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ign:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

5.4

%

Foreign tax credits

(91.8

)

(1.1

)

Foreign tax rate differentials

(27.1

)

(1.2

)

Unremitted earnings

0.2

(0.3

)

Other

(0.6

)

—

Total

(53.4

)%

2.8

%

From 2015 to 2016, the changes in components of the U.S. tax impact of foreign operations were significant. The primary reason the dividends received from foreign subsidiaries and the foreign tax credits changed by such a large amount was due to an increase in repatriation of foreign earnings to the U.S. from 2015 to 2016.

Changes to the effective rate due to dividends received from foreign subsidiaries, impact of foreign tax credits, foreign tax rate differentials and unremitted earnings calculation are expected to be recurring; however, depending on various factors, the changes may be favorable or unfavorable for a particular period. Given the large number of jurisdictions in

which the Company does business and the number of factors that can impact effective tax rates in any given year, this rate is likely to reflect significant fluctuations from year-to-year.

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Year Ended December 31, 2015, as Compared to the Year Ended December 31, 2014

### Net Sales

The following table summarizes the changes in the Company's net sales by operating segment with a reconciliation to net sales excluding the impact of currency fluctuations for the fiscal years ended December 31, 2015 and 2014 (dollars in thousands).

Net Sales by Operating Segment						
	2015	2014	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency	
NSP Americas:						
NSP North America	\$147,017	\$145,650	0.9 %	\$(1,753 )	2.1 %	
NSP Latin America	32,134	36,745	(12.5)%	(3,292 )	(3.6 )%	
	179,151	182,395	(1.8 )%	(5,045 )	1.0 %	
NSP Russia, Central and Eastern Europe	\$27,408	\$50,274	(45.5)%	\$(463 )	(44.6 )%	
Synergy WorldWide:						
Synergy Asia Pacific	\$76,479	\$81,199	(5.8 )%	\$(6,592 )	2.3 %	
Synergy Europe	25,829	31,732	(18.6)%	(5,091 )	(2.6 )%	
Synergy North America	11,773	15,170	(22.4)%	—	(22.4 )%	
	114,081	128,101	(10.9)%	(11,683 )	(1.8 )%	
China and New Markets	\$4,065	\$5,597	(27.4)%	\$—	(27.4 )%	
	\$324,705	\$366,367	(11.4)%	\$(17,191 )	(6.7 )%	

Consolidated net sales for the year ended December 31, 2015, was \$324.7 million compared to \$366.4 million in 2014, or a decrease of approximately 11.4 percent. The decline was primarily related to a \$22.9 million decline in net sales in the Company's NSP Russia, Central and Eastern Europe segment for the year ended December 31, 2015, as well as a \$16.7 million unfavorable impact in foreign currency exchange rate fluctuations in its other foreign markets during the same period. Excluding the unfavorable impact of foreign currency exchange rate fluctuations in its other foreign markets, the Company's consolidated net sales would have decreased by 6.7 percent from 2014 for the year ended December 31, 2015.

### NSP Americas

Net sales related to NSP Americas for the year ended December 31, 2015, was \$179.2 million compared to \$182.4 million for 2014, a decrease of 1.8 percent. In local currency, net sales increased by 1.0 percent compared to 2014. Fluctuations in foreign exchange rates had a \$5.0 million unfavorable impact on net sales for the year ended December 31, 2015. Active independent Managers within NSP Americas totaled approximately 6,500 and 6,600 at December 31, 2015 and 2014, respectively. Active independent Distributors and customers within NSP Americas totaled approximately 131,600 and 135,900 at December 31, 2015 and 2014, respectively. The number of independent Managers, Distributors and customers decreased primarily due to fewer new independent distributors enrolling in the Company's Latin American markets. Independent Managers were down 1.5 percent, and active independent Distributors and customers were down 3.5 percent, compared to the prior year. Despite the decline in active

Distributors and customers year-over-year, net sales growth in local currency came as a result of higher productivity within the Company's existing base of independent Distributors and Managers. The active independent Managers category includes independent Managers under the Company's various compensation plans that have achieved and maintained certain product sales levels. As such, all independent Managers are considered to be active independent Managers. The active independent Distributors and customers category includes the Company's independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous three months.

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Notable activity in the following markets contributed to the results of NSP Americas:

In the United States, net sales increased approximately \$2.7 million, or 2.1 percent, for the year ended December 31, 2015, compared to 2014, with growth for six consecutive quarters as it continued to see its new sales programs gain traction. This market experienced increased adoption of both the IN.FORM business model, which is focused on weight management and a daily habit of health, and retail sales tools in 2015. In addition, the Company launched two new patent pending products and re-launched an updated essential oils line in 2015.

In Canada, net sales decreased approximately \$1.4 million, or 10.8 percent, for the year ended December 31, 2015, compared to 2014. In local currency, net sales increased 3.1 percent compared to 2014. Increased momentum in this market in 2015 was a product of the increased adoption of the IN.FORM business model and the introduction of seven new products.

In Latin America, net sales decreased approximately \$4.6 million, or 12.5 percent, for the year ended December 31, 2015, compared to 2014. In local currency, net sales decreased 3.6 percent compared to 2014. Currency devaluation had a \$3.3 million unfavorable impact on net sales for the year ended December 31, 2015. In NSP Latin America, the Company faced continued headwinds in 2015 due to changing regulations for product registration. To address this, the Company took steps to transition its markets to adopt the IN.FORM business model, and at the same time, ensuring that its resources are aligned with this initiative.

### NSP Russia, Central and Eastern Europe

Net sales related to NSP Russia, Central and Eastern Europe markets (primarily Russia, the Ukraine, and Belarus) for the year ended December 31, 2015 was \$27.4 million, compared to \$50.3 million for 2014, a decrease of 45.5 percent. Active independent Managers within NSP Russia, Central and Eastern Europe totaled approximately 2,800 and 3,700 at December 31, 2015 and 2014, respectively. Active independent Distributors and customers within NSP Russia, Central and Eastern Europe totaled approximately 72,000 and 97,900 at December 31, 2015 and 2014, respectively. Net sales and the number of independent Managers, Distributors and customers decreased primarily as a result of the current political uncertainty in Ukraine and across the region, and the market decline in the market value of the Ukrainian hryvnia and Russian ruble against the U.S. dollar. Although changes in exchange rates between the U.S. dollar and Ukrainian hryvnia do not result in currency fluctuations within the Company's financial statements, its products in Ukraine and Russia are priced local currencies pegged to current U.S. dollar exchange rates and therefore become more expensive when the local currency declines in value.

### Synergy WorldWide

Synergy WorldWide reported net sales for the year ended December 31, 2015, of \$114.1 million, compared to \$128.1 million for 2014, a decrease of 10.9 percent. Fluctuations in foreign exchange rates had a \$11.7 million unfavorable impact on net sales for the year ended December 31, 2015. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales in Synergy WorldWide would have decreased by 1.8 percent from 2014. Active independent Managers within Synergy WorldWide totaled approximately 3,400 and 3,100 at December 31, 2015 and 2014, respectively. Active independent Distributors and customers within Synergy WorldWide totaled approximately 60,800 and 58,800 at December 31, 2015 and 2014, respectively.

Notable activity in the following markets contributed to the results of Synergy WorldWide:

In South Korea, net sales decreased approximately \$5.8 million, or 10.7 percent, for the year ended December 31, 2015, compared to 2014. This decline was partially related to the adverse impact of fluctuations in foreign exchange rates, which had a \$3.5 million unfavorable impact on net sales for the year ended December 31, 2015. Excluding the

impact of fluctuations in foreign exchange rates, local currency net sales decreased 4.2 percent for the year ended December 31, 2015. Despite the decline in local currency sales year-over-year, local currency sales for the fourth quarter of 2015 increased year-over-year by 13.0 percent. The decline in local currency net sales was primarily due to stricter enforcement of internet advertising restrictions on sites that were used successfully to promote net sales growth in 2014. To address this, the market launched new distributor acquisition programs in 2015, including a new home health party program to provide the market's distributors, affected by these internet advertising restrictions, additional tools to grow their businesses.

In Europe, net sales decreased approximately \$5.9 million, or 18.6 percent, for the year ended December 31, 2015, compared to 2014. Fluctuations in foreign exchange rates, had a \$5.1 million unfavorable impact on net sales for year ended December 31, 2015. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales decreased 2.6 percent for the year ended December 31, 2015, compared to 2014. The decline in local currencies sales for the year ended December 31, 2015 is primarily due to strong sales from the launch and promotion of the Company's SLMsmart weight

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management product line in the fourth quarter of 2014. Despite the decline in local currency net sales year-over-year, local currency sales for the fourth quarter of 2015 did increase over the third quarter of 2015 by 6.4 percent.

In Japan, net sales increased approximately \$0.7 million, or 6.5 percent, for the year ended December 31, 2015, compared to 2014. Fluctuations in foreign exchange rates had \$1.8 million unfavorable impact on net sales for the year ended December 31, 2015. In local currency, net sales increased 22.1 percent for the year ended December 31, 2015, compared to 2014.

In North America, net sales decreased approximately \$3.4 million, or 22.4 percent, for the year ended December 31, 2015, compared to 2014. The decline in sales is primarily driven by the enrollment of fewer new independent distributors.

### China and New Markets

China and New Markets reported wholesale related net sales for the year ended December 31, 2015, of \$4.1 million, compared to \$5.6 million for 2014, a decrease of 27.4 percent. The changes in net sales is primarily related to the conversion of NSP Peru and United Kingdom to wholesale markets, effective December 30, 2014, and April 1, 2014, respectively.

### Cost of Sales

Cost of sales as a percent of net sales increased to 26.3 percent in 2015, compared to 25.0 percent in 2014. The increase in the cost of sales percentages was primarily due to the strengthening of the U.S. dollar against the local currencies in many of the Company's foreign markets and the manufacture of most the Company's products in the U.S., which has made its products more expensive in those markets.

### Volume Incentives

Volume incentives as a percent of net sales decreased to 36.3 percent in 2015, compared to 37.1 percent in 2014. The decrease was primarily due to market mix changes from declines in the Company's NSP Russia, Central and Eastern Europe market, which pay higher sales commission rates than its global commission rate average.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by approximately \$12.2 million to \$107.7 million for the year ended December 31, 2015. Selling, general and administrative expenses were 33.2 percent of net sales for the year ended December 31, 2015, compared to 32.7 percent for 2014. The percentage increase was primarily the result of the decrease in net sales from the Company's NSP Russia, Central & Eastern Europe and the impact of foreign currency devaluation versus the U.S. dollar in certain of its other markets.

The decrease in selling, general and administrative expenses during 2015, compared to 2014, were primarily related to:

\$2.6 million of prior year non-recurring professional fees related to pursuing a strategic alliance with Fosun Pharma and the evaluation and negotiation with a company with an alternative distribution channel, which the Company ultimately declined to pursue;

\$3.9 million reduction of service costs due to lower net sales in Russia, Central and Eastern Europe;

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\$4.3 million reduction of U.S. healthcare and other benefit costs for the period;

\$4.0 million of favorable exchange rate changes due to the strengthening of the U.S dollar relative to other foreign currencies, respectively; and

\$2.2 million of non-recurring costs in 2014 related to the Company's former NSP Peru & United Kingdom markets and Synergy Vietnam market.

Offset by:

\$3.3 million of non-recurring restructuring charges to streamline the Company's operations; and

\$4.0 million of increased investment in China.

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## Other Income (Expense), Net

Other income (expense), net for the year ended December 31, 2015, decreased \$0.6 million compared to 2014. The decrease in other income (expense) was primarily due to an increase in foreign exchange losses of \$1.9 million offset by other income of \$1.4 million primarily due to a gain on the sale of a warehouse in the Mexico market in 2015.

## Income Taxes

Our effective income tax rate was 13.1 percent for 2015, compared to (3.9) percent for 2014. The effective rate for 2015 differed from the federal statutory rate of 35.0 percent primarily due to the following:

Adjustments to valuation allowances decreased the effective rate by 24.5 percent in 2015. Included was the effect of a decrease in of valuation allowances on U.S. foreign tax credits, offset partially by the impact of current year losses that will not provide tax benefit. The adjustment related to valuation allowances causing the 24.5 percent rate (i) impact does not match the \$6.6M change in valuation allowances on the balance sheet because there are elements of the balance sheet change that do not belong in the rate reconciliation, such as the removal of valuation allowances on expired foreign net operating loss carryforwards and currency translation adjustments.

Changes in the unrecognized tax benefits increased the effective tax rate by 11.2 percent in 2015. These net gains (ii) and losses were recorded for financial reporting purposes, but were excluded from the calculation of taxable income.

Cumulative favorable adjustments related to foreign operations decreased the tax rate by 7.4 percent in 2015. (iii) These adjustments relate to foreign items that are treated differently for tax purposes than they are for financial reporting purposes.

Adjustments relating to the U.S. impact of foreign operations increased the effective tax rate by 2.8 percentage points in 2015, and decreased the effective tax rate by 73.0 percentage points in 2014. The components of this calculation were:

Components of U.S. tax impact of foreign operations	2015	2014
Dividends received from foreign subsidiaries	5.4 %	59.5 %
Foreign tax credits	(1.1)	(121.3)
Foreign tax rate differentials	(1.2)	(11.0 )
Unremitted earnings	(0.3)	(0.2 )
Total	2.8 %	(73.0 )%

From 2014 to 2015, the changes in components of the U.S. tax impact of foreign operations were significant. The primary reason the dividends received from foreign subsidiaries and the foreign tax credits changed by such a large amount was due to an increase in repatriation of foreign earnings to the U.S. from 2014 to 2015.

Changes to the effective rate due to dividends received from foreign subsidiaries, impact of foreign tax credits, foreign tax rate differentials and unremitted earnings calculation are expected to be recurring; however, depending on various factors, the changes may be favorable or unfavorable for a particular period. Given the large number of jurisdictions in which the Company does business and the number of factors that can impact effective tax rates in any given year, this rate is likely to reflect significant fluctuations from year-to-year.



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## SUMMARY OF QUARTERLY OPERATIONS — UNAUDITED

The following tables present the Company's unaudited summary of quarterly operations during 2016 and 2015 for each of three month periods ended March 31, June 30, September 30, and December 31 (amounts in thousands).

	For the Quarter Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Net sales	\$82,402	\$89,366	\$85,441	\$83,950
Cost of sales	(22,020 )	(23,078 )	(21,512 )	(24,327 )
Gross profit	60,382	66,288	63,929	59,623
Volume incentives	29,877	30,791	29,684	29,558
Selling, general and administrative	28,385	31,249	29,187	31,452
Operating income (loss)	2,120	4,248	5,058	(1,387 )
Other income (expense)	1,559	(622 )	20	(1,730 )
Income (loss) from continuing operations before income taxes	3,679	3,626	5,078	(3,117 )
Provision for income taxes	1,890	1,260	1,136	4,305
Net income (loss)	1,789	2,366	3,942	(7,422 )
Net loss attributable to noncontrolling interests	(280 )	(202 )	(213 )	(769 )
Net income (loss) attributable to common shareholders	\$2,069	\$2,568	\$4,155	\$(6,653 )
Basic and diluted net income per common share				
Basic earnings (loss) per share attributable to common shareholders:				
Net income (loss) attributable to common shareholders	\$0.11	\$0.14	\$0.22	\$(0.35 )
Diluted earnings (loss) per share attributable to common shareholders:				
Net income (loss) attributable to common shareholders	\$0.11	\$0.14	\$0.22	\$(0.35 )
Dividends declared per common share	\$0.10	\$0.10	\$0.10	\$0.10

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	For the Quarter Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Net sales	\$83,878	\$81,247	\$79,586	\$79,994
Cost of sales	(21,881 )	(21,068 )	(20,643 )	(21,753 )
Gross profit	61,997	60,179	58,943	58,241
Volume incentives	30,337	29,603	28,690	29,156
Selling, general and administrative	26,330	27,392	27,115	26,865
Operating income	5,330	3,184	3,138	2,220
Other income (expense)	(318 )	(2 )	(247 )	(25 )
Income from continuing operations before income taxes	5,012	3,182	2,891	2,195
Provision (benefit) for income taxes	809	787	1,284	(1,140 )
Net income from continuing operations	4,203	2,395	1,607	3,335
Loss from discontinued operations	1,312	—	804	—
Net income	5,515	2,395	2,411	3,335
Net loss attributable to noncontrolling interests	(152 )	(166 )	(355 )	(358 )
Net income attributable to common shareholders	\$5,667	\$2,561	\$2,766	\$3,693
Basic and diluted net income per common share				
Basic earnings per share attributable to common shareholders:				
Net income from continuing operations	\$0.23	\$0.14	\$0.10	\$0.20
Income from discontinued operations	\$0.07	\$—	\$0.04	\$—
Net income attributable to common shareholders	\$0.30	\$0.14	\$0.15	\$0.20
Diluted earnings per share attributable to common shareholders:				
Net income from continuing operations	\$0.23	\$0.13	\$0.10	\$0.19
Income from discontinued operations	\$0.07	\$—	\$0.04	\$—
Net income attributable to common shareholders	\$0.30	\$0.13	\$0.14	\$0.19
Dividends declared per common share	\$0.10	\$0.10	\$0.10	\$0.10

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

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's principal use of cash is to pay for operating expenses, including volume incentives, inventory and raw material purchases, capital assets, funding of international expansion and payment of dividends. As of December 31, 2016, working capital was \$37.1 million, compared to \$48.4 million as of December 31, 2015. At December 31, 2016, the Company had \$32.3 million in cash and cash equivalents, of which \$29.1 million was held in its foreign markets and may be subject to various withholding taxes and other restrictions related to repatriation, and \$1.8 million in unrestricted short-term investments, which were available to be used along with the Company's normal cash flows from operations to fund any unanticipated shortfalls in future cash flows.

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The Company's net consolidated cash inflows (outflows) are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Operating activities	\$3,417	\$10,162	\$14,182
Investing activities	(11,532)	(18,592 )	(26,674 )
Financing activities	(286 )	(7,578 )	(5,076 )

In November 2014, the Company ceased its operations in Venezuela due to the difficulties and uncertainties related to import controls, difficulties associated with repatriating cash and high inflation. The loss from discontinued operations did not have a material impact on the Company's operating cash flows during 2014.

### Operating Activities

For the year ended December 31, 2016, operating activities provided cash in the amount of \$3.4 million compared to \$10.2 million in 2015. Operating cash flows decreased due to the timing of payments and receipts for inventories and liability related to unrecognized tax positions; and the decrease in net income. Those decreases were partially offset by the timing of payments and receipts for prepaid expenses and other, other assets, accrued liabilities, and accrued volume incentives.

For the year ended December 31, 2015, the Company generated cash from operating activities of \$10.2 million compared to \$14.2 million in 2014. Operating cash flows decreased due to the timing of payments and receipts for inventories, accrued volume incentives, accrued liabilities, income tax payable and the liability related to unrecognized tax benefits, and was partially offset by the timing of payments and receipts for accounts receivable, prepaid expenses, accounts payable, and deferred revenue as well as the decrease in the Company's operating income.

### Investing Activities

Cash paid for capital expenditures related to the purchase of equipment, computer systems and software for the years ended December 31, 2016, 2015, and 2014, were \$11.0 million, \$22.5 million, and \$26.3 million, respectively. In 2013, the Company began to significantly reinvest in its information technology systems. Included within this plan is an Oracle ERP implementation program to provide the Company with a single integrated software solution that will integrate the Company's business process on a worldwide basis. The Company anticipates completion of this project by early 2017. See below for further discussion of the Company's contractual obligations related to future capital expenditures.

During the years ended December 31, 2016, 2015, and 2014, used cash to purchase available-for-sale investments of \$0, \$3,000, and \$0.7 million, respectively, and had cash proceeds of \$5,000, \$0.8 million, and \$0.2 million for 2016, 2015, and 2014, respectively, from the sale of such investments.

### Financing Activities

During the years ended December 31, 2016, 2015, and 2014, the Company used cash to pay dividends in an aggregate amount of \$7.5 million, \$7.5 million, and \$35.2 million, respectively.

In December 2014, the Company completed share repurchases under its previously announced \$10 million share repurchase program. In November 2014, the Board of Directors authorized a \$20 million share repurchase program beginning January 1, 2015. Such purchases may be made in the open market, through block trades, in privately negotiated transactions or otherwise. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors and the program may be discontinued or suspended at

any time. The Company will fund future dividends and the share repurchase program through available cash on hand, future cash flows from operations and borrowings under its revolving credit facility, subject to Board discretion. During the year ended December 31, 2016, the Company repurchased 0 shares of its common stock under the share repurchase program for \$6.6 million. At December 31, 2016, the remaining balance available for repurchases under the program was \$13.4 million.

On August 25, 2014, the Company and Fosun Pharma completed a transaction pursuant to which, the parties entered into a joint venture in China, of which 80 percent is owned by the Company and 20 percent is owned by a wholly-owned subsidiary of Fosun Pharma, and completed a concurrent investment by Fosun Pharma in the Company's common stock issued pursuant to a private placement transaction with net proceeds of \$44.8 million. Nature's Sunshine used the net proceeds of the private placement transaction to fund its 80 percent share of the initial \$20.0 million capitalization of the China joint venture, or \$16.0

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million, and to pay its shareholders a cash dividend of \$1.50 per share, or \$28.5 million. The Company consolidated the joint venture in its consolidated financial statements, with the Fosun Pharma's interest presented as a noncontrolling interest.

The joint venture, known as Nature's Sunshine Hong Kong Limited, expects to market and distribute Nature's Sunshine-branded products in China. The joint venture anticipates deploying a multi-channel go-to-market strategy that offers select Nature's Sunshine branded products through direct selling, e-commerce and retail channels across China. The time to market will be dependent upon regulatory processes including product registration, permit and license approvals. The Company is awaiting the receipt of a direct selling license, which it has not received yet, and is unable to determine whether or when it will receive a direct selling license in China.

As a result of the private placement transaction involving Fosun Pharma, owns approximately 15 percent of Nature's Sunshine outstanding common shares with respect to which the Company has granted Fosun Pharma certain registration rights. In addition, Nature's Sunshine appointed one director designated by Fosun Pharma to its board of directors.

During the year ended December 31, 2014, the Company used cash to make principal payments of \$12.3 million on long-term debt. The Company held no long-term debt during the years ended December 31, 2016 and 2015.

The Company has a revolving credit agreement with Wells Fargo Bank, N.A. with a borrowing limit of \$25.0 million that matures September 1, 2017. The Company pays interest at LIBOR plus 1.25 percent on any borrowings on the agreement (2.13 percent and 1.50 percent as of December 31, 2016 and 2015, respectively). The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. The credit agreement was amended effective December 31, 2016, to modify certain financial covenants, eliminating the Company's rolling four quarter net income covenant and adding a covenant requiring the Company to maintain a minimum quarterly EBITDA, which is defined in the credit agreement. The Company retains capital capacity to continue making long-term investments in its sales, marketing, science and product development initiatives and overall operations, as well as pursue strategic opportunities as they may arise. At December 31, 2016, and 2015, the outstanding balance under the revolving credit agreement was \$9.9 million and \$2.7 million, respectively.

The revolving credit agreement contains financial covenants, including financial covenants relating to current ratio, leverage, minimum EBITDA, and consecutive quarterly net losses. In addition, the agreement restricts capital expenditures, lease expenditures, other indebtedness, liens on assets, guarantees, loans and advances, dividends, and the merger, consolidation and the transfer of assets except in the ordinary course of business. As of December 31, 2016, the Company was in compliance with these debt covenants.

The Company believes that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund its normal operating needs, including capital expenditures. However, among other things, a prolonged economic downturn, a decrease in demand for the Company's products, an unfavorable settlement of its unrecognized tax positions or non-income tax contingencies could adversely affect the Company's long-term liquidity.

**CONTRACTUAL OBLIGATIONS**

The following table summarizes information about contractual obligations as of December 31, 2016 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Operating lease obligations	\$35,622	\$ 6,906	\$ 8,693	\$ 4,331	\$ 15,692
Self-insurance reserves(1)	733	733	—	—	—
Other long-term liabilities reflected on the balance sheet(2)	—	—	—	—	—

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Unrecognized tax benefits(3)	—	—	—	—	—
Revolving credit facility(4)	9,919	9,919	—	—	—
ERP capital commitments(5)	—	—	—	—	—
Other capital commitments(6)	1,308	1,308	—	—	—
Total	\$47,582	\$ 18,866	\$ 8,693	\$ 4,331	\$ 15,692

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At December 31, 2016, there were \$2.4 million of liabilities. The Company retains a significant portion of the risks associated with certain employee medical benefits and product liability insurance. Recorded liabilities for self-insured risks are calculated using actuarial methods and are not discounted. Amounts for self-insurance obligations are



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included in accrued liabilities and long-term other liabilities on the Company's consolidated balance sheet. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with the product liability obligations, the Company is unable to estimate the years in which cash settlement may occur.

At December 31, 2016, there were \$1.4 million of liabilities. The Company provides a nonqualified deferred compensation plan for its officers and certain key employees. Under this plan, participants may defer up to 100 percent of their annual salary and bonus (less the participant's share of employment taxes). The deferrals become an (2) obligation owed to the participant by the Company under the plan. Upon separation of the participant from the service of the Company, the obligation owed to the participant under the plan will be paid as a lump sum or over a period of either three or five years. As the Company cannot easily determine when its officers and key employees will separate from the Company, the Company is unable to estimate the years in which cash settlement may occur.

At December 31, 2016, there were \$6.8 million of liabilities. Because of the high degree of uncertainty regarding (3) the timing of future cash outflows associated with these liabilities, if any, the Company is unable to estimate the years in which cash settlement may occur with the respective tax authorities.

The Company entered into a revolving credit agreement with Wells Fargo Bank, National Association that permits the Company to borrow up to \$25 million through September 1, 2017, bearing interest at LIBOR plus 1.25 percent. (4) The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. At December 31, 2016, the Company had \$15.1 million available under this facility.

In 2013, the Company began to significantly reinvest in its information technology systems. Included within this (5) plan is an Oracle ERP implementation program to provide the Company with a single integrated software solution that will integrate the Company's business process on a worldwide basis. The Company anticipates completion of this project by early 2017.

(6) In 2016, the Company made commitments to purchase manufacturing equipment of \$1.3 million in 2017.

The Company has entered into long-term agreements with third-parties in the ordinary course of business, in which it has agreed to pay a percentage of net sales in certain regions in which it operates, or royalties on certain products. In 2016, 2015, and 2014, the aggregate amounts of these payments were \$0.1 million, \$0.1 million, and \$0.2 million, respectively.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements other than operating leases. It does not believe that these operating leases are material to its current or future financial position, results of operations, revenues or expenses, cash flows, capital expenditures or capital resources.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company conducts business in several countries and intends to grow its international operations. Net sales, operating income and net income are affected by fluctuations in currency exchange rates, interest rates and other uncertainties inherent in doing business and selling product in more than one currency. In addition, the Company's operations are exposed to risks associated with changes in social, political and economic conditions inherent in international operations, including changes in the laws and policies that govern international investment in countries where the Company has operations, as well as, to a lesser extent, changes in U.S. laws and regulations relating to international trade and investment.

## Foreign Currency Risk

During the year ended December 31, 2016, approximately 56.6 percent of the Company's net sales and approximately 55.5 percent of its operating expenses were realized outside of the United States. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency of each international subsidiary is generally the functional currency. It conducts business in multiple currencies with exchange rates that are not on a one-to-one relationship with the U.S. dollar. All revenues and expenses are translated at average exchange rates for the periods reported. Therefore, its operating results will be positively or negatively affected by a weakening or strengthening of the U.S. dollar in relation to another fluctuating currency. Given the uncertainty and diversity of exchange rate fluctuations, the Company cannot estimate the effect of these fluctuations on its future business, product pricing, results of operations or financial condition, but it has provided consolidated sensitivity analyses below of functional currency/reporting currency exchange rate risks. Changes in various currency exchange rates affect the relative prices at which it sells its products. The Company regularly monitors its

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foreign currency risks and periodically takes measures to reduce the risk of foreign exchange rate fluctuations on its operating results. It does not use derivative instruments for hedging, trading or speculating on foreign exchange rate fluctuations. Additional discussion of the impact on the effect of currency fluctuations has been included in its management's discussion and analysis included in Part II, Item 7 of this report.

The following table sets forth a composite sensitivity analysis of the Company's net sales, costs and expenses and operating income in connection with the strengthening of the U.S. dollar (its reporting currency) by 10%, 15%, and 25% against every other fluctuating functional currency in which it conducts business. The Company notes that its individual net sales, cost and expense components and its operating income were equally sensitive to increases in the strength of the U.S. dollar against every other fluctuating currency in which it conducts business.

Exchange rate sensitivity for the year ended December 31, 2016 (dollar amounts in thousands)

	With Strengthening of U.S. Dollar by:					
	10%		15%		25%	
	(\$)	(%)	(\$)	(%)	(\$)	(%)
Net sales	\$341,159	\$(14,231)	(4.2)%	\$(20,418)	(6.0)%	\$(31,308) (9.2 )%
Cost and expenses						
Cost of sales	90,937	(4,521 )	(5.0)%	(6,487 )	(7.1)%	(9,946 ) (10.9)%
Volume incentives	119,910	(5,111 )	(4.3)%	(7,333 )	(6.1)%	(11,244 ) (9.4 )%
Selling, general and administrative	120,273	(4,161 )	(3.5)%	(5,970 )	(5.0)%	(9,153 ) (7.6 )%
Operating income	\$10,039	\$(438 )	(4.4)%	\$(628 )	(6.3)%	\$(965 ) (9.6 )%

Certain of the Company's operations, including Russia and Ukraine, are served by a U.S. subsidiary through third-party entities, for which all business is conducted in U.S. dollars. Although changes in exchange rates between the U.S. dollar and the Russian ruble or the Ukrainian hryvnia do not result in currency fluctuations within its financial statements, a weakening or strengthening of the U.S. dollar in relation to these other currencies can significantly affect the prices of its products and the purchasing power of its independent Managers, Distributors and customers within these markets. As a result of the current tension between Russia and Ukraine and resultant sanctions, the Russian ruble and the Ukrainian hryvnia have weakened significantly against the U.S. dollar, impacting net sales in this market. Should the conflict continue to escalate, exchanges rates for Russian ruble, as well as the Ukrainian hryvnia could weaken further against the U.S. dollar, further impacting net sales in these markets.

The following table sets forth a composite sensitivity analysis of the Company's financial assets and liabilities by those balance sheet line items that are subject to exchange rate risk, together with the total gain or loss from the strengthening of the U.S. dollar in relation to its various fluctuating functional currencies. The sensitivity of its financial assets and liabilities, taken by balance sheet line items, is somewhat less than the sensitivity of its operating income to increases in the strength of the U.S. dollar in relation to other fluctuating currencies in which it conducts business.

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Exchange Rate Sensitivity of Balance Sheet as of December 31, 2016 (dollar amounts in thousands)

With Strengthening of U.S. Dollar by:

10%	15%	25%
(Loss) (\$)	(Loss) (%)	(Loss) (\$)
(Loss) (%)	(Loss) (\$)	(Loss) (%)

## Financial Instruments Included in Current

## Assets Subject to Exchange Rate Risk

Cash and cash equivalents	\$32,284	\$(2,075)	(6.4 )%	\$(2,977)	(9.2 )%	\$(4,564)	(14.1 )%
Accounts receivable, net	7,738	(167 )	(2.2 )%	(240 )	(3.1 )%	(368 )	(4.8 )%

## Financial Instruments Included in Current

## Liabilities Subject to Exchange Rate Risk

Accounts payable	5,305	(70 )	(1.3 )%	(101 )	(1.9 )%	(155 )	(2.9 )%
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Net Financial Instruments Subject to  
Exchange Rate Risk

\$34,717	\$(2,172)	(6.3 )%	\$(3,116)	(9.0 )%	\$(4,777)	(13.8 )%
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The following table sets forth the local currencies other than the U.S. dollar in which the Company's assets that are subject to exchange rate risk were denominated as of December 31, 2016, and exceeded \$1 million upon translation into U.S. dollars. None of its liabilities that are denominated in a local currency other than the U.S. dollar and that are subject to exchange rate risk exceeded \$1 million upon translation into U.S. dollars. The Company uses the spot exchange rate for translating balance sheet items from local currencies into its reporting currency. The respective spot exchange rate for each such local currency meeting the foregoing thresholds is provided in the table as well.

Translation of Balance Sheet Amounts Denominated in Local Currency as of December 31, 2016 (dollar amounts in thousands)

	Translated into U.S. Dollars	At Spot Exchange Rate per One U.S. Dollar
Cash and Cash Equivalents		
South Korea (Won)	\$ 8,181	1,208.3
Japan (Yen)	2,816	116.7
Shanghai (Yuan)	1,420	7.0
Canada (Dollar)	1,115	1.4
Other	9,290	Varies
Total foreign dominated cash and cash equivalents	\$ 22,822	
U.S. dollars held by foreign subsidiaries	\$ 6,271	
Total cash and cash equivalents held by foreign subsidiaries	\$ 29,093	

During the year ended December 31, 2016, the Company repatriated \$1.7 million of foreign cash through intercompany dividends.

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Finally, the following table sets forth the annual weighted average of fluctuating currency exchange rates of each of the local currencies per one U.S. dollar for each of the local currencies in which annualized net sales would exceed \$10.0 million during any of the three periods presented. The Company uses the annual average exchange rate for translating items from the statement of operations from local currencies into the Company's reporting currency.

Year ended December 31,	2016	2015	2014
Canada (Dollar)	1.3	1.3	1.1
European Markets (Euro)	0.9	0.9	0.8
Japan (Yen)	108.4	121.0	105.6
South Korea (Won)	1,160.9	1,132.5	1,055.3
Mexico (Peso)	18.6	15.8	13.3

The local currency of the foreign subsidiaries is used as the functional currency, except for where the Company's operations are served by a U.S. based subsidiary (for example, Russia and Ukraine). The financial statements of foreign subsidiaries, where the local currency is the functional currency, are translated into U.S. dollars using exchange rates in effect at year-end for assets and liabilities and average exchange rates during each year for the results of operations. Adjustments resulting from translation of financial statements are reflected in accumulated other comprehensive loss, net of income taxes. Foreign currency transaction gains and losses are included in other income (expense) in the consolidated statements of operations.

The functional currency in highly inflationary economies is the U.S. dollar, and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The remeasurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three-year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation and other pertinent economic factors.

#### Interest Rate Risk

The primary objectives of the Company's investment activities are to preserve principal while maximizing yields without significantly increasing risk. These objectives are accomplished by purchasing investment grade securities. On December 31, 2016, the Company had investments of \$1.8 million. A hypothetical 1.0 percent change in interest rates would not have had a material effect on the Company's liquidity, financial position or results of operations.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Nature's Sunshine Products, Inc. and subsidiaries (the "Company") as of December 31, 2016, and 2015, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Nature's Sunshine Products, Inc. and subsidiaries as of December 31, 2016, and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 13, 2017

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## NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

As of December 31,	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$32,284	\$41,420
Accounts receivable, net of allowance for doubtful accounts of \$205 and \$190, respectively	7,738	7,700
Investments available for sale	1,776	1,772
Assets held for sale	521	—
Inventories	47,597	38,495
Deferred income tax assets	5,620	5,021
Prepaid expenses and other	4,585	7,110
Total current assets	100,121	101,518
Property, plant and equipment, net	73,272	68,728
Investment securities - trading	1,391	1,044
Intangible assets, net	976	559
Deferred income tax assets	15,970	17,339
Other assets	13,840	11,332
	\$205,570	\$200,520
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$5,305	\$6,341
Accrued volume incentives and service fees	16,264	14,913
Accrued liabilities	24,400	23,726
Deferred revenue	3,672	4,160
Revolving credit facility	9,919	2,696
Income taxes payable	3,475	1,300
Total current liabilities	63,035	53,136
Liability related to unrecognized tax benefits	6,755	7,809
Deferred compensation payable	1,391	1,044
Other liabilities	1,991	2,266
Total liabilities	73,172	64,255
Commitments and Contingencies		
Shareholders' equity:		
Common stock, no par value; 50,000 shares authorized, 18,757 and 18,588 shares issued and outstanding as of December 31, 2016, and 2015, respectively	129,654	126,670
Retained earnings	12,718	18,088
Noncontrolling interests	1,286	2,750
Accumulated other comprehensive loss	(11,260 )	(11,243 )
Total shareholders' equity	132,398	136,265
	\$205,570	\$200,520

See accompanying notes to consolidated financial statements.





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## NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share information)

Year Ended December 31,	2016	2015	2014
Net sales	\$341,159	\$324,705	\$366,367
Cost of sales	(90,937 )	(85,345 )	(91,584 )
Gross profit	250,222	239,360	274,783
Operating expenses:			
Volume incentives	119,910	117,786	135,808
Selling, general and administrative	120,273	107,702	119,927
Operating income	10,039	13,872	19,048
Other income (expense):			
Interest and other income (expense), net	591	1,486	(72 )
Interest expense	(16 )	(130 )	(187 )
Foreign exchange gains (losses), net	(1,348 )	(1,948 )	225
	(773 )	(592 )	(34 )
Income from continuing operations before provision for income taxes	9,266	13,280	19,014
Provision (benefit) for income taxes	8,591	1,740	(743 )
Net income from continuing operations	675	11,540	19,757
Income (loss) from discontinued operations	—	2,116	(9,957 )
Net income	675	13,656	9,800
Net loss attributable to noncontrolling interests	(1,464 )	(1,031 )	(219 )
Net income attributable to common shareholders	\$2,139	\$14,687	\$10,019
Basic and diluted net income per common share			
Basic earnings (loss) per share attributable to common shareholders:			
Net income from continuing operations	\$0.11	\$0.67	\$1.15
Income (loss) from discontinued operations	\$—	\$0.11	\$(0.57 )
Net income attributable to common shareholders	\$0.11	\$0.79	\$0.58
Diluted earnings (loss) per share attributable to common shareholders:			
Net income from continuing operations	\$0.11	\$0.66	\$1.12
Income (loss) from discontinued operations	\$—	\$0.11	\$(0.56 )
Net income attributable to common shareholders	\$0.11	\$0.77	\$0.56
Weighted average basic common shares outstanding	18,731	18,656	17,108
Weighted average diluted common shares outstanding	19,056	19,177	17,641
Dividends declared per common share	\$0.40	\$0.40	\$1.90

See accompanying notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

Year Ended December 31,	2016	2015	2014
Net income	\$675	\$13,656	\$9,800
Foreign currency translation gain (loss) (net of tax)	(16 )	233	(1,406 )
Net unrealized gains on investment securities (net of tax)	(1 )	22	30
Reclassification of net realized gains on marketable securities in net income (net of tax)	—	(294 )	—
Write-off of Venezuela cumulative translation adjustments	—	—	4,135
Total comprehensive income	658	13,617	12,559
Net loss attributable to noncontrolling interests	(1,464 )	(1,031 )	(219 )
Total comprehensive income attributable to common shareholders	\$2,122	\$14,648	\$12,778

See accompanying notes to consolidated financial statements.

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## NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in thousands, except per share data)

	Common Stock		Retained	Noncontrolling	Accumulated	
	Shares	Value	Earnings	Interests	Other Comprehensive Income (Loss)	Total
Balance at January 1, 2014	16,179	\$83,122	\$36,100	\$ —	\$ (13,963 )	\$105,259
Share-based compensation expense	—	3,948	—	—	—	3,948
Net proceeds from the issuance of shares to noncontrolling interests	2,855	44,795	—	—	—	44,795
Tax benefit from exercise of stock options	—	307	—	—	—	307
Proceeds from the exercise of stock options	124	772	—	—	—	772
Repurchase of common stock	(496 )	(7,455 )	—	—	—	(7,455 )
Cash dividends (1.90 per share)	—	—	(35,228 )	—	—	(35,228 )
Net income	—	—	10,019	(219 )	—	9,800
Noncontrolling interests investment in Nature's Sunshine Hong Kong Limited	—	—	—	4,000	—	4,000
Other comprehensive income	—	—	—	—	2,759	2,759
Balance at December 31, 2014	18,662	125,489	10,891	3,781	(11,204 )	128,957
Share-based compensation expense	—	4,485	—	—	—	4,485
Tax deficiency from exercise of stock options	—	(520 )	—	—	—	(520 )
Proceeds from the exercise of stock options	427	3,861	—	—	—	3,861
Repurchase of common stock	(501 )	(6,645 )	—	—	—	(6,645 )
Cash dividends (0.40 per share)	—	—	(7,490 )	—	—	(7,490 )
Net income	—	—	14,687	(1,031 )	—	13,656
Other comprehensive loss	—	—	—	—	(39 )	(39 )
Balance at December 31, 2015	18,588	126,670	18,088	2,750	(11,243 )	136,265
Share-based compensation expense	—	3,217	—	—	—	3,217
Tax deficiency from exercise of stock options	—	(233 )	—	—	—	(233 )
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	169	—	—	—	—	—
Cash dividends (0.40 per share)	—	—	(7,509 )	—	—	(7,509 )
Net income	—	—	2,139	(1,464 )	—	675
Other comprehensive loss	—	—	—	—	(17 )	(17 )
Balance at December 31, 2016	18,757	\$129,654	\$12,718	\$ 1,286	\$ (11,260 )	\$132,398

See accompanying notes to consolidated financial statements.

Table of ContentsNATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

Year Ended December 31,	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$675	\$13,656	\$9,800
Adjustments to reconcile net income to net cash provided by operating activities:			
Write-off of cumulative translation adjustments	—	—	4,135
Impairment of property, plant and equipment, net	221	—	2,947
Provision for doubtful accounts	305	21	(121 )
Depreciation and amortization	4,808	4,525	4,409
Share-based compensation expense	3,217	4,485	3,948
Tax benefit from stock option exercise	—	—	(307 )
(Gain) loss on sale of property and equipment	149	(2,703 )	132
Deferred income taxes	766	(3,373 )	(3,927 )
Amortization of bond discount	—	—	3
Purchase of trading investment securities	(429 )	(252 )	(162 )
Proceeds from sale of trading investment securities	147	239	151
Realized and unrealized gains on investments	(63 )	(470 )	(56 )
Foreign exchange losses (gains)	1,348	1,948	(225 )
Changes in assets and liabilities:			
Accounts receivable	(343 )	(1,091 )	3,457
Inventories	(9,569 )	933	748
Prepaid expenses and other	2,442	636	3,411
Other assets	(3,025 )	(4,010 )	(1,235 )
Accounts payable	(935 )	593	(359 )
Accrued volume incentives and service fees	1,477	(1,427 )	(1,905 )
Accrued liabilities	1,519	(3,451 )	(5,360 )
Deferred revenue	(488 )	(557 )	544
Income taxes payable	1,924	(914 )	25
Liability related to unrecognized tax positions	(1,076 )	1,368	(5,804 )
Deferred compensation payable	347	6	(67 )
Net cash provided by operating activities	3,417	10,162	14,182
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(11,028 )	(22,527 )	(26,285 )
Proceeds from sale of property, plant and equipment	—	3,128	85
Purchases of investments available for sale	—	(3 )	(721 )
Proceeds from sale/maturities of investments available for sale	5	810	247
Purchase of intangible assets	(509 )	—	—
Net cash used in investing activities	(11,532 )	(18,592 )	(26,674 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments of cash dividends	(7,509 )	(7,490 )	(35,228 )
Net borrowings on revolving credit facility	7,223	2,696	—
Principal payments of long-term debt	—	—	(12,267 )
Net proceeds from the issuance of shares to noncontrolling interests	—	—	44,795
Investment by noncontrolling interests	—	—	4,000
Proceeds from exercise of stock options	—	3,861	772
Tax benefit from stock option exercise	—	—	307

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Repurchase of common stock	—	(6,645 )	(7,455 )
Net cash used in financing activities	(286 )	(7,578 )	(5,076 )
Effect of exchange rates on cash and cash equivalents	(735 )	(1,271 )	(980 )
Net decrease in cash and cash equivalents	(9,136 )	(17,279 )	(18,548 )
Cash and cash equivalents at beginning of the year	41,420	58,699	77,247
Cash and cash equivalents at end of the year	\$32,284	\$41,420	\$58,699

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Year Ended December 31,	2016	2015	2014
Supplemental disclosure of cash flow information:			
Cash paid for income taxes, net of refunds	\$3,589	\$9,782	\$6,450
Cash paid for interest	254	56	171
Supplemental disclosure of noncash investing and financing activities:			
Purchases of property, plant and equipment included in accounts payable and accrued liabilities	\$178	\$1,081	\$780

See accompanying notes to consolidated financial statements.

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NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is a natural health and wellness company primarily engaged in the manufacturing and direct selling of nutritional and personal care products. The Company is a Utah corporation with its principal place of business in Lehi, Utah, and sells its products to a sales force of independent distributors that uses the products themselves or resells them to consumers

The Company markets its products in Australia, Austria, Belarus, Canada, China, Colombia, Costa Rica, the Czech Republic, Denmark, the Dominican Republic, Ecuador, El Salvador, Finland, Germany, Guatemala, Honduras, Hong Kong, Iceland, Indonesia, Ireland, Italy, Japan, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Moldova, Mongolia, the Netherlands, New Zealand, Nicaragua, Norway, Panama, Poland, Russia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Taiwan, Thailand, Ukraine, the United Kingdom and the United States. The Company also markets its products through a wholesale model to Australia, Brazil, Chile, Israel, New Zealand, Norway, Peru, Portugal, Spain and the United Kingdom.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and transactions of the Company and its subsidiaries. At December 31, 2016 and 2015, substantially all of the Company's subsidiaries were wholly owned. Intercompany balances and transactions have been eliminated in consolidation. The Company consolidates the joint ventures in Hong Kong and China in its consolidated financial statements, with another party's interest presented as a noncontrolling interest. Additionally, the Company operates a limited number of markets in jurisdictions where local laws require the formation of a partnership with an entity domiciled in that market. These partners have no rights to participate in the sharing of revenues, profits, losses or distribution of assets upon liquidation of these partnerships.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities, in these financial statements and accompanying notes. Actual results could differ from these estimates and those differences could have a material effect on the Company's financial position and results of operations.

The significant accounting estimates inherent in the preparation of the Company's financial statements include estimates associated with its evaluation of impairment of long-lived assets, the determination of liabilities related to Manager and Distributor incentives, the determination of income tax assets and liabilities, certain other non-income tax and value-added tax contingencies, legal contingencies, and the valuation of investments. In addition, significant estimates form the basis for allowances with respect to inventory valuations and self-insurance liabilities associated with product liability and medical claims. Various assumptions and other factors enter into the determination of these significant estimates. The process of determining significant estimates takes into account historical experience and current and expected economic conditions.

Cash and Cash Equivalents



The Company considers all highly liquid short-term investments with original maturities of three months or less to be cash equivalents. Substantially all of the Company's cash deposits either exceed the United States federally insured limit or are located in countries that do not have government insured accounts or are subject to tax withholdings when repatriating earnings.

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### Accounts Receivable

Accounts receivable consist principally of receivables from credit card companies, arising from the sale of products to the Company's independent Distributors, and receivables from independent Distributors in foreign markets. Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. However, due to the geographic dispersion of credit card and Distributor receivables, the collection risk is not considered to be significant. Substantially all of the receivables from credit card companies were current as of December 31, 2016 and 2015. Although receivables from independent Distributors can be significant, the Company performs ongoing credit evaluations of its importers and maintains an allowance for potential credit losses. This estimated allowance is based primarily on the aging category, historical trends and management's evaluation of the financial condition of the customer. This reserve is adjusted periodically as information about specific accounts becomes available.

### Investment Securities

The Company's available-for-sale investment portfolio is recorded at fair value and consists of U.S. government security funds. These investments are valued using (a) quoted prices for identical assets in active markets or (b) from significant inputs that are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset. The Company's trading portfolio is recorded at fair value and consists of various marketable securities that are valued using quoted prices in active markets.

Regardless of the Company's intent to sell a security, the Company performs additional analysis on all securities with unrealized losses to evaluate losses associated with the creditworthiness of the security. Credit losses are identified where the Company does not expect to receive cash flows sufficient to recover the amortized cost basis of a security.

For equity securities, when assessing whether a decline in fair value below the Company's cost basis is other-than-temporary, the Company considers the fair market value of the security, the length of time and extent to which market value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and the Company's intent and ability to hold the investment for a sufficient time in order to enable recovery of the cost. New information and the passage of time can change these judgments. Where the Company has determined that it lacks the intent and ability to hold an equity security to its expected recovery, the security's decline in fair value is deemed to be other-than-temporary and is recorded within earnings as an impairment loss.

The Company also has certain investment securities classified as trading securities. The Company maintains its trading securities portfolio to generate returns that are offset by corresponding changes in certain liabilities related to the Company's deferred compensation plans (see Note 13). The trading securities portfolio consists of marketable securities, which are recorded at fair value and are included in long-term investment securities on the consolidated balance sheets because they remain assets of the Company until they are actually paid out to the participants. These investment securities are not available to the Company to fund its operations as they are restricted for the payment of the deferred compensation payable. The Company has established a rabbi trust to finance obligations under the plan. Both realized and unrealized gains and losses on trading securities are included in interest and other income.

### Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, investments, accounts payable and the facility. Other than investments, which are carried at fair value, the carrying values of these financial instruments approximate their fair values due to their short-term nature. During the years ended December 31, 2016, and 2015, the Company did not have any write-offs related to the remeasurement of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

## Inventories

Inventories are stated at the lower-of-cost-or-market, using the first-in, first-out method. The components of inventory cost include raw materials, labor and overhead. To estimate any necessary obsolescence or lower-of-cost-or-market adjustments, various assumptions are made in regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning and market conditions.

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### Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives for buildings range from 20 to 50 years; building improvements range from 7 to 10 years; machinery and equipment range from 2 to 10 years; computer software and hardware range from 3 to 10 years; and furniture and fixtures range from 2 to 5 years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets. Maintenance and repairs are expensed as incurred and major improvements are capitalized.

The Company has made a significant investment in its information systems of approximately \$46.8 million as of December 31, 2016. The Company intends on implementing the new system during 2017, and will amortize the asset over 10 years.

### Intangible Assets

Intangible assets consist of purchased product formulations and product registrations. Such intangible assets are amortized using the straight-line method over the estimated economic lives of the assets of 9 to 15 years. Intangible assets, net of accumulated amortization, totaled \$1.0 million and \$0.6 million, at December 31, 2016, and 2015, respectively.

### Impairment of Long-Lived Assets

The Company reviews its long-lived assets, such as property, plant and equipment and intangible assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company uses an estimate of future undiscounted net cash flows of the related assets or groups of assets over their remaining lives in measuring whether the assets are recoverable. An impairment loss is calculated by determining the difference between the carrying values and the fair values of these assets. Due to the continual currency devaluation of the Venezuelan bolivar, as of September 30, 2014, the Company incurred a \$2.9 million impairment charge to write down the value of its fixed assets in Venezuela to \$0.

### Incentive Trip Accrual

The Company accrues for expenses associated with its direct sales program, which rewards independent Managers and Distributors with paid attendance for incentive trips, including Company conventions and meetings. Expenses associated with incentive trips are accrued over qualification periods as they are earned. The Company specifically analyzes incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could generate liabilities more or less than the amounts recorded. The Company has accrued convention and meeting costs of \$5.1 million and \$4.8 million at December 31, 2016, and 2015, respectively, which are included in accrued liabilities in the consolidated balance sheets.

### Foreign Currency Translation

The local currency of the foreign subsidiaries is used as the functional currency, except for the Company's operations are served by a U.S. based subsidiary (for example, Russia and Ukraine). The financial statements of foreign subsidiaries where the local currency is the functional currency are translated into U.S. dollars using exchange rates in effect at year end for assets and liabilities and average exchange rates during each year for the results of operations. Adjustments resulting from translation of financial statements are reflected in accumulated other comprehensive loss, net of income taxes. Foreign currency transaction gains and losses are included in other income (expense) in the

consolidated statements of operations.

The functional currency in highly inflationary economies is the U.S. dollar and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The remeasurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation, and other pertinent economic factors. The Company did not operate in any highly inflationary countries during the year ended December 31, 2016.

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### Revenue Recognition

Net sales and related volume incentive expenses are recorded when persuasive evidence of an arrangement exists, collectability is reasonably assured, the amount is fixed and determinable, and title and risk of loss have passed. The amount of the volume incentive is determined based upon the amount of qualifying purchases in a given month. Amounts received for undelivered merchandise are recorded as deferred revenue.

From time to time, the Company's U.S. operations extend short-term credit associated with product promotions. In addition, for certain of the Company's international operations, the Company offers credit terms consistent with industry standards within the country of operation. Payments to independent Managers and Distributors for sales incentives or rebates are recorded as a reduction of revenue. Payments for sales incentives and independent rebates are calculated monthly based upon qualifying sales. Membership fees are deferred and amortized as revenue over the life of the membership, primarily one year. Prepaid event registration fees are deferred and recognized as revenues when the related event is held.

A reserve for product returns is recorded based upon historical experience. The Company allows independent Managers or Distributors to return the unused portion of products within ninety days of purchase if they are not satisfied with the product. In some of the Company's markets, the requirements to return product are more restrictive. Sales returns for the years 2016, 2015 and 2014, were \$1.4 million, \$1.2 million, and \$1.5 million, respectively.

Amounts billed to customers for shipping and handling are reported as a component of net sales. Shipping and handling revenues of approximately \$9.2 million, \$9.2 million, and \$9.8 million were reported as net sales for the years ended December 31, 2016, 2015, and 2014, respectively.

Taxes that have been assessed by governmental authorities and that are directly imposed on revenue-producing transactions between the Company and its customers, including sales, use, value-added, and some excise taxes, are presented on a net basis (excluded from net sales).

### Advertising Costs

Advertising costs are expensed as incurred and classified in selling, general and administrative expenses. Advertising expense incurred for the years ended December 31, 2016, 2015, and 2014 totaled approximately \$1.9 million, \$2.2 million and \$2.3 million, respectively.

### Research and Development

All research and development costs are expensed as incurred and classified in selling, general and administrative expense. Total research and development expenses were approximately \$3.2 million, \$2.8 million, and \$2.5 million in 2016, 2015, and 2014, respectively.

### Contingencies

The Company is involved in certain legal proceedings. When a loss is considered probable in connection with litigation or non-income tax contingencies and when such loss can be reasonably estimated, the Company records its best estimate within a range related to the contingency. If there is no best estimate, the Company records the minimum of the range. As additional information becomes available, the Company assesses the liability related to the contingency and revises the estimates. Revision in estimates of the liabilities could materially affect the Company's results of operations in the period of adjustment. The Company's contingencies are discussed in further detail in Note 14.

## Income Taxes

The Company's income tax expense, deferred tax assets and liabilities and contingent reserves reflect management's best assessment of estimated future taxes to be paid. The Company is subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating the Company's ability to recover its deferred tax assets, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, the Company develops assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the

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implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income, and are consistent with the plans and estimates that the Company is using to manage the underlying businesses.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows or financial position.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across its global operations. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized.

### Net Income (Loss) Per Common Share

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

Following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for all years (dollar and share amounts in thousands, except for per share information):

	2016	2015	2014
Net income attributable to common shareholders:			
Net income from continuing operations	\$2,139	\$12,571	\$19,976
Income (loss) from discontinued operations	\$—	\$2,116	\$(9,957)
Net income	\$2,139	\$14,687	\$10,019
Basic weighted-average shares outstanding	18,731	18,656	17,108
Basic earnings per share attributable to common shareholders:			
Net income from continuing operations	\$0.11	\$0.67	\$1.15
Income (loss) from discontinued operations	\$—	\$0.11	\$(0.57)
Net income	\$0.11	\$0.79	\$0.58
Diluted Shares Outstanding			
Basic weighted-average shares outstanding	18,731	18,656	17,108
Stock-based awards	325	521	533
Diluted weighted-average shares outstanding	19,056	19,177	17,641
Diluted earnings per share attributable to common shareholders:			
Net income from continuing operations	\$0.11	\$0.66	\$1.12
Income (loss) from discontinued operations	\$—	\$0.11	\$(0.56)
Net income	\$0.11	\$0.77	\$0.56
Potentially dilutive shares excluded from diluted-per-share amounts:			
Stock options	288	345	133

Potentially anti-dilutive shares excluded from diluted-per-share amounts:



Stock options

1,347 688 210

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Potentially dilutive shares excluded from diluted-per-share amounts include performance-based options to purchase shares of common stock, for which certain earnings metrics have not been achieved. Potentially anti-dilutive shares excluded from diluted-per-share amounts include both non-qualified stock options and unearned performance-based options to purchase shares of common stock with exercise prices greater than the weighted-average share price during the period and shares that would be anti-dilutive to the computation of diluted net income per share for each of the years presented.

### Share-Based Compensation

The Company's outstanding stock options include time-based stock options, which vest over differing periods ranging from the date of issuance up to 48 months from the option grant date; performance-based stock options, which have already vested upon achieving operating income margins of six, eight and ten percent as reported in four of five consecutive quarters over the term of the options.

The Company's outstanding restricted stock units ("RSUs") include time-based RSUs, which vest over differing periods ranging from 12 months up to 48 months from the RSU grant date, as well as performance-based RSUs, which vest upon achieving cumulative annual net sales growth targets over a rolling one year period and performance-based RSUs, which vest upon achieving earnings-per-share targets over a rolling one-year period. RSUs granted to the Board of Directors contain a restriction period in which the shares are not issued until two years after vesting.

The Company recognizes all share-based payments to Directors and employees, including grants of stock options and restricted stock units, in the statement of operations based on their grant-date fair values. The Company records compensation expense, net of an estimated forfeiture rate, over the vesting period of the stock options and restricted stock units based on the fair value of the stock options and restricted stock units on the date of grant. The Company's estimated forfeiture rate is based upon historical experience.

### Comprehensive Income (Loss)

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

### Strategic Alliance with Fosun Pharma

On August 25, 2014, Nature's Sunshine and Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharma"), closed a transaction pursuant to which, the parties entered into a joint venture for operations in the People's Republic of China ("China"), of which 80 percent is owned by Nature's Sunshine and 20 percent is owned by a wholly-owned subsidiary of Fosun Pharma and completed a concurrent investment by Fosun Pharma in Nature's Sunshine common stock issued pursuant to a private placement transaction with net proceeds of \$44.8 million. Nature's Sunshine used the net proceeds of the private placement transaction to fund its 80 percent share of the initial \$20.0 million capitalization of the China joint venture, or \$16.0 million, and to pay its shareholders a cash dividend of \$1.50 per share, or \$28.5 million. The Company consolidated the joint venture in its consolidated financial statements, with Fosun Pharma's interest presented as a noncontrolling interest.

The joint venture, known as Nature's Sunshine Hong Kong Limited, expects to market and distribute Nature's Sunshine products in China. Nature's Sunshine Hong Kong Limited currently anticipates deploying a multi-channel go-to-market strategy that will offer select Nature's Sunshine-branded products through direct selling, e-commerce and retail channels across China. The time to market will be dependent upon regulatory processes, including product

registration, permit and license approvals. The Company is unable to determine whether or when it will receive a direct selling license in China.

Pursuant to a concurrent private placement transaction, Nature's Sunshine issued 2,855 shares of unregistered common stock to Fosun Pharma at a price of \$16.19 per share, representing aggregate net proceeds to Nature's Sunshine of \$44.8 million. The purchase price represented a 10 percent premium to Nature's Sunshine's average stock price over the trailing 30 business day period as of June 26, 2014. As a result of the private placement transaction, Fosun Pharma owns approximately 15 percent of Nature's Sunshine outstanding common shares with respect to which the Company has granted Fosun Pharma certain registration rights. In addition, Nature's Sunshine appointed one director designated by Fosun Pharma to its board of directors.

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### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 - Revenue from Contracts with Customers (Topic 606), and has subsequently issued ASUs 2015-14 - Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, 2016-08 - Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross Versus Net), 2016-10 - Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, 2016-12 - Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, and 2016-20 - Revenue from Contracts with Customers (Topic 606): Technical Corrections and Improvements to Topic 606 (collectively, Topic 606).

Topic 606 outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersede most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. This guidance is effective for the Company beginning on January 1, 2018 and it has the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The Company expects to adopt Topic 606 using the modified retrospective approach, under which the cumulative effect of initially applying Topic 606 is recognized as an adjustment to the opening balance of retained earnings in the first quarter of 2018.

The Company is concluding the assessment phase of implementing this guidance. The Company has evaluated each of the five steps in Topic 606, which are as follows: 1) Identify the contract with the customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations; and 5) Recognize revenue when (or as) performance obligations are satisfied. The Company expects to identify similar performance obligations under ASC Topic 606 as compared with deliverables and separate units of account previously identified. As a result, the Company expects the timing of revenue to remain materially the same in comparison to the current revenue recognition guidance.

There are also certain considerations related to internal control over financial reporting that are associated with implementing Topic 606. The Company is currently evaluating its control framework for revenue recognition and identifying any changes that may need to be made in response to the new guidance. Disclosure requirements under the new guidance in Topic 606 have been significantly expanded in comparison to the disclosure requirements under the current guidance. Designing and implementing the appropriate controls over gathering and reporting the information required under Topic 606 is currently in process.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements: "Going Concern" (Subtopic 205-40). The purpose of this ASU is to incorporate into U.S. GAAP management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued, and to provide related footnote disclosures. This update is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this ASU is not expected to have a material impact on the Company's results of operations, consolidated financial statements and footnote disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This update specifies that inventory should be subsequently measured at the lower of cost or net realizable value, which is the ordinary selling price less any completion, transportation and disposal costs. However, the ASU does not

apply to inventory measured using the last-in-first-out or retail methods. This update is effective for interim and annual periods beginning after December 15, 2016. Adoption of the ASU is prospective. The adoption of this ASU is not expected to have a material impact on the Company's results of operations, consolidated financial statements and footnote disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This guidance requires that entities with a classified statement of financial position present all deferred tax assets and liabilities as noncurrent. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2016, which will require the Company to adopt the new guidance in the first quarter of fiscal 2017. Early adoption is permitted for financial statements that have not been previously issued and may be applied on either a prospective or retrospective basis. Other than the netting of current and long-term deferred tax assets and liabilities in the non-current section of the balance sheet and footnote disclosures, the adoption of this ASU is not expected to have a material impact on the Company's results of operations and consolidated financial statements.

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In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This update amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Although the ASU retains many current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. This update is effective for interim and annual periods beginning after December 15, 2017. The adoption of this ASU is not expected to have a material impact on the Company's results of operations, consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842): Accounting for Leases. This update specifies that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will largely remain unchanged and continue to depend on its classification as a finance or operating lease. The ASU will be effective for annual periods beginning after December 15, 2018 with early adoption permitted. The adoption of this ASU is not expected to have a material impact on the Company's results of operations; however, it is expected to gross-up the consolidated balance sheet as a result of recognizing a lease asset along with a similar lease liability.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The adoption of this ASU is not expected to have a material impact on the Company's results of operations, consolidated financial statements and footnote disclosures.

**NOTE 2: DISCONTINUED OPERATIONS**

In November 2014, the Company ceased its operations in Venezuela due to the difficulties and uncertainties related to import controls, difficulties associated with repatriating cash and high inflation. This market was part of the Company's NSP Americas segment and all of the income (loss) from discontinued operations is related to the common shareholders of the Company.

The following table summarizes the operating results of the Company's discontinued operations (dollar amounts in thousands):

	2015	2014
Net sales	\$—	\$7,559
Income (loss) before income tax provision	\$2,604	\$(10,597)
Income tax provision (benefit)	488	(640 )
Income (loss) from discontinued operations	\$2,116	\$(9,957 )

There was no income or losses from discontinued operations during the year ended December, 31, 2016.

Due to the economic instability of the Venezuelan market, as of September 30, 2014, the Company incurred a \$2.9 million impairment charge to write down the value of its fixed assets in Venezuela to \$0. The loss before income taxes for the year ended December 31, 2014, includes a charge of \$7.8 million related to exiting Venezuela, of which \$4.1

million is a non-cash write-off of accumulated translation adjustments that were previously included in shareholders' equity. The loss from discontinued operations did not have a material impact on the Company's operating cash flows during 2014.

During the year ended December 31, 2015, the Company received \$1.3 million in net proceeds from the sales of its fixed assets in Venezuela, which is included in the results from discontinued operations. During the year ended December 31, 2015, the Company released \$1.3 million in accrued liabilities related to prior sales and use taxes as well as other litigation in Brazil, which is included in the results from discontinued operations. The Company ceased its operations in Brazil in 2010.

The income (loss) from discontinued operations did not have a material impact on the Company's operating cash flows during the year ended December 31, 2015.

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## NOTE 3: RESTRUCTURING RELATED EXPENSES

In April 2015, the Company announced its plan to streamline its operations and refocus its activities on profitable growth opportunities. The planned streamlining is expected to reduce costs, improve efficiencies and renew focus on larger and more profitable Company markets. As part of the plan, the Company eliminated approximately 100 positions worldwide through both severance and attrition. It also ceased operations in Vietnam and abandoned the lease for the building in that market. The Company incurred approximately \$3.3 million of non-recurring expenses during the year ended December 31, 2015, which were recorded primarily in selling, general and administrative expenses, of which \$2.8 million related to severance and termination benefits and \$0.5 million related to other exit costs. Of the restructuring costs incurred during the year ended December 31, 2015, only \$49,000 of other exit costs remained payable at the year ended December 31, 2016.

In 2016, the Company decided to exit the Philippines and streamline its operations in Singapore. Total restructuring costs were \$0.2 million for the year ended December 31, 2016, which were recorded primarily in selling, general and administrative expenses as well as in cost of goods sold.

## NOTE 4: INVENTORIES

The composition of inventories is as follows (dollar amounts in thousands):

As of December 31,	2016	2015
Raw materials	\$ 14,995	\$ 13,351
Work in process	694	789
Finished goods	31,908	24,355
Total inventory	\$ 47,597	\$ 38,495

## NOTE 5: PROPERTY, PLANT AND EQUIPMENT

The composition of property, plant and equipment is as follows (dollar amounts in thousands):

As of December 31,	2016	2015
Land and improvements	\$ 1,996	\$ 2,518
Buildings and improvements	30,277	30,013
Machinery and equipment	23,699	22,293
Furniture and fixtures	19,962	18,964
Computer software and hardware	49,340	44,194
	125,274	117,982
Accumulated depreciation and amortization	(52,002 )	(49,254 )
Total property, plant and equipment	\$ 73,272	\$ 68,728

Depreciation expense was \$4.7 million, \$4.4 million, and \$4.3 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Capitalized interest was \$0.2 million for the year ended December 31, 2016 and \$0 for the years ended December 31, 2015 and 2014.

In January of 2017, the Company sold a 53 acre property in Springville, Utah. At December 31, 2016, \$0.5 million of land and improvements was classified as held for sale and an impairment of \$0.2 million was recognized for the year ended December 31, 2016.



NOTE 6: INTANGIBLE ASSETS

At December 31, 2016, and 2015, intangibles for product formulations and registrations had a gross carrying amount of \$1.9 million, and \$1.4 million, accumulated amortization of \$0.9 million, and \$0.8 million, and a net amount of \$1.0 million, and \$0.6 million, respectively. The estimated useful lives of the product formulations range from 9 to 15 years.

During the year ended December 31, 2016 the Company purchased blue-hat product registrations of \$0.5 million in China. The estimated useful lives of the blue-hat product registrations range from 3 to 5 years.

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Amortization expense for intangible assets for the years ended December 31, 2016, 2015, and 2014 was \$0.1 million, \$0.1 million and \$0.1 million, respectively. Estimated amortization expense for the five succeeding fiscal years and thereafter is as follows (dollar amounts in thousands):

Year Ending December 31,

2017	\$155
2018	218
2019	218
2020	218
2021	151
Thereafter	16
Total	\$976

## NOTE 7: ACCRUED LIABILITIES

The composition of accrued liabilities is as follows (dollar amounts in thousands):

As of December 31,	2016	2015
Salaries and employee benefits	\$10,670	\$9,706
Sales, use and property tax (See Note 14)	2,376	3,231
Convention and meeting costs	5,129	4,798
Other	6,225	5,991
Total	\$24,400	\$23,726

## NOTE 8: INVESTMENT SECURITIES

The amortized cost and estimated fair values of available-for-sale securities are as follows (dollar amounts in thousands):

As of December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government securities funds	\$ 1,799	\$ —	—\$ (23 )	\$1,776
Total short-term investment securities	\$ 1,799	\$ —	—\$ (23 )	\$1,776
As of December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government securities funds	\$ 1,794	\$ —	—\$ (22 )	\$1,772
Total short-term investment securities	\$ 1,794	\$ —	—\$ (22 )	\$1,772

During 2016, 2015, and 2014, the proceeds from the sales of available-for-sale securities were \$5,000, \$0.8 million, and \$0.2 million, respectively. During the year ended December 31, 2016, the Company had no gross realized gains (losses) on sales of available-for-sale securities (net of tax). During the year ended December 31, 2015, the Company had gross realized gains of \$0.3 million on sales of available-for-sale securities (net of tax). There were zero realized gains (losses) on sales of available-for-sales securities (net of tax) for the year ended December 31, 2014.

The Company's trading securities portfolio totaled \$1.4 million and \$1.0 million at December 31, 2016 and 2015, respectively, and generated gains of \$0.1 million, and losses of \$5,000, and gains of \$0.1 million, for the years ended December 31, 2016, 2015, and 2014, respectively.



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## NOTE 9: REVOLVING CREDIT FACILITY

The Company's revolving credit agreement with Wells Fargo Bank, N.A., permits the Company to borrow up to \$25.0 million through September 1, 2017, bearing interest at LIBOR plus 1.25 percent (2.13 percent and 1.50 percent as of December 31, 2016 and 2015, respectively). The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. Currently, the revolving credit agreement matures on September 1, 2017. The credit agreement was amended effective December 31, 2016, to modify certain financial covenants, eliminating the Company's rolling four quarter net income covenant and adding a covenant requiring the Company to maintain a minimum rolling four quarter EBITDA, which is defined in the credit agreement. The Company settles its net borrowings under the revolving credit agreement daily, and as a result, has classified its outstanding borrowings as current on its consolidated balance sheet as of December 31, 2016. At December 31, 2016, and 2015, the outstanding balance under the revolving credit agreement was \$9.9 million and \$2.7 million, respectively.

The revolving credit agreement contains financial covenants, including financial covenants relating to current ratio, leverage, minimum net income, and consecutive quarterly net losses. In addition, the agreement restricts capital expenditures, lease expenditures, other indebtedness, liens on assets, guaranties, loans and advances, dividends, and merger, consolidation and the transfer of assets except in the ordinary course of business. The revolving credit facility is collateralized by the Company's manufacturing facility, accounts receivable balance, inventory balance and other miscellaneous assets. The Company remains in compliance with these debt covenants as of December 31, 2016.

## NOTE 10: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss), net of tax, are as follows (dollar amounts in thousands):

	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Available-For-Sale Securities	Total Accumulated Other Comprehensive Loss
Balance as of January 1, 2014	\$ (14,193 )	\$ 230	\$ (13,963 )
Activity, net of tax	2,729	30	2,759
Balance as of December 31, 2014	(11,464 )	260	(11,204 )
Activity, net of tax	233	(272 )	(39 )
Balance as of December 31, 2015	(11,231 )	(12 )	(11,243 )
Activity, net of tax	(16 )	(1 )	(17 )
Balance as of December 31, 2016	\$ (11,247 )	(13 )	\$ (11,260 )

## NOTE 11: INCOME TAXES

Income from continuing operations before provision (benefit) for income taxes are taxed under the following jurisdictions (dollar amounts in thousands):

Year Ended December 31,	2016	2015	2014
Domestic	\$6,420	\$6,290	\$4,577
Foreign	2,846	6,990	14,437
Total	\$9,266	\$13,280	\$19,014

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Components of the provision (benefit) for income taxes from continuing operations for each of the three years in the period ended December 31, 2016 are as follows (dollar amounts in thousands):

Year Ended December 31,	2016	2015	2014
Current:			
Federal	\$1,987	\$537	\$(2,713)
State	498	73	514
Foreign	5,345	4,503	5,539
Subtotal	7,830	5,113	3,340
Deferred:			
Federal	496	(3,624 )	(3,804 )
State	(14 )	430	(326 )
Foreign	279	(179 )	47
Subtotal	761	(3,373 )	(4,083 )
Total provision (benefit) for income taxes	\$8,591	\$1,740	\$(743 )

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

Year Ended December 31,	2016	2015	2014
Statutory U.S. federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of U.S. federal income tax benefit	3.4	2.7	0.6
U.S. tax impact of foreign operations	(53.4)	2.8	(73.0)
Valuation allowance change	77.6	(24.5)	48.8
Unrecognized tax benefits	4.7	11.2	(8.6 )
Domestic manufacturing deduction	(2.8 )	(1.3 )	(2.2 )
Permanent foreign items	26.8	(7.4 )	(1.8 )
Non-income tax contingencies	—	(2.0 )	(0.9 )
Other	1.4	(3.4 )	(1.8 )
Effective income tax rate	92.7 %	13.1 %	(3.9 )%

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

Adjustments relating to the U.S. impact of foreign operations decreased the effective tax rate by 53.4 percentage points in 2016, increased the effective tax rate by 2.8 percentage points in 2015, and decreased the effective tax rate by 73.0 percentage points in 2014. The components of this calculation were:

Components of U.S. tax impact of foreign operations	2016	2015	2014
Dividends received from foreign subsidiaries	65.9 %	5.4 %	59.5 %
Foreign tax credits	(91.8)	(1.1)	(121.3)
Foreign tax rate differentials	(27.1)	(1.2)	(11.0 )
Unremitted earnings	0.2	(0.3)	(0.2 )
Other adjustments	(0.6 )	—	—
Total	(53.4)%	2.8 %	(73.0 )%

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The significant components of the deferred tax assets (liabilities) are as follows (dollar amounts in thousands):

As of December 31,	2016	2015
Inventory	\$1,520	\$1,200
Accrued liabilities	4,178	4,104
Deferred compensation	498	387
Equity-based compensation	5,034	4,660
Intangibles assets	237	267
Bad debts	76	52
Net operating losses	7,143	5,364
Foreign tax and withholding credits	13,183	11,732
Non-income tax accruals	57	54
Health insurance accruals	257	154
Other deferred tax assets	1,735	2,070
Capital loss carryforward	510	1,047
Valuation allowance	(11,250 )	(6,565 )
Total deferred tax assets	\$23,178	24,526
Other deferred tax liabilities	(1,597 )	(2,167 )
Total deferred tax liabilities	(1,597 )	(2,167 )
Total deferred taxes, net	\$21,581	\$22,359

The components of deferred tax assets (liabilities), net are as follows (dollar amounts in thousands):

As of December 31,	2016	2015
Net current deferred tax assets	\$5,620	\$5,021
Net non-current deferred tax assets	15,970	17,339
Total net deferred tax assets	21,590	22,360
Net current deferred tax liabilities	(1 )	(1 )
Net non-current deferred tax liabilities	(8 )	—
Total net deferred tax liabilities	(9 )	(1 )
Total deferred taxes, net	\$21,581	\$22,359

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

Management has provided a valuation allowance of \$11.3 million and \$6.6 million as of December 31, 2016 and 2015, respectively, for certain deferred tax assets, including foreign net operating losses, for which management cannot conclude it is more likely than not that they will be realized. The Company reviewed its tax positions and increased its valuation allowance by approximately \$4.7 million in 2016 primarily due to a domestic increase of \$3.0 million and a foreign increase of \$1.7 million.

At December 31, 2016, foreign subsidiaries had unused operating loss carryovers for tax purposes of approximately \$7.1 million. The net operating losses will expire at various dates from 2017 through 2026, with the exception of those in some foreign jurisdictions where there is no expiration. At December 31, 2016, the Company had approximately \$13.2 million of foreign tax and withholding credits, most of which expire in 2024.

The Company is subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. The Company believes it has appropriately provided for income taxes for all years. Several factors drive the calculation of its tax reserves. Some of these factors include: (i) the expiration of various statutes of

limitations;

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(ii) changes in tax law and regulations; (iii) the issuance of tax rulings; and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to the Company's reserves, which would impact its reported financial results.

The Company's U.S. federal income tax returns for 2013 through 2015 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions that have open tax years from 2008 through 2015.

The total outstanding balance for liabilities related to unrecognized tax benefits at December 31, 2016 and 2015 were \$6.8 million and \$7.8 million, respectively, all of which would favorably impact the effective tax rate if recognized. Included in these amounts is approximately \$1.8 million and \$2.0 million, respectively, of combined interest and penalties. The Company decreased interest and penalties approximately \$0.1 million for the year ended December 31, 2016 and increased interest and penalties approximately \$0.3 million for the year ended 2015. The Company accounts for interest expense and penalties for unrecognized tax benefits as part of its income tax provision.

During the years ended December 31, 2016, 2015 and 2014, the Company added approximately \$1.4 million, \$1.6 million and \$2.3 million, respectively, to its liability for unrecognized tax benefits. Included in these amounts are approximately \$0.3 million, \$0.3 million and \$0.3 million for the years ended December 31, 2016, 2015 and 2014, respectively, related to interest expense and penalties. In addition, the Company recorded a benefit related to the lapse of applicable statute of limitations of approximately \$2.5 million, \$0.1 million and \$0.3 million for the years ended December 31, 2016, 2015 and 2014, respectively, all of which favorably impacted the Company's effective tax rate. Included in the amount for the year ended December 31, 2016 is approximately \$0.4 million related to interest and penalties.

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax benefits, excluding interest and penalties, is as follows for the years (dollar amounts in thousands):

Year Ended December 31,	2016	2015	2014
Unrecognized tax benefits, opening balance	\$5,825	\$4,950	\$11,050
Settlement of liability reclassified as income tax payable	—	(104 )	(591 )
Payments on liability	—	—	—
Tax positions taken in a prior period			
Gross increases	—	—	—
Gross decreases	—	(47 )	(6,614 )
Tax positions taken in the current period			
Gross increases	1,182	1,252	1,934
Gross decreases	—	—	—
Lapse of applicable statute of limitations	(2,121 )	(69 )	(244 )
Currency translation adjustments	22	(157 )	(585 )
Unrecognized tax benefits, ending balance	\$4,908	\$5,825	\$4,950

The Company anticipates that liabilities related to unrecognized tax benefits will increase approximately \$0.2 million to \$0.6 million within the next twelve months due to additional transactions related to commissions and transfer pricing.

The Company believes that it is reasonably possible that unrecognized tax benefits may change by \$0 to \$0.2 million within the next twelve months due to the expiration of statutes of limitations in various jurisdictions.

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



results in the period in which the Company makes such determination.

#### NOTE 12: CAPITAL TRANSACTIONS

##### Dividends

The declaration of future dividends is subject to the discretion of the Company's Board of Directors and will depend upon various factors, including the Company's earnings, financial condition, restrictions imposed by any indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by its Board of Directors.

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On February 24, 2016, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1.9 million that was paid on March 22, 2016, to shareholders of record on March 11, 2016. On May 10, 2016, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1.9 million that was paid on June 6, 2016, to shareholders of record on May 25, 2016. On August 5, 2016, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1.9 million that was paid on September 2, 2016, to shareholders of record on August 23, 2016. On November 2, 2016, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1.9 million that was paid on December 5, 2016, to shareholders of record on November 23, 2016.

### Share Repurchase Program

In December 2014, the Company completed share repurchases under its previously announced \$10.0 million share repurchase program. In November 2014, the Board of Directors authorized a \$20.0 million share repurchase program beginning January 1, 2015. Such purchases may be made in the open market, through block trades, in privately negotiated transactions or otherwise. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors and the program may be discontinued or suspended at any time. At December 31, 2016, the remaining balance available for repurchases under the program was \$13.4 million. Shares repurchased during the years ended December 31, 2016, 2015, and 2014, totaled 0 shares, 501,000 shares and 496,000 shares, respectively.

### Share-Based Compensation

During the year ended December 31, 2012, the Company's shareholders adopted and approved the the 2012 Incentive Plan. The 2012 Incentive Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, performance awards, stock awards and other stock-based awards. The Compensation Committee of the Board of Directors has authority and discretion to determine the type of award as well as the amount, terms and conditions of each award under the 2012 Incentive Plan, subject to the limitations of the 2012 Incentive Plan. A total of 1,500,000 shares of the Company's common stock were originally authorized for the granting of awards under the 2012 Stock Incentive Plan. In January 2015, the Company's shareholders approved an amendment to the 2012 Incentive Plan, to increase the number of shares of Common Stock reserved for issuance by 1,500,000 shares. The number of shares available for awards, as well as the terms of outstanding awards, are subject to adjustment as provided in the 2012 Incentive Plan for stock splits, stock dividends, recapitalizations and other similar events.

The Company also maintains the 2009 Incentive Plan, which was approved by shareholders in 2009. The 2009 Incentive Plan also provided for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, performance awards, stock awards and other stock-based awards. Under the 2012 Incentive Plan, any shares subject to award, or awards forfeited or reacquired by the Company issued under the 2009 Incentive Plan are available for award up to a maximum of 400,000 shares.

### Stock Options

The Company's outstanding stock options include time-based stock options, which vest over differing periods ranging from the date of issuance up to 48 months from the option grant date; performance-based stock options, which have already vested upon achieving operating income margins of six, eight and ten percent as reported in four of five consecutive quarters over the term of the options.



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Stock option activity for 2016, 2015, and 2014 consisted of the following (share amounts in thousands, except for per share information):

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at January 1, 2014	1,926	\$ 12.54
Granted	258	15.38
Forfeited or canceled	(23 )	13.33
Exercised	(124 )	6.42
Options outstanding at December 31, 2014	2,037	11.69
Granted	335	14.04
Forfeited or canceled	(284 )	14.07
Exercised	(405 )	9.78
Options outstanding at December 31, 2015	1,683	12.21
Forfeited or canceled	(124 )	11.95
Exercised	(35 )	4.74
Options outstanding at December 31, 2016	1,524	\$ 12.41

On September 19, 2014, the Company paid a special non-recurring cash dividend of \$1.50 per common share. In accordance with the provisions of the Company's stock incentive plans, the exercise price of all outstanding stock options on the ex-dividend dates were decreased by \$1.50 per share in order to prevent a dilution of benefits or potential benefits intended to be made available to the stock option holders. Because this modification was required by the provisions of the Company's stock incentive plans, no additional share-based compensation expense was recorded.

During the year ended December 31, 2016, the Company did not grant any stock options to purchase shares of common stock under the 2012 Stock Incentive Plan to the Company's Board of Directors and executive officers.

During the year ended December 31, 2015, the Company granted options to purchase 335,000 shares of common stock under the 2012 Stock Incentive Plan to the Company's executive officers and other employees, which are composed of both time-based stock options and net sales performance-based stock options. These options were issued with a weighted-average exercise price of \$14.04 per share and a weighted-average grant date fair value of \$4.79 per share. All of the options issued have an option termination date of ten years from the option grant date.

During the year ended December 31, 2014, the Company granted time-based options to purchase 258,000 shares of common stock under the 2009 Incentive Plan to the Company's new senior executives. These options were issued with a weighted average exercise price of \$15.38 per share and a weighted average grant date fair value of \$6.53 per share. All of the options issued have an option termination date of ten years from the option grant date.

For the years ended December 31, 2016, 2015, and 2014, the Company issued 35,000, 405,000, and 124,000 shares of common stock upon the exercise of stock options at an average exercise price of \$4.74, \$9.78, and \$6.42 per share, respectively. The aggregate intrinsic values of options exercised during the years ended December 31, 2016, 2015, and 2014 was \$0.2 million, \$1.4 million, and \$1.1 million, respectively. For the years ended December 31, 2016, 2015, and 2014, the Company recognized \$0.1 million, \$0.5 million, and \$0.3 million of tax benefits from the exercise of stock options during the period, respectively.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the years ended December 31, 2015 and 2014:

	2015	2014
Weighted average grant date fair value of grants	\$4.79	\$6.53
Expected life (in years)		6.0

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Risk-free interest rate	5.0 to	
	6.0	
	1.5 to	1.5
Expected volatility	1.8	
	42.6	
	to	56.7
Dividend yield	52.3	
	2.8 to	2.6
	3.6	

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Expected option lives and volatilities are based on historical data of the Company. The risk-free interest rate is calculated as the average U.S. Treasury bill rate that corresponds with the option life. The dividend yield is based on the Company's historical and expected amount of dividend payouts, at the time of grant. On August 29, 2013, and September 19, 2014, the Company paid special non-recurring cash dividends of \$1.50 per common share. The Company has excluded these special non-recurring cash dividends from the dividend yield used in the Black-Scholes option-pricing model calculations as it is not representative of future dividends to be declared by the Company.

Share-based compensation expense from time-based stock options for the years ended December 31, 2016, 2015, and 2014 was \$0.8 million, \$1.6 million and \$2.9 million, respectively. As of December 31, 2016, 2015, and 2014, the unrecognized share-based compensation cost related to grants described above was \$0.3 million, \$1.1 million, and \$2.0 million, respectively. As of December 31, 2016, the remaining compensation cost is expected to be recognized over the weighted-average period of approximately 1.2 years.

As of December 31, 2016, the Company did not have any unvested performance-based stock options outstanding.

The following table summarizes information about options outstanding and exercisable at December 31, 2016 (share amounts in thousands, except per share information):

Range of Option Prices Per Share	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price Per Share	Options Exercisable	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price Per Share
\$2.35 to \$9.99	152	3.3	\$ 5.38	152	3.3	\$ 5.38
\$10.00 to \$11.99	397	6.1	11.78	340	6.1	11.74
\$12.00 to \$13.99	555	5.7	12.87	463	5.4	12.66
\$14.00 to \$17.70	420	7.8	14.95	246	7.5	15.44
	1,524			1,201		

At December 31, 2016, the aggregate intrinsic value of outstanding options to purchase 1,524,000 shares of common stock, the exercisable options to purchase 1,201,000 shares of common stock, and options to purchase 306,000 shares of common stock expected to vest was \$4.2 million, \$3.7 million, and \$0.4 million, respectively. At December 31, 2015, the aggregate intrinsic value of outstanding options to purchase 1,683,000 shares of common stock, the exercisable options to purchase 958,000 shares of common stock, and options to purchase 588,000 shares of common stock expected to vest was \$0.9 million, \$0.9 million, and \$0, respectively.

### Restricted Stock Units

The Company's outstanding restricted stock units (RSUs) include time-based RSUs, which vest over differing periods ranging from 12 months up to 48 months from the RSU grant date, as well as performance-based RSUs, which upon achieving cumulative annual net sales growth targets over a rolling one-year period and performance-based RSUs, which vest upon achieving earnings-per-share targets over a rolling one-year period. RSUs given to the Board of Directors contain a restriction period in which the shares are not issued until two years after vesting. At December 31, 2016 and 2015, there were 69,000 and 60,000 vested RSUs given to the Board of Directors that had a restriction period.

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Restricted stock unit activity for the period ended December 31, 2016, 2015, and 2014 is as follows: (share amounts in thousands, except per share information):

	Number of Shares	Weighted Average Grant Date Fair Value
Units outstanding at January 1, 2014	32	\$ 12.47
Granted	156	10.73
Issued	—	—
Forfeited	(8 )	15.37
Units outstanding at December 31, 2014	180	15.09
Granted	679	12.61
Issued	(30 )	13.63
Forfeited	(85 )	12.84
Units outstanding at December 31, 2015	744	12.48
Granted	281	9.49
Issued	(154 )	13.05
Forfeited	(33 )	12.20
Units outstanding at December 31, 2016	838	11.39

On September 19, 2014, and August 29, 2013, the Company paid special non-recurring cash dividends of \$1.50 per common share. In accordance with the provisions of the Company's stock incentive plans, additional RSUs were issued in order to prevent a dilution of benefits or potential benefits intended to be made available to the RSU holders. Because this RSU issuance was required by the provisions of the Company's stock incentive plans, no additional share-based compensation expense was recorded.

During the year ended December 31, 2016, the Company granted 281,000 restricted stock units (RSUs) of common stock under the 2012 Incentive Plan to the Company's board, executive officers and other employees, which are composed of both time-based RSUs and net sales and earnings per share performance-based RSUs. The time-based RSUs were granted with a weighted-average grant date fair value \$10.06 per share and vest in annual installments over a three year from the grant date. The net sales performance-based RSUs were granted with a weighted-average grant date fair value of \$8.16 per share and vest upon achieving net sales targets over a three year period from the grant date.

During the period ended December 31, 2015, the Company granted 679,000 restricted stock units (RSUs) of common stock under the 2012 Incentive Plan to the Company's board, executive officers and other employees. The RSUs were granted with a weighted average grant date fair value of \$12.61 per share and vest in annual installments over a three year period from the grant date or after a three-year cliff. The net sales and earnings per share performance-based RSUs were granted with a weighted-average grant date fair value of \$12.13 per share and vest upon achieving (i) net sales targets over a three year period from the grant date and (ii) earnings per share targets over a six year period from the grant date.

During the period ended December 31, 2014, the Company granted 156,000 restricted stock units (RSUs) of common stock under the 2012 Incentive Plan to the Board of Directors. The RSUs were granted with a weighted average grant date fair value of \$10.73 per share and vest in 12 monthly installments over a one year period from the grant date.

RSUs are valued at the market value on the date of grant, which is the grant date share price discounted for expected dividend payments during the vesting period. For RSUs with post-vesting restrictions, a Finnerty Model was utilized to calculate a valuation discount from the market value of common shares reflecting the restriction embedded in the RSUs preventing the sale of the underlying shares over a certain period of time. The Finnerty Model proposes to

estimate a discount for lack of marketability such as transfer restrictions by using an option pricing theory. This model has gained recognition through its ability to address the magnitude of the discount by considering the volatility of a company's stock price and the length of restriction. The concept underpinning the Finnerty Model is that restricted stock cannot be sold over a certain period of time. Using assumptions previously determined for the application of the option pricing model at the valuation date, the Finnerty Model discount for lack of marketability is approximately 11.9 percent for a common share.

Share-based compensation expense from RSUs for the period ended December 31, 2016, 2015, and 2014, was approximately \$2.4 million, \$2.9 million, and \$1.0 million, respectively. As of December 31, 2016, and 2015, the unrecognized



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share-based compensation expense related to the grants described above was \$2.0 million and \$2.5 million, respectively. As of December 31, 2016, the remaining compensation expense is expected to be recognized over the weighted average period of approximately 1.5 years.

The Company has not recognized any share-based compensation expense related to the net sales and earnings per share performance-based RSUs for the years ended December 31, 2016, 2015, and 2014. Should the Company attain all of the metrics related to the performance-based RSU grant, the Company would recognize up to \$3.0 million of potential share-based compensation expense.

The number of shares issued upon vesting or exercise for restricted stock units granted, pursuant to the Company's share-based compensation plans, is net of shares withheld to cover the minimum statutory withholding requirements that the Company pays on behalf of its employees, which was 20,000 and 8,000 shares for the years ended December 31, 2016 and 2015, respectively. Although shares withheld are not issued, they are treated as common share repurchases for accounting purposes, as they reduce the number of shares that would have been issued upon vesting. These shares do not count against the authorized capacity under the repurchase program described above.

### NOTE 13: EMPLOYEE BENEFIT PLANS

#### Deferred Compensation Plans

The Company sponsors a qualified deferred compensation plan which qualifies under Section 401(k) of the Internal Revenue Code. During 2016, the Company made matching contributions of 70 percent of employee contributions up to a maximum of five percent of the employee's compensation (the match was increased from 60 percent to 70 percent of employee contributions up to a maximum of five percent beginning in 2016). The Company's contributions to the plan vest after a period of three years. During 2016, 2015, and 2014, the Company contributed to the plan approximately \$1.1 million, \$0.9 million and \$0.8 million, respectively.

The Company provides a nonqualified deferred compensation plan for its officers and certain key employees. Under this plan, participants may defer up to 100 percent of their annual salary and bonus. Although participants direct the investment of these funds, they are classified as trading securities and are included in long-term investment securities on the consolidated balance sheets because they remain assets of the Company until they are actually paid out to the participants. The Company has established a trust to finance obligations under the plan. At the end of each year and at other times provided under the plan, the Company adjusts its obligation to a participant by the investment return or loss on the funds selected by the participant under rules established in the plan. Upon separation of employment of the participant with the Company, the obligation owed to the participant under the plan will be paid as a lump sum or over a period of either three or five years (and will continue to be adjusted by the applicable investment return or loss during the period of pay-out). The Company had deferred compensation plan assets of approximately \$1.4 million and \$1.0 million as of December 31, 2016, and 2015, respectively. The change in the liability associated with the deferred compensation plan is recorded in the deferred compensation payable.

### NOTE 14: COMMITMENTS AND CONTINGENCIES

#### Contractual Obligations

The Company leases certain facilities and equipment used in its operations and accounts for leases with escalating payments using the straight-line method. The Company incurred expenses of approximately \$6.6 million, \$6.3 million, and \$6.2 million in connection with operating leases during 2016, 2015, and 2014, respectively. The approximate aggregate commitments under non-cancelable operating leases in effect at December 31, 2016, were as follows (dollar amounts in thousands):

Year Ending December 31,	
2017	\$6,906
2018	5,432
2019	3,261
2020	2,254
2021	2,077
Thereafter	15,692
Total	\$35,622

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The Company has entered into long-term agreements with third-parties in the ordinary course of business, in which it has agreed to pay a percentage of net sales in certain regions in which it operates, or royalties on certain products. In 2016, 2015, and 2014, the aggregate amounts of these payments were \$0.1 million, \$0.1 million, and \$0.2 million, respectively.

In 2013, the Company began to significantly reinvest in its information technology systems. Included within this plan is an Oracle ERP implementation program to provide the Company with a single integrated software solution that will integrate the Company's business process on a worldwide basis. The Company anticipates completion of this project in early 2017. Also, as of December 31, 2016, the Company had commitments to purchase manufacturing equipment of \$1.3 million in 2017.

## Legal Proceedings

The Company is party to various legal proceedings. Management cannot predict the ultimate outcome of these proceedings, individually or in the aggregate, or their resulting effect on the Company's business, financial position, results of operations or cash flows as litigation and related matters are subject to inherent uncertainties, and unfavorable rulings could occur. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the business, financial position, results of operations, or cash flows for the period in which the ruling occurs and/or future periods. The Company maintains general liability and excess liability insurance coverage. In addition, the Company is self-insured for product liability claims. However, no assurances can be given that such insurance will continue to be available at an acceptable cost to the Company, that such coverage will be sufficient to cover one or more large claims, or that the insurers will not successfully disclaim coverage as to a pending or future claim.

Since late 2007, the Company has administered its sales in Belarus, Georgia, Kazakhstan, Moldova, Mongolia, Russia and Ukraine (the "Territories") through an International Reseller Agreement ("Reseller Agreement") with a third party general dealer (the "General Dealer") based in Russia. The General Dealer administers the marketing and distribution of the Company's products in the Territories. As a part of its services, the General Dealer provides certain discounts (the "Discounts") to its network of dealers related to the costs associated with transporting the Company's products from the General Dealer to the dealers. In July 2013, the General Dealer began to withhold the amount of these Discounts from the funds remitted each month to the Company for the sale of the products, claiming that it is entitled to reimbursement for these costs under the Reseller Agreement. These withholdings totaled approximately \$3.0 million at March 31, 2014.

The parties negotiated a resolution to the dispute, whereby the General Dealer paid the Company the \$3.0 million of Discounts withheld and relinquished all claims to the reimbursement of Discounts with respect to periods prior to July 2013, and the parties agreed to a new three-year international reseller agreement, effective April 1, 2014.

## Other Litigation

The Company is party to various other legal proceedings in the United States and several foreign jurisdictions related to value-added tax assessments and other civil litigation. The Company has accrued \$0.7 million related to the estimated outcome of these proceedings as of December 31, 2016. In addition, the Company is party to other litigation where there is a reasonable possibility that a loss may be incurred, either the losses are not considered to be probable or the Company cannot at this time estimate the loss, if any; therefore, no provision for losses has been provided. The Company believes future payments related to these matters could range from \$0 to approximately \$0.5 million.

## Non-Income Tax Contingencies

The Company has reserved for certain state sales and use tax and foreign non-income tax contingencies based on the likelihood of an obligation in accordance with accounting guidance for probable loss contingencies. Loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. The Company provides provisions for potential payments of tax to various tax authorities for contingencies related to non-income tax matters, including value-added taxes and sales tax. The Company provides provisions for U.S. state sales taxes in each of the states where the Company has nexus. As of December 31, 2016 and 2015, accrued liabilities include \$0.3 million and \$0.3 million, respectively, related to non-income tax contingencies. While management believes that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of those matters cannot presently be determined. The Company believes future payments related to these matters could range from \$0 to approximately \$4.6 million.

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### Self-Insurance Liabilities

Similar to other manufacturers and distributors of products that are ingested, the Company faces an inherent risk of exposure to product liability claims in the event that, among other things, the use of its products results in injury. The Company has accrued an amount that it believes is sufficient to cover probable and reasonably estimable liabilities related to product liability claims based on the Company's history of such claims. However, there can be no assurance that these estimates will prove to be sufficient, nor can there be any assurance that the ultimate outcome of any litigation for product liability will not have a material negative impact on the Company's business prospects, financial position, results of operations or cash flows.

The Company self-insures for certain employee medical benefits. The recorded liabilities for self-insured risks are calculated using actuarial methods and are not discounted. The liabilities include amounts for actual claims and claims incurred but not reported. Actual experience, including claim frequency and severity as well as health care inflation, could result in actual liabilities being more or less than the amounts currently recorded.

The Company reviews its self-insurance accruals on a quarterly basis and determines, based upon a review of its recent claims history and other factors, which portions of its self-insurance accruals should be considered short-term and long-term. The Company has accrued \$2.4 million and \$2.3 million for product liability and employee medical claims at December 31, 2016 and 2015, respectively, of which \$0.7 million and \$0.4 million was classified as short-term. Such amounts are included in accrued liabilities and other long-term liabilities on the Company's consolidated balance sheets.

### Government Regulations

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

### NOTE 15: OPERATING BUSINESS SEGMENT AND INTERNATIONAL OPERATION INFORMATION

The Company has four business segments. These business segments are components of the Company for which separate information is available that is evaluated regularly by the chief executive officer in deciding how to allocate resources and in assessing relative performance.

The Company has three business segments that operate under the Nature's Sunshine® Products brand and are divided based on the characteristics of their Distributor base, similarities in compensation plans, as well as the internal organization of NSP's officers and their responsibilities (NSP Americas and NSP Russia, Central and Eastern Europe; and China and New Markets). The Company's third business segment operates under the Synergy® WorldWide brand, which distributes its products through different selling and Distributor compensation plans and has products with formulations that are sufficiently different from those of NSP Americas and NSP Russia, Central and Eastern Europe to warrant accounting for these operations as a separate business segment. The Company's fourth business segment,

China and New Markets, anticipates deploying a multi-channel go-to-market strategy that offers select Nature's Sunshine branded products through direct selling, e-commerce and retail channels across China. The time to market will be dependent upon regulatory processes including product registration and permit approvals. The China and New Markets segment also includes Company's wholesale business, in which the Company sells its products to various locally managed entities independent of the Company that have distribution rights for the relevant market. All of the net sales to date in the China and New Markets segment is through the Company's wholesale business to foreign markets, and beginning in the second quarter of 2016, pre-opening product sales through Hong Kong. Net sales for each segment have been reduced by intercompany sales as they are not included in the measure of segment profit or loss reviewed by the chief executive officer. The Company evaluates performance based on contribution margin (loss) by segment before consideration of certain inter-segment transfers and expenses.

In the fourth quarter of 2014, the Company created the China and New Markets segment. The Company moved the reporting of its wholesale business, in which the Company sells its products to a locally managed entity independent of the

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Company that has distribution rights for the market, from the NSP Americas segment to the China and New Markets segment during the year ended December 31, 2014, as well as the results of its NSP Peru and United Kingdom markets, which were converted to wholesale markets during the prior year. The net sales and contribution margin of this business for the year ended December 31, 2016 were \$14.5 million and \$8.7 million, respectively. The net sales and contribution margin of this business for the year ended December 31, 2015 were \$4.1 million and \$1.9 million, respectively. The net sales and contribution margin of this business for the year ended December 31, 2014 were \$5.6 million and \$2.6 million, respectively.

Reportable business segment information for the years ended December 31, 2016, 2015, and 2014 is as follows (dollar amounts in thousands):

Year Ended December 31,	2016	2015	2014
Net sales:			
NSP Americas	\$175,922	\$179,151	\$182,395
NSP Russia, Central and Eastern Europe	25,971	27,408	50,274
Synergy WorldWide	124,793	114,081	128,101
China and New Markets	14,473	4,065	5,597
Total net sales	341,159	324,705	366,367
Contribution margin (1):			
NSP Americas	75,005	74,953	74,603
NSP Russia, Central and Eastern Europe	8,604	9,474	17,851
Synergy WorldWide	38,034	35,277	43,888
China and New Markets	8,669	1,870	2,633
Total contribution margin	130,312	121,574	138,975
Selling, general and administrative (2)	120,273	107,702	119,927
Operating income	10,039	13,872	19,048
Other income (loss), net	(773	) (592	) (34
Income from continuing operations before provision for income taxes	\$9,266	\$13,280	\$19,014

(1) Contribution margin consists of net sales less cost of sales and volume incentives expense. For the China and New Markets segment, contribution margin does not include service fees related to pre-opening product sales through Hong Kong.

(2) Service fees in the China and New Markets segment related to pre-opening product sales through Hong Kong totaled \$4.3 million, \$0, and \$0 for the years ended December 31, 2016, 2015, and 2014, respectively. These service fees are included in the Company's selling, general and administrative expenses.

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Year Ended December 31,	2016	2015	2014
Capital expenditures:			
NSP Americas	\$8,999	\$21,437	\$25,581
NSP Russia, Central and Eastern Europe	131	—	8
Synergy WorldWide	564	302	1,321
China and New Markets	430	487	—
Total capital expenditures	\$10,124	\$22,226	\$26,910

Depreciation and amortization:			
NSP Americas	\$3,997	\$3,603	\$3,438
NSP Russia, Central and Eastern Europe	42	26	25
Synergy WorldWide	713	885	946
China and New Markets	56	11	—
Total depreciation and amortization	\$4,808	\$4,525	\$4,409
As of December 31,	2016	2015	

Assets:			
NSP Americas	\$146,761	\$141,428	
NSP Russia, Central and Eastern Europe	6,106	5,122	
Synergy WorldWide	39,083	38,048	
China and New Markets	13,620	15,922	
Total assets	\$205,570	\$200,520	

From an individual country perspective, only the United States and South Korea comprises approximately 10 percent or more of consolidated net sales for any of the years ended December 31, 2016, 2015, and 2014 as follows (dollar amounts in thousands):

Year Ended December 31,	2016	2015	2014
Net sales:			
United States	\$148,060	\$147,553	\$148,219
South Korea	57,637	48,476	54,314
Other	135,462	128,676	163,834
Total net sales	\$341,159	\$324,705	\$366,367



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Revenue generated by each of the Company's product lines is set forth below (dollars in thousands):

Year Ended December 31,	2016	2015	2014
NSP Americas:			
General health	\$78,187	\$80,315	\$78,218
Immunity	19,185	22,042	23,549
Cardiovascular	12,677	12,331	12,566
Digestive	47,659	49,239	53,133
Personal care	7,537	3,575	4,000
Weight management	10,677	11,649	10,929
	175,922	179,151	182,395
NSP Russia, Central and Eastern Europe:			
General health	\$11,059	\$11,433	\$18,841
Immunity	2,898	3,328	6,512
Cardiovascular	1,918	1,714	3,104
Digestive	7,003	7,167	13,171
Personal care	2,202	2,716	6,073
Weight management	891	1,050	2,573
	25,971	27,408	50,274
Synergy WorldWide:			
General health	\$35,283	\$43,829	\$46,546
Immunity	620	752	974
Cardiovascular	51,684	34,191	42,449
Digestive	12,536	17,746	20,839
Personal care	8,981	5,697	7,196
Weight management	15,689	11,866	10,097
	124,793	114,081	128,101
China and New Markets:			
General health	\$3,399	\$1,903	\$2,370
Immunity	821	525	777
Cardiovascular	2,911	292	334
Digestive	5,329	1,011	1,608
Personal care	797	93	108
Weight management	1,216	241	400
	14,473	4,065	5,597
Total net sales	\$341,159	\$324,705	\$366,367

From an individual country perspective, only the United States comprise 10 percent or more of consolidated property, plant and equipment as follows (dollar amounts in thousands):

As of December 31	2016	2015
Property, plant and equipment		
United States	\$70,770	\$66,044
Other	2,502	2,684
Total property, plant and equipment	\$73,272	\$68,728

Due to the continual currency devaluation of the Venezuelan bolivar, as of September 30, 2014, the Company incurred a \$2.9 million impairment charge to write down the value of its fixed assets in Venezuela to \$0.

## NOTE 16: RELATED PARTY TRANSACTIONS

The Company maintains split-dollar life insurance policies on certain executives. The cash surrender value of \$15,000 and \$48,000 related to such policies is recorded in other assets as of December 31, 2016 and 2015, respectively.

Eugene L. Hughes, a former member of the Company's Board of Directors, and the spouse of Kristine F. Hughes, Vice Chair of the Board of Directors, retired as an employee of the Company effective as of December 22, 2008. The Company and Mr. Hughes entered into a Retirement and Consulting Agreement, dated as of December 9, 2008, pursuant to which Mr. Hughes provided consulting services to the Company for an initial term of eight years following his retirement. In exchange for such consulting services, Mr. Hughes received an annual compensation of approximately \$0.2 million for the first two years of service, and an annual compensation of \$0.1 million for the remainder of the initial term. The term of the Retirement and Consulting Agreement with Mr. Hughes expired on December 22, 2016, and was not renewed.

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## NOTE 17: FAIR VALUE

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values of each financial instrument. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table presents the Company's hierarchy for its asset measured at fair value on a recurring basis as of December 31, 2016 (dollar amounts in thousands):

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Investments available-for-sale				
U.S. government security funds	\$ 1,776	\$ —	\$ —	—\$1,776
Investment securities	1,391	—	—	1,391
Total assets measured at fair value on a recurring basis	\$ 3,167	\$ —	\$ —	—\$3,167

The following table presents the Company's hierarchy for its asset measured at fair value on a recurring basis as of December 31, 2015:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Investments available-for-sale				
U.S. government security funds	1,772	—	—	1,772
Investment securities	1,044	—	—	1,044
Total assets measured at fair value on a recurring basis	\$ 2,816	\$ —	\$ —	—\$2,816

Investments available-for-sale - The majority of the Company's investment portfolio consists of U.S. government security funds. The Level 1 securities are valued using quoted prices for identical assets in active markets including equity securities and U.S. government treasuries.

Trading Investment securities - The Company's trading portfolio consists of various marketable securities that are valued using quoted prices in active markets.

For the years ended December 31, 2016 and 2015, there were no fair value measurements using significant other observable inputs (Level 2) or significant unobservable inputs (Level 3).

The carrying amounts reflected on the consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable and the revolving credit facility payable approximate fair value due to their short-term nature. During the years ended December 31, 2016 and 2015, the Company did not have any re-measurements of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

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## NOTE 18: SUMMARY OF QUARTERLY OPERATIONS — UNAUDITED

The following tables presents the Company's unaudited summary of quarterly operations during 2016 and 2015 for each of three month periods ended March 31, June 30, September 30, and December 31 (dollar amounts in thousands, except per share information).

	For the Quarter Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Net sales	\$82,402	\$89,366	\$ 85,441	\$ 83,950
Cost of sales	(22,020 )	(23,078 )	(21,512 )	(24,327 )
Gross profit	60,382	66,288	63,929	59,623
Volume incentives	29,877	30,791	29,684	29,558
Selling, general and administrative	28,385	31,249	29,187	31,452
Operating income (loss)	2,120	4,248	5,058	(1,387 )
Other income (expense)	1,559	(622 )	20	(1,730 )
Income (loss) from continuing operations before income taxes	3,679	3,626	5,078	(3,117 )
Provision for income taxes	1,890	1,260	1,136	4,305
Net income (loss)	1,789	2,366	3,942	(7,422 )
Net loss attributable to noncontrolling interests	(280 )	(202 )	(213 )	(769 )
Net income (loss) attributable to common shareholders	\$2,069	\$2,568	\$ 4,155	\$ (6,653 )
Basic and diluted net income per common share				
Basic earnings (loss) per share attributable to common shareholders:				
Net income (loss) attributable to common shareholders	\$0.11	\$0.14	\$ 0.22	\$ (0.35 )
Diluted earnings (loss) per share attributable to common shareholders:				
Net income (loss) attributable to common shareholders	\$0.11	\$0.14	\$ 0.22	\$ (0.35 )
Dividends declared per common share	\$0.10	\$0.10	\$ 0.10	\$ 0.10

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

During the fourth quarter of 2016, the Company's provision for income taxes was affected by an addition of valuation allowances on U.S. foreign tax credits, in addition to the impact of current year foreign losses that will not provide tax benefit. The Company's provision for income taxes is discussed in further detail in Note 11.

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	For the Quarter Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Net sales	\$83,878	\$81,247	\$ 79,586	\$ 79,994
Cost of sales	(21,881 )	(21,068 )	(20,643 )	(21,753 )
Gross profit	61,997	60,179	58,943	58,241
Volume incentives	30,337	29,603	28,690	29,156
Selling, general and administrative	26,330	27,392	27,115	26,865
Operating income	5,330	3,184	3,138	2,220
Other income (expense)	(318 )	(2 )	(247 )	(25 )
Income from continuing operations before income taxes	5,012	3,182	2,891	2,195
Provision (benefit) for income taxes	809	787	1,284	(1,140 )
Net income from continuing operations	4,203	2,395	1,607	3,335
Loss from discontinued operations	1,312	—	804	—
Net income	5,515	2,395	2,411	3,335
Net loss attributable to noncontrolling interests	(152 )	(166 )	(355 )	(358 )
Net income attributable to common shareholders	\$5,667	\$2,561	\$ 2,766	\$ 3,693
Basic and diluted net income per common share				
Basic earnings per share attributable to common shareholders:				
Net income from continuing operations	\$0.23	\$0.14	\$ 0.10	\$ 0.20
Income from discontinued operations	\$0.07	\$—	\$ 0.04	\$ —
Net income attributable to common shareholders	\$0.30	\$0.14	\$ 0.15	\$ 0.20
Diluted earnings per share attributable to common shareholders:				
Net income from continuing operations	\$0.23	\$0.13	\$ 0.10	\$ 0.19
Income from discontinued operations	\$0.07	\$—	\$ 0.04	\$ —
Net income attributable to common shareholders	\$0.30	\$0.13	\$ 0.14	\$ 0.19
Dividends declared per common share	\$0.10	\$0.10	\$ 0.10	\$ 0.10

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

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

None.

Item 9A. Controls and Procedures

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

Overview

Management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company.

The following discussion sets forth a summary of management's evaluation of the Company's disclosure controls and procedures as of December 31, 2016. In addition, this item provides a discussion of management's evaluation of internal control over financial reporting.

The Company's independent registered public accountants have also issued an audit report on the Company's internal control over financial reporting. This report appears below.

Evaluation of Disclosure Controls and Procedures

The Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in rules and forms adopted by the SEC, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of the Company's Annual Report as of December 31, 2016, the Company's management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2016. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016.

Management's Report on Internal Control over Financial Reporting

Management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework set forth in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's assessment under this framework, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2016. The Company's internal control over financial reporting as of December 31, 2016 has been assessed by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control over Financial Reporting

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There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that occurred during the fourth quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Nature's Sunshine Products, Inc. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year ended December 31, 2016 of the Company and our report dated March 13, 2017 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 13, 2017

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC no later than 120 days after the close of the Company's fiscal year ended December 31, 2016, except that the information required with respect to the Company's executive officers is set forth under Item 1. "Business", of this Annual Report on Form 10-K, and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC no later than 120 days after the close of the Company's fiscal year ended December 31, 2016.

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

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC no later than 120 days after the close of the Company's fiscal year ended December 31, 2016.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC no later than 120 days after the close of the Company's fiscal year ended December 31, 2016.

Item 14. Principal Accounting Fees and Services.

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC no later than 120 days after the close of the Company's fiscal year ended December 31, 2016.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1)List of Financial Statements

The following are filed as part of this report:

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets as of December 31, 2016 and 2015

Consolidated statements of operations for the years ended December 31, 2016, 2015, and 2014

Consolidated statements of comprehensive income for the years ended December 31, 2016, 2015, and 2014

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2016, 2015, and 2014

Consolidated statements of cash flows for the years ended December 31, 2016, 2015, and 2014

Notes to consolidated financial statements

(a)(2)List of Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts.

Financial statement schedules other than the one listed are omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto, or contained elsewhere in this report.

(a)(3)List of Exhibits

Exhibit Index as seen below

Item 15. Form 10-K Summary.

None.

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## SIGNATURES

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

Nature's Sunshine Products, Inc.

Date: March 13, 2017 By: /s/ Gregory L. Probert

Gregory L. Probert,  
Chief Executive Officer and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Gregory L. Probert	Chief Executive Officer and Chairman of the Board	March 13, 2017
Gregory L. Probert	(Principal Executive Officer)	
/s/ Kristine F. Hughes	Vice Chair of the Board	March 13, 2017
Kristine F. Hughes		
/s/ Joseph W. Baty	Executive Vice President,	March 13, 2017
Joseph W. Baty	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	
/s/ Albert R. Dowden	Director	March 13, 2017
Albert R. Dowden		
/s/ Jia Hongfei	Director	March 13, 2017
Jia Hongfei		
/s/ Robert B. Mercer	Director	March 13, 2017
Robert B. Mercer		
/s/ J. Christopher Teets	Director	March 13, 2017
J. Christopher Teets		
/s/ Mary Beth Springer	Director	March 13, 2017
Mary Beth Springer		

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/s/ Rebecca Lee  
Steinfort  
Rebecca Lee Steinfort

Director

March 13,  
2017

/s/ Jeffrey D. Watkins  
Jeffrey D. Watkins

Director

March 13,  
2017

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NATURE'S SUNSHINE PRODUCTS, INC.  
 SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014  
 (Amounts in thousands)

Description	Balance at Beginning of Year	Provisions	Amounts Written Off	Amounts Recovered	Effect of Currency Translation	Balance at End of Year
Year Ended December 31, 2016						
Allowance for doubtful accounts receivable	\$ 190	\$ 305	\$ (290 )	\$ —	\$ —	\$ 205
Allowance for sales returns	94	1,435	(1,368 )	—	(5 )	156
Tax valuation allowance	6,565	5,638	(493 )	—	(460 )	11,250
Year Ended December 31, 2015						
Allowance for doubtful accounts receivable	\$ 849	\$ 83	\$ (714 )	\$ —	\$ (28 )	\$ 190
Allowance for sales returns	129	1,126	(1,155 )	—	(6 )	94
Tax valuation allowance	13,169	(6,088 )	—	—	(516 )	6,565
Year Ended December 31, 2014						
Allowance for doubtful accounts receivable	\$ 1,087	\$ (121 )	\$ (75 )	\$ 4	\$ (46 )	\$ 849
Allowance for sales returns	135	1,527	(1,525 )	—	(8 )	129
Tax valuation allowance	11,340	1,829	—	—	—	13,169

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LIST OF EXHIBITS

Item No.	Exhibit
3.1(1)	Amended and Restated Articles of Incorporation, as amended.
3.3(1)	Amended and Restated By-laws.
10.1(2)*	Tax Deferred Retirement Plan, Restated January 1, 2012.
10.2(3)*	Supplemental Elective Deferral Plan, as Amended effective as of January 1, 2008.
10.3(4)*	Employment Agreement, dated as of December 21, 2007, between Nature's Sunshine Products, Inc. and Stephen M. Bunker.
10.4(5)*	Amendment to Employment Agreement, dated as of December 30, 2008, by and between Nature's Sunshine Products, Inc. and Stephen M. Bunker.
10.5(6)*	Retirement and Consulting Agreement, dated as of December 9, 2008, by and between Nature's Sunshine Products, Inc. and Eugene Hughes.
10.6(7)	2009 Stock Incentive Plan.
10.7(7)*	Form of Award Agreement (2009 Stock Incentive Plan).
10.8(8)*	Employment Agreement, dated February 11, 2014, by and between the Company and Gregory L. Probert.
10.9(9)*	Stock Option Agreement, dated June 17, 2011, by and between the Company and Gregory L. Probert.
10.10(10)	2012 Stock Incentive Plan and Amendment No. 1 to 2012 Stock Incentive Plan.
10.11(10)*	Form of Award Agreement (2012 Stock Incentive Plan).
10.12(11)*	Employment Agreement, dated October 2, 2013, by and between the Company and Richard D. Strulson.
10.15(11)*	Stock Option Agreement, dated November 4, 2013, by and between the Company and Richard D. Strulson.
10.15(11)*	Employment Agreement, dated April 16, 2013, by and between the Company and Matthew L. Tripp.
10.16(11)*	Stock Option Agreement, dated May 6, 2013, by and between the Company and Matthew L. Tripp.
10.17(2)*	Employment Agreement, dated October 13, 2014, by and between the Company and Paul E. Noack.
10.18(2)*	Stock Option Agreement, dated January 15, 2015, by and between the Company and Paul E. Noack.
10.19(2)*	Employment Agreement, dated March 4, 2013, by and between the Company and Susan M. Armstrong.
10.20(2)*	Stock Option Agreement, dated February 11, 2014, by and between the Company and Susan M. Armstrong.
10.21(12)*	Separation Agreement, dated March 4, 2016, by and between the Company and Stephen M. Bunker.
10.22(13)*	Employment Agreement, dated October 31, 2016, by and between the Company and Joseph W. Baty.
14(1)	Code of Conduct.
21(1)	List of Subsidiaries of Registrant.
23.1(1)	Consent of Independent Registered Public Accounting Firm.
31.1(1)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2(1)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of



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	2002.
32.1(1)	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.
32.2(1)	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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- (1) Filed herewith.
  - (2) Previously filed with the SEC on March 13, 2015, as an exhibit to the Annual Report on Form 10-K and is incorporated herein by reference.
  - (3) Previously filed with the SEC on March 14, 2016, as an exhibit to the Annual Report on Form 10-K and is incorporated herein by reference.
  - (4) Previously filed with the SEC on December 31, 2007, as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
  - (5) Previously filed with the SEC on January 12, 2009, as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
  - (6) Previously filed with the SEC on February 12, 2009, as an exhibit to the registration statement on Form 10 and is incorporated herein by reference.
  - (7) Previously filed with the SEC on October 19, 2009 as Appendix C, an exhibit to the Registrant's Proxy Statement and is incorporated herein by reference.
  - (8) Filed with the SEC on February 19, 2015, as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
  - (9) Filed with the SEC on June 22, 2011, as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
  - (10) Filed with the SEC on January 15, 2015, as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
  - (11) Filed with the SEC on March 17, 2014, as an exhibit to the Annual Report on Form 10-K and is incorporated herein by reference.
  - (12) Filed with the SEC on March 8, 2016, as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
  - (13) Filed with the SEC on November 3, 2016, as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
- \* Management contract or compensatory plan.