UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File Number: 001-34483

NATURE'S SUNSHINE PRODUCTS, INC.
(Exact name of Registrant as specified in its charter)

Utah	**87-0327982**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2901 Bluegrass Boulevard, Suite 100
Lehi, Utah 84043
(Address of principal executive offices and zip code)

(801) 341-7900
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	NATR	NASDAQ Capital Markets

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and an "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒.

The number of shares of Common Stock, no par value, outstanding on April 24, 2020 was 19,472,562 shares.

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

For the Quarter Ended March 31, 2020

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated herein by reference in this report may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies. All statements (other than statements of historical fact) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as "believe," "hope," "may," "anticipate," "should," "intend," "plan," "will," "expect," "estimate," "project," "positioned," "strategy" and similar expressions, and are based on assumptions and assessments made in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. For example, information appearing under "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are more fully described in this report, including the risks set forth under "Risk Factors" in Item 1A, and in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, but include the following:

- laws and regulations regarding direct selling may prohibit or restrict our ability to sell our products in some markets or require us to make changes to our business model in some markets;
- extensive government regulations to which the Company's products, business practices and manufacturing activities are subject;
- legal challenges to the Company's direct selling program or to the classification of its independent distributors;
- impact of anti-bribery laws, including the U.S. Foreign Corrupt Practices Act;
- the Company's ability to attract and retain independent distributors;
- the loss of one or more key independent distributors who have a significant sales network;
- the Company's joint venture for operations in China with Fosun Industrial Co., Ltd.;
- registration of products for sale in foreign markets, or difficulty or increased cost of importing products into foreign markets;
- cybersecurity threats and exposure to data loss;
- the storage, processing, and use of data, some of which contain personal information, are subject to complex and evolving privacy and data protection laws and regulations;
- reliance on information technology infrastructure;
- the effect of fluctuating foreign exchange rates;
- liabilities and obligations arising from improper activity by the Company's independent distributors;
- failure of the Company's independent distributors to comply with advertising laws;
- changes to the Company's independent distributor compensation plans;
- geopolitical issues and conflicts;
- we may be adversely affected by the coronavirus outbreak;
- negative consequences resulting from difficult economic conditions, including the availability of liquidity or the willingness of the Company's customers to purchase products;
- risks associated with the manufacturing of the Company's products;
- uncertainties relating to the application of transfer pricing, duties, value-added taxes, and other tax regulations, and changes thereto;
- changes in tax laws, treaties or regulations, or their interpretation;
- actions on trade relations by the U.S. and foreign governments;
- product liability claims;
- the sufficiency of trademarks and other intellectual property rights; and
- our cannabidiol (CBD) product line is subject to varying, rapidly changing laws, regulations, and rules.

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

PART I FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)
(Unaudited)

	March 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 64,145	$ 53,629
Accounts receivable, net of allowance for doubtful accounts of $423 and $407, respectively	5,874	7,319
Inventories	45,354	46,666
Prepaid expenses and other	4,860	5,091
Total current assets	120,233	112,705
Property, plant and equipment, net	58,088	59,512
Operating lease right-of-use assets	21,371	23,951
Investment securities - trading	991	1,150
Intangible assets, net	535	567
Deferred income tax assets	4,389	4,899
Other assets	9,835	10,284
Total assets	$ 215,442	$ 213,068
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 4,897	$ 4,406
Accrued volume incentives and service fees	22,856	18,893
Accrued liabilities	22,993	25,531
Deferred revenue	1,660	1,266
Related party note payable	1,526	1,518
Income taxes payable	1,210	1,392
Current portion of operating lease liabilities	4,505	4,941
Total current liabilities	59,647	57,947
Liability related to unrecognized tax benefits	1,426	1,499
Long-term portion of operating lease liabilities	18,138	20,213
Deferred compensation payable	991	1,150
Long-term deferred income tax liabilities	1,471	1,655
Other liabilities	1,201	1,168
Total liabilities	82,874	83,632
Shareholders' equity:		
Common stock, no par value, 50,000 shares authorized, 19,470 and 19,410 shares issued and outstanding, respectively	135,976	135,741
Retained earnings	7,655	4,693
Noncontrolling interest	271	227
Accumulated other comprehensive loss	(11,334)	(11,225)
Total shareholders' equity	132,568	129,436
Total liabilities and shareholders' equity	$ 215,442	$ 213,068

See accompanying notes to condensed consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share information)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Net sales	$ 95,926	$ 91,272
Cost of sales	24,681	23,429
Gross profit	71,245	67,843
Operating expenses:		
Volume incentives	33,018	31,013
Selling, general and administrative	31,065	33,852
Operating income	7,162	2,978
Other loss, net	(2,410)	(48)
Income before provision for income taxes	4,752	2,930
Provision for income taxes	1,746	1,201
Net income	3,006	1,729
Net income (loss) attributable to noncontrolling interests	44	(28)
Net income attributable to common shareholders	$ 2,962	$ 1,757
Basic and diluted net income per common share:		
Basic earnings per share attributable to common shareholders	$ 0.15	$ 0.09
Diluted earnings per share attributable to common shareholders	$ 0.15	$ 0.09
Weighted average basic common shares outstanding	19,453	19,268
Weighted average diluted common shares outstanding	19,589	19,585

See accompanying notes to condensed consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Net income	$ 3,006	$ 1,729
Foreign currency translation loss, net of tax	(109)	(316)
Total comprehensive income	$ 2,897	$ 1,413

See accompanying notes to condensed consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Amounts in thousands)
(Unaudited)

	Common Stock		Retained Earnings (Accumulated Deficit)	Noncontrolling Interest	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2019	19,410	$ 135,741	$ 4,693	$ 227	$ (11,225)	$ 129,436
Share-based compensation expense	—	394	—	—	—	394
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	60	(159)	—	—	—	(159)
Net income	—	—	2,962	44	—	3,006
Other comprehensive loss	—	—	—	—	(109)	(109)
Balance at March 31, 2020	19,470	$ 135,976	$ 7,655	$ 271	$ (11,334)	$ 132,568

	Common Stock		Retained Earnings (Accumulated Deficit)	Noncontrolling Interest	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2018	19,204	$ 133,684	$ (2,072)	$ 63	$ (11,107)	$ 120,568
Share-based compensation expense	—	230	—	—	—	230
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	69	(189)	—	—	—	(189)
Net income (loss)	—	—	1,757	(28)	—	1,729
Other comprehensive loss	—	—	—	—	(316)	(316)
Balance at March 31, 2019	19,273	$ 133,725	$ (315)	$ 35	$ (11,423)	$ 122,022

See accompanying notes to condensed consolidated financial statements.

NATURE’S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,006	$ 1,729
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	17	31
Depreciation and amortization	2,602	2,496
Non-cash lease expense	1,270	1,394
Share-based compensation expense	394	230
Tax benefit from the exercise of stock awards	159	—
Loss on sale of property, plant and equipment	6	45
Deferred income taxes	249	258
Purchase of trading investment securities	(11)	(40)
Proceeds from sale of trading investment securities	73	76
Realized and unrealized gains on investments	96	(133)
Foreign exchange losses	2,400	64
Changes in assets and liabilities:		
Accounts receivable	1,318	(546)
Inventories	234	(1,038)
Prepaid expenses and other current assets	165	357
Other assets	31	117
Accounts payable	704	(281)
Accrued volume incentives and service fees	4,356	164
Accrued liabilities	(2,206)	(5,683)
Deferred revenue	406	35
Lease liabilities	(1,187)	(1,086)
Income taxes payable	(335)	(2,112)
Liability related to unrecognized tax benefits	(73)	(69)
Deferred compensation payable	(158)	97
Net cash provided by (used in) operating activities	13,516	(3,895)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,209)	(387)
Net cash used in investing activities	(1,209)	(387)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments of revolving credit facility	—	(1,517)
Proceeds from revolving credit facility	—	1,517
Tax benefit from stock awards	(159)	(189)
Net cash used in financing activities	(159)	(189)
Effect of exchange rates on cash and cash equivalents	(1,632)	(49)
Net increase (decrease) in cash and cash equivalents	10,516	(4,520)
Cash and cash equivalents at the beginning of the period	53,629	50,638
Cash and cash equivalents at the end of the period	$ 64,145	$ 46,118
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$ 1,224	$ 3,346
Cash paid for interest	3	24

See accompanying notes to condensed consolidated financial statements.

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

(1) Basis of Presentation

We are a natural health and wellness company primarily engaged in the manufacturing and direct selling of nutritional and personal care products. We are a Utah corporation with our principal place of business in Lehi, Utah, and sell our products to a sales force of independent distributors who uses the products themselves or resells them to consumers.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals), considered necessary for a fair presentation of our financial information as of March 31, 2020, and for the three-month periods ended March 31, 2020 and 2019. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2020.

It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019.

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 due to the uncertainty around the magnitude and duration of the COVID-19 pandemic, as well as other factors and those differences could have a material effect on our financial position and results of operations.

The significant accounting estimates inherent in the preparation of our financial statements include estimates associated with our 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, and legal contingencies. In addition, significant estimates form the basis for allowances with respect to inventory valuations. 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.

Noncontrolling Interests

Noncontrolling interests changed as a result of the net income attributable to noncontrolling interests of $44,000 and net losses attributable to the noncontrolling interests of $28,000 for the three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020 and December 31, 2019, noncontrolling interests were $0.3 million and $0.2 million, respectively.

Restructuring Related Accruals and Expenses

We recorded $0.1 million and $1.6 million of restructuring related expenses during the three months ended March 31, 2020 and 2019, respectively. Accrued severance and restructuring related costs were $0.1 million and $0.4 million as of March 31, 2020 and December 31, 2019, respectively.

Recent Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure requirements on fair value measurements in Topic 820 based on the consideration of costs and benefits to promote the appropriate exercise and discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU did not have a significant impact on our Consolidated Financial Statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating taxes during the quarters and the recognition of deferred tax liabilities for outside basis differences. The amendments in this update are effective for reporting periods beginning after December 15, 2020, with early adoption permitted. The adoption of this ASU is not expected to have a significant impact on our Consolidated Financial Statements.

(2) Inventories

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

	March 31, 2020	December 31, 2019
Raw materials	$ 13,245	$ 13,329
Work in progress	1,269	1,426
Finished goods	30,840	31,911
Total inventories	$ 45,354	$ 46,666

(3) Investment Securities - Trading

Our trading securities portfolio totaled $1.0 million at March 31, 2020, and $1.2 million at December 31, 2019, and generated losses of $0.1 million and gains of $0.1 million for the three months ended March 31, 2020 and 2019, respectively.

(4) Revolving Credit Facility and Other Obligations

On July 11, 2017, we entered into a revolving credit agreement with Bank of America, N.A., with a borrowing limit of $25.0 million, that matures on July 11, 2020 (the “Credit Agreement”). We pay interest on any borrowings under the Credit Agreement at LIBOR plus 1.25 percent (2.24 percent and 3.05 percent as of March 31, 2020 and December 31, 2019), and an annual commitment fee of 0.2 percent on the unused portion of the commitment. We are required to settle our net borrowings under the Credit Agreement only upon maturity. At March 31, 2020, there was no outstanding balance under the Credit Agreement.

The Credit Agreement contains customary financial covenants, including financial covenants relating to our solvency, leverage, and minimum EBITDA. In addition, the Credit Agreement restricts certain capital expenditures, lease expenditures, other indebtedness, liens on assets, guarantees, loans and advances, dividends, mergers, consolidations and transfers of assets except as permitted in the Credit Agreement. The Credit Agreement is collateralized by our manufacturing facility, accounts receivable balance, inventory balance and other assets. As of March 31, 2020, we were in compliance with the debt covenants set forth in the Credit Agreement.

On April 21, 2020, we entered into a credit agreement with Banc of America Leasing and Capital, LLC, with a borrowing limit of $5.0 million, that matures sixty months from the Base Date, which must not be later than April 30, 2021 (the "Capital Credit Agreement"). We pay interest on any borrowings under the Capital Credit Agreement at the Indicative Index plus 2.75 percent (3.50 percent as of April 21, 2020). We are required to settle our borrowings under the Capital Credit Agreement in sixty monthly payments, each equal to 1.82 percent of the loan amount. The Capital Credit Agreement is collateralized by any new equipment purchased under the agreement. After inception, there was no outstanding balance under the Capital Credit Agreement.

On April 14, 2020, we obtained a loan (the “Loan”) from Bank of America, B.A. in the amount of $5.4 million under the Paycheck Protection Program (the “PPP”) of the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The PPP is a loan designed to provide an incentive for qualifying businesses to maintain their employees on the payroll despite significant economic uncertainty. We applied to receive the Loan based on the significant economic uncertainty facing the Company in the U.S. and globally.

The Loan matures on April 14, 2022 and bears interest at a rate of1.00 percent per annum, payable monthly commencing on November 15, 2020. We may prepay the Note at any time prior to maturity with no prepayment penalties. The principal amount of the Loan and accrued interest are eligible for forgiveness after eight weeks if we use the Loan proceeds for qualifying expenses, including payroll, rent, and utilities during the eight week period commencing on the date the Loan has been advanced. The amount of the Loan eligible for forgiveness will be reduced to the extent that we have (i) terminated full-time employees during the period commencing February 15, 2020 and ending April 26, 2020 and (ii) reduced salaries (beyond a statutorily prescribed threshold) during the eight week period commencing on the date the Loan has been advanced. We will be obligated to repay any portion of the principal amount of the Note that is not forgiven, together with accrued interest thereon at the rate set forth above until such unforgiven portion is paid in full.

(5) Net Income Per 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 the three months ended March 31, 2020 and 2019 (dollar and share amounts in thousands, except for per share information):

	Three Months Ended March 31,	
	2020	**2019**
Net income attributable to common shareholders	$ 2,962	$ 1,757
Basic weighted average shares outstanding	19,453	19,268
Basic earnings per share attributable to common shareholders	$ 0.15	$ 0.09
Diluted shares outstanding:		
Basic weighted-average shares outstanding	19,453	19,268
Stock-based awards	136	317
Diluted weighted-average shares outstanding	19,589	19,585
Diluted earnings per share attributable to common shareholders	$ 0.15	$ 0.09
Dilutive shares excluded from diluted-per-share amounts:		
Stock options	850	511
Anti-dilutive shares excluded from diluted-per-share amounts:		
Stock options	214	1,032

Potentially dilutive shares excluded from diluted-per-share amounts include performance-based restricted stock units ("RSU"), 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 periods presented.

(6) Capital Transactions

Share-Based Compensation

During the year ended December 31, 2012, our shareholders adopted and approved the Nature's Sunshine Products, Inc. 2012 Stock Incentive Plan (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 our common stock were originally authorized for the granting of awards under the 2012 Incentive Plan. In 2015, our 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.

We also maintain a stock incentive plan, which was approved by shareholders in 2009 (the "2009 Incentive Plan"). 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

Our outstanding stock options include time-based stock options, which vest over differing periods of time ranging from the date of issuance to up to 48 months from the option grant date, and 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.

Stock option activity for the three-month period ended March 31, 2020, is as follows (amounts in thousands, except per share information):

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at December 31, 2019	290	$ 11.49
Granted	—	—
Forfeited or canceled	—	—
Exercised	—	—
Options outstanding at March 31, 2020	290	11.49

During the three months ended March 31, 2020, we didnot grant any stock options to purchase shares of common stock under the 2012 Stock Incentive Plan to our board members, executive officers or other employees..

Share-based compensation expense from time-based stock options for the three-month periods ended March 31, 2020 and 2019, was approximately $0. As of March 31, 2020 and December 31, 2019, there was no unrecognized share-based compensation expense related to the grants described above.

At March 31, 2020, the aggregate intrinsic value of outstanding and exercisable stock options to purchase 290,000 shares of common stock was $0.1 million. At December 31, 2019, the aggregate intrinsic value of outstanding and exercisable options to purchase 290,000 shares of common stock was $0.1 million.

As of March 31, 2020 and December 31, 2019, we didnot have any unvested performance-based stock options outstanding.

Restricted Stock Units

Our outstanding restricted stock units ("RSUs"), include time-based RSUs, which vest over differing periods of time ranging from 12 months to up to 36 months from the RSU grant date, as well as performance-based RSUs, which vest upon achieving targets relating to growth, earnings-per-share, and/or stock price levels. RSUs granted to members of the Board of Directors contain a restriction period in which the shares are not issued until two years after vesting. At March 31, 2020 and December 31, 2019, there were 91,000 and 95,000 vested RSUs, respectively, granted to members of the Board of Directors that had a restriction period.

Restricted stock unit activity for the three-month period ended March 31, 2020, is as follows (amounts in thousands, except per share information):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted Stock Units outstanding at December 31, 2019	821	$ 7.43
Granted	630	5.66
Forfeited	(2)	8.68
Issued	(82)	10.18
Restricted Stock Units outstanding at March 31, 2020	1,367	6.45

During the three-month period ended March 31, 2020, we granted630,000 RSUs under the 2012 Incentive Plan to the Board of Directors, executive officers and other employees, which were comprised of both time-based RSUs and share-priced performance-based RSUs. The time-based RSUs were issued with a weighted-average grant date fair value of $7.83 per share and vest in 12 monthly installments over aone year period from the grant date or in annual installments over athree-year period from the grant date. The share-priced performance-based RSUs were granted with a weighted-average grant date fair value of $4.51 per share and vest upon achieving share-priced targets over a three-year period from the grant date.

Except for share-priced performance RSUs, RSUs are valued at 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. 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 13.4 percent for a common share.

Share-price performance-based RSUs were estimated using the Monte Carlo simulation model. The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved. Our assumptions include a performance period of three years, expected volatility of 50 percent, and a range of risk-free rates between 2.1 percent and 2.9 percent.

Share-based compensation expense for RSUs for the three-month periods ended March 31, 2020 and 2019, was approximately $0.3 million and $0.1 million, respectively. As of March 31, 2020 and December 31, 2019, the unrecognized share-based compensation expense related to the grants described above, excluding incentive awards discussed below, was $2.5 million and $1.1 million, respectively. The remaining compensation expense is expected to be recognized over the weighted average period of approximately 1.1 years.

Share-based compensation expense related to performance-based RSUs for the three-month periods ended March 31, 2020 and 2019, was $0.1 million and $0.1 million, respectively. Should we attain all of the metrics related to performance-based RSU grants, we would recognize up to $3.7 million of potential share-based compensation expense. We currently expect to recognize an additional $1.5 million of that potential share-based compensation expense.

The number of shares issued upon vesting of RSUs granted pursuant to our share-based compensation plans is net of the minimum statutory withholding requirements that we pay on behalf of our employees, which was 22,000 and 11,000 shares for the three-month periods ended March 31, 2020 and 2019, 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.

(7) Segment Information

We have four business segments (Asia, Europe, North America, and Latin America and Other) based primarily upon the geographic region where each segment operates, as well as the internal organization of our officers and their responsibilities. Each of the geographic segments operate under the Nature’s Sunshine Products and Synergy® WorldWide brands. The Latin America and Other segment includes our wholesale business in which we sell products to various locally-managed entities independent of the Company that we have granted distribution rights for the relevant market.

Historically, our operating segments were based on brand, customer base, geographical operations withthree operating business segments under the Nature's Sunshine Products brand (NSP Americas; NSP Russia, Central and Eastern Europe; and NSP China), and one operating business segment under the Synergy® WorldWide brand.

During the second quarter of 2019, we realigned into geographic focused operating business segments across brands to further align regional strategies and drive synergies in product, organizational and go-to-market strategies in local markets. Our internal reporting structure was reorganized to support the new reporting segments and the chief operating decision maker now reviews the operating results of the four segments utilizing a geographic focused format. The presentation of the comparative information has been recast to conform to the 2020 presentation.

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. We evaluate performance based on contribution margin by segment before consideration of certain inter-segment transfers and expenses.

Reportable business segment information is as follows (dollar amounts in thousands):

	Three Months Ended March 31,	
	2020	2019
Net sales:		
Asia	$ 30,958	$ 33,596
Europe	20,627	15,597
North America	38,757	36,523
Latin America and Other	5,584	5,556
Total net sales	95,926	91,272
Contribution margin (1):		
Asia	14,527	15,725
Europe	6,831	4,941
North America	14,419	13,793
Latin America and Other	2,450	2,371
Total contribution margin	38,227	36,830
Selling, general and administrative expenses (2)	31,065	33,852
Operating income	7,162	2,978
Other loss, net	(2,410)	(48)
Income before provision for income taxes	$ 4,752	$ 2,930

(1) Contribution margin consists of net sales less cost of sales and volume incentives expense.

(2) Service fees in China totaled $1.9 million and $2.2 million for the three-month periods ended March 31, 2020 and 2019, respectively. These service fees are included in selling, general and administrative expenses.

From an individual country perspective, the United States and South Korea comprise 10 percent or more of consolidated net sales for the three-month periods ended March 31, 2020 and 2019, as follows (dollar amounts in thousands):

	Three Months Ended March 31,	
	2020	**2019**
Net sales:		
United States	$ 35,839	$ 33,961
South Korea	16,389	18,528
Other	43,698	38,783
	$ 95,926	$ 91,272

Net sales generated by each of our product lines is set forth below (dollar amounts in thousands):

	Three Months Ended March 31,	
	2020	**2019**
Asia		
General health	$ 9,046	$ 8,084
Immune	201	158
Cardiovascular	9,339	11,833
Digestive	6,156	4,775
Personal care	3,005	4,267
Weight management	3,211	4,479
	30,958	33,596
Europe		
General health	$ 7,961	$ 5,748
Immune	2,444	1,273
Cardiovascular	2,897	2,851
Digestive	4,931	3,631
Personal care	1,751	1,499
Weight management	643	595
	20,627	15,597
North America		
General health	$ 15,464	$ 15,748
Immune	7,798	4,218
Cardiovascular	4,167	5,076
Digestive	8,241	8,721
Personal care	1,929	1,348
Weight management	1,158	1,412
	38,757	36,523
Latin America and Other		
General health	$ 1,614	$ 1,612
Immune	809	608
Cardiovascular	378	339
Digestive	2,362	2,536
Personal care	252	257
Weight management	169	204
	5,584	5,556
	$ 95,926	$ 91,272

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

	March 31, 2020	December 31, 2019
Property, plant and equipment:		
United States	$ 53,450	$ 54,470
Other	4,638	5,042
Total property, plant and equipment, net	$ 58,088	$ 59,512

Total assets per segment is set forth below (dollar amounts in thousands):

	March 31, 2020	December 31, 2019
Assets:		
Asia	$ 65,199	$ 65,959
Europe	15,171	15,187
North America	127,178	124,337
Latin America and Other	7,894	7,585
Total assets	$ 215,442	$ 213,068

(8) Income Taxes

For the three months ended March 31, 2020 and 2019, our provision for income taxes, as a percentage of income before income taxes was 36.7 percent and 41.0 percent, respectively, compared with a U.S. federal statutory rate of 21.0 percent.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended March 31, 2020 and 2019, was primarily attributed to current year foreign losses that presently do not provide future tax benefit, as well as net unfavorable foreign tax related items.

As the U.S. Department of the Treasury is working on finalizing Treasury Regulations with respect to the Tax Cuts and Jobs Act (Tax Reform Act), future changes could likewise affect recorded deferred tax assets and liabilities in later periods. Management is not aware of any such additional changes that would have a material effect on our results of operations, cash flows or financial position.

Our U.S. federal income tax returns for 2016 through 2018 are open to examination for federal tax purposes. We have several foreign tax jurisdictions that have open tax years from 2014 through 2019.

As of March 31, 2020 and December 31, 2019, we had accrued $1.4 million and $1.5 million, respectively, related to unrecognized tax positions.

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, adjusted for discrete tax items in the period in which they occur. Although we believe our tax estimates are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our income tax provision and operating results in the period in which we make such determination.

(9) Commitments and Contingencies

Legal Proceedings

We are party to various legal proceedings. Management cannot predict the ultimate outcome of these proceedings, individually or in the aggregate, or their resulting effect on our 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 our business, financial position, results of operations, or cash flows for the period in which the ruling occurs and/or future periods. We maintain product liability, general liability and excess liability insurance coverage. However, no assurances can be given that such insurance will continue to be available at an acceptable cost to us, 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.

Non-Income Tax Contingencies

We have 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. We provide 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. We provide provisions for U.S. state sales taxes in each of the states where we have nexus. At March 31, 2020 and December 31, 2019, accrued liabilities were $0.3 million and $0.4 million, respectively, related to non-income tax contingencies. While we believe that the assumptions and estimates used to determine contingent liabilities are reasonable, the ultimate outcome of these matters cannot presently be determined. We believe future payments related to these matters could range from $0 to approximately $2.7 million.

Other Litigation

We are a party to various other legal proceedings in the United States and several foreign jurisdictions related to value-added tax assessments and other civil litigation. As of March 31, 2020 and December 31, 2019, accrued liabilities were $0.4 million and $0.4 million, respectively, related to the estimated outcome of these proceedings. In addition, we are a 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 we cannot at this time estimate the loss, if any; therefore, no provision for losses has been provided. We believe future payments related to these matters could range from $0 to approximately $0.3 million.

(10) Related Party Transactions

During the three months ended March 31, 2020 and March 31, 2019, NSP China didnot borrow any amounts from the Company or our joint venture partner. As of March 31, 2020 and December 31, 2019 outstanding borrowings by NSP China from the Company were $6.0 million and $6.0 million, respectively. As of March 31, 2020 and December 31, 2019 outstanding borrowings by NSP China from our joint venture partner were $1.5 million and $1.5 million, respectively. The notes are payable in less than one year and bear interest of 3.0 percent. The notes between NSP China and the Company eliminate in consolidation.

(11) Fair Value Measurements

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 our hierarchy for our assets, measured at fair value on a recurring basis, as of March 31, 2020 (dollar amounts in thousands):

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
Investment securities - trading	$ 991	$ —	$ —	$ 991
Total assets measured at fair value on a recurring basis	$ 991	$ —	$ —	$ 991

The following table presents our hierarchy for our assets, measured at fair value on a recurring basis, as of December 31, 2019 (dollar amounts in thousands):

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
Investment securities - trading	$ 1,150	$ —	$ —	$ 1,150
Total assets measured at fair value on a recurring basis	$ 1,150	$ —	$ —	$ 1,150

Investment securities - trading — Our trading portfolio consists of various marketable securities that are valued using quoted prices in active markets.

For the three months ended March 31, 2020, and for the year ended December 31, 2019, 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 condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to their short-term nature. During the three months ended March 31, 2020 and 2019, we did not have any re-measurements of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

(12) Revenue Recognition

Revenue Recognition

Net sales include products and shipping and handling charges, net of estimates for product returns and any related sales incentives or rebates based upon historical information and current trends. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when the Company satisfies its performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with revenue recognized at shipping point, the point in time the customer obtains control of the products. The majority of our contracts have a single performance obligation and are short term in nature. Contracts with multiple performance obligations are insignificant. Sales taxes and value-added taxes in the United States and foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales. Amounts received for unshipped merchandise are recorded as deferred revenue.

A reserve for product returns is recorded based upon historical experience and current trends. We allow 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 our markets, the requirements to return product are more restrictive.

From time to time, our U.S. operations extend short-term credit associated with product promotions. In addition, for certain of our international operations, we offer credit terms consistent with industry standards within the country of operation.

Volume incentives and other sales incentives or rebates are a significant part of our direct sales marketing program and represent commission payments made to independent distributors. These payments are designed to provide incentives for reaching higher sales levels. The amount of volume incentive expense recognized is determined based upon the amount of qualifying purchases in a given month and recorded as volume incentive expense. Payments to independent Managers and Distributors for sales incentives or rebates related to their own purchases are recorded as a reduction of revenue. Payments for sales incentives and rebates are calculated monthly based upon qualifying sales.

Contract Liabilities - Customer Loyalty Programs

We record contract liabilities for loyalty point programs in deferred revenue. These programs are accounted for as a reduction in the transaction price and are generally recognized as points that are redeemed for additional products.

The following table presents changes in these contract liability balances for the three-month period ended March 31, 2020 (U.S. dollars in thousands):

Outstanding at December 31, 2019	$	955
Increase (decrease) attributed to:		
Customer loyalty net deferrals		944
Customer loyalty redemptions		(972)
Outstanding at March 31, 2020	$	927

The table above excludes liability for sales returns, as they are insignificant.

Disaggregation of Revenue

Our products are grouped into six principal categories: general health, immune, cardiovascular, digestive, personal care and weight management. We havefour business segments that are based primarily upon the geographic region where each segment operates. Each of the geographic segments operate under the Nature's Sunshine Products and Synergy® WorldWide brands. See Note 7, Segment Information, for further information on our reportable segments and presentation of disaggregated revenue by reportable segment and product category.

Practical Expedients and Exemptions

We have made the accounting policy election to treat shipping and handling as a fulfillment activity rather than a promised service under Topic 606.

We generally expense volume incentives when incurred because the amortization period would have been one year or less.

All of our contracts with customers have a duration of less thanone year. The value of any unsatisfied performance obligations is insignificant.

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

The following Management's Discussion and Analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in this report, as well as the consolidated financial statements, the notes thereto, and management's discussion and analysis included in our Annual Report on Form 10-K for the year ended December 31, 2019, and our other reports filed since the date of such Form 10-K. During the second quarter of 2019, we realigned into geographic focused operating business segments across brands. The presentation of the comparative information has been recast to conform to the 2020 presentation.

OVERVIEW

We are a natural health and wellness company primarily engaged in the manufacture and sale of nutritional and personal care products. We are a Utah corporation with our principal place of business in Lehi, Utah, and sell our products to a sales force of independent distributors who use the products themselves or resell them to consumers.

Our independent distributors market and sell our products to customers and sponsor other independent distributors who also market our products to customers. Our sales are highly dependent upon the number and productivity of our independent distributors. Growth in sales volume generally requires an increase in the productivity of our independent distributors and/or growth in the total number of independent distributors. We seek to motivate and provide incentives to our independent distributors by offering high quality products and providing independent distributors with product support, training seminars, sales conventions, travel programs and financial incentives.

In or about December 2019, a novel strain of coronavirus, SARS-CoV-2 "COVID-19", began aggressively spreading throughout the world, including all the primary markets where we conduct business. As COVID-19 has spread throughout the world, it has impacted our markets differently. In Asia, governments issued orders to shelter in place and other restrictions that limited the ability of our Distributors to meet with consumers, which resulted in lower sales during the quarter. Although similar restrictions have been issued in our North American and European markets, we experienced an increase in sales due to increased demand for nutritional supplements. However, there can be no assurance that demand for our products will not decrease in our North American and European markets, particularly as restrictions on travel and gatherings adopted later in the first quarter limit the ability of our distributors to meet with consumers in such areas. While we are taking actions to mitigate the effects COVID-19 may have on the business, there can be no assurances that these actions will be sufficient to minimize its impact on the consolidated financial statement or material health of the Company. At this time, the duration of the business disruption and related financial impact cannot be reasonably estimated. An updated discussion of COVID-19's impact on the Company and other risk factors is included in Part II, Item 1A of this document.

In the first quarter of 2020, we experienced an increase in our consolidated net sales of 5.1 percent (or 6.6 percent increase in local currencies) compared to the same period in 2019. Asia net sales decreased approximately 7.9 percent (or 4.6 percent increase in local currencies) compared to the same period in 2019. Europe net sales increased approximately 32.2 percent (or 33.5 percent in local currencies) compared to the same period in 2019. North America net sales increased approximately 6.1 percent (or 6.2 percent in local currencies) compared to the same period in 2019. Latin America and Other net sales increased approximately 0.5 percent (or 2.4 percent in local currencies) compared to the same period in 2019. The strengthening of the U.S. dollar versus the local currencies, primarily in our Asian and Latin American markets, resulted in a $1.4 million decrease of our net sales in the first quarter of 2020 compared to the same period in 2019.

Selling, general and administrative expenses during the three months ended March 31, 2020, decreased $2.8 million compared to the same period in 2019, and decreased as a percentage of net sales to 32.4 percent from 37.1 percent in 2019. The decrease in expenses was primarily the result of restructuring efforts implemented in prior periods in order to improve operating results.

We distribute our products to consumers through an independent sales force comprised of independent Managers and Distributors, many of whom also consume our products. Typically a person who joins our independent sales force begins as a Distributor. An independent Distributor may earn Manager status by attaining certain product sales levels. On a worldwide basis, active independent Managers were approximately 15,200 and 14,000 and active independent Distributors and customers were approximately 248,300 and 232,800 at March 31, 2020 and 2019, respectively.

As an international business, we have significant sales and costs denominated in currencies other than the U.S. Dollar. Sales in international markets denominated in foreign currencies are expected to continue to represent a substantial portion of our sales. Likewise, we expect foreign markets with functional currencies other than the U.S. Dollar will continue to represent a substantial portion of our overall sales and related operating expenses. Accordingly, changes in foreign currency exchange rates could materially affect sales and costs or the comparability of sales and costs from period to period as a result of translating foreign markets financial statements into our reporting currency.

RESULTS OF OPERATIONS

The following table summarizes our unaudited consolidated operating results from continuing operations in U.S. dollars and as a percentage of net sales for the three months ended March 31, 2020 and 2019 (dollar amounts in thousands):

	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019		Change	
	Total dollars	Percent of net sales	Total dollars	Percent of net sales	Total dollars	Percentage
Net sales	$ 95,926	100.0 %	$ 91,272	100.0 %	$ 4,654	5.1 %
Cost of sales	24,681	25.7	23,429	25.7	1,252	5.3
	71,245	74.3	67,843	74.3	3,402	5.0
Volume incentives	33,018	34.4	31,013	34.0	2,005	6.5
SG&A expenses	31,065	32.4	33,852	37.1	(2,787)	(8.2)
Operating income	7,162	7.5	2,978	3.3	4,184	140.5
Other loss, net	(2,410)	(2.5)	(48)	(0.1)	(2,362)	(4,920.8)
Income before income taxes	4,752	5.0	2,930	3.2	1,822	62.2
Provision for income taxes	1,746	1.8	1,201	1.3	545	45.4
Net income	$ 3,006	3.1 %	$ 1,729	1.9 %	$ 1,277	73.9 %

Net Sales

International operations have provided, and are expected to continue to provide, a significant portion of our total net sales. As a result, total net sales will continue to be affected by fluctuations in the U.S. dollar against foreign currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, in addition to comparing the percent change in net sales from one period to another in U.S. dollars, we present net sales excluding the impact of foreign exchange fluctuations. We compare the percentage change in net sales from one period to another period by excluding the effects of foreign currency exchange as shown below. Net sales excluding the impact of foreign exchange fluctuations is not a U.S. GAAP financial measure and removes from net sales in U.S. dollars the impact of changes in exchange rates between the U.S. dollar and the functional currencies of our foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. We believe presenting the impact of foreign currency fluctuations is useful to investors because it allows a more meaningful comparison of net sales of our foreign operations from period to period. However, net sales excluding the impact of foreign currency fluctuations should not be considered in isolation or as an alternative to net sales in U.S. dollar measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP. Throughout the last five years, foreign currency exchange rates have fluctuated significantly. See Item 3. *Quantitative and Qualitative Disclosures about Market Risk*.

The following table summarizes the changes in net sales by operating segment with a reconciliation to net sales excluding the impact of currency fluctuations for the three months ended March 31, 2020 and 2019 (dollar amounts in thousands):

	Net Sales by Operating Segment				
	Three Months Ended March 31, 2020	**Three Months Ended March 31, 2019**	**Percent Change**	**Impact of Currency Exchange**	**Percent Change Excluding Impact of Currency**
Asia	$ 30,958	$ 33,596	(7.9)%	$ (1,082)	(4.6) %
Europe	20,627	15,597	32.2	(197)	33.5
North America	38,757	36,523	6.1	(23)	6.2
Latin America and Other	5,584	5,556	0.5	(103)	2.4
	$ 95,926	$ 91,272	5.1 %	$ (1,405)	6.6 %

Consolidated net sales for the three months ended March 31, 2020 and 2019, were $95.9 million and $91.3 million, respectively, which represents an increase of 5.1 percent. The increase for the three months ended March 31, 2020, was primarily related to growth in our Europe and North American markets as demand for nutritional supplements increased in the wake of the COVID-19 pandemic. Growth in these markets were partially offset by declines in Asia, where government restrictions in these markets due to COVID-19 had a negative impact on our sales activities. Excluding the unfavorable impact of foreign currency exchange rate fluctuations, consolidated net sales for the three months ended March 31, 2020, increased by 6.6 percent from the same period in 2019.

Asia

Net sales related to Asia for the three months ended March 31, 2020 and 2019, were $31.0 million and $33.6 million, respectively, or a decrease of 7.9 percent. In local currency, net sales for the three months ended March 31, 2020, decreased 4.6 percent compared to the same period in 2019. Operating results for the Asia business are further discussed in the South Korea, Japan and China commentary below. Active independent Managers within Asia totaled approximately 2,900 and 3,000 at March 31, 2020 and 2019, respectively. Active independent Distributors and customers within Asia totaled approximately 35,100 and 36,300 at March 31, 2020 and 2019, respectively.

Notable activity in the following markets contributed to the results of Asia:

In our South Korea market, net sales decreased $2.1 million, or 11.5 percent, for the three months ended March 31, 2020, compared to the same period in 2019. In local currency, net sales decreased 6.3 percent compared to the same period in 2019. The decrease in local currency net sales was the result of restrictions in the market due to COVID-19 decreased distributor meetings and sales activities.

In our Japan market, net sales decreased $0.1 million, or 1.9 percent, for the three months ended March 31, 2020, compared to the same period in 2019. In local currencies, net sales decreased 2.9 percent compared to the same period in 2019. We attribute the decline in net sales primarily due to the restrictions in the market due to COVID-19 decreased distributor meetings and sales activities.

In our China market, net sales decreased $0.7 million, or 11.2 percent, for the three months ended March 31, 2020, compared to the same period in 2019. In local currencies, net sales decreased 8.5 percent compared to the same period in 2019. The decrease in local currency net sales was the result of restrictions in the market due to COVID-19 decreased distributor meetings and sales activities, which went into effect earlier in the quarter than other markets.

Europe

Net sales related to Europe for the three months ended March 31, 2020 and 2019, were $20.6 million and $15.6 million, respectively, or an increases of 32.2 percent. In local currency, net sales increased 33.5 percent compared to the same period in 2019. The functional currency for many of these markets is the U.S. Dollar which reduces the effect from foreign currency fluctuations. Fluctuations in foreign exchange rates had a $0.2 million unfavorable impact on net sales for the three months ended March 31, 2020. Net sales increased primarily as a result of continued strong distributor engagement and an increased demand for nutritional supplements in Europe in the wake of the COVID-19 pandemic. However, as oil prices fall they could negatively impact the Russian rubble and Ukrainian hryvnia, which could impact the future purchasing power of our Distributors in part of our European market. Active independent Managers within Europe totaled approximately 5,500 and 4,400 at March 31, 2020 and 2019, respectively. Active independent Distributors and customers within Europe totaled approximately 104,300 and 87,700 at March 31, 2020 and 2019, respectively. The increase in active independent Managers, Distributors and customers is the result of improved engagement and subsequent recruiting.

North America

Net sales related to North America for the three months ended March 31, 2020 and 2019, were $38.8 million and $36.5 million, respectively, or an increase of 6.1 percent. In local currency, net sales increased 6.2 percent compared to the same period in 2019. The growth for the North America business are further discussed in the United States commentary below. Active independent Managers within North America totaled approximately 5,600 and 5,400 at March 31, 2020 and 2019, respectively. Active independent Distributors and customers within North America totaled approximately 78,800 and 80,100 at March 31, 2020 and 2019, respectively.

Notable activity in the following markets contributed to the results of North America:

In the United States, net sales increased $1.9 million, or 5.5 percent, for the three months ended March 31, 2020, compared to the same period in 2019. The increase in the market is mainly due to several factors including, rebranding and rebuilding efforts of the Nature's Sunshine brand and Distributor tools in the U.S., the launch of our new qemp Inc. CBD product brand and an increase in demand for nutritional supplements in the U.S. in the wake of the COVID-19 pandemic. There is no guarantee that the results seen in the U.S. during the first quarter of 2020 will continue into the second quarter due to the timing of the spread of COVID-19 in the U.S.

Latin America and Other

Net sales related to Latin America and Other markets for the three months ended March 31, 2020 and 2019, were $5.6 million and $5.6 million, respectively, or an increase of 0.5 percent. In local currency, net sales increased 2.4 percent compared to the same period in 2019. Currency devaluation had a $0.1 million unfavorable impact on net sales for the three months ended March 31, 2020. The increase in the market is mainly due to improvements in Distributor retention and average purchase size. Active independent Managers totaled approximately 1,200 and 1,200 at March 31, 2020 and 2019, respectively. Active independent Distributors and customers totaled approximately 30,100 and 28,700 at March 31, 2020 and 2019, respectively.

Further information related to our Asia, Europe, North America, and Latin America and Other business segments is set forth in Note 7 to the Unaudited Condensed Consolidated Financial Statements in Part 1, Item 1 of this report.

Cost of Sales

Cost of sales as a percent of net sales was 25.7 percent for the three months ended March 31, 2020, compared to 25.7 percent for the same period in 2019.

Volume Incentives

Volume incentives expense as a percent of net sales was 34.4 percent and 34.0 percent for the three months ended March 31, 2020 and 2019, respectively. These payments are designed to provide incentives for reaching higher sales levels. Volume incentives vary slightly, on a percentage basis, by product due to pricing policies and commission plans in place in our various operations. We do not pay volume incentives in China, instead we pay independent service fees, which are included in selling, general and administrative expenses. Volume incentives as a percentage of net sales can fluctuate based on promotional activity and mix of sales by market. The increase in volume incentives as a percent of net sales for the three months ended March 31, 2020 is primarily due to changes in market mix, reflecting growth in markets where volume incentives as a percentage of net sales are higher than the consolidated average, and the declines in NSP China.

Selling, General and Administrative

Selling, general and administrative expenses represent operating expenses, components of which include labor and benefits, sales events, professional fees, travel and entertainment, marketing, occupancy costs, communications costs, bank fees, depreciation and amortization, independent services fees paid in China, and other miscellaneous operating expenses.

Selling, general and administrative expenses decreased by $2.8 million, to $31.1 million for the three months ended March 31, 2020, compared to the same period in 2019. Selling, general and administrative expenses were 32.4 percent and 37.1 percent of net sales for the three months ended March 31, 2020 and 2019, respectively. The decrease in selling, general and administrative expenses was primarily related to a reduction of headcount in the U.S. and Latin America, as well as other cost reductions, as well as charges of $1.6 million for restructuring activities recorded in the prior year.

Other Loss, Net

Other loss, net, for the three months ended March 31, 2020 and 2019, were losses of $2.4 million and $0, respectively. Other loss, net, primarily consisted of foreign exchange losses as a result of net changes in foreign currencies primarily in Asia and Latin America.

Income Taxes

For the three months ended March 31, 2020 and 2019, our provision for income taxes, as a percentage of income before income taxes was 36.7 percent and 41.0 percent, respectively, compared with a U.S. federal statutory rate of 21.0 percent.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended March 31, 2020 and 2019, was primarily attributed to current year foreign losses that presently do not provide future tax benefit, as well as net unfavorable foreign tax related items.

Our U.S. federal income tax returns for 2016 through 2018 are open to examination for federal tax purposes. We have several foreign tax jurisdictions that have open tax years from 2014 through 2019.

As of March 31, 2020 and December 31, 2019, we had accrued $1.4 million and $1.5 million, respectively, related to unrecognized tax positions.

Product Categories

Our line of over 700 products includes several different product classifications, such as immune, cardiovascular, digestive, personal care, weight management and other general health products. We purchase herbs and other raw materials in bulk and, after rigorous quality control testing, we formulate, encapsulate, tablet or concentrate them, label and package them for shipment. Most of our products are manufactured at our facility in Spanish Fork, Utah. Contract manufacturers produce some of our products in accordance with our specifications and standards. We have implemented stringent quality control procedures to verify that our contract manufacturers have complied with our specifications and standards.

See Note 7, Segment Information, for a summary of the U.S. dollar amounts from the sale of general health, immune, cardiovascular, digestive, personal care and weight management products for the three months ended March 31, 2020 and 2019, by business segment.

Distribution and Marketing

Our independent distributors, also known as Managers and Distributors, market our products to customers through direct selling techniques and sponsor other independent distributors who also market our products to customers. We seek to motivate and provide incentives to our independent distributors by offering high quality products and providing independent distributors with product support, training seminars, sales conventions, travel programs and financial incentives.

Our products sold in the United States are shipped directly from our manufacturing and warehouse facilities located in Spanish Fork, Utah, as well as from our regional warehouses located in Georgia, Ohio and Texas. Many of our international operations maintain warehouse facilities and inventory to supply their independent Managers, Distributors and customers. However, in foreign markets where we do not maintain warehouse facilities, we have contracted with third-parties to distribute our products and provide support services to our independent sales force of independent Managers and Distributors.

As of March 31, 2020, we had approximately 248,300"active independent Distributors and customers" (as defined below). A person who joins our independent sales force begins as an independent distributor. Many independent distributors sell our products on a part-time basis to friends or associates or use the products themselves. An independent distributor may earn Manager status by attaining certain product sales levels. As of March 31, 2020, we had approximately 15,200 "active independent Managers" (as defined below) worldwide. In many of our markets, our independent Managers and Distributors are primarily retailers of our products, including practitioners, proprietors of retail stores and other health and wellness specialists.

In the United States, we generally sell our products on a cash or credit card basis. From time to time, our U.S. operations extend short-term credit associated with product promotions. For certain of our international operations, we use independent distribution centers and offer credit terms that are generally consistent with industry standards within each respective country.

We pay sales commissions, or “volume incentives” to our independent Managers and Distributors based upon their own product sales and the product sales of their sales organization. As an exception, in NSP China, we do not pay volume incentives; rather, we pay independent service fees, which are included in selling, general and administrative expense. These volume incentives are recorded as an expense in the year earned. The amounts of volume incentives that we expensed during the quarters ended March 31, 2020 and 2019, are set forth in the Condensed Consolidated Financial Statements in Item 1 of this report. In addition to the opportunity to receive volume incentives, independent Managers who attain certain levels of monthly product sales are eligible for additional incentive programs including automobile allowances, sales convention privileges and travel awards.

Distributor Information

Our revenue is highly dependent upon the number and productivity of our independent Managers and Distributors. Growth in sales volume requires an increase in the productivity and/or growth in the total number of independent Managers and Distributors.

Within the Company, there are a number of different distributor compensation plans and qualifications, which generate active independent Managers and Distributors with different sales values in our different business segments. Within Synergy WorldWide, the sales qualifications required for active independent Managers and Distributors varies by market according to local economic factors. As sales grow in markets with higher qualification values, and decline in those with lower qualification values, the resultant mix change influences the active counts for independent Managers and Distributors. As a result, from time-to-time, changes in overall active counts for independent Managers and Distributors may not be indicative of actual sales trends for the segment.

In China, we do not sell our products through Managers and Distributors, but rather through independent service providers who are compensated for marketing, sales support, and other services.

The following table provides information concerning the number of total independent Managers, Distributors and customers by segment, as of the dates indicated:

Total Managers, Distributors and Customers by Segment as of March 31,

	2020		2019	
	Distributors & Customers	Managers	Distributors & Customers	Managers
Asia	89,400	2,900	85,000	3,000
Europe	195,200	5,500	169,700	4,400
North America	160,200	5,600	162,100	5,400
Latin America and Other	68,400	1,200	63,300	1,200
	513,200	15,200	480,100	14,000

"Total Managers" includes independent Managers under our various compensation plans that have achieved and maintained specified and personal groups sale volumes as of the date indicated. To maintain Manager status, an individual must continue to meet certain product sales volume levels. As such, all Managers are considered to be "Active Managers".

"Total Distributors and customers" includes our independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous twelve months ended as of the date indicated. This includes independent Manager, Distributor and customer accounts that may have become inactive since such respective dates.

The following table provides information concerning the number of active Distributors and customers by segment, as of the dates indicated:

Active Distributors and Customers by Segment as of March 31,

	2020		2019	
	Distributors & Customers	Managers	Distributors & Customers	Managers
Asia	35,100	2,900	36,300	3,000
Europe	104,300	5,500	87,700	4,400
North America	78,800	5,600	80,100	5,400
Latin America and Other	30,100	1,200	28,700	1,200
	248,300	15,200	232,800	14,000

"Active Distributors and customers" include our independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous three months ended as of the date indicated.

The following table provides information concerning the number of new independent Managers, Distributors and customers by segment, for the periods indicated:

New Managers, Distributors and Customers by Segment for the Three Months Ended March 31,

	2020		2019	
	New Distributors & Customers	New Managers	New Distributors & Customers	New Managers
Asia	13,900	600	14,800	700
Europe	23,900	500	20,000	300
North America	17,400	600	17,500	500
Latin America and Other	9,000	200	7,400	100
	64,200	1,900	59,700	1,600

"New Managers" includes independent Managers under our various compensation plans that first achieved the rank of Manager during the previous three months ended as of the date indicated.

"New Distributors and Customers" include our independent Distributors and customers who have made their initial product purchase directly from the Company for resale and/or personal consumption during the previous three months ended as of the date indicated.

The following table provides information concerning the number of new Managers, Distributors and customers by segment, for the periods indicated:

New Managers, Distributors and Customers by Segment for the Three Months Ended March 31,

	2020		2019	
	New Distributors & Customers	New Managers	New Distributors & Customers	New Managers
Asia	63,500	2,400	60,100	2,900
Europe	81,500	1,500	66,100	1,100
North America	66,500	2,000	61,100	1,600
Latin America and Other	35,000	500	25,800	500
	246,500	6,400	213,100	6,100

"New Managers" includes independent Managers under our various compensation plans that first achieved the rank of Manager during the previous twelve months ended as of the date indicated.

"New Distributors and Customers" include our independent Distributors and customers who have made their initial product purchase directly from the Company for resale and/or personal consumption during the previous twelve months ended as of the date indicated.

LIQUIDITY AND CAPITAL RESOURCES

Our principal use of cash is to pay for operating expenses, including volume incentives, inventory and raw material purchases, capital assets and funding of international expansion. As of March 31, 2020, working capital was $60.6 million, compared to $54.8 million as of December 31, 2019. At March 31, 2020, we had $64.1 million in cash, of which $24.2 million was held in the U.S. and $39.9 million was held in foreign markets and may be subject to various withholding taxes and other restrictions related to repatriation before becoming available to be used along with the normal cash flows from operations to fund any unanticipated shortfalls in future cash flows.

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

	Three Months Ended March 31,	
	2020	2019
Operating activities	$ 13,516	$ (3,895)
Investing activities	(1,209)	(387)
Financing activities	(159)	(189)

Operating Activities

For the three months ended March 31, 2020, operating activities provided cash of $13.5 million, compared to using $3.9 million in the same period in 2019. Operating cash flows increased primarily due to the timing of payments for accrued liabilities, accrued volume incentives and service fees, income taxes payable, inventories, and receipts in accounts receivable, partially offset by the timing of payments for liability related to unrecognized tax benefits, deferred compensation payable, and prepaid expenses and other current assets.

Investing Activities

For the three months ended March 31, 2020, investing activities used $1.2 million, compared to $0.4 million for the same period in 2019. Capital expenditures related to the purchase of equipment, computer systems and software for the three months ended March 31, 2020 and 2019, were $1.2 million and $0.4 million, respectively.

Financing Activities

For the three months ended March 31, 2020, financing activities used $0.2 million in cash, compared to $0.2 million in cash used for the same period in 2019.

On July 11, 2017, we entered into a revolving credit agreement with Bank of America, N.A., with a borrowing limit of $25.0 million, that matures on July 11, 2020 (the "Credit Agreement"). We pay interest on any borrowings under the Credit Agreement at LIBOR plus 1.25 percent (2.24 percent and 3.05 percent as of March 31, 2020 and December 31, 2019), and an annual commitment fee of 0.2 percent on the unused portion of the commitment. We are required to settle our net borrowings under the Credit Agreement only upon maturity. At March 31, 2020, there was no outstanding balance under the Credit Agreement.

The Credit Agreement contains customary financial covenants, including financial covenants relating to our solvency, leverage, and minimum EBITDA. In addition, the Credit Agreement restricts certain capital expenditures, lease expenditures, other indebtedness, liens on assets, guarantees, loans and advances, dividends, and merger, consolidation and the transfer of assets except as permitted in the Credit Agreement. The Credit Agreement is collateralized by our manufacturing facility, accounts receivable balance, inventory balance and other assets. Effective June 30, 2018, the Company and Bank of America amended the Credit Agreement to modify certain financial covenants. As of March 31, 2020, we were in compliance with the debt covenants set forth in the Credit Agreement.

We believe that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund our normal operating needs, including capital expenditures, on both a short- and long-term basis should disruptions related to COVID-19 be minimized. While we are taking actions to mitigate the effects COVID-19 may have on the business, there can be no assurances that these actions will be sufficient to minimize its impact on the consolidated financial statement or material health of the Company. For example, if a closure of our manufacturing facility were to occur, it could have a significant impact of the financial health of the Company. At this time, the duration of the business disruption and related financial impact cannot be reasonably estimated. An updated discussion of COVID-19's impact on the Company and other risk factors is included in Part II, Item 1A of this document.

In addition, other things such as a prolonged economic downturn, a decrease in demand for our products, an unfavorable settlement of our unrecognized tax positions or non-income tax contingencies could adversely affect our long-term liquidity.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with U.S. GAAP and form the basis for the following discussion and analysis on critical accounting policies and estimates. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates and those differences could have a material effect on our financial position and results of operations. We have discussed the development, selection and disclosure of these estimates with the Board of Directors and our Audit Committee.

A summary of our significant accounting policies is provided in Note 1 of the Notes to Consolidated Financial Statements in Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2019. We believe the critical accounting policies and estimates described below reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements. The impact and any associated risks on our business that are related to these policies are also discussed throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" where such policies affect reported and expected financial results.

Revenue Recognition

Our revenue recognition practices are discussed in Note 12,"Revenue Recognition," to our Condensed Consolidated Financial Statements in Item 1, Part 1 of this report.

Inventories

Inventories are adjusted to lower of cost and net realizable value, using the first-in, first-out method. The components of inventory cost include raw materials, labor and overhead. To estimate any necessary 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. If future demand and market conditions are less favorable than our assumptions, additional inventory adjustments could be required.

Incentive Trip Accrual

We accrue for expenses associated with our direct sales program, which rewards independent Managers and Distributors with paid attendance for incentive trips, including our conventions and meetings. Expenses associated with incentive trips are accrued over qualification periods as they are earned. We specifically analyze incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could generate liabilities more or less than the amounts recorded.

Contingencies

We are 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 with a range, we record our best estimate within the range related to the contingency. If there is no best estimate, we record the minimum of the range. As additional information becomes available, we assess the potential liability related to the contingency and revise the estimates. Revision in estimates of the potential liabilities could materially affect our results of operations in the period of adjustment. Our contingencies are discussed in further detail in Note 10, "Commitments and Contingencies", to the Notes of our Condensed Consolidated Financial Statements, of Item 1, Part 1 of this report.

Income Taxes

Our income tax expense, deferred tax assets and liabilities and contingent reserves reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in determining our consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we develop assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income, and are consistent with the plans and estimates that we are using to manage the underlying businesses. Valuation allowances are recorded as reserves against net deferred tax assets when it is determined that net deferred tax assets are not likely to be realized in the foreseeable future.

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 our results of operations, cash flows or financial position.

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

Item 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

We conduct business in several countries and intend to grow our 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, our operations are exposed to risks associated with changes in social, political and economic conditions inherent in international operations, including changes in the laws and policies that govern international investment in countries where we have operations, as well as, to a lesser extent, changes in U.S. laws and regulations relating to international trade and investment. For further information, see Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. *CONTROLS AND PROCEDURES*

Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are designed to provide reasonable assurance that the 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. Our 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 our disclosure controls and procedures as of March 31, 2020. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2020, at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no other changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. *LEGAL PROCEEDINGS*

None.

Item 1A. *RISK FACTORS*

In addition to the information set forth in this report, you should carefully consider the risks discussed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, which could have a material adverse effect on our business or consolidated financial statements, results of operations, and cash flows. Additional risks not currently known, or risks that are currently believed to be not material, may also impair business operations. The following risk factors are believed to have materially changed since the filing of our Annual Report on Form 10-K for the year ended December 31, 2019.

The ongoing outbreak of coronavirus and the responses thereto around the world could adversely impact our business and operating results.

In or about December 2019, a novel strain of coronavirus, SARS-CoV-2, began aggressively spreading throughout the world, including all the primary markets where we conduct business. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and the President of the United States declared the COVID-19 pandemic a national emergency. Governments around the world have issued, and others in the future may issue, orders for their citizens to shelter-in-place to control the spread of COVID-19. Such orders, restrictions and recommendations, and the anticipation that additional orders, restrictions or recommendations could occur, have resulted in widespread closures of businesses not deemed "essential," work stoppages, limitations on the number of people allowed to gather in one location, slowdowns and delays in world-wide supply chains, work-from-home policies, travel restrictions and cancellation of events, among other effects that have led to record declines in stock prices and oil prices, as well as unprecedented high levels of unemployment. These orders and restrictions have limited the ability of our Distributors to meet consumers and resulted in lower sales in Asia. Similar orders and restrictions in other regions of the world may also limit the ability of our Distributors to meet with consumers and may result in lower sales in those regions.

The duration and extent of COVID-19's impact on our business are difficult to assess or predict. The widespread pandemic has resulted and may continue to result for an extended period, in significant disruption of global financial markets, reducing our ability to access capital, repatriate funds from foreign markets, which would negatively affect our liquidity. Further, quarantines or government reaction or shutdowns for COVID-19 could disrupt or halt our operations and harm our business, financial condition and results of operations. Our manufacturing personnel and other employees could also be affected by COVID-19, potentially reducing their availability, and large spread outbreak of COVID-19 among our manufacturing or supply-chain employees could disrupt or halt our operations. Further, restrictions on gatherings of individuals may limit the ability of our independent distributors to sell our products. Additionally, the procedures we take to mitigate the effect of COVID-19 on our workforce could reduce the efficiency of our operations or prove insufficient.

Cybersecurity risks and the failure to maintain the integrity of data could expose us to data loss, litigation and liability, which could adversely affect our results of operations and financial condition.

We collect and retain large volumes of data from employees and independent distributors, including credit card numbers and other personally identifiable information, for business purposes, including transactional and promotional purposes. Our various information technology systems enter, process, summarize and report such data. The integrity and protection of this data are critical to our business. We are subject to significant security and privacy regulations, as well as requirements imposed by the credit card industry.

Similarly, a failure to adhere to the payment card industry's data security standards could cause us to incur penalties from payment card associations, termination of our ability to accept credit or debit card payments, litigation and adverse publicity, any of which could have a material adverse effect on our business and financial condition.

Maintaining compliance with these evolving regulations and requirements could be difficult and may increase costs. In addition, a penetrated or compromised data system or the intentional, inadvertent or negligent release or disclosure of data could result in theft, loss or fraudulent or unlawful use of company, employee, distributor or guest data which could adversely affect our reputation, disrupt our operations, or result in remedial and other costs, fines or lawsuits, which could have a material adverse effect on our results of operations and financial condition. Although we take measures to protect the security, integrity and confidentiality of our data systems, we experience cyber-attacks of varying degrees and types on a regular basis. Our infrastructure may be vulnerable to these attacks, and in some cases, it could take time to discover them. Our security measures may also be breached due to employee error or malfeasance, system errors or otherwise. For various reasons or circumstances, our employees may work remotely from time to time. For example, many of our employees have worked remotely in response to the spread of the COVID-19 pandemic. During such times, remote access heightens the risk of a cyber-attack. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information to gain access to our data or our users' or customers' data. Any such breach or unauthorized access could result in the unauthorized disclosure, misuse or loss of sensitive information and lead to significant legal and financial exposure, regulatory inquiries or investigations, loss of confidence by our sales force, disruption of our operations and damage to our reputation. These risks are heightened as we work with third-party partners and as our sales force uses social media, as the partners and social media platforms could be vulnerable to the same types of breaches.

Our manufacturing activity is subject to certain risks.

We manufacture a significant portion of the products sold at our manufacturing facility located in Spanish Fork, Utah. As a result, we are dependent upon the uninterrupted and efficient operation of our manufacturing facility in Spanish Fork and our distribution facilities throughout the country. Our manufacturing facilities and distribution facilities are subject to the risk of catastrophic loss due to, among other things, earthquake, fire, flood, epidemic, terrorism or other natural or man-made disasters, as well as the occurrence of significant equipment failures. If any of these facilities were to experience a catastrophic loss, it would be expected to disrupt our operations and could have a material adverse effect on our results of operations and financial condition. We source many of our ingredients and some of our finished products through third-party suppliers. If any of our third-party suppliers were to suffer a catastrophic loss, it would cause delays in our manufacturing and could have a material effect on our results of operations and financial condition.

As the primary manufacturer of our own products, we are subject to FDA regulations on GMPs, which require us to maintain good manufacturing processes, including ingredient identification, manufacturing controls and record keeping. Compliance with these regulations has increased and may further increase our cost of manufacturing products. Our results of operations and financial condition could be materially adversely affected if regulatory authorities make determinations that we are not in compliance with FDA regulations on GMPs. A finding of noncompliance may result in administrative warnings, penalties or actions impacting our ability to continue selling certain products, which could have a material adverse effect on our results of operations and financial condition.

In addition, we contract with third-party manufacturers to produce some of our vitamins, mineral and other nutritional supplements, personal care products and certain other miscellaneous products in accordance with our specifications and standards. These contract manufacturers are subject to the same risks as our manufacturing facility as noted above. In addition, while we have implemented stringent quality control procedures to verify that our contract manufacturers comply with our specifications and standards, we do not have full control over their manufacturing activities. Significant delays and defects in our products resulting from the activities of our contract manufacturers may have a material adverse effect on our results of operations and financial condition.

We may be adversely affected by changes to our independent distributor compensation plans.

We modify components of our compensation plans from time to time to keep them competitive and attractive to existing and potential independent distributors, to address changing market dynamics, to provide incentives to our independent distributors that we believe will help grow our business, to conform to local regulations and to address other business related considerations. In May 2020, we announced that we will be making significant changes to our compensation plan. It is difficult to predict how such changes will be viewed by our independent distributors and whether such changes will achieve their desired results. Such changes could result in unintended or unforeseen negative economic and non-economic consequences to our business, such as higher than anticipated costs or difficulty in attracting and retaining independent distributors, either of which could have a material adverse effect on our results of operations and financial condition.

We may not be entitled to forgiveness of our recently received PPP Loan, and our application for the PPP Loan could in the future be determined to have been impermissible or could result in damage to our reputation.

On April 14, 2020 we received proceeds of $5.4 million from a loan under the Paycheck Protection Program of the CARES Act, a portion of which may be forgiven, which we intend to use to retain current employees, maintain payroll and make lease and utility payments. The PPP Loan matures on April 14, 2022 and bears annual interest at a rate of 1.0%. Commencing November 14, 2020, we are required to pay the lender equal monthly payments of principal and interest as required to fully amortize by April 21, 2022 any principal amount outstanding on the PPP Loan as of October 14, 2020. A portion of the PPP Loan may be forgiven by the SBA upon our application beginning 60 days but not later than 120 days after loan approval and upon documentation of expenditures in accordance with the SBA requirements. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities during the eight week period beginning on the date of loan approval. Not more than 25% of the forgiven amount may be for non-payroll costs. The amount of the PPP Loan eligible to be forgiven is limited because of certain headcount reductions that we implemented in March 2020 and will be reduced if our full-time headcount declines further, or if salaries and wages for employees with salaries of $100,000 or less annually are reduced by more than 25%. We will be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, in accordance with the amortization schedule described above, and we cannot provide any assurance that we will be eligible for loan forgiveness, that we will ultimately apply for forgiveness, or that any amount of the PPP Loan will ultimately be forgiven by the SBA. Furthermore, on April 28, 2020, the Secretary of the U.S. Department of the Treasury stated that the SBA will perform a full review of any PPP loan over $2.0 million before forgiving the loan.

In order to apply for the PPP Loan, we were required to certify, among other things, that the current economic uncertainty made the PPP Loan request necessary to support our ongoing operations. We made this certification in good faith after analyzing, among other things, our financial situation and access to alternative forms of capital, and believe that we satisfied all eligibility criteria for the PPP Loan, and that our receipt of the PPP Loan is consistent with the broad objectives of the Paycheck Protection Program of the CARES Act. The certification described above does not contain any objective criteria and is subject to interpretation. On April 23, 2020, the SBA issued guidance stating that it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith. The lack of clarity regarding loan eligibility under the Paycheck Protection Program has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. If, despite our good-faith belief that given our Company's circumstances we satisfied all eligible requirements for the PPP Loan, we are later determined to have violated any of the laws or governmental regulations that apply to us in connection with the PPP Loan, such as the False Claims Act, or it is otherwise determined that we were ineligible to receive the PPP Loan, we may be subject to penalties, including significant civil, criminal and administrative penalties and could be required to repay the PPP Loan in its entirety. In addition, receipt of a PPP Loan may result in adverse publicity and damage to reputation, and a review or audit by the SBA or other government entity or claims under the False Claims Act could consume significant financial and management resources. Any of these events could have a material adverse effect on our business, results of operations and financial condition

Item 2. ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

None

Item 3. ***DEFAULTS UPON SENIOR SECURITIES***

None.

Item 4. ***MINE SAFETY DISCLOSURES***

Not applicable.

Item 5. ***OTHER INFORMATION***

None.

Item 6. ***EXHIBITS***

a) Index to Exhibits

Item No.	Exhibit
3.2(1)	Amended and Restated Bylaws of Nature's Sunshine Products, Inc.
10.1(2)	Employment Agreement between the Company and Joseph W. Baty
10.2(2)	Employment Agreement between the Company and Bryant J. Yates
31.1(3)	Certification of Chief Executive Officer under SEC Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934ve Officer under SEC Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934
31.2(3)	Certificate of Chief Financial Officer under SEC Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934
32.1(3)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2(3)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 Financial Officer pursuant to 18 U.S.C. Section 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

(1) Previously filed as Exhibit 3.1 to the Current Report on Form 8-K filed on March 10, 2020.
(2) Previously filed as an Exhibit to the Current Report on Form 8-K filed on April 7, 2020.
(3) Filed currently herewith.

SIGNATURES

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

Nature's Sunshine Products, Inc.

Date:	May 11, 2020	/s/ Terrence O. Moorehead
		Terrence O. Moorehead, President and Chief Executive Officer
Date:	May 11, 2020	/s/ Joseph W. Baty
		Joseph W. Baty, Executive Vice President, Chief Financial Officer and Treasurer

Exhibit 31.1

CERTIFICATIONS

I, Terrence O. Moorehead, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nature’s Sunshine Products, Inc. (“the registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 11, 2020

/s/ Terrence O. Moorehead

Terrence O. Moorehead

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Joseph W. Baty, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nature's Sunshine Products, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020

/s/ Joseph W. Baty

Joseph W. Baty
Executive Vice President, Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Nature's Sunshine Products, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Terrence O. Moorehead, President and Chief Executive Officer of the Company, certify, pursuant to 18.U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/s/ Terrence O. Moorehead

Terrence O. Moorehead
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Nature's Sunshine Products, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Baty, Executive Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18.U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/s/ Joseph W. Baty

Joseph W. Baty
Executive Vice President, Chief Financial Officer and Treasurer