10-K was signed by defendants Faggioli, Huff and Cristiani and contained financial statements, audited by KPMG, for the three fiscal years ended December 31<sup>st</sup> of 2002, 2003 and 2004.

36. Included in the annual report was a report by KPMG stating that it had audited Nature's financial statements for the three fiscal years ended December 31<sup>st</sup> 2002, 2003 and 2004 and for which KPMG expressed an unqualified opinion that such financial statements present fairly, in all material respects, the financial position of Nature.

37. Attached as exhibits to the annual report were four certifications by CEO Faggioli and CFO Huff pursuant to the Sarbanes-Oxley Act ("SOX").

38. Attached as Exhibits A and B hereto and incorporated by reference herein are the Section 302 SOX certifications of Faggioli and Huff stating that they have reviewed the annual report on Form 10-K and that, based on their knowledge, (a) the annual report does not contain any untrue statement of fact or omission of fact that would render the report misleading, and (b) the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company.

39. In addition, in ¶5 of the Section 302 SOX certifications Faggioli and Huff each certified that both of them ("The registrant's other certifying officer and I") "have disclosed ... to [Nature's] auditors and the audit committee of [Nature's] board of directors ... (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting."

40. Attached as Exhibits C and D hereto and incorporated herein by reference are the Section 906 SOX certifications of Faggioli and Huff stating that "The information contained in the [Annual] Report fairly presents, in all material respects, the financial condition and results of operations of the Company."

41. Each of Faggioli's SOX certifications were knowingly false and misleading as Nature's former auditors, KPMG, have stated in a March 27, 2006 letter filed with the SEC

(attached as Exhibit E hereto and incorporated herein by reference) that:

(a) “An investigation by a special committee of the board of directors found electronic evidence indicating that Mr. Faggioli knew of an alleged fraud in the international operations of the Company yet signed two different representation letters to KPMG LLP (KPMG) (on March 15, 2005 and August 5, 2005) affirming to the contrary, and that he had approved a payment in violation of the Foreign Corrupt Practice Act.”

(b) “The evidence provided by the investigation indicates that Mr. Cristiani was aware of an alleged fraud that, in his words, ‘could be considered material from an auditing standpoint and could pose a significant problem to our company.’ Despite being copied on the representations to the contrary being made to KPMG, Mr. Cristiani made no attempt to notify KPMG of these allegations or to correct the inaccurate representations made to KPMG.”

42. KPMG also stated in a March 31, 2006 letter to the SEC (attached as Exhibit F hereto and incorporated herein by reference) that KPMG “has determined that the board of directors and the Audit Committee of Nature’s Sunshine Products, Inc. (the Company) have been adequately informed with respect to likely illegal acts that have come to the attention of KPMG during the course of its audit of the Company’s financial statements for each of the years in the three-year period ended December 31, 2005.”

43. The Company also announced on March 20, 2006 in a Form 8-K that, in connection with the investigation, it had contacted relevant authorities about “potential violations of law” and that none of the Company’s previously issued quarterly and annual financial statements for the fiscal years from 2002 through 2005 could be relied on.

44. KPMG determined that the fraud would have a material impact on Nature’s financial statements, and that the amount of specific errors and the periods to which they relate had been determined. Therefore, the Company will be required to issue restatements of the annual and quarterly financial statements for the annual and quarterly periods for all of 2002, 2003, 2004 and the first three quarters of 2005. (*See* Exhibits E, F and April 14, 2006 KPMG letter to the SEC attached as Exhibit G and incorporated herein by reference).

45. The determination that these financial statements must be restated evidences that the financial statements were materially inaccurate and that they were false and misleading. KPMG stated in an April 14, 2006 letter to the SEC (Exhibit G) that “[w]ith respect to certain errors [in the financial statements], the Investigative Team had completed its investigation and identified both the proposed amount of the errors and the period in which they occurred.”

46. Accounting Principle Board Opinion 20 (superseded by FASB No. 154) states that if a company must issue a restatement because of errors in financial statements resulting from mathematic mistakes, or mistakes in the application of accounting principles, or an oversight or misuse of facts that existed at the time the financial statement was prepared, such a restatement is an acknowledgement that the financial statements in question are false and misleading. Therefore, Nature’s financial statements for the periods to which the errors relate, and which will require restatement, are all false and misleading.

47. On May 10, 2005, Nature filed a quarterly report on Form 10-Q with the SEC, dated May 9, 2005, containing financial statements for the three months ended March 31, 2004 and 2005. The quarterly report was signed by Faggioli and Huff.

48. Accompanying the Form 10-Q were four SOX certifications dated May 9, 2005 and signed by Faggioli and Huff, which are identical in all respects to the SOX certifications attached as Exhibits A-D, except that these certifications pertained to the veracity and reliability of Nature’s May 10, 2005 Form 10-Q.

49. The May 9, 2005 SOX certifications issued by Faggioli were materially false and misleading for the same reasons set forth in ¶¶ 41-46 above – *i.e.*, at the time the certifications were signed, Faggioli knew of a serious fraud that rendered materially false and misleading those financial statements for which he made false representations to KPMG, and those financial

statements that reflected the transaction(s) that violated the Foreign Corrupt Practices Act.

50. On August 9, 2005, Nature filed a quarterly report on Form 10-Q with the SEC, dated August 5, 2005, containing financial statements for the three and six month periods ended June 30, 2004 and 2005. The report was signed by Faggioli and Huff.

51. Accompanying the Form 10-Q were four SOX certifications dated August 5, 2005 and signed by Faggioli and Huff, which are identical in all respects to the SOX certifications attached as Exhibits A-D, except that these certifications pertained to the veracity and reliability of Nature's August 9, 2005 Form 10-Q.

52. The August 5, 2005 SOX certifications issued by Faggioli were materially false and misleading for the same reasons set forth in ¶¶ 41-46 above – *i.e.*, at the time the certifications were signed, Faggioli knew of a serious fraud that rendered materially false and misleading those financial statements for which Faggioli made false representations to KPMG and those financial statements that reflected the transaction(s) that violated the Foreign Corrupt Practices Act.

53. On October 25, 2005, Nature issued a press release touting its strong financial results for the three and nine months ended September 30, 2005 and conducted a conference call to discuss such financial results.

54. On November 10, 2005, Nature filed a Form 8-K with the SEC, signed by defendant Huff, which stated in part:

The Company is currently reviewing selected financial information with respect to certain of its foreign operations and, therefore, the Company's auditors have not completed their review of the Company's financial statements for the three and nine month periods ended September 30, 2005. In light of the foregoing, the Company will not be able to file its Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 in the extended time period provided under Rule 12b-25 of the Securities Exchange Act of 1934. The Company believes that the financial information reported on with respect to the three and nine months

ended September 30, 2005 is accurate and will file its Quarterly Report on Form 10-Q for the third quarter as soon as it has concluded the reviews of selected financial information with respect to certain of its foreign operations and the auditors have completed their review of the Company's financial statements for the three and nine month periods ended September 30, 2005.

55. The statement in the preceding Form 8-K that "The Company believes that the financial information reported on with respect to the three and nine months ended September 30, 2005 is accurate" was materially false and misleading for the same reasons set forth in ¶¶ 41-46 above – *i.e.*, at the time of the statement, Faggioli knew of a serious fraud that rendered materially false and misleading those financial statements for which he made false representations to KPMG and those financial statements that reflected the transaction(s) that violated the Foreign Corrupt Practices Act.

56. In addition, at that time, Huff, Cristiani and Faggioli, because of their positions in the Company, were aware that KPMG had raised certain material issues regarding the accuracy of the financial statements for the period ended September 30, 2005, and were aware that these issues precluded KPMG from completing its review and issuing an unqualified review opinion for those financial statements.

57. On November 21, 2005, the Company issued a press release announcing that it received notice from The Nasdaq Stock Market that, due to the Company's delayed filing of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, the Company's common stock is subject to possible delisting from The Nasdaq Stock Market.

58. The November 21, 2005 press release also stated: "The Company previously reported that it is currently reviewing selected financial information with respect to certain of its foreign operations and, therefore, the Company's independent auditor has not completed its review of the Company's financial statements for the three and nine months periods ended

September 30, 2005. The Company plans to file tomorrow its Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, which will include unaudited consolidated financial statements for the three and nine month periods ended September 30, 2005 that have not been reviewed by the Company's independent auditor. The Company believes that the unaudited consolidated financial statements contained in the 10-Q to be filed tomorrow are a fair presentation of the Company's financial position as of September 30, 2005." The press release listed defendant Huff as the contact person for the Company.

59. The statement in the preceding press release that "The Company believes that the unaudited consolidated financial statements contained in the 10-Q to be filed tomorrow are a fair presentation of the Company's financial position as of September 30, 2005" was materially false and misleading for the same reasons set forth in ¶¶ 41-46 above – *i.e.*, at the time the statement was made, Faggioli knew of a serious fraud that rendered materially false and misleading those financial statements for which he made false representations to KPMG and those financial statements that reflected the transaction(s) that violated the Foreign Corrupt Practices Act.

60. The statement was also false because, at that time, Huff, Cristiani and Faggioli, as CFO, CEO and Audit Committee Chairman respectively, were aware that KPMG had raised certain material issues regarding the accuracy of the financial statements for the period ended September 30, 2005, and were aware that these issues precluded KPMG from completing its review and issuing an unqualified review opinion for those financial statements.

61. On November 22, 2005, the Company filed its Form 10-Q with the SEC, dated November 22, 2005, containing financial statements for the three and ninth month periods ended September 30, 2004 and 2005, and signed by Faggioli and Huff.

62. The first page of the Form 10-Q states in part:

## STATEMENT REGARDING REVIEW OF FINANCIAL STATEMENTS

As we previously disclosed in our Current Report on Form 8-K dated November 10, 2005, we are currently reviewing selected financial information with respect to certain of our foreign operations. Accordingly, our independent auditor has not reviewed the accompanying unaudited consolidated financial statements for the three and nine month periods ended September 30, 2005 in accordance with Rule 10-01(d) of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). We believe the accompanying unaudited consolidated financial statements are a fair presentation of the Company's financial position. Upon the completion of the review by our independent auditor, we intend to file an amendment to this report to reflect the review of our independent auditor and will reflect material changes, if any, resulting from our review of selected financial information with respect to certain of our foreign operations and the review by our independent auditor.

63. The statement in the Form 10-Q that "We believe the accompanying unaudited consolidated financial statements are a fair presentation of the Company's financial position." was false and misleading for the same reasons set forth in ¶¶ 41-46 above – *i.e.*, at the time the statement was made, Faggioli knew of a serious fraud that rendered materially false and misleading those financial statements for which he made false representations to KPMG and those financial statements that reflected the transaction(s) that violated the Foreign Corrupt Practices Act.

64. The statement was also false because, at that time, Huff, Cristiani and Faggioli, as CFO, CEO and Audit Committee Chairman respectively, were aware that KPMG had raised certain material issues regarding the accuracy of the financial statements for the period ended September 30, 2005, and were aware that these issues precluded KPMG from completing its review and issuing an unqualified review opinion for those financial statements.

65. Accompanying the November 22, 2005 Form 10-Q were four SOX certifications dated November 22, 2005 and signed by Faggioli and Huff which are identical in all respects to the SOX certifications attached as Exhibits A-D, except that these certifications pertained to the

veracity and reliability of Nature's November 22, 2005 Form 10-Q.

66. The November 22, 2005 SOX certifications issued by Faggioli were false and misleading for the same reasons set forth in ¶¶ 41-46 above – *i.e.*, at the time the certifications were signed, Faggioli knew of a serious fraud that rendered materially false and misleading those financial statements for which he made false representations to KPMG and those financial statements that reflected the transaction(s) that violated the Foreign Corrupt Practices Act.

67. The SOX certifications were also false because, at that time, Huff and Faggioli, as CFO and CEO respectively, were aware that KPMG had raised certain material issues regarding the accuracy of the financial statements for the period ended September 30, 2005, and were aware that these issues precluded KPMG from completing its review and issuing an unqualified review opinion for those financial statements.

68. On December 1, 2005, Nature issued a press release announcing it had received notice from The Nasdaq Stock Market that, because the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 included unaudited consolidated financial statements for the three and nine month periods ended September 30, 2005 for which the Company's independent auditor had not completed its review, the Company will be delisted from Nasdaq, though its securities will continue to trade pending an appeal of the delisting by the Company. The press release listed defendant Huff as the contact person for the Company.

69. The December 1, 2005 press release also stated that the Company believes that the unaudited consolidated financial statements contained in the 10-Q filed on November 22, 2005 are a fair presentation of the Company's financial position as of September 30, 2005.

70. The statement in December 1, 2005 press release that the Company believes that the unaudited consolidated financial statements contained in the 10-Q filed on November 22,

2005 are a fair presentation of the Company's financial position as of September 30, 2005 was false and misleading for the same reasons set forth in ¶¶ 41-46 above – *i.e.*, at the time the statement was made, Faggioli knew of a serious fraud that rendered materially false and misleading those financial statements for which he made false representations to KPMG and those financial statements that reflected the transaction(s) that violated the Foreign Corrupt Practices Act.

71. The statement was also false because, at that time, Huff, Cristiani and Faggioli, as CFO, CEO and Audit Committee Chairman respectively, were aware that KPMG had raised certain material issues regarding the accuracy of the financial statements for the period ended September 30, 2005, and were aware that these issues precluded KPMG from completing its review and issuing an unqualified review opinion for those financial statements.

72. On December 2, 2005, Nature filed a Form 8-K, signed by Huff, with the SEC attaching the December 1, 2005 press release. The Form-8-K was false and misleading for the same reasons as set forth in the two preceding paragraphs.

73. On January 13, 2006, Nature issued a press release announcing summary financial results for the quarter and twelve months ended December 31, 2005. The press release stated in part: “The Company continues to believe that unaudited consolidated financial statements contained in the 10-Q filed on November 22, 2005, for which the Company's independent auditors have not completed their review, are a fair presentation for the three and nine month periods ended September 30, 2005.”

74. The statement in the January 13, 2006 press release that “The Company continues to believe that unaudited consolidated financial statements contained in the 10-Q filed on November 22, 2005, ... are a fair presentation for the three and nine month periods ended

September 30, 2005.” was false and misleading for the same reasons set forth in ¶¶ 41-46 above – *i.e.*, at the time the statement was made, Faggioli knew of a serious fraud that rendered materially false and misleading those financial statements for which he made false representations to KPMG and those financial statements that reflected the transaction(s) that violated the Foreign Corrupt Practices Act.

75. The statement was also false because, at that time, Huff, Cristiani and Faggioli, as CFO, CEO and Audit Committee Chairman respectively, were aware that KPMG had raised certain material issues regarding the accuracy of the financial statements for the period ended September 30, 2005, and were aware that these issues precluded KPMG from completing its review and issuing an unqualified review opinion for those financial statements.

76. On January 17, 2006, Nature filed a Form 8-K with the SEC attaching the January 13, 2006 press release. The Form-8-K was false and misleading for the same reasons as set forth in the two preceding paragraphs.

77. On February 17, 2006, Nature issued a press release updating investors on its January 13<sup>th</sup> announcement of preliminary financial results for the quarter and twelve months ended December 31, 2005. The Company cautioned that the financial results are preliminary and have not been audited.

78. The February 17<sup>th</sup> press release also stated:

Nature’s Sunshine previously reported that it was reviewing selected financial information with respect to certain of its foreign operations and, therefore, the Company’s independent auditor had not completed its review of the Company’s financial statements for the three and nine month periods ended September 30, 2005. As a result, the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, which was filed on November 22, 2005, included unaudited consolidated financial statements for the three and nine month periods ended September 30, 2005 for which the Company’s independent auditor had not completed its review. Because the Form 10-Q was not complete, the Company is not in compliance with Nasdaq Marketplace Rule 4310(c)(14) and received notice

from Nasdaq that its common stock was subject to delisting. At a hearing before the Nasdaq Listing Qualifications Panel on December 8, 2005, the Company requested an extension to file its complete 10-Q for the third quarter of 2005. On January 19, 2006, the Panel granted the Company an extension until March 31, 2006 to file its complete 10-Q.

Since the review commenced, the Company's Audit Committee, which is overseeing the review, has expanded the scope of the review and commenced an investigation of certain matters identified in the review. The investigation involves matters related to fiscal 2005 as well as prior periods. The Audit Committee engaged a nationally recognized independent law firm to assist it in the review and investigation. The law firm engaged a nationally recognized independent accounting firm to assist it. Concerns regarding certain transactions of the Company's foreign subsidiaries have been identified, and continue to be reviewed. The Company investigation is not yet completed. However, the Company has begun to implement certain remedial measures to address the concerns about certain foreign transactions and is committed to implementing any additional remedial measures necessary to address any additional issues that may be identified by the investigation. In addition, as soon as possible following the completion of the investigation, the Company intends to file an amendment to its 10-Q for the 3rd quarter of 2005 to reflect the review of the Company's independent auditor. Thus, the Company announced that it has expanded the scope of the "review" of its international operations and also "commenced an investigation of certain matters identified in the review."

79. Immediately following the disclosure of the adverse information in the February 17<sup>th</sup> press release, Nature's share price dropped \$1.00/share or 5.6% in unusually heavy trading.

80. On February 22, 2006, the Company filed a Form 8-K with the SEC attaching the February 17<sup>th</sup> press release.

81. On March 20, 2006, Nature filed a form 8-K with the SEC, signed by Huff, which stated:

Item 4.02 Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

As previously announced, the Audit Committee of Nature's Sunshine Products, Inc. (the "Company") commenced an investigation with respect to certain of its foreign operations. Since the investigation commenced, it has been expanded to include other matters related to the Company's financial statements and is now being overseen by a Special Committee appointed by the Audit Committee consisting of a member of the Audit Committee and an independent

consultant. On March 15, 2006, the Audit Committee received an oral preliminary report on the findings of the investigation to date (the "Preliminary Report"). The Preliminary Report indicated that the Company had certain internal control weaknesses and outlined potential violations of law. The Preliminary Report also included a series of recommendations, including with respect to the termination of certain employees and senior officers. The Company continues to evaluate the information communicated in the Preliminary Report, is in the process of implementing remedial measures to address the issues raised in the Preliminary Report and is committed to implementing any additional remedial measures necessary to address the issues identified, as well as any additional issues that may be identified by the investigation; the investigation is continuing. While the Company believes implementation of the remedial measures and recommendations made in the Preliminary Report will benefit the Company in the long term, such actions may have an adverse effect on the Company's business operations, financial condition and results of operations in the short term.

The Company has contacted relevant authorities in the U.S. with respect to the potential violations of law outlined in the Preliminary Report, intends to fully cooperate with such authorities concerning these matters and to make a full report to these authorities, if appropriate. The Company cannot predict whether or the extent to which any governmental authorities will pursue these matters and the impact any such pursuit may have.

Based on issues raised in the Preliminary Report, on March 18, 2006, the Company's Audit Committee determined that the financial statements filed with the following previously issued reports should not be relied upon:

- Forms 10-Q for each of the first three fiscal quarters of 2005;
- 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
- Forms 10-Q for each of the first three fiscal quarters of 2004, 2003 and 2002.

At this time, it is impossible to accurately predict whether, and if so, to what extent, any prior periods may need to be restated. The exact amount of any errors and the periods to which they relate have not been determined and finalized. Any errors may also affect financial information for the periods mentioned that the Company included in other disclosures, such as press releases or Form 8-K filings.

In addition, in light of the possible restatements and the internal control weaknesses brought to the attention of the Audit Committee in the Preliminary Report, management's report on internal control over financial reporting as of

December 31, 2004 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 should no longer be relied upon.

The Audit Committee discussed the matters disclosed in this report with KPMG LLP, the Company's independent registered public accountants.

82. The information provided in the March 20, 2006 8-K was significant as it raised several very serious issues, including the following:

- (a) All of the Company's quarterly and annual audited financial statements going all the way back to fiscal year 2002, cannot be relied on – implying that there is a substantial possibility that all such financial statements are materially inaccurate and will have to be restated.
- (b) Each of the quarterly reports filed by Nature for 2005 – which the Company had continued to assert are accurate in press releases since November 2005 – are not accurate and cannot be relied on and will have to be restated.
- (c) Management had engaged in illegal activities related to the financial statements.
- (d) The illegal activities are serious enough to warrant notifying governmental authorities.
- (e) The investigation has been substantially expanded beyond just the international operations – calling into question all aspects of the Company's financial reporting.
- (f) The special committee recommended the termination of certain senior employees as a result of the investigation.

83. Immediately following the filing of the March 20<sup>th</sup> 8-K and disclosure of the adverse information therein, Nature's share price dropped \$2.16 or 13.1% in unusually heavy trading.

84. The statement in the March 20, 2006 Form 8-K that the Company did not know the exact amount of any errors or the periods in which they occurred was false and misleading because KPMG stated in its April 14, 2006 letter to the SEC that "we disagree with the statement that the exact amount of any errors and the periods to which they relate had not been determined and finalized. With respect to certain errors, the Investigative Team had completed its investigation and identified both the proposed amount of the errors and the period in which they occurred." (See Exhibit G, ¶3).

85. On March 24, 2006, Nature issued a press release stating that “because of issues raised in the Company's ongoing internal investigation, the Company does not expect to be able to meet the March 31, 2006 10-Q filing deadline set by the [Nasdaq listing qualifications] Panel for filing the Company's September 30, 2005 Form 10-Q nor does the Company expect to file its annual report on Form 10-K for the fiscal year ended December 31, 2005 on or before March 31, 2006.” As a result, the Company's stock would likely be delisted from the Nasdaq.

86. On March 27, 2006, the Company filed a Form 8-K with the SEC reiterating the statements made in the March 24<sup>th</sup> press release and attaching a copy of the release.

87. Immediately following the issuance of the March 24<sup>th</sup> press release, reiterated in the March 27<sup>th</sup> 8-K, Nature's share price dropped \$2.49 or 18.2% in two days of unusually heavy trading.

88. On March 28, 2006, the Company announced that defendant Craig Huff has resigned his position as CFO of Nature to “pursue other interests.” The Company hired Steve Bunker to replace Huff. Bunker had previously worked for six years as an accountant at Arthur Andersen in Salt Lake – under Franz Cristiani, Chairman of Nature's Audit Committee.

89. On April 3, 2006, with just five minutes left in the trading day, the Company filed with the SEC a Form 8-K with the SEC attaching two letters to the Company from KPMG, its independent auditors dated March 27 and March 31, 2006 and attaching a responsive letter from the Company to KPMG dated March 29<sup>th</sup>. A copy of the Form 8-K is attached as Exhibit H and incorporated herein by reference).

90. The March 27, 2006 letter from KPMG (attached hereto as Exhibit E) stated in relevant part:

The investigator and the Special Committee have concluded that the Company should terminate Mr. Douglas Faggioli, President and CEO. The investigation

found electronic evidence indicating that Mr. Faggioli knew of an alleged fraud in the international operations of the Company yet signed two different representation letters to KPMG LLP (KPMG) (on March 15, 2005 and August 5, 2005) affirming to the contrary, and that he had approved a payment in violation of the Foreign Corrupt Practice Act. We understand that the investigation of Mr. Faggioli is continuing with respect to the transfer tax plan, design and approval of bonuses with reference to the tax plan, and the termination of Mr. Jeff Hill, the former corporate controller of the Company. However, the results of those investigations will not alter the conclusions already reached.

Despite these conclusions, the Company has not taken any remedial action with respect to Mr. Faggioli. To the contrary, at our meeting on March 15, 2006 and March 26, 2006 you stated that the Company would not terminate Mr. Faggioli. Such a response to the investigation and its findings is not acceptable.

The investigator and the Special Committee also recommended that Mr. Franz Cristiani, the chair of the Audit Committee, be removed from that position. The evidence provided by the investigation indicates that Mr. Cristiani was aware of an alleged fraud that, in his words, "could be considered material from an auditing standpoint and could pose a significant problem to our company." Despite being copied on the representations to the contrary being made to KPMG, Mr. Cristiani made no attempt to notify KPMG of these allegations or to correct the inaccurate representations made to KPMG. To date he remains chair of the Audit Committee. In addition to the recommendation, it is our belief that he must be removed from the Audit Committee and the Board of Directors.

With respect to the termination of Mr. Faggioli and the removal of Mr. Cristiani from the Audit Committee and Board of Directors it is our belief that it is necessary that these steps be taken by the close of business on Wednesday, March 29, 2006. ...

.... As discussed previously, KPMG will assess the objectivity and adequacy of the investigation, and consider the implications of its findings on other aspects of the audit, including the reliability of representations provided to us. Accordingly, absent timely remedial action, KPMG will be unable to complete our audit and may find it necessary to withdraw from the engagement.

91. The Company responded on March 29<sup>th</sup> with a letter to KPMG (attached as Exhibit I and incorporated herein by reference) which stated in part:

The Board is committed to taking prompt actions to address the issues raised in the ongoing independent investigation being overseen by the Special Committee, including implementing the remedial measures recommended by the independent investigators. With the concurrence of the independent investigators, certain personnel actions will await receipt of the final report. As you know, we have

already begun to implement many of the recommended remedial measures and will provide KPMG with our plan, including a timetable, for implementing the remedial measures on or before April 10, 2006, as requested.

In accordance with the recommendations of the independent investigators, on March 29, 2006, Franz Cristiani was replaced by Larry Deppe as the Chairman of the Audit Committee. In addition, in an effort to enhance our Board of Directors and Audit Committee, Robert Bowen, who has been serving as an advisor to the Audit Committee in connection with the investigation, has been elected to the Board and placed on the Audit Committee.

Pending the conclusion of the investigation, the function of chief executive officer will be performed by an executive committee consisting of Stephen Bunker, Chief Financial Officer; John DeWyze, Executive Vice President, Operations; Robert Shaffer, President—Nature's Sunshine Products International; and Greg Halliday, President—Nature's Sunshine Products U.S., and overseen by me as Chairman of the Board. During this interim period, Douglas Faggioli will continue as an employee of the Company but will not be a member of the Board. The independent investigators have agreed that these interim steps are appropriate and consistent with their recommendations.

In addition, the Company has voluntarily disclosed the potential violations of law raised in the investigation to the U.S. Department of Justice and U.S. Securities and Exchange Commission as noted in its current report on Form 8-K filed on March 20, 2006 and has notified the Nasdaq that the Company will not file its complete Form 10-Q for the quarter ended September 30, 2005 or its Form 10-K for the fiscal year ended December 31, 2005 by March 31, 2006. As a result, the Company expects that its common stock will be delisted from the Nasdaq National Market.

92. On March 31, 2006, KPMG responded to the Company's March 29, 2006 letter with a letter (Exhibit F hereto) that stated in part:

Pursuant to Section 10A of the Securities Exchange Act of 1934 (Section 10A), KPMG LLP (KPMG) has determined that the board of directors and the Audit Committee of Nature's Sunshine Products, Inc. (the Company) have been adequately informed with respect to likely illegal acts that have come to the attention of KPMG during the course of its audit of the Company's financial statements for each of the years in the three-year period ended December 31, 2005 (the Illegal Acts). As you know these Illegal Acts have also been the subject of special investigations conducted by a Special Committee appointed by the Company.

**KPMG has also concluded, pursuant to Section 10A(b)(2), that these Illegal Acts appear to have had a material effect on the financial statements of the**

**Company. KPMG has further concluded that the Company has not taken timely and appropriate remedial actions with respect to the Illegal Acts.** The Company has failed to terminate its Chief Executive Officer as an employee of the Company even though electronic evidence indicates that he made misrepresentations to KPMG on at least two occasions, and had approved a payment in violation of the Foreign Corrupt Practice Act. **The Company has failed to remove the former Chair of its Audit Committee from the Committee and the board of directors even though he was found to have known of the misrepresentations, understood that they “could be considered material from an auditing standpoint and could pose a significant problem to our company,” and failed to bring the matter to the attention of the auditors or correct the misrepresentations.** KPMG has concluded that the Company’s failure to take such timely and appropriate remedial actions warrants KPMG’s resignation as the Company’s independent auditors. **Accordingly, effective immediately, KPMG resigns as the Company’s independent auditors.**

93. The body of the April 3<sup>rd</sup> Form 8-K issued by Nature also provided the following statements:

- The Audit Committee has engaged a nationally recognized independent law firm to assist in the investigation and the law firm, in turn, engaged a nationally recognized independent accounting firm to provide further assistance.
- On March 15, 2006, the Audit Committee received an oral preliminary report (the from the independent law firm and the independent accounting firm assisting in the investigation indicating that the Company had engaged in potential violations of law.
- Based on the Preliminary Report, the Audit Committee, in consultation with KPMG, determined that certain of the Company’s previously issued financial statements should no longer be relied upon.
- The exact amount of any errors in the financial statements and the periods to which they relate had not been determined and finalized as of the date of the Preliminary Report (March 15, 2006).
- KPMG indicated that the potential illegal acts uncovered in the investigation appear to have had a material effect on the financial statements of the Company.
- KPMG can no longer rely on management’s representations previously delivered to KPMG.
- KPMG informed the Company’s Board that unless Douglas Faggioli is terminated and Franz Cristiani removed from the Board, KPMG would resign as the Company’s auditors.

- Pending the conclusion of the investigation, Douglas Faggioli stepped down as President, Chief Executive Officer and Director of the Company, but continued his employment in a “non-executive” role.
- Franz Cristiani was replaced as Chairman of the Audit Committee
- The Investigative Team only recommended that Mr. Cristiani be replaced as the Chairman of the Audit Committee not that he be removed from the Audit Committee or the Board.
- The Investigative Team and the Special Committee agreed that replacing Mr. Cristiani as Audit Committee Chairman, but not removing him from the board, and the interim steps regarding Mr. Faggioli (i.e. not terminating his employment) were appropriate and consistent with their recommendations.
- Because the Company refused to terminate Faggioli and follow other remedial measures, KPMG has resigned as the Company’s independent accountants.
- The Company is in the process of obtaining a new independent registered public accounting firm.
- Six employees have resigned or been terminated in connection with the investigation and the Company has hired a new Chief Financial Officer to replace defendant Craig Huff.

94. Following the filing of the April 3<sup>rd</sup> 8-K and disclosure of the adverse information therein, Nature’s share price dropped \$3.54/share or 29.4% in the next two days of unusually heavy trading.

95. On April 17, 2006, Nature filed a Form 8-K attaching a letter from KPMG to the SEC dated April 14, 2006, stating that KPMG disagreed with certain of the above representations in the Company’s April 3, 2006 Form 8-K. Specifically the April 14<sup>th</sup> KPMG letter (attached as Exhibit G) stated:

(a) KPMG disagreed with the statement that the exact amount of any errors in the Company’s financial statements and the periods to which they relate had not been determined and finalized. With respect to certain errors, the Investigative Team had completed its investigation and identified both the proposed amount of the errors and the period in which they occurred.

(b) KPMG disagreed with the statement that KPMG required certain

remedial measures based on its interpretation of the findings presented in the Preliminary Report. The Investigative Team found and reported on March 15, 2006 that their investigation was complete as to certain matters and that they had reached the conclusion, and were recommending, that the employment of Mr. Faggioli, the Company's Chief Executive Officer, be terminated and that Mr. Cristiani, the chair of the Audit Committee, be removed from his position. The Special Committee concurred with the recommendation. The Board Chairman, Ms. Kristine Hughes, and Board members Ms. Pauline Hughes and Mr. Eugene Hughes stated that they would not terminate Mr. Faggioli.

(c) KPMG disagreed with the statement that the Investigative Team and Special Committee agreed that the interim steps regarding Mr. Faggioli were appropriate and consistent with their recommendations and KPMG disagreed with the statement that Mr. Faggioli's continuing as an employee was in line with the recommendation of the Independent Investigators. On March 30, 2006, a member of the Special Committee communicated to KPMG that the conclusion and recommendation as to the termination of Mr. Faggioli had not changed and that nothing supported holding off on that recommendation any longer.

96. In addition, in its April 14<sup>th</sup> letter, KPMG pointed out that notwithstanding the Company's representations to the contrary, there were several reportable events under Item 304(a)(1)(v) of Regulation S-K, including the fact that (a) KPMG had advised the Company's Audit Committee that the Company had failed to take timely and appropriate remedial actions, and (b) the previously issued financial statements could no longer be relied upon and it would be necessary to expand significantly the scope of KPMG's audit with respect to the Company's 2005 and previously issued financial statements.

97. On August 24, 2006, the Company filed a Form 8-K with the SEC stating that in a special meeting of the Board held on August 21, 2006, Mr. Faggioli was reinstated as President and Chief Executive Officer of the Company, effective as of that date.

98. The Company has never disclosed the final findings of the Investigative Team and Special Committee concerning the financial statement fraud and the illegal acts. Nor has the Company filed with the SEC any 10-K for 2005 or any 10-Q for 2006.

**THE UNLAWFUL SCHEME TO DECEIVE KPMG SO AS TO INFLATE NATURE'S STOCK PRICE IN VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5(a) AND RULE 10b-5(c), THEREUNDER**

99. Beginning in early 2002 and continuing through February 2006, Defendants Nature and Faggioli engaged in a scheme and deceptive course of conduct which acted as a fraud and deceit upon investors. In particular, the fraudulent scheme was designed to illicit “clean” or unqualified audit opinions and review opinions from the Company’s auditors, KPMG, in order to deceive investors and the SEC about the reliability and accuracy of the Company’s publicly issued annual and quarterly financial statements from 2002 through 2005 in order to inflate and maintain the Company’s stock price. Defendants Nature and Faggioli knowingly made materially false and misleading statements in furtherance of the scheme and knew that this fraudulent scheme would cause materially false and misleading financial statements to be disseminated to investors, who would rely upon this information. The scheme enabled Faggioli and Huff to sell millions of dollars of Nature stock at inflated prices during the Class Period.

100. Faggioli caused Nature to engage in a fraud that had a material impact on the Company financial statements and rendered materially false and misleading those financial statements for which he issued false representations to KPMG and those financial statements that reflected the transaction(s) that violated the Foreign Corrupt Practices Act.

101. Faggioli perpetrated this fraud by intentionally deceiving Nature’s independent accounting firm, KPMG. Cristiani, aware of the fraud, and knowing that Faggioli was actively deceiving KPMG, and notwithstanding his responsibilities as Audit Committee Chairman, stood silently by as Faggioli engaged in the scheme to deceive KPMG.

**The Role Of Management Representation Letters In The Auditing Process**

102. SEC and Nasdaq rules and regulations require that all public companies file

annual financial statements that are audited by an independent accounting firm. (*See* §13 of the Exchange Act). SEC and Nasdaq rules also require that quarterly financial statements also be “reviewed” by a company’s auditor. (*See* Rule 10-01(d) of Regulation S-X).

103. Prior to issuing an unqualified or “clean” audit opinion, an auditor will require that a Company’s Chief Executive Officer sign a “management representation letter.” These written representations are mandated as a professional standards requirement under the Statements on Auditing Standards No. 85 (“SAS 85”).<sup>1</sup>

104. Under SAS No. 85, auditors such as KPMG are required to obtain written representations from a company’s senior management, normally the chief executive, as part of the audit process. These representations are contained in what is known in auditing jargon as a “management representation letter.” The management representation letter should cover all periods covered by the auditor’s report. Management representation letters are used to provide information to the auditors about matters that cannot be objectively tested because they depend on management’s knowledge, such as management’s intentions and the completeness of information provided to the auditor. A copy of a standard management representation letter is attached as Exhibit J hereto and incorporated herein by reference.

105. The management representation letter required Faggioli to represent to KPMG that as of that date, among other things:

- (a) He was not aware of any fraud, or suspected fraud, involving management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.
- (b) He was not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations that are central to the Company’s ability to conduct its business or that could have a material

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<sup>1</sup> Statements on Auditing Standards are promulgated under Generally Accepted Auditing Standards (“GAAS”) by the American Institute of Certified Public Accountants.

- effect on the financial statements.
- (c) All the accounting records have been made available to KPMG for the purpose of its audit and all the transactions undertaken have been properly reflected and recorded in the accounting records.
  - (d) He had disclosed all related party transactions relevant to the Company and that he was not aware of any other such matters required to be disclosed in the financial statements.
  - (e) The financial statements are fairly presented in conformance with Generally Accepted Accounting Principles.

106. A copy of the management representation letter was also delivered to Nature's Audit Committee Chairman, Cristiani.

107. According to the letters from KPMG to the Company (Exhibits E & F), Mr. Faggioli knew of an alleged fraud in the international operations of the Company yet signed two different management representation letters to KPMG (on March 15, 2005 and August 5, 2005) affirming to the contrary.

108. Faggioli intentionally deceived KPMG in order to obtain an unqualified audit opinion for the Company's financial statements for the year ended December 31, 2004 that were included in the Fiscal 2004 Form 10-K filed with the SEC on March 15, 2005. Absent the misrepresentation, KPMG either would have issued a "qualified" audit opinion specifying the disagreement with management, or KPMG would have been required to withdraw from the audit. Thus, Faggioli's misrepresentation to KPMG was a necessary prerequisite to succeed in having the materially false financial statements filed with the SEC, disseminated to investors and the fraud and illegal acts go undiscovered.

109. Faggioli also signed a false management representation letter to KPMG in order to deceive KPMG into providing an unqualified review opinion on the Company's quarterly financial statements for the quarter ended June 30, 2005, which were filed on Form 10-Q with the SEC on August 9, 2005.

110. SEC Rule 10-01(d) of Regulation S-X requires that interim financial statements included in quarterly reports on Form 10-Q must be reviewed by an independent public accountant using professional standards and procedures for conducting such reviews. In connection with reviews of interim financial information for quarterly reports, AU 722.24 requires the auditor to obtain the same written representations from management for all interim financial information presented in quarterly reports. Though the interim review is less rigorous than a full audit, the management representation letter is still required.

111. KPMG also stated that it had discovered certain illegal acts during the course of its audit of the Company's financial statements for each of the years in the three-year period ended December 31, 2005. In one instance, KPMG stated that Faggioli approved a payment in violation of the Foreign Corrupt Practices Act. These Illegal Acts have also been the subject of special investigations conducted by the Special Committee appointed by the Company described above. Thus, the two management representation letters on March 15 and August 5, 2005 also misrepresented that management was not aware of any violations or potential violations of law by the Company.

112. KPMG has concluded that these Illegal Acts have had a material effect on the financial statements of the Company.

113. As a result, KPMG and Nature's Audit Committee have determined that all of the Company's annual and quarterly financial statements from first quarter 2002 through third quarter 2005 can no longer be relied upon. Nature has not issued any annual or quarterly report since third quarter of 2005. The Company has stated publicly its intention to engage new independent accountants, but has not yet announced its selection, if any.

114. KPMG identified specific errors in the financial statements and the periods to

which they relate demonstrating that the Company's financial statements will have to be restated. The planned restatement implies that the prior financial statements are materially inaccurate or false – otherwise there would be no need for a restatement.

115. KPMG has further concluded that the Company has not taken timely and appropriate remedial actions with respect to the Illegal Acts.

116. Instead of terminating Faggioli as recommended by the Special Committee and insisted upon by KPMG, Nature has reinstated him as CEO.

117. Moreover, KPMG found that Cristiani, in his role as Audit Committee Chairman, knew of the fraud and was aware of Faggioli's false statements to KPMG covering up the fraud, but stood silently by, abdicating his responsibilities as Audit Committee Chairman. Hence, KPMG insisted that Cristiani be removed from the Board.

#### **ADDITIONAL ALLEGATIONS OF SCIENTER**

118. Faggioli's scienter is further demonstrated by the following:

- a. According to statements by KPMG in its letter dated March 27, 2006, as of at least March 15, 2005, Faggioli was aware of an alleged fraud in the Company's international operations, yet signed two different management representation letters to KPMG on that date and on August 5, 2005 affirming to the contrary.
- b. Faggioli approved one or more payments in violation of the Foreign Corrupt Practices Act.
- c. The investigator and the Special Committee have concluded that the Company should terminate Mr. Douglas Faggioli, President and CEO as a result of the above misconduct. KPMG also demanded Faggioli be terminated and resigned when the Company refused to terminate him.

119. In a March 31, 2006 letter to the Company (Exhibit F), KPMG made the following statements:

KPMG LLP (KPMG) has determined that the board of directors and the Audit Committee of Nature's Sunshine Products, Inc. (the Company) have been adequately informed with respect to likely illegal acts that have come to the attention of KPMG during the course of its audit of the Company's financial

statements for each of the years in the three-year period ended December 31, 2005 (the Illegal Acts). As you know these Illegal Acts have also been the subject of special investigations conducted by a Special Committee appointed by the Company.

KPMG has also concluded, pursuant to Section 10A(b)(2), that these Illegal Acts appear to have had a material effect on the financial statements of the Company. KPMG has further concluded that the Company has not taken timely and appropriate remedial actions with respect to the Illegal Acts. The Company has failed to terminate its Chief Executive Officer as an employee of the Company even though electronic evidence indicates that he made misrepresentations to KPMG on at least two occasions, and had approved a payment in violation of the Foreign Corrupt Practice Act. The Company has failed to remove the former Chair of its Audit Committee from the Committee and the board of directors even though he was found to have known of the misrepresentations, understood that they “could be considered material from an auditing standpoint and could pose a significant problem to our company,” and failed to bring the matter to the attention of the auditors or correct the misrepresentations. KPMG has concluded that the Company’s failure to take such timely and appropriate remedial actions warrants KPMG’s resignation as the Company’s independent auditors. Accordingly, effective immediately, KPMG resigns as the Company’s independent auditors.

120. The preceding letter demonstrates Nature’s scienter because the Company failed to take the appropriate remedial measures that were recommended by the Special Committee and demanded by KPMG. To the contrary, Nature engaged in a cover-up of the fraud.

121. This cover-up is further evidenced by KPMG’s statements in its April 14, 2006 letter to the SEC that it disagreed with Nature’s statements in its April 3, 2006 8-K (Exhibit G).

Specifically:

- a. KPMG disagreed with Nature’s statement “that the exact amount of any errors and the periods to which they relate had not been determined and finalized. With respect to certain errors, the Investigative Team had completed its investigation and identified both the proposed amount of the errors and the period in which they occurred.”
- b. KPMG disagreed with Nature’s statement that “the Investigative Team and Special Committee agreed that the interim steps regarding Mr. Faggioli were appropriate and consistent with their recommendations and with respect to the ... with the statement that Mr. Faggioli’s continuing as an employee was in line with the recommendation of the Independent Investigators.”

122. Thus, the Company has known since March 15, 2005 the precise amounts of certain errors in the Company's financial statements from 2002 through 2005 and has refused to disclose the detailed nature and amounts of those errors and the periods to which the errors relate. The Company has postponed the hiring of new auditors and the issuance of the required restatement of financial statements – which would detail the nature and extent of the accounting misstatements. Obviously the Company is engaging in a cover-up.

123. The Company also attempted to cover-up the fact that Huff was terminated as a result of the Special Committee's recommendation that "certain employees and senior officers" be terminated as a result of the fraud and illegal acts. The Company announced on March 28, 2006, a replacement CFO for defendant Huff and that Huff was resigning as CFO to "pursue other interests."

124. Thus, within a week of the March 20, 2006 8-K announcing that certain senior officers were to be terminated, Nature had found a replacement for Huff and Huff had resigned. This sequence and timing of events evidences that Huff was terminated in connection with the Special Committees investigation and finding of fraud and illegal acts, which required the termination of certain senior officers, specifically Huff. An analyst report from Canaccord/Adams issued on March 28<sup>th</sup> stated that Canaccord believed Huff's departure was the result of the internal investigation and recommendation that certain senior management be terminated.

125. Cristiani's scienter is further demonstrated by the following statement by KPMG in its March 27, 2006 letter to the Company (Exhibit E): "The investigator and the Special Committee also recommended that Mr. Franz Cristiani, the chair of the Audit Committee, be removed from that position. The evidence provided by the investigation indicates that Mr.

Cristiani was aware of an alleged fraud that, in his words, ‘could be considered material from an auditing standpoint and could pose a significant problem to our company.’ Despite being copied on the representations to the contrary being made to KPMG, Mr. Cristiani made no attempt to notify KPMG of these allegations or to correct the inaccurate representations made to KPMG.”

126. Faggioli and Huff’s scienter is further demonstrated by the recklessly inaccurate statement in the Form 10-Q for the quarter ended September 30, 2005 filed on November 22, 2005 with the SEC. Faggioli and Huff stated in the first paragraph of the 10-Q, the following explanatory note which stated in part:

STATEMENT REGARDING REVIEW OF FINANCIAL STATEMENTS

As we previously disclosed in our Current Report on Form 8-K dated November 10, 2005, we are currently reviewing selected financial information with respect to certain of our foreign operations. Accordingly, our independent auditor has not reviewed the accompanying unaudited consolidated financial statements for the three and nine month periods ended September 30, 2005 in accordance with Rule 10-01(d) of Regulation S-X promulgated by the Securities and Exchange Commission (the “SEC”). We believe the accompanying unaudited consolidated financial statements are a fair presentation of the Company’s financial position. ...[emphasis added]

127. At the time Huff and Faggioli made that statement, KPMG had identified certain potential errors in the quarterly financial statements during the course of their review and had refused to issue review opinions on the financial statements as a result.

128. KPMG was required to communicate to the Company, and to the Audit Committee specifically, the precise accounting errors at issue that precluded KPMG from issuing a review opinion on the quarterly financial statements. It is also logical to infer that before Faggioli and Huff made the statement that they believed the quarterly financials were accurate, they discussed with KPMG the accounting errors at issue which precluded KPMG from issuing a review opinion on the financial statements.

129. Faggioli and Huff were reckless in making the statement that the quarterly financial statements were accurate given the issues raised by KPMG at that time – which issues precluded KPMG from issuing a “clean” or unqualified audit opinion - and which soon thereafter resulted in the termination of Huff, the requested termination of Faggioli, the resignation of KPMG and the statement by KPMG that Faggioli had made misrepresentations to KPMG related to the financial statements and engaged in illegal acts.

**Sales Of Nature Stock By Defendants Demonstrate Scienter**

130. Defendants Faggioli and Huff had a motive and opportunity to engage in the fraudulent activity described above, as they were able to realize substantial profits in selling the Company’s stock at artificially inflated prices during the period of the deceptive and fraudulent conduct alleged herein.

131. On July 14, 2005, four months after Huff signed the Company’s false Form 10-K and signed the SOX certifications related to the fiscal 2004 annual audit, Huff sold 20,000 shares of Nature stock for gross proceeds of \$410,000. Huff’s sales were also suspiciously timed and conducted four months after Faggioli signed the first false management representation letter and likewise signed the Company’s false Form 10-K and false SOX certifications. This sale represented all of his holdings in the Company’s stock at the time.

132. On August 10, 2005, just five days after Huff signed the SOX certifications related to the quarterly audit, Huff sold 14,010 shares of Nature stock for gross proceeds of \$302,346.03. This sale was also suspiciously timed, as it also was five days after Faggioli signed the second false management representation letter and likewise two days after Faggioli signed his false SOX certifications. This particular sale represented 66.7% of his holdings at the time.

133. Along with other stock sales during the Class Period, Huff was able to sell over

84,010 shares of the Company's stock for gross proceeds of \$1,468,904.13, which constituted a significant profit compared to Huff's cost basis and a substantial premium to the Company's October 31, 2006 closing stock price of \$10.75 per share.

134. On September 9, 2005 less than two months prior to November 10, 2005—when the Company announced that it was examining certain of its financial statements with respect to the Company's foreign operations—which ultimately led to the internal investigation and the allegations set forth herein, Faggioli sold over 68,000 shares or 74.1% of his holdings in the Company's stock at \$21.75 per share for gross proceeds of \$1,479,000. Along with other stock sales during the Class Period, Faggioli was able to sell over 108,454 shares of the Company's stock for gross proceeds of \$2,146,491, which constituted a significant profit compared to Faggioli's costs basis and a substantial premium to the Company's October 31, 2006 closing stock price of \$10.75 per share. A chart of Faggioli and Huff's stock sales during the Class Period is attached as Exhibit K and incorporated herein by reference.

**DEFENDANTS MISCONDUCT CAUSED PLAINTIFFS' LOSSES**

135. During the Class Period, defendants engaged in a scheme to deceive the Company's auditors through material misrepresentations with the purpose and effect of artificially inflated Nature's stock price. The scheme operated as a fraud or deceit on purchasers of Nature stock by misrepresenting the reliability and accuracy of the Company's financial statements. Defendants also issued false and misleading statements to investors during the Class Period.

136. Once defendants' misrepresentations and fraudulent conduct were disclosed to the market, Nature's stock price reacted negatively as the artificial inflation was removed from its stock price. As a result of this fraud, plaintiffs and other members of the Class who purchased

Nature stock during the Class period have suffered economic loss.

137. As investors and the market became aware of defendants' fraudulent conduct, and Nature's prior misstatements and omissions, and that Nature's actual financial statements were unreliable and/or materially inaccurate, Nature's stock price decreased, damaging investors.

138. On February 17, 2006, the Company issued a press release announcing that it "has expanded the scope of the review and commenced an investigation of certain matters identified in the review. The investigation involves matters related to fiscal 2005 as well as prior periods." The press release further announced the engagement of a team of independent lawyers and accountants to assist in the investigation. Thus, the press release alerted the market to the fact that the potential problems with the Company's financial statements are much greater than previously reported and addressed a much wider scope than just the third quarter of 2005 as previously disclosed.

139. Immediately following the issuance of the February 17<sup>th</sup> press release and disclosure of the adverse information therein, Nature's share price dropped \$1.00/share or 5.6% in unusually heavy trading.

140. On March 20, 2006, the Company announced that all of the annual and quarterly financial statements for each quarter and annual period from first quarter 2002 through third quarter 2005 can no longer be relied upon. Additionally, the Company announced that the special committee had discovered "potential violations of law" in connection with the audits of the Company and that it had notified governmental authorities of such illegal activity. The committee also recommended "termination of certain employees and senior officers."

141. The adverse March 20, 2006 announcement caused Nature's stock to fall 13.1% from \$16.49/share to \$14.33/share in heavy trading.

142. On March 24, 2006, Nature issued a press release stating that because its annual report on Form 10-K, along with its quarterly report for September 30, 2005, have not been timely filed with the SEC, its securities will be delisted from trading on Nasdaq. The quarterly and annual reports could not be filed because the investigation had discovered a serious fraud, violations of law, and that the Company's CEO had knowingly misrepresented facts to KPMG – making it impossible for KPMG to complete its audit and review of the financial statements. Thus, the NASDAQ stock delisting was directly related to the misconduct of the defendants herein.

143. On March 27, 2006, the Company filed a Form 8-K with the SEC reiterating the statements made in the March 24<sup>th</sup> press release and attaching a copy of the release.

144. Immediately following the issuance of the adverse March 24 and 27, 2006 press releases Nature's share price dropped \$2.65/share or 19.5% in two days of unusually heavy trading.

145. On April 3, 2006, at the close of trading, Nature filed a Form 8-K with the SEC which attached two letters from KPMG (Exhibits E & F). The KPMG letters disclosed additional adverse information concerning the financial fraud. Specifically, that Faggioli had knowledge of a financial fraud and signed two false management representation letters to KPMG affirming to the contrary. Additionally, the KPMG letters stated that the Company, including Faggioli, had engaged in illegal acts which had a material effect on three years of the Company's financial statements, which could no longer be relied on. The KPMG letter also disclosed that Audit Committee Chairman Cristiani had been aware of the fraud and failed to take any action to correct or prevent it.

146. The newly disclosed adverse information contained in the KPMG letters filed on

April 3, 2006 caused Nature's stock price to drop another \$3.54/share or 29.4% over the next two days in heavy trading.

**APPLICABILITY OF PRESUMPTION OF RELIANCE**  
**FRAUD-ON-THE-MARKET DOCTRINE**

147. At all relevant times, the market for Nature securities was an efficient market for the following reasons, among others: Nature's stock met the requirements for listing, and was listed and actively traded on the NASDAQ National Market, a highly efficient and automated market;

- (a) During the class period, on average, approximately 289,043 shares of Nature stock were traded on a weekly basis. During the Class Period approximately 15.0 million Nature shares were outstanding, an average of 4.5 million of which were owned by officers and directors. Even after adjusting the average weekly volume, by dividing it in half, to compensate for *potential* double counting of trades, 1.0% of the outstanding float (more than 1.0% excluding insider shares) were traded on a weekly basis, demonstrating a very active and broad market for Nature stock and permitting a *strong* presumption of an efficient market;
- (b) As a regulated issuer, Nature filed periodic public reports with the SEC and the NASDAQ;
- (c) During the Class Period, Nature was eligible to file registration statements on Form S-3 with the Securities & Exchange Commission;
- (d) Nature regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services;
- (e) Nature was followed by several securities analysts employed by third party research firms and by brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms, as well as available publicly, during the Class Period. These included: CANNACCORD/Adams, The Seidler Companies, Matrix Investment Research, Financial, and Harris Nesbitt. Each of these reports was publicly available and entered the public marketplace for review and action by investors;
- (f) More than fifteen NASD member firms were active market-makers in Nature stock at all times during the Class Period; and
- (g) Unexpected material news about Nature was rapidly reflected and incorporated into the Company's stock price during the Class Period.

148. As a result of the foregoing, the market for Nature's securities promptly digested current information regarding Nature from all publicly available sources and reflected such information in Nature's stock price. Under these circumstances, all purchasers of Nature securities during the Class Period suffered similar injury through their purchase of Nature securities in an efficient market at artificially inflated prices and a presumption of reliance applies.

### **STATUTE OF LIMITATIONS**

149. Plaintiffs had no reason to suspect fraud at any time during the Class Period until March 20, 2006 when Nature disclosed the adverse information in its Form 8-K.

150. As a result, the statute of limitations was tolled during the Class Period until at least March 20, 2006.

### **FIRST CLAIM**

#### **False And Misleading Statements To Investors Violation Of Rule 10b-5(b) Promulgated Under Section 10(b) Of The Exchange Act as Against Nature and Faggioli**

151. Plaintiffs repeat and re-allege each and every allegation contained above as if fully set forth herein.

152. This claim is alleged against Faggioli and Nature.

153. Throughout the Class Period, defendant Nature acted through Faggioli, the Company's chief executive officer and director. The misconduct, willfulness, motive, knowledge, and recklessness of Faggioli is therefore imputed to Nature, rendering the Company primarily liable for the securities law violations of Faggioli committed while performing in his official capacity as a Company representative. In the alternative and additionally, Nature is liable for the acts of the Faggioli under the doctrine of respondent superior.

154. Throughout the Class Period, defendants knowingly or recklessly made various false statements of material facts and omitted to state material facts which were necessary to make the statements that were made not misleading to plaintiff and the other members of the Class in connection with the purchase and sale of Nature common stock.

155. The purpose and effect of defendants' false and misleading statements was to artificially inflate and maintain the price of Nature's common stock.

156. Faggioli, who is the top officer of the Company, had actual knowledge of the material omissions and/or the falsity of the material statements set forth above, and intended to deceive plaintiffs and the other members of the Class, or, in the alternative, acted with reckless disregard for the truth when he failed to ascertain and disclose the true facts in the statements made by him or other Nature personnel to members of the investing public, including plaintiff and the Class.

157. As a result of the foregoing, the market price of Nature's stock was artificially inflated during the Class Period.

158. In ignorance of the falsity of the defendants' statements, plaintiff and the other members of the Class relied, to their damage, on the statements described above and/or the integrity of the market price of Nature securities during the Class Period in purchasing Nature common stock at prices which were artificially inflated as a result of defendants' false and misleading statements.

159. Had plaintiffs and the other members of the Class known of the material adverse information which defendants did not disclose, they would not have purchased Nature common stock at the artificially inflated prices that they did.

160. By virtue of the foregoing, defendants have violated Section 10(b) of the

Exchange Act, and Rule 10b-5(b) promulgated thereunder.

161. As a direct and proximate result of defendants' wrongful conduct, plaintiffs and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

162. This action is being brought within two years after the discovery of the untrue statements and omissions and within five years after their issuance.

### **SECOND CLAIM**

#### **Engaging in Deceptive Plan, Scheme and Course of Conduct to Deceive and Defraud Violation Of Rule 10b-5(a) and Rule 10b-5(c) Promulgated Under Section 10(b) Of The Exchange Act as Against Nature and Faggioli**

163. Plaintiffs repeat and reallege each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

164. This claim is against defendants Nature and Faggioli based upon Rule 10b-5(a) and Rule 10b-5(c) promulgated under Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b),

165. Throughout the Class Period, defendant Nature acted through Faggioli, the Company's chief executive officer and director. The misconduct, willfulness, motive, knowledge, and recklessness of Faggioli is therefore imputed to Nature, rendering the Company primarily liable for the securities law violations of Faggioli committed while performing in his official capacity as a Company representative. In the alternative and additionally, Nature is liable for the acts of the Faggioli under the doctrine of respondent superior.

166. During the Class Period, defendants directly engaged in a common plan, scheme, and unlawful course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices, and courses of business which operated as a fraud and deceit upon plaintiffs and the other members of the Class in an effort to conceal fraudulent accounting

practices and other violations of law from the Company's independent auditors, KPMG. The fraudulent scheme was designed to illicit "clean" and unqualified audit opinions and review opinions from the Company's auditors, KPMG, in order to deceive the SEC, Nasdaq and investors about the propriety and truth of the Company's financial statements filed with the SEC.

167. Defendants made materially misleading statements in the management representation letters to KPMG in furtherance thereof with the purpose and intent to artificially inflate and manipulate Nature's stock price, in part to permit Faggioli and Huff herein to sell Nature stock in the market for a profit. The purpose and effect of said scheme, plan, and unlawful course of conduct was, among other things, to induce plaintiffs and the other members of the Class to purchase Nature common stock during the Class Period at artificially inflated prices.

168. As a result of the deceptive scheme and course of conduct as set forth above, the market price of Nature common stock was artificially inflated during the Class Period. In purchasing Nature shares during the Class Period, plaintiffs and the Class relied on the representations that management was not aware of any fraud, and that the financial statements issued by Nature were fairly presented.

169. In ignorance of the defendants' misrepresentations described above and the deceptive and manipulative devices and contrivances employed by said defendants, plaintiffs and the other members of the Class relied, to their detriment, on the integrity of the market price of the stock in purchasing Nature common stock. Had plaintiffs and the other members of the Class known the truth, they would not have purchased said shares or would not have purchased them at the inflated prices that were paid.

170. Plaintiffs and the other members of the Class have suffered substantial damages

as a result of the wrongs herein alleged in an amount to be proved at trial.

171. By reason of the foregoing, defendants directly violated Section 10(b) of the Exchange Act and Rule 10b-5(a) and (c) promulgated thereunder in that they employed devices, schemes, and artifices to defraud; and engaged in acts, practices, and a course of business which operated as a fraud and deceit upon plaintiffs and the other members of the Class in connection with their purchases of Nature common stock during the Class Period.

172. This action is being brought within two years after the discovery of the unlawful deceptive scheme and within five years of their Nature stock purchases for which they seek recompense.

**THIRD CLAIM**

**Control Person Liability**  
**Violation Of Section 20(a) Of The Exchange Act Against**  
**Huff, Faggioli, and Cristiani**

173. Plaintiffs repeat and re-allege each and every allegation contained above as if fully set forth herein.

174. This third claim under Section 20(a) of the Exchange Act is alleged against Faggioli, Huff, and Cristiani, based on the primary violation of §10b and Rule 10b-5 by Nature as stated in each of the First and Second Claims, above.

175. Faggioli, Huff, and Cristiani acted as controlling persons of Nature within the meaning of Section 20(a) of the Exchange Act as alleged herein.

176. By virtue of their high-level positions, and participation in and awareness of the Company's internal controls, financial operations and financial statement audit and review process and intimate knowledge of the false and misleading information disseminated to the investing public, these defendants had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of the Company, including the

content and dissemination of the various statements which plaintiff contends are false and misleading.

177. Cristiani also had specific knowledge of, and direct oversight of, Faggioli's deception of KPMG through the issuance of the fraudulent management representation letters.

178. These defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

179. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same,

180. As set forth above, Faggioli and Nature each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons of Nature, Faggioli, Huff, and Cristiani are liable pursuant to Section 20(a) of the Exchange Act.

181. As a direct and proximate result of these defendants' wrongful conduct, plaintiffs and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

182. This action is being brought within two years after the discovery of the untrue statements and omissions or the scheme to deceive and defraud and within five years after plaintiffs' purchases of securities for which they seek recompense.

**WHEREFORE**, plaintiffs pray for relief and judgment, as follows:

(A) Determining that this action is a proper class action, certifying plaintiffs as a class representatives under Rule 23 of the Federal Rules of Civil Procedure and plaintiffs' counsel as Lead Counsel for the Class;

(B) Awarding compensatory damages in favor of plaintiffs and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(C) Awarding plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(D) Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

Dated: November 3, 2006

Respectfully submitted,

/s/ Laurence M. Rosen  
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Liaison Counsel for Plaintiffs

**CERTIFICATE OF SERVICE**

I hereby certify that on this on the 3<sup>rd</sup> day of November, 2006, a true and correct copy of the foregoing **CONSOLIDATED CLASS ACTION COMPLAINT** was served by CM/ECF to:

Raymond J. Etcheverry  
Kent O. Roche  
Erik A. Christansen  
PARSONS BEHLE & LATIMER  
201 South Main Street, Suite 1800  
Salt Lake City, Utah 84111

Attorneys for Nature's Sunshine Products  
Douglas Faggioli, and Craig D. Huff.

/s/ Phillip Kim





<u>Date</u>	<u>Symbol</u>	<u>Description</u>	<u>Commission/Fees</u>	<u>Interest</u>	<u>Amount</u>
9/21/2006	NATR	BOUGHT 200 SHARES OF NATR AT \$10.30	(\$7.00)	\$0.00	(\$2,067.00)
9/1/2006	NATR	SOLD 320 SHARES OF NATR AT \$11.00	(\$7.11)	\$0.00	\$3,512.89
8/29/2006	NATR	NATURES SUNSHINE PRODUCTS INC DIVIDEND ON 320 SHARES OF NATR @ .05000	\$0.00	\$0.00	\$16.00
5/31/2006	NATR	NATURES SUNSHINE PRODUCTS INC DIVIDEND ON 520 SHARES OF NATR @ .05000	\$0.00	\$0.00	\$26.00
5/17/2006	NATR	SOLD 200 SHARES OF NATR AT \$11.60	(\$7.08)	\$0.00	\$2,312.92
3/29/2006	NATRE	NATURES SUNSHINE PRODUCTS INC DIVIDEND ON 520 SHARES OF NATRE @ .05000	\$0.00	\$0.00	\$26.00
11/18/2005	NATRE	NATURES SUNSHINE PRODUCTS INC DIVIDEND ON 520 SHARES OF NATRE @ .05000	\$0.00	\$0.00	\$26.00
10/5/2005	NATR	BOUGHT 172 SHARES OF NATR AT \$21.40	\$0.00	\$0.00	(\$3,680.80)
10/5/2005	NATR	BOUGHT 99 SHARES OF NATR AT \$21.40	(\$7.00)	\$0.00	(\$2,125.60)
10/5/2005	NATR	BOUGHT 100 SHARES OF NATR AT \$21.40	\$0.00	\$0.00	(\$2,140.00)
10/5/2005	NATR	BOUGHT 49 SHARES OF NATR AT \$21.40	\$0.00	\$0.00	(\$1,048.60)
10/5/2005	NATR	BOUGHT 100 SHARES OF NATR AT \$21.40	\$0.00	\$0.00	(\$2,140.00)
9/27/2005	NATR	SOLD 100 SHARES OF NATR AT \$22.73	(\$7.10)	\$0.00	\$2,265.90
9/27/2005	NATR	SOLD 290 SHARES OF NATR AT \$22.72	(\$0.28)	\$0.00	\$6,588.52
9/27/2005	NATR	SOLD 100 SHARES OF NATR AT \$22.7298	(\$0.10)	\$0.00	\$2,272.88
9/23/2005	NATR	BOUGHT 400 SHARES OF NATR AT \$21.40	(\$7.00)	\$0.00	(\$8,567.00)
9/23/2005	NATR	BOUGHT 90 SHARES OF NATR AT \$21.40	\$0.00	\$0.00	(\$1,926.00)
9/1/2005	NATR	SOLD 100 SHARES OF NATR AT \$21.60	(\$0.10)	\$0.00	\$2,159.90
9/1/2005	NATR	SOLD 100 SHARES OF NATR AT \$21.60	(\$7.10)	\$0.00	\$2,152.90
9/1/2005	NATR	SOLD 100 SHARES OF NATR AT \$21.60	(\$0.10)	\$0.00	\$2,159.90
9/1/2005	NATR	SOLD 128 SHARES OF NATR AT \$21.60	(\$0.12)	\$0.00	\$2,764.68
9/1/2005	NATR	SOLD 62 SHARES OF NATR AT \$21.60	(\$0.06)	\$0.00	\$1,339.14
8/26/2005	NATR	BOUGHT 100 SHARES OF NATR AT \$21.26	\$0.00	\$0.00	(\$2,126.00)
8/26/2005	NATR	BOUGHT 90 SHARES OF NATR AT \$21.28	\$0.00	\$0.00	(\$1,915.20)
8/26/2005	NATR	BOUGHT 100 SHARES OF NATR AT \$21.20	\$0.00	\$0.00	(\$2,120.00)
8/26/2005	NATR	BOUGHT 100 SHARES OF NATR AT \$21.1999	(\$7.00)	\$0.00	(\$2,126.99)
8/26/2005	NATR	BOUGHT 100 SHARES OF NATR AT \$21.1999	\$0.00	\$0.00	(\$2,119.99)
8/2/2005	NATR	SOLD 180 SHARES OF NATR AT \$21.47	(\$0.17)	\$0.00	\$3,864.43
8/2/2005	NATR	SOLD 100 SHARES OF NATR AT \$21.47	(\$0.09)	\$0.00	\$2,146.91
8/2/2005	NATR	SOLD 100 SHARES OF NATR AT \$21.47	(\$0.09)	\$0.00	\$2,146.91
8/2/2005	NATR	SOLD 100 SHARES OF NATR AT \$21.48	(\$7.09)	\$0.00	\$2,140.91
5/17/2005	NATR	NATURES SUNSHINE PRODUCTS INC DIVIDEND ON 480 SHARES OF NATR	\$0.00	\$0.00	\$24.00

@ .05000  
4/14/2005 NATR BOUGHT 480 SHARES OF NATR AT \$16.50 (\$7.00) \$0.00 (\$7,927.00)

## CERTIFICATION

The individual or institution listed below (the "Plaintiff") authorizes the Rosen Law Firm, P.A. to file an action or amend a current action under the federal securities laws to recover damages and to seek other relief against Nature's Sunshine Products, Inc., its current and former officers and directors and affiliated parties. The Rosen Law Firm, P.A. agrees to prosecute the action on a contingent fee basis not to exceed one-third of any recovery and will advance all costs and expenses. Any legal fees and expenses will be determined by, and payable, only upon order of the U.S. District Court.

Plaintiff declares, as to the claims asserted under the federal securities laws, that:

1. I have reviewed the complaint against Nature's Sunshine Products, Inc and certain of its officers and directors and affiliated parties and hereby retain the Rosen Law Firm, P.A. as counsel in this action for all purposes.

2. I did not engage in transactions in the securities which are the subject of this action at the direction of plaintiff's counsel or in order to participate in this or any other litigation under the securities laws of the United States.

3. I am willing to serve as a representative party on behalf of a class, including providing testimony at deposition and trial, if necessary. To that end I am willing to serve as, among other things, lead plaintiff either individually or as part of a group. A lead plaintiff is a representative party who acts on behalf of other class members in directing the action, and whose duties may include testifying at deposition and trial.

4. The following is a list of all of the purchases and sales I have made in Nature's Sunshine Products, Inc.. debt or equity securities during the Class Period set forth in the complaint. I have made no transactions during the class period in the debt or equity securities that are the subject of this lawsuit except those set forth below.

Number of Shares Purchased or Sold	Date(s) Purchased	Price Paid Per Share	Date(s) Sold (if applicable)	Price Sold Per Share
100	7/15/2005	\$ 19.34	8/10/06	\$ 8.76
		\$		\$
		\$		\$
		\$		\$
		\$		\$
		\$		\$
		\$		\$
		\$		\$
		\$		\$
		\$		\$
		\$		\$
		\$		\$
		\$		\$
		\$		\$

PLEASE FAX CERTIFICATION TO ROSEN LAW FIRM: (212) 202-3827



## EXHIBIT A

### FAGGIOLI 302 SOX CERTIFICATION

I, DOUGLAS FAGGIOLI, President and Chief Executive Officer of Nature's Sunshine Products, Inc., certify that:

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

/s/ DOUGLAS FAGGIOLI  
President and Chief Executive Officer  
March 15, 2005

## EXHIBIT B

### HUFF 302 SOX CERTIFICATION

I, CRAIG D. HUFF, Executive Vice President, Chief Financial Officer and Treasurer of Nature's Sunshine Products, Inc., certify that:

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

/s/ CRAIG D. HUFF

Executive Vice President, Chief Financial Officer and Treasurer  
March 15, 2005

## EXHIBIT C

### FAGGIOLI 906 SOX CERTIFICATION

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

In connection with the accompanying report on Form 10-K for the period ended December 31, 2004 and filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas Faggioli, President and Chief Executive Officer of Nature's Sunshine Products, Inc. (the "Company"), hereby certify that:

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

/s/ DOUGLAS FAGGIOLI

Douglas Faggioli  
President and Chief Executive Officer  
March 15, 2005

## EXHIBIT D

### HUFF 906 SOX CERTIFICATION

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

In connection with the accompanying report on Form 10-K for the period ended December 31, 2004 and filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Craig D. Huff, Executive Vice President, Chief Financial Officer and Treasurer of Nature's Sunshine Products, Inc. (the "Company"), hereby certify that:

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

/s/ CRAIG D. HUFF

\_\_\_\_\_  
Craig D. Huff  
Executive Vice President, Chief Financial Officer and Treasurer  
March 15, 2005

**EXHIBIT E**

**KPMG MARCH 27, 2006 LETTER**



**KPMG LLP**  
Suite 1500  
15 West South Temple  
Salt Lake City, UT 84101-9901

Telephone 801 333 8000  
Fax 801 237 1552  
Internet www.us.kpmg.com

March 27, 2006

Ms. Kristine Hughes,  
Chairman, Board of Directors  
Nature's Sunshine Products, Inc.  
75 East 1700 South  
Provo, Utah 84606

**Re:** Follow-up from meeting on March 22, 2006 and March 26, 2006

Dear Ms. Hughes:

We write to follow-up on our meetings on Wednesday, March 22, 2006 and on our telephonic meeting yesterday regarding the status of the remedial actions recommended by the independent investigator and endorsed by the Special Committee. We have had an opportunity to consider their report on the investigation presented to us on March 15, 2006, additional information received on March 22, 2006 and the comments made during our call on March 26, 2006.

While we understand that the investigators are in the process of finalizing their report and that additional remedial actions may be recommended, we believe it is necessary for the Company to act on those recommendations already presented. It is our belief that the Company will need to implement all of the recommendations.

The investigator and the Special Committee have concluded that the Company should terminate Mr. Douglas Faggioli, President and CEO. The investigation found electronic evidence indicating that Mr. Faggioli knew of an alleged fraud in the international operations of the Company yet signed two different representation letters to KPMG LLP (KPMG) (on March 15, 2005 and August 5, 2005) affirming to the contrary, and that he had approved a payment in violation of the Foreign Corrupt Practice Act. We understand that the investigation of Mr. Faggioli is continuing with respect to the transfer tax plan, design and approval of bonuses with reference to the tax plan, and the termination of Mr. Jeff Hill, the former corporate controller of the Company. However, the results of those investigations will not alter the conclusions already reached.

Despite these conclusions, the Company has not taken any remedial action with respect to Mr. Faggioli. To the contrary, at our meeting on March 15, 2006 and March 26, 2006 you stated that the Company would not terminate Mr. Faggioli. Such a response to the investigation and its findings is not acceptable.

The investigator and the Special Committee also recommended that Mr. Franz Cristiani, the chair of the Audit Committee, be removed from that position. The evidence provided by the investigation indicates that Mr. Cristiani was aware of an alleged fraud that, in his words, "could be considered material from an auditing standpoint and could pose a significant problem to our company." Despite being copied on the representations to the contrary being made to KPMG, Mr. Cristiani made no attempt to notify KPMG of these allegations or to correct the inaccurate representations made to KPMG. To date he remains chair of the Audit Committee. In addition to the recommendation, it is our belief that he must be removed from the Audit Committee and the Board of Directors.

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Ms. Kristine Hughes,  
Chairman, Board of Directors  
Nature's Sunshine Products, Inc.  
March 27, 2006  
Page 2

With respect to the termination of Mr. Faggioli and the removal of Mr. Cristiani from the Audit Committee and Board of Directors it is our belief that it is necessary that these steps be taken by the close of business on Wednesday, March 29, 2006.

While we understand that the Company may require a short period of time to implement the remaining recommended remedial measures, we would expect the Company to be in a position to share with us its plans by Monday, April 10, 2006.

As part of its remediation plan the Company also should consider whether additional actions are necessary to address identified weaknesses in the internal control structure of the Company. We also believe it will be necessary for the Company to assess the structure of the Board of Directors and provide for a majority of independent directors.

As discussed previously, KPMG will assess the objectivity and adequacy of the investigation, and consider the implications of its findings on other aspects of the audit, including the reliability of representations provided to us. Accordingly, absent timely remedial action, KPMG will be unable to complete our audit and may find it necessary to withdraw from the engagement.

Please contact me as soon as possible in order to schedule a meeting to review the Company's remediation plan.

Very truly yours,

KPMG LLP

A handwritten signature in black ink that reads 'S. Craig Omer'.

S. Craig Omer, Audit Partner

cc: Mr. Larry Deppe, Special Committee  
Mr. Justin P. Klein, Ballard Spahr Andrews & Ingersoll LLP  
Mr. Jay Dubow, Wolf Block LLP

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**EXHIBIT F**

**KPMG MARCH 31, 2006 LETTER**



**KPMG LLP**  
Suite 1500  
15 West South Temple  
Salt Lake City, UT 84101-9901

Telephone 801 333 8000  
Fax 801 237 1552  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

March 31, 2006

Ms. Kristine Hughes, Chairman, Board of Directors  
Nature's Sunshine Products, Inc.  
75 East 1700 South  
Provo, Utah 84606

Mr. Larry Deppe, Chairman, Audit Committee  
Nature's Sunshine Products, Inc.  
75 East 1700 South  
Provo, Utah 84606

Dear Ms. Hughes and Mr. Deppe:

Pursuant to Section 10A of the Securities Exchange Act of 1934 (Section 10A), KPMG LLP (KPMG) has determined that the board of directors and the Audit Committee of Nature's Sunshine Products, Inc. (the Company) have been adequately informed with respect to likely illegal acts that have come to the attention of KPMG during the course of its audit of the Company's financial statements for each of the years in the three-year period ended December 31, 2005 (the Illegal Acts). As you know these Illegal Acts have also been the subject of special investigations conducted by a Special Committee appointed by the Company.

KPMG has also concluded, pursuant to Section 10A(b)(2), that these Illegal Acts appear to have had a material effect on the financial statements of the Company. KPMG has further concluded that the Company has not taken timely and appropriate remedial actions with respect to the Illegal Acts. The Company has failed to terminate its Chief Executive Officer as an employee of the Company even though electronic evidence indicates that he made misrepresentations to KPMG on at least two occasions, and had approved a payment in violation of the Foreign Corrupt Practice Act. The Company has failed to remove the former Chair of its Audit Committee from the Committee and the board of directors even though he was found to have known of the misrepresentations, understood that they "could be considered material from an auditing standpoint and could pose a significant problem to our company," and failed to bring the matter to the attention of the auditors or correct the misrepresentations. KPMG has concluded that the Company's failure to take such timely and appropriate remedial actions warrants KPMG's resignation as the Company's independent auditors. Accordingly, effective immediately, KPMG resigns as the Company's independent auditors.

Section 10A requires the Company to inform the Securities and Exchange Commission (the Commission) by notice not later than one business day after the receipt of this report that the Board has received this report by KPMG. Section 10A further requires that the Company furnish to KPMG a copy of the notice to the Commission.

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Ms. Kristine Hughes, Chairman, Board of Directors  
Mr. Larry Deppe, Chairman, Audit Committee  
Nature's Sunshine Products, Inc.  
March 31, 2006  
Page 2

Please furnish us with a copy of the Company's notice to the Commission of the Company's receipt of this letter by the close of business on Monday, April 3, 2006.

Very truly yours,

KPMG LLP

A handwritten signature in black ink that reads "S. Craig Omer". The signature is written in a cursive, flowing style.

S. Craig Omer, Managing Partner

cc: Mr. Justin P. Klein, Ballard Spahr Andrews & Ingersoll LLP  
Mr. Jay Dubow, Wolf Block LLP

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## EXHIBIT G

KPMG APRIL 14, 2006 LETTER



**KPMG LLP**  
Suite 1500  
15 West South Temple  
Salt Lake City, UT 84101-9901

April 14, 2006

Securities and Exchange Commission  
Washington, D.C.

Ladies and Gentlemen:

We were previously principal accountants for Nature's Sunshine Products, Inc. (the Company) and, under the date of March 14, 2005, we reported on the consolidated financial statements of Nature's Sunshine Products, Inc. as of and for the years ended December 31, 2004 and 2003, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 and the effectiveness of internal control over financial reporting as of December 31, 2004. On March 31, 2006, we resigned pursuant to section 10A of the Securities Exchange Act of 1934.

We have read the Company's statements included under Item 4.01 of its Form 8-K dated April 3, 2006 and we agree with such statements except as follows:

With respect to the second paragraph (and the eighth paragraph) we disagree with the statement that the exact amount of any errors and the periods to which they relate had not been determined and finalized. With respect to certain errors, the Investigative Team had completed its investigation and identified both the proposed amount of the errors and the period in which they occurred.

With respect to the third paragraph, we disagree with the statement that KPMG LLP (KPMG) required certain remedial measures based on our interpretation of the findings presented in the Preliminary Report. The Investigative Team found and reported on March 15, 2006 that their investigation was complete as to certain matters and that they had reached the conclusion, and were recommending, that the employment of Mr. Faggioli, the Company's Chief Executive Officer, be terminated and that Mr. Cristiani, the chair of the Audit Committee, be removed from his position. The Special Committee concurred with the recommendation. The Board Chairman, Ms. Kristine Hughes, and Board members Ms. Pauline Hughes and Mr. Eugene Hughes stated that they would not terminate Mr. Faggioli.

With respect to the fifth paragraph we disagree with the statement that the Investigative Team and Special Committee agreed that the interim steps regarding Mr. Faggioli were appropriate and consistent with their recommendations and with respect to the sixth paragraph we disagree with the statement that Mr. Faggioli's continuing as an employee was in line with the recommendation of the Independent Investigators. On March 30, 2006, a member of the Special Committee communicated to KPMG that the conclusion and recommendation as to the termination of Mr. Faggioli had not changed and that nothing supported holding off on that recommendation any longer.

We are not in a position to agree or disagree with the first, second and fourth sentences of the fifth paragraph or with the statement in the first sentence of the sixth paragraph that the board of directors met and, in the interest of resolving the matter with KPMG, Franz Cristiani offered to resign from the Board or with the statement in the fourth sentence of the sixth paragraph that the Company's Board met on March 31, 2006 to discuss KPMG's position.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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With respect to the ninth paragraph, we disagree that, except to the extent discussed in the Form 8-K, there were no other reportable events through April 3, 2006, the date of the Form 8-K. The Company, in the Form 8-K, did not identify which matters it considered to be reportable events. We observe that the following are reportable events within the meaning of Item 304(a)(1)(v) of Regulation S-K:

1. We advised the Company's Audit Committee that, because of issues outlined and conclusions reached in the Preliminary Report of the Investigative Team, we could no longer rely on management's representations.
2. We advised the Company's Audit Committee that as a result of information brought to our attention by the findings and conclusions reached in the Preliminary Report previously issued financial statements could no longer be relied upon and it would be necessary to expand significantly the scope of our audit with respect to the Company's 2005 and previously issued financial statements. Due to our resignation we have not expanded the scope of our audit or performed further investigations.
3. We advised the Company's Audit Committee that the Company had failed to take timely and appropriate remedial actions.

Very Truly Yours,

KPMG LLP

## EXHIBIT H

NATURE'S SUNSHINE PRODUCTS, INC.  
FORM 8-K FILED WITH SEC ON APRIL 3, 2006

**United States  
Securities and Exchange Commission**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **March 29, 2006**

**Nature's Sunshine Products, Inc.**

(Exact name of registrant as specified in its charter)

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

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

**87-0327982**  
(IRS Employer  
Identification Number)

**75 East 1700 South  
Provo, Utah 84606**  
(Address of principal executive offices) (Zip Code)

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

Check the appropriate box below if the form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 to Form 8-K):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 24.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 40.13e-4(c))
- 
-

**Item 1.01 Entry into a Material Definitive Agreement**

Nature's Sunshine Products, Inc. (the "Company") is a party to a consulting agreement with Robert K. Bowen and employment agreements with each of Greg Halliday and Robert Shaffer, a description of which are included in Item 5.02 below and incorporated in this Item by reference.

**Item 4.01 Change in Registrant's Certifying Accountant**

On March 31, 2006, the Company received a letter from KPMG LLP ("KPMG") after business hours pursuant to which KPMG resigned as the Company's independent registered public accounting firm. A copy of the KPMG letter is attached to this Form 8-K as Exhibit 99.1.

As previously disclosed, an investigation regarding the Company is currently being overseen by a Special Committee appointed by the Audit Committee. The Audit Committee has engaged a nationally recognized independent law firm to assist in the investigation and the law firm, in turn, engaged a nationally recognized independent accounting firm to provide further assistance. On March 15, 2006, the Audit Committee received an oral preliminary report (the "Preliminary Report") from the independent law firm and the independent accounting firm assisting in the investigation (the "Investigative Team") on the findings of the investigation to date. The Preliminary Report indicated that the Company had certain internal control weaknesses and had engaged in potential violations of law. The Preliminary Report also contained remedial measures recommended to be taken by the Company in connection with the issues raised in the investigation. Representatives of KPMG were present for the Preliminary Report by the Investigative Team. Based on the Preliminary Report, the Audit Committee, in consultation with KPMG, determined that certain of the Company's previously issued financial statements should no longer be relied upon and reported such determination in a Current Report on Form 8-K filed on March 20, 2006, although the exact amount of any errors and the periods to which they relate had not been determined and finalized. On March 22, 2006, the Audit Committee met with the Investigative Team to further discuss the Preliminary Report and the status of the investigation and representatives KPMG attended the meeting.

On March 24, 2006, KPMG requested a meeting with the members of the Audit Committee other than Franz Cristiani, the then Chairman of the Audit Committee, which was held on March 26, 2006. At the March 26<sup>th</sup> meeting, KPMG informed the members of the Company's Board present that, based on its interpretation of the findings presented in the Preliminary Report and subsequent meetings with the Audit Committee and the Investigative Team, KPMG required that (i) all of the recommended remedial measures in the Preliminary Report be implemented and, on or before April 10, 2006, the Company provide KPMG with a plan of remediation covering the implementation of such measures; (ii) the Board be enhanced to add additional independent members; and (iii) Franz Cristiani be removed from the Board by the end of the day March 28, 2006. The Board members then requested that they be given until April 10, 2006 (the day on which the remediation plan was due to KPMG) to make a determination with regard to the removal of Mr. Cristiani given that the Investigative Team only recommended that Mr. Cristiani be replaced as the Chairman of the Audit Committee not that he be removed from the Audit Committee or the Board. KPMG indicated they would take the request under consideration.

On the evening of March 27, 2006, KPMG sent a letter to the Chairman of the Board indicating that KPMG believed that, by the close of business on March 29, 2006, Mr. Faggioli,

the then Chief Executive Officer of the Company, must be terminated and Mr. Cristiani must be removed from the Board and that KPMG might find it necessary to resign as the Company's independent auditors if the appropriate remedial measures were not taken. A copy of the March 27<sup>th</sup> letter is attached to this Form 8-K as Exhibit 99.2.

On March 29, 2006, Franz Cristiani was replaced by Larry Deppe as the Chairman of the Audit Committee. In addition, as described in Item 5.02 below, pending the conclusion of the investigation, Douglas Faggioli stepped down as President, Chief Executive Officer and Director of the Company and the functions of President and Chief Executive Officer were assigned to an executive committee consisting of four officers of the Company. The Investigative Team and the Special Committee agreed that replacing Mr. Cristiani with Mr. Deppe and the interim steps regarding Mr. Faggioli were appropriate and consistent with their recommendations. In addition, on March 29<sup>th</sup>, Robert K. Bowen, a consultant to the Audit Committee acting as a member of the Special Committee, was elected to the Board and appointed to the Audit Committee. The Company sent a letter to KPMG on March 29<sup>th</sup> indicating that (i) the Company planned to provide KPMG with a plan of remediation on or before April 10<sup>th</sup>; (ii) the Company had added Mr. Bowen to the Board in an effort to enhance the Board; and (iii) actions consistent with the recommendations made by the Investigative Team had been taken with respect to Messrs. Cristiani and Faggioli. The Company's March 29<sup>th</sup> letter to KPMG is attached to this 8-K as Exhibit 99.3.

On March 30, 2006, after further discussion with KPMG, during which KPMG insisted that the immediate removal of Mr. Cristiani from the Board and termination of Mr. Faggioli were necessary, the Board of Directors met and, in the interest of resolving the matter with KPMG, Franz Cristiani offered to resign from the Board. Representatives of the Board presented Mr. Cristiani's proposed resignation and reaffirmed Mr. Faggioli's limited, non-executive role at the Company pending the investigation's outcome to representatives of KPMG on the afternoon of March 30<sup>th</sup>. On the evening of March 30<sup>th</sup> KPMG indicated that Mr. Faggioli's continuing as an employee, even though in line with the recommendation of the Independent Investigators, was not acceptable and that, in addition to Mr. Cristiani's resigning, Mr. Faggioli would need to be terminated as an employee by 5:00 p.m. Mountain Standard Time on March 31, 2006 or KPMG would resign as the Company's independent auditors. The Company's Board met on March 31, 2006 to discuss KPMG's position and the Board subsequently asked for an extension until Monday, April 3, 2006, to provide KPMG with its decision. KPMG did not grant the extension. Instead, on the evening of March 31, 2006, KPMG tendered its resignation.

Because of its previously disclosed ongoing internal investigation, the Company has not yet filed a Form 10-K for the fiscal year ended December 31, 2005 and KPMG did not complete its audit of the Company's financial statements at and for the fiscal year ended December 31, 2005. The reports of KPMG on the consolidated financial statements of the Company as of and for the fiscal years ended December 31, 2004 and 2003, did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles except that:

- The reports of KPMG for both the fiscal year ended December 31, 2004 and the fiscal year ended December 31, 2003 indicate that KPMG did not audit the financial statements of Nature's Sunshine Korea, Ltd., a wholly owned subsidiary of the Company, as of December 31, 2002 and for the year then ended, that such

statements were audited by other auditors whose report was furnished to KPMG, and KPMG's opinion, insofar as it relates to the amounts included for Nature's Sunshine Korea, Ltd. as of December 31, 2002 and for the year then ended, is based solely on the report of other auditors.

- The report of KPMG for the fiscal year ended December 31, 2003 indicates that the consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the year ended December 31, 2001 were audited by other auditors who have ceased operations and that those auditors, based in part on the report of other auditors, "expressed an unqualified opinion on those financial statements, before the reclassification described in Note 1 to the consolidated financial statements, in their report dated February 7, 2002."
- The report of KPMG for the fiscal year ended December 31, 2003 was modified as follows: "As discussed in Note 1 to the consolidated financial statements, the Company has restated its financial statements for the year ended December 31, 2002" and "As described in Note 1, the 2001 financial statements have been reclassified to reflect the adoption of Emerging Issues Task Force Issue No. 01-9, 'Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products),' which was adopted by the Company as of January 1, 2002. We audited the reclassification adjustments and, in our opinion, such adjustments are appropriate and were properly applied. However, we were not engaged to audit, review or apply any procedures to the 2001 consolidated financial statements of Nature's Sunshine Products, Inc. other than with respect to such adjustments and accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole."

Representatives of KPMG have discussed with the Audit Committee that, because of the issues outlined in the Preliminary Report, KPMG can no longer rely on management's representations previously delivered to KPMG and the issues raised in the investigation may impact the reliability of KPMG's previously issued audit reports. In addition, in its March 31<sup>st</sup> letter and in previous discussions, KPMG indicated that the potential illegal acts uncovered in the investigation appear to have had a material effect on the financial statements of the Company. As discussed above, the Audit Committee conferred with KPMG about the impact of the issues raised in the Preliminary Report on the Company's financial statement and determined that certain of the Company's previously issued financial statements should no longer be relied upon although the exact amount of any errors and the periods to which they relate had not been determined and finalized.

Except to the extent discussed above in this Form 8-K, for the fiscal years ended December 31, 2003 and December 31, 2004 and through the date of this report, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure which, if not resolved to the satisfaction of KPMG, would have caused it to make reference to the subject matter of such disagreement in its reports on the financial statements for such fiscal years. Nor, except to the extent discussed above in this Form 8-K, were there any reportable events within the meaning of Item 304(a)(1)(v) of Regulation S-K for the fiscal years ended December 31, 2003 and December 31, 2004 and through the date of this report. With respect to the matters discussed above in this

Form 8-K, the Audit Committee has authorized KPMG to respond fully to inquiries of any successor accountant.

The Company is in the process of obtaining a new independent registered public accounting firm.

The Company has provided KPMG a copy of this Form 8-K and requested KPMG to furnish a letter addressed to the Securities and Exchange Commission stating whether it agrees with the statements made herein, and, if not, stating the respects in which it does not agree. The Company has requested that KPMG provide such letter as soon as possible, so that the Company can file such letter as an Exhibit to this Current Report on an amended Form 8-K within ten (10) business days after the date this report is filed with the Securities and Exchange Commission.

**Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.**

On March 29, 2006, pending the conclusion of the ongoing internal investigation regarding the Company, Douglas Faggioli stepped down as President, Chief Executive Officer and Director of the Company. During this interim period, Mr. Faggioli will continue as an employee of the Company and the functions of President and Chief Executive Officer will be carried out by an executive committee (the "Executive Committee") appointed by the Company's Board on March 29, 2006. The Executive Committee consists of Stephen M. Bunker, John R. DeWyze, Greg Halliday and Robert Shaffer and will be overseen by Kristine Hughes as Chairman of the Company's Board.

Mr. Bunker, who is 48 years old, joined the Company on March 27, 2006 as the Chief Financial Officer, Vice President of Finance and Treasurer. Prior to joining the Company, Mr. Bunker was Vice President of Finance and Treasurer of Geneva Steel LLC and its predecessor, Geneva Steel Company, since July 2001 where he had broad accounting and financial responsibilities. He joined Geneva's predecessor company in September 1990 as Corporate Controller. Geneva Steel LLC and its predecessor, Geneva Steel Company, were in the steel production business. A Certified Public Accountant, Mr. Bunker previously was in accounting and audit with Arthur Andersen LLP in Salt Lake City, Utah for six years. Mr. Bunker's current salary is \$175,000.

The Company is in the process of finalizing the terms of an employment agreement with Mr. Bunker and will file a brief description of the terms of such agreement by amendment to its Current Report on Form 8-K filed on March 28, 2006 when the agreement is finalized.

Mr. DeWyze, who is 49 years old, is Executive Vice President and Vice President of Operations of the Company. Mr. DeWyze was named Executive Vice President in 2002 and has been Vice President of Operations since 1997. He began his employment with the Company in 1995. From 1982 to 1995, Mr. DeWyze was employed by Bristol-Myers Squibb. Mr. DeWyze's current salary is \$187,000.

Mr. Halliday, who is 41 years old, was appointed as President — Nature's Sunshine Products U.S. by the Board on March 29, 2006, and, prior to such appointment, served as Vice President, U.S. Sales and Marketing of the Company since 2001. Mr. Halliday's current salary is

\$163,000. Mr. Halliday's brother-in-law, Craig Dalley, is the Executive Director of English Sales of the Company and receives a current base salary of \$91,008 and received total compensation of \$128,704 in 2005.

Mr. Shaffer, who is 50 years old, was appointed as President — Nature's Sunshine Products International by the Board on March 29, 2006, and, prior to such appointment, served as Vice President, International of the Company since 2002 and Executive Director, International from 1997 to 2001. Mr. Shaffer's current salary is \$168,000.

Each of Messrs. DeWyze, Halliday and Shaffer has entered into employment agreements with the Company. Each such employment agreement provides for the payment of an annual base salary to the officer as well as certain employee benefits and makes the officer eligible to receive discretionary cash bonuses and stock option awards. Each employment agreement has a one-year term that renews automatically unless terminated by the Company or the officer. In the event that the Company terminates or does not renew the officer's employment without cause (as defined in the agreement) or the officer's employment terminates as a result of death or incapacity, the officer is entitled to receive his base salary for twelve months. In addition, if the officer's employment is terminated without cause, he shall receive continued coverage under the Company's medical and insurance plans for twelve months. The officer agrees not to disparage the Company during the term of the employment agreement. In addition, under the employment agreement, for a period ending one year after the later of the termination of his employment or the date the last severance payment was paid (or would have been paid but for his breach of the agreement or termination for cause) under the agreement, the officer agrees not to solicit any person under contract with the Company or any of the Company's customers and not to compete with the Company in countries where it does business. The Company can extend this period for up to an additional year if it pays the officer an amount equal to his base salary during this extension.

Mrs. Hughes was a co-founder in 1972 of Hughes Development Corporation, a predecessor of the Company, and has served as an officer or director of the Company and/or its predecessors since 1980. Mrs. Hughes serves on several civic and community boards. The fees paid to Mrs. Hughes for her services as Chairman of the Board during Fiscal 2006 are expected to be \$137,584. Mrs. Hughes is the wife of Eugene L. Hughes, one of the Company's founders and directors who is also a non-executive employee of the Company and currently receives a salary of \$203,000. Kenneth Fugal, Mrs. Hughes' brother, is the Employee Director of Research and Development and receives a current base salary of \$101,940 and received total compensation of \$116,359 in 2005. Kent Hastings, the son-in-law of Mrs. Hughes, is the Company's Employee Director of International Compensation Analysis and currently receives a salary of \$93,206 and received total compensation of \$124,405 in 2005.

On March 29, 2006, the Board elected Robert K. Bowen to serve on the Company's Board of Directors. Mr. Bowen was also named to the Audit Committee of the Company's Board of Directors. The annual fees to be paid to Mr. Bowen for his services as a Board member during Fiscal 2006 are expected to be \$23,625. A Certified Public Accountant, Mr. Bowen has been a partner at the accounting firm of Hansen, Barnett & Maxwell, P.C. ("Hansen") since 1980.

Since January of 2006, Mr. Bowen has been a consultant to the Audit Committee serving as a member of the Special Committee overseeing the ongoing internal investigation regarding the Company. However, upon election to the Board and appointment to the Audit Committee, Mr. Bowen's consulting relationship terminated. In connection with his consulting role, Mr. Bowen entered into a consulting agreement with the Audit Committee, the Company and Hansen. Pursuant to the consulting agreement, Mr. Bowen is entitled to receive \$200 an hour for his services and receive reimbursement for expenses. Mr. Bowen's total consulting fees are estimated to be less than \$20,000. In addition, Mr. Bowen and Hansen agreed to keep information regarding the Company confidential and the Company agreed to indemnify Mr. Bowen and Hansen to the full extent permitted by the Utah Revised Business Corporation Act and the Company's Bylaws.

**Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.**

Effective March 29, 2006, the Amended and Restated Bylaws of the Company were amended by the Board of Directors to change to permit the Board to appoint an executive committee overseen by the Chairman of the Board to perform the functions of any office of the Company. Previously, the Company's Bylaws only provided for individuals to hold office.

**Item 8.01 Other Events.**

The Company has begun the process of implementing the remedial measures recommended in the Preliminary Report. In that regard, the Company is working with a nationally recognized executive search firm to locate a Chief Compliance Officer and is considering candidates for an in-house General Counsel position. In addition, six employees have resigned or been terminated in connection with the investigation and the Company has hired a new Chief Financial Officer and certain other employees in the finance department. The Company is also in the process of developing a plan for the implementation of the other remedial measures recommended by the Investigative Team.

The Company previously reported in its Current Report on Form 8-K filed March 20, 2006 that it was considering seeking a further extension from the Nasdaq Listing Qualifications Panel (the "Panel") to file its complete Form 10-Q for the quarter ended September 30, 2006 with the Securities and Exchange Commission and an extension to file its Annual Report on Form 10-K for the fiscal year ended December 31, 2005 with the Securities and Exchange Commission. Because the Company cannot reasonably determine whether it will file the complete 10-Q by April 19, 2006, the latest extension that the Panel can grant under the Marketplace Rules for the 10-Q, the Company has not sought any further filing extensions and expects its common stock to be delisted from the Nasdaq National Market in the immediate future.

**Item 9.01 Financial Statements and Exhibits.**

(d) The following exhibit is being furnished herewith:

3.1 Amendment to the Company's Amended and Restated Bylaws, effective March 29, 2006.

99.1 Letter from KPMG to the Company, dated March 31, 2006.

99.2 Letter from KPMG to the Company, dated March 27, 2006.

99.3 Letter from KPMG to the Company, dated March 29, 2006.

**SIGNATURE**

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

April 3, 2006

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

/s/ Stephen M. Bunker

Name: Stephen M. Bunker

Title: Chief Financial Officer, Vice President of Finance and  
Treasurer of the Company

**EXHIBIT LIST**

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amendment to the Company's Amended and Restated Bylaws, effective March 29, 2006.
99.1	Letter from KPMG to the Company, dated March 31, 2006.
99.2	Letter from KPMG to the Company, dated March 27, 2006.
99.3	Letter from KPMG to the Company, dated March 29, 2006.

**EXHIBIT I**

**NATURE'S SUNSHINE PRODUCTS, INC.  
LETTER DATED MARCH 29, 2006 TO KPMG**

March 29, 2006

**Via Electronic Mail, Facsimile and Federal Express**

S. Craig Omer  
Audit Partner  
KPMG LLP  
Suite 1500  
15 West South Temple  
Salt Lake City, Utah 84101-9901

**Re: Letter from KPMG LLP dated March 27, 2006**

Dear Mr. Omer:

The Board of Directors of Nature's Sunshine Products, Inc. (the "Company"), has considered the points made in KPMG LLP's ("KPMG") March 27, 2006 letter to Kristine Hughes and wishes to provide KPMG with the Board's response. The Board is committed to taking prompt actions to address the issues raised in the ongoing independent investigation being overseen by the Special Committee, including implementing the remedial measures recommended by the independent investigators. With the concurrence of the independent investigators, certain personnel actions will await receipt of the final report. As you know, we have already begun to implement many of the recommended remedial measures and will provide KPMG with our plan, including a timetable, for implementing the remedial measures on or before April 10, 2006, as requested.

In accordance with the recommendations of the independent investigators, on March 29, 2006, Franz Cristiani was replaced by Larry Deppe as the Chairman of the Audit Committee. In addition, in an effort to enhance our Board of Directors and Audit Committee, Robert Bowen, who has been serving as an advisor to the Audit Committee in connection with the investigation, has been elected to the Board and placed on the Audit Committee.

Pending the conclusion of the investigation, the function of chief executive officer will be performed by an executive committee consisting of Stephen Bunker, Chief Financial Officer; John DeWyze, Executive Vice President, Operations; Robert Shaffer, President—Nature's Sunshine Products International; and Greg Halliday, President—Nature's Sunshine Products U.S., and overseen by me as Chairman of the Board. During this interim period, Douglas Faggioli will continue as an employee of the Company but will not be a member of the Board. The independent investigators have agreed that these interim steps are appropriate and consistent with their recommendations.

In addition, the Company has voluntarily disclosed the potential violations of law raised in the investigation to the U.S. Department of Justice and U.S. Securities and Exchange Commission as noted in its current report on Form 8-K filed on March 20, 2006 and has notified

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Mr. S. Craig Omer  
Audit Partner  
KPMG LLP  
March 29, 2006  
Page 2

the Nasdaq that the Company will not file its complete Form 10-Q for the quarter ended September 30, 2005 or its Form 10-K for the fiscal year ended December 31, 2005 by March 31, 2006. As a result, the Company expects that its common stock will be delisted from the Nasdaq National Market.

Please contact me at 801-342-4401 if you would like to discuss the matters set out in this letter.

Sincerely,

A handwritten signature in black ink that reads "Kristine Hughes". The signature is written in a cursive, flowing style.

Kristine Hughes,  
on behalf of the Board of Directors of  
Nature's Sunshine Products, Inc.

EXHIBIT J

STANDARD MANAGEMENT  
REPRESENTATION LETTER

## EXHIBIT 12-1

## ILLUSTRATIVE REPRESENTATION LETTER

To *[Independent Auditor]*

We are providing this letter in connection with your audit(s) of the *[identification of financial statements]* of *[name of entity]* as of *[dates]* and for the *[periods]* for the purpose of expressing an opinion as to whether the *[consolidated]* financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of *[name of client]* in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the *[consolidated]* financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, *[as of (date of auditor's report),]* the following representations made to you during your audit(s).

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all—
  - a. Financial records and related data.
  - b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There ha(ve)s been no communication(s) from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## EXHIBIT 12-1 (Continued)

**Practical Consideration.** If management believes that certain of the identified items are not misstatements, management may say, for example, "We do not agree that items XX and XX constitute misstatements because. . . ."

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving—
  - a. Management.
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.
9. The entity has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. The following have been properly recorded or disclosed in the financial statements:
  - a. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the company is contingently liable.
  - c. All significant estimates and material concentrations known to management that are to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. [*Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.*]
11. There are no—
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.

**EXHIBIT 12-1 (Continued)**

- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
- 12. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 13. The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

*[Add additional representations that are unique to the entity's business or industry. See paragraph 7 and appendix B, "Additional Representations," of SAS No. 85.]*

To the best of our knowledge and belief, no events have occurred subsequent to the balance-sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

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[Name of Chief Executive Officer and Title]

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[Name of Chief Financial Officer and Title]

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**Additional Representations**

12.402 The representation letter should be tailored to the circumstances. It should include additional representations specific to the entity's business or industry; for example, when the financial statements disclose significant conditions and management's plans relating to the entity's ability to continue as a going concern or when management intends to hold to maturity debt securities classified as held-to-maturity. Terminology should be revised appropriately when financial statements are presented on an OCBOA. Appendix B of SAS No. 85 lists, and provides illustrative wording of, representations that address common situations. EXHIBIT 12-2 lists the items from Appendix B.

12.403 On the other hand, the auditor does not have to obtain representations that are irrelevant to the client's situation. For example, representations about inventory may be omitted if the client does not have inventory.

## EXHIBIT K

### FAGGIOLI AND HUFF INSIDER TRADES

## Exhibit K - Insider Trading

<b>NAME</b>	<b>Date of Sale</b>	<b># of Shares Sold</b>	<b>Sale Price</b>	<b>Sale Proceeds</b>	<b>Remaining Shares</b>	<b>Derivative Shares Remaining</b>
<b>Craig D Huff</b>						
	11/2/2004	4,300	\$15.00	\$ 64,500.00		
	11/2/2004	600	\$15.01	\$ 9,006.00		
	11/2/2004	900	\$15.02	\$ 13,518.00		
	11/2/2004	100	\$15.03	\$ 1,503.00		
	11/2/2004	100	\$15.04	\$ 1,504.00		
	11/2/2004	600	\$15.08	\$ 9,048.00		
	11/2/2004	900	\$15.09	\$ 13,581.00		
	11/2/2004	14,400	\$15.10	\$ 217,440.00		
	11/2/2004	300	\$15.12	\$ 4,536.00		
	11/2/2004	100	\$15.13	\$ 1,513.00		
	11/2/2004	6,100	\$15.14	\$ 92,354.00		
	11/2/2004	500	\$15.15	\$ 7,575.00		
	11/2/2004	100	\$15.16	\$ 1,516.00		
	11/2/2004	2,000	\$15.17	\$ 30,340.00		
	11/2/2004	300	\$15.18	\$ 4,554.00		
	11/2/2004	100	\$15.19	\$ 1,519.00		
	11/2/2004	600	\$15.20	\$ 9,120.00	-	
	11/3/2004	6,300	\$15.18	\$ 95,634.00		
	11/3/2004	300	\$15.19	\$ 4,557.00		
	11/3/2004	7,500	\$15.20	\$ 114,000.00		
	11/3/2004	200	\$15.21	\$ 3,042.00		
	11/3/2004	500	\$15.23	\$ 7,615.00		
	11/3/2004	100	\$15.24	\$ 1,524.00		
	11/3/2004	3,100	\$15.25	\$ 47,275.00	-	
	7/14/2005	10,000	\$20.00	\$ 200,000.00		
	7/14/2005	10,000	\$21.00	\$ 210,000.00		
	8/10/2005	2,724	\$21.53	\$ 58,647.72		
	8/10/2005	1,503	\$21.56	\$ 32,404.68		
	8/10/2005	5,671	\$21.57	\$ 122,299.65		
	8/10/2005	4,112	\$21.59	\$ 88,778.08	7,000	0
			<b>Total Sale Proceeds</b>	<b>\$ 1,468,904.13</b>		

\* All data herein is taken from Company and defendant public filings with the SEC.

## Exhibit K - Insider Trading

<b>NAME</b>	<b>Date of Sale</b>	<b># of Shares Sold</b>	<b>Sale Price</b>	<b>Sale Proceeds</b>	<b>Remaining Shares</b>	<b>Derivative Shares Remaining</b>
<b>Douglas Faggioli</b>	12/2/2004	40,454	\$16.50	\$ 667,491.00	47,242	
	7/13/2005	1,596	\$0.00	\$ -		
	8/5/2005	1,600	\$0.00	\$ -	41,546	
	8/26/2005	1,500	\$0.00	\$ -	91,746	
	9/8/2005	68,000	\$21.75	\$ 1,479,000.00	23,746	0
			<b>Total Sale Proceeds</b>	<b>\$ 2,146,491.00</b>		

\* All data herein is taken from Company and defendant public filings with the SEC.