

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

**FORM 10-K**

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
for the fiscal year ended December 31, 2020

OR

**Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934**  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-34483



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

(Exact name of Registrant as specified in its charter)

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

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

**2901 West Bluegrass Blvd., 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 Act:

Title of each class  
Common Stock, no par value

Trading Symbol(s)  
NATR

Name of each exchange on which registered  
Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

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

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

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2020 was approximately \$9,354,621 based on the closing price of \$9.01 as quoted by Nasdaq Capital Market on June 28, 2019. For the purposes of this disclosure only, the registrant has assumed that its directors, executive officers, and the beneficial owners of 10% or more of the registrant's outstanding common stock are the affiliates of the registrant.

The number of shares of Common Stock, no par value, outstanding on February 26, 2021 is 19,795,732 shares.

**EXPLANATORY NOTES**

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's year ended December 31, 2020, are incorporated by reference in Part III of this Annual Report on Form 10-K.



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

For the Year Ended December 31, 2020

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated herein by reference in this report may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies. All statements (other than statements of historical fact) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as “believe,” “hope,” “may,” “anticipate,” “should,” “intend,” “plan,” “will,” “expect,” “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, 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;
- registration of products for sale in foreign markets, or difficulty or increased cost of importing products into foreign markets;
- legal challenges to the Company's direct selling program or to the classification of its independent consultants;
- liabilities and obligations arising from improper activity by the Company’s independent consultants;
- product liability claims;
- our cannabidiol (CBD) product line is subject to varying, rapidly changing laws, regulations, and rules;
- actions on trade relations by the U.S. and foreign governments;
- impact of anti-bribery laws, including the U.S. Foreign Corrupt Practices Act;
- the Company’s ability to attract and retain independent consultants;
- the loss of one or more key independent consultants who have a significant sales network;
- the Company’s joint venture for operations in China with Fosun Industrial Co., Ltd.;
- the effect of fluctuating foreign exchange rates;
- failure of the Company’s independent consultants to comply with advertising laws;
- changes to the Company’s independent consultants compensation plans;
- geopolitical issues and conflicts;
- we may be adversely affected by the ongoing coronavirus pandemic;
- 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;
- 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; and
- the sufficiency of trademarks and other intellectual property rights.

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 1**

**Item 1. Business**

**The Company**

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 formed in 1976 with our principal place of business in Lehi, Utah, and sell our products to a sales force of independent consultants who use the products themselves or resells them to consumers.

**Business Segments**

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.

**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.

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 years ended December 31, 2020 and 2019, by business segment can be found in Note 14, "Operating Business Segment and International Operation Information," to our Consolidated Financial Statements, in Item 8, Part 2 of this report.

The following table summarizes the Company's product lines by category:

<b>Category</b>	<b>Description</b>
<b>General health</b>	We distribute a wide selection of general health products. The general health line is a combination of assorted health products related to blood sugar support, bone health, cellular health, cognitive function, joint health, mood, sexual health, sleep, sports and energy, and vision.
<b>Immune</b>	We distribute immune products. The immune line has been designed to offer products that support and strengthen the human immune system.
<b>Cardiovascular</b>	We distribute cardiovascular products. The cardiovascular line has been designed to offer products that combine a variety of superior heart health ingredients to give the cardiovascular system optimum support.
<b>Digestive</b>	We distribute digestive products. The digestive line has been designed to offer products that regulate intestinal and digestive functions in support of the human digestive system.
<b>Personal care</b>	We distribute a variety of personal care products for external use, including oils and lotions, aloe vera gel, herbal shampoo, herbal skin treatment, toothpaste and skin cleanser.
<b>Weight management</b>	We distribute a variety of weight management products. The weight management line has been designed to simplify the weight management process by providing healthy meal replacements and products that increase caloric burn rate.

## **Distribution and Marketing**

We market our products primarily through our network of independent consultants, who market our products to customers through direct selling techniques and sponsor other independent consultants who also market our products to customers. We seek to motivate and provide incentives to our independent consultants by offering high quality products and providing independent consultants 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 consultants. 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 force of independent consultants.

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 consultants 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 years ended December 31, 2020 and 2019, are set forth in our Consolidated Financial Statements in Item 8 of this report. In addition to the opportunity to receive volume incentives, independent consultants who attain certain levels of monthly product sales are eligible for additional incentive programs including automobile allowances, sales convention privileges and travel awards.

## **Source and Availability of Raw Materials**

Raw materials used in the manufacture of our products are generally available from a number of suppliers. To date, we have not experienced any major difficulty in obtaining and maintaining adequate sources of raw materials supply. We attempt to ensure the availability of many of our raw materials by contracting, in advance, for our annual requirements. In the past, we have been able to find alternative sources of raw materials when needed. Although there can be no assurance that we will be successful in locating such sources of supply in the future, we believe that we will be able to do so.

## **Trademarks and Trade Names**

We have obtained trademark registrations for Nature’s Sunshine®, and related logos for all of our Nature’s Sunshine Products product lines. We have also obtained trademark registrations for Synergy Worldwide® for all of our Synergy WorldWide product lines. We hold trademark registrations in the United States and in many other countries. Our customers’ recognition and association of our brands and trademarks with quality is an important element of our operating strategy.

The duration of our trademark registrations is generally between 10 and 20 years, depending on the country in which the marks are registered, and can be renewed. The scope and duration of our intellectual property protection varies throughout the world by jurisdiction and by individual product.

## **Seasonality**

We operate in several regions around the world and, as a result, are affected by seasonal factors and trends such as weather changes, holidays and cultural traditions and vacation patterns throughout the world. For instance, in North America and Europe we typically experience a decrease in activity during the third quarter due to the summer vacation season, while we experience a decrease in activity in many of our Asia Pacific markets during the first quarter due to cultural events such as the Lunar New Year. As a result, there is some seasonality to our revenues and expenses reflected in our reported quarterly results. Generally, reductions in one region of the world due to seasonality are offset by increases in another, minimizing the impact on our reported consolidated revenues. Changes in the relative size of our revenues in one region of the world compared to another could cause seasonality to more significantly affect our reported quarterly results.

## **Inventories**

In order to provide a high level of product availability to our independent consultants, we maintain considerable inventory of raw materials in the United States and of finished goods in most countries in which we sell our products. Due to different regulatory requirements across the countries in which we sell our products, our finished goods inventories have product labels and sometimes product formulations specific for each country. Our inventories are subject to obsolescence due to finite shelf lives.

## **Dependence upon Independent Consultants**

A significant amount of our revenue in some of our markets is dependent on only a few independent consultants and their extensive sales networks. The loss of one or more of these independent consultants who, together with their extensive sales network generate a significant amount of our revenue, could have a material adverse effect on the results of operations and financial condition on one or more of our business segments.

## **Backlog**

We typically ship orders for our products within 24 hours after receipt of payment. As a result, we have not historically experienced significant backlogs due to our high level of product availability as discussed above.

## **Competition**

Our products are sold in competition with other companies, some of which have greater sales volumes and financial resources than we do, and sell brands that are, through advertising and promotions, better known to consumers. We compete in the nutritional and personal care industry against companies that sell through retail stores, as well as against other direct selling companies. For example, we compete against manufacturers and retailers of nutritional and personal care products, which are distributed through supermarkets, drug stores, health food stores, vitamin outlets, discount stores, and mass market retailers, among others. We compete for product sales and independent consultants with many other direct selling companies, including Herbalife, LifeVantage, Nu Skin and USANA, among others. We believe that the principal components of competition in the direct selling of nutritional and personal care products are consultant expertise and service, product quality and differentiation, price and brand recognition. In addition, we rely on our independent consultants to compete effectively in the direct selling markets, and our ability to attract and retain independent consultants depends on various factors, including the training, quality product offerings and financial incentives for the independent consultants.

## **Research and Development**

We conduct research at our research center, known as the Hughes Center for Research and Innovation, a state of the art research and development facility located at our corporate offices in Lehi, Utah. Our principal emphasis in our research and development activities is clinical research in the support of the development of new products and the enhancement of existing products.

## **Compliance with Environmental Laws and Regulations**

The nature of our business has not required any material capital expenditures to comply with federal, state or local provisions enacted or adopted regulating the discharge of materials into the environment. No material capital expenditures to meet such provisions are anticipated. Such regulatory provisions did not have a material effect upon our results of operations or competitive position during the year ended December 31, 2020.

## **Regulation**

### *General*

In both the United States and foreign markets, we are affected by extensive laws, governmental regulations, administrative determinations and guidance, court decisions and similar constraints (collectively "Regulations"). Such Regulations exist at the federal, state or local levels in the United States and at all levels of government in foreign jurisdictions, including Regulations pertaining to: (1) the formulation, manufacturing, packaging, labeling, distribution, importation, sale and storage of our products; (2) product and earnings claims and advertising, including direct claims and advertising by us, as well as claims and advertising by independent consultants, for which we may be held responsible; (3) our direct selling program; (4) transfer pricing and similar regulations that affect the level of U.S. and foreign taxable income and customs duties;

(5) taxation of our independent consultants (which in some instances may impose an obligation on us to collect the taxes and maintain appropriate records); and (6) currency exchange and repatriation.

### *Products*

The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of each of our major product groups are subject to regulation by one or more governmental agencies in the United States and in other countries. In the United States, the Food and Drug Administration (“FDA”) regulates our products under the Federal Food, Drug and Cosmetic Act, as amended and the regulations promulgated thereunder (“FDCA”). The FDCA defines the terms “food” and “dietary supplement” and sets forth various conditions that, unless complied with, may constitute adulteration or misbranding of such products. The FDCA has been amended several times with respect to dietary supplements, including amendments by the Nutrition Labeling and Education Act of 1990 (“NLEA”) and the Dietary Supplement Health and Education Act of 1994, as amended, and the regulations promulgated thereunder (“DSHEA”).

FDA regulations relating specifically to foods and dietary supplements for human use are set forth in Title 21 of the Code of Federal Regulations. These regulations include basic labeling requirements for both foods and dietary supplements. Additionally, FDA regulations require us to meet relevant good manufacturing practice regulations relating to, among other things, the preparation, packaging and storage of our food and dietary supplements.

FDA rules impose requirements on the manufacture, packaging, labeling, holding, and distribution of dietary supplement products. For example, it requires that companies establish written procedures governing areas such as: (1) personnel, (2) plant and equipment cleanliness, (3) production controls, (4) laboratory operations, (5) packaging and labeling, (6) distribution, (7) product returns, and (8) complaint handling. The FDA also requires identity testing of all incoming dietary ingredients unless a company successfully petitions for an exemption from this testing requirement in accordance with the regulations. The current good manufacturing practices are designed to ensure that dietary supplements and dietary ingredients are not adulterated with contaminants or impurities, and are labeled to accurately reflect the active ingredients and other ingredients in the products. Ingredient identification requirements, which require us to confirm the levels, identity and potency of ingredients listed on our product labels within a narrow range, are particularly burdensome and difficult for us with respect to our product formulations, which contain many different ingredients.

In some countries we are, or regulators may assert that we are, responsible for the conduct of our independent consultants, and regulations applicable to the activities of our independent consultants also affect our business. In these countries, regulators may request or require that we take steps to ensure that our independent consultants comply with regulations. The types of regulated conduct include: (1) representations concerning our products; (2) earnings representations made by us and/or our independent consultants; (3) public media advertisements, which in foreign markets may require prior approval by regulators; (4) sales of products in markets in which the products have not been approved, licensed, registered or certified for sale; and (5) classification by government agencies of our independent consultants as our employees.

In some markets, it is possible that improper product claims by our independent consultants could result in our products being reviewed by regulatory authorities and, as a result, being classified or placed into another category as to which stricter regulations are applicable. In addition, we might be required to make labeling changes.

We are unable to predict the nature of any future regulations, nor can we predict what effect additional governmental regulations or administrative orders, when and if promulgated, would have on our business in the future. They could, however, require: (1) reformulation of some products not capable of being reformulated; (2) imposition of additional record keeping requirements; (3) expanded documentation of the properties of some products; (4) expanded or different labeling; (5) additional or different scientific substantiation regarding product ingredients, safety or usefulness; and/or (6) additional consultant compliance surveillance and enforcement action by us. Any or all of these requirements could have a material adverse effect on our results of operations and financial condition.

In foreign markets, prior to commencing operations and prior to making or permitting sales of our products in the market, we may be required to obtain an approval, license, registration or certification from the country’s ministry of health or comparable agency. Prior to entering a new market in which a formal approval, license, registration or certificate is required, we work extensively with local authorities to obtain the requisite approvals. We must also comply with product labeling and packaging regulations that vary from country to country. Our failure to comply with these regulations can result in a product being removed from sale in a particular market, either temporarily or permanently.



*Direct Selling*

Our business practices and products are also regulated by the following United States governmental entities: the Federal Trade Commission (“FTC”), Consumer Product Safety Commission (“CPSC”), Department of Agriculture (“USDA”) and Environmental Protection Agency (“EPA”). Our activities, including our direct selling distribution activities, are also regulated by various agencies of the states, localities and foreign countries in which our products are sold.

The FTC, which exercises jurisdiction over the advertising of all of our products in the United States, has in the past several years instituted enforcement actions against several dietary supplement and food companies and against manufacturers of weight loss products generally for false and misleading advertising of some of their products. The FTC closely scrutinizes the use of testimonials, the role of expert endorsers and product clinical studies. The FTC has in recent years investigated and taken enforcement action against direct selling companies for misleading representations relating to the earnings potential of an independent consultant within a company’s compensation plan, as well as appropriateness of the compensation plans themselves. For example, in 2015, the FTC initiated an enforcement action against a direct selling company, alleging an illegal business model and improper earnings claims, which the FTC and the direct selling company settled in September 2016, by entering into a stipulated order. In July 2016, the FTC entered into a settlement agreement with another direct selling company, which required the particular direct selling company to restructure its U.S. business operations to settle charges relating to deceptive advertising, misrepresentation and an illegal business model. The settlement of each of these cases required the direct selling company involved to, among other things, pay a significant fine, revise its compensation plan to comply with restrictions on how it can compensate its independent consultants and change its marketing practices to avoid misleading income, earning and other representations. We cannot be sure that the FTC, or comparable foreign agencies, will not question our advertising or other operations in the future.

*Transfer Pricing*

In many countries, including the United States, we are subject to transfer pricing and other tax regulations designed to ensure that appropriate levels of income are reported as earned by our U.S. or local entities and are taxed accordingly. In addition, our operations are subject to regulations designed to ensure that appropriate levels of customs duties are assessed on the importation of our products.

Although we believe that we are in substantial compliance with all applicable regulations and restrictions, we are subject to the risk that governmental authorities could audit our transfer pricing and related practices and assert that additional taxes are owed.

In the event that the audits or assessments are concluded adversely to us, we may or may not be able to offset or mitigate the consolidated effect of foreign income tax assessments through the use of U.S. foreign tax credits. Because the laws and regulations governing U.S. foreign tax credits are complex and subject to periodic legislative amendment, we cannot be sure that we would in fact be able to take advantage of all foreign tax credits in the future.

*Other Regulations*

We are also subject to a variety of other regulations in various foreign markets, including regulations pertaining to social security assessments, employment and severance pay requirements, import/export regulations and antitrust issues. As an example, in many markets, we are substantially restricted in the amount and types of rules and termination criteria that we can impose on our independent consultants without having to pay social security assessments on behalf of the independent consultants and without incurring severance obligations to terminated independent consultants. In some countries, we may be subject to these obligations in any event.

Our failure to comply with these regulations could have a material adverse effect on our results of operations and financial condition in a particular market or in general. Assertions that we failed to comply with regulations or the effect of adverse regulations in one market could adversely affect us in other markets as well, by causing increased regulatory scrutiny in those other markets or as a result of the negative publicity generated in those other markets.

*Compliance*

In order to comply with regulations that apply to both us and our independent consultants, we conduct research into the applicable regulatory framework prior to entering any new market to identify all necessary licenses, registrations and approvals and applicable limitations on our operations in that market. Typically, we conduct this research with the assistance of local legal counsel and other representatives. We devote substantial resources to obtaining the necessary licenses, registrations and

approvals and bringing our operations into compliance with the applicable limitations. We also research laws applicable to independent consultant operations and revise or alter our independent consultant manuals and other training materials and programs to provide independent consultants with guidelines for operating a business, selling and distributing our products and similar matters, as required by applicable regulations in each market. We are unable to monitor our independent consultants effectively to ensure that they refrain from distributing our products in countries where we have not commenced operations.

In addition, regulations in existing and new markets often are ambiguous and subject to considerable interpretive and enforcement discretion by the responsible regulators. Moreover, even when we believe that we and our independent consultants are initially in compliance with all applicable regulations, new regulations regularly are being added and the interpretation of existing regulations is subject to change. Further, the content and impact of regulations to which we are subject may be influenced by public attention directed at us, our products or our direct selling program, so that extensive adverse publicity about our products or our direct selling program may result in increased regulatory scrutiny.

It is an ongoing part of our business to anticipate and respond to new and changing regulations and to make corresponding changes in our operations to the extent practicable. Although we devote considerable resources to maintaining our compliance with regulatory constraints in each of our markets, we cannot be sure that (1) we would be found to be in full compliance with applicable regulations in all of our markets at any given time or (2) the regulatory authorities in one or more markets will not assert, either retroactively or prospectively or both, that our operations are not in full compliance. These assertions or the effect of adverse regulations in one market could negatively affect us in other markets as well, by causing increased regulatory scrutiny in those other markets or as a result of the negative publicity generated in those other markets. These assertions could have a material adverse effect on our results of operations and financial condition in a particular market or in general. Furthermore, depending upon the severity of regulatory changes in a particular market and the changes in our operations that would be necessitated to maintain compliance, these changes could result in us experiencing a material reduction in revenue in the market or determining to exit the market altogether. In this event, we would attempt to devote the resources previously devoted to such market to a new market or markets or other existing markets. However, we cannot be sure that this transition would not have a material adverse effect on our business, results of operations, and financial condition either in the short or long-term.

To further mitigate any compliance risk, a Compliance Committee of the Board of Directors (the "Compliance Committee") was created in 2014. The purpose of the Compliance Committee is to oversee our efforts with respect to operational compliance. "Operational Compliance" is defined by the Compliance Committee's charter to include: consultant compliance and direct selling best practices; employee compliance, including code of conduct and other mandated trainings; product and product distribution regulatory compliance, including adherence to FTC, FDA and other similar regulatory bodies' mandates; compliance with data protection regulations; and non-financial, whistleblower reports. For avoidance of doubt, "Operational Compliance" does not include adherence to the U.S. Foreign Corrupt Practices Act (the "FCPA"), which is the responsibility of the Audit Committee.

## **Employees**

We employed 837 individuals as of December 31, 2020. We believe that our relations with our employees are satisfactory.

## **Available Information**

Our principal executive office is located at 2901 West Blue Grass Blvd., Suite 100, Lehi, Utah 84043. Our telephone number is (801) 341-7900 and our Internet website address is [www.natr.com](http://www.natr.com). We make available, free of charge on our website, our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as soon as practicable after electronically filing these documents with, or furnish them to, the Securities and Exchange Commission (the "SEC"). The SEC also maintains an Internet website that contains reports, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). We also make available, free of charge on our website, our Code of Conduct Policy and the charters of our Audit Committee, Governance Committee, Compensation Committee and Compliance Committee.

## **Item 1A. Risk Factors**

*You should carefully consider the following risks in evaluating us and our business. The risks described below are the risks that we currently believe are material to our business. However, additional risks not presently known to us, or risks that we currently believe are not material, may also impair our business operations. You should also refer to the other information*

set forth in this report, including the information set forth in “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as in our consolidated financial statements and the related notes. Our business prospects, financial condition or results of operations could be adversely affected by any of the following risks. If we are adversely affected by such risks, the market price of our common stock could decline.

## **Regulatory and Litigation Risks**

***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.***

Direct selling companies are subject to laws and regulations by various government agencies throughout the world. These laws and regulations are generally intended to prevent fraudulent or deceptive practices and to ensure that sales are made to consumers of the products, and that compensation is based primarily upon bona fide sale of products to consumers and not primarily upon the recruitment of other persons as participants in the compensation program. Regulations in some countries in which we operate, including South Korea and China, limit the amount of compensation we can pay to our independent consultants. Failure to comply with these laws and regulations could result in significant penalties, which could have a material adverse effect on our results of operations and financial condition. Violations could result from misconduct by an independent consultant, ambiguity in statutes, changes or new laws and regulations affecting our business and court-related decisions.

The FTC in the United States, and similar government agencies in foreign jurisdictions, periodically investigate and bring enforcement actions against direct selling companies based on alleged pyramid selling activity and/or false and misleading claims made by the direct selling company or its independent consultants. Direct selling companies that have been the subject of an FTC enforcement action have generally been required to make significant changes to their business model and pay significant monetary fines. Being the target of an investigation or enforcement action by the FTC in the United States, or a similar government agency in a foreign jurisdiction, could have a material adverse effect on our results of operations and financial condition.

In recent years, FTC settlements with direct selling companies have required those companies to make material changes to their business model, including basing sales compensation and qualification only on sales to retail and preferred customers and on purchases by a consultant for personal consumption within allowable limits. In 2020, we launched our new sales compensation plan for independent consultants in North America and Latin America. If the requirements in FTC settlements or judicial cases lead to new industry standards or rules, our business could be impacted, and we may need to amend our global sales compensation plan. If we are required to make changes, or if the FTC seeks to enforce similar measures in the industry, either through rulemaking or an enforcement action against our company, our business could be harmed.

***Our products, business practices and manufacturing activities are subject to extensive government regulations and could be subject to additional laws and regulations.***

The formulation, manufacturing, packaging, labeling, advertising, distribution and sales of each of our major product groups are subject to regulation by numerous domestic and foreign governmental agencies and authorities. In the U.S., these governmental agencies and authorities include the FDA, the FTC, the CPSC, the EPA, the USDA and state regulatory agencies. Generally, each international market in which we operate has regulatory agencies similar to the regulatory agencies in the U.S. In addition, each State in the United States has an attorney general who is responsible for enforcing the laws of that State. Some states’ attorneys general have, from time to time, demonstrated a focus on the manufacture and sale of various dietary supplements. As a result of such focus, a state’s attorney general could seek to take actions against us or other industry participants or amend applicable regulations in their State, which could have a material adverse effect on our results of operations and financial condition by causing us to incur additional costs to comply or cease selling one or more of our products. As the primary manufacturer of our own products, we are subject to FDA regulations on Good Manufacturing Practices (“GMP”), which require us to maintain good manufacturing processes, including ingredient identification, manufacturing controls and record keeping.

Ingredient identification requirements, which require us to confirm the levels, identity and potency of ingredients listed on our product labels within a narrow range, are particularly burdensome and difficult for us with respect to our product formulations, which contain many different ingredients. Compliance with these regulations has increased and may further increase the cost of manufacturing our products. Our results of operations and financial condition could be materially adversely affected if a regulatory authority makes a determination that we are not in compliance with ingredient identification requirements. A finding of noncompliance may result in administrative warnings, penalties or actions impacting our ability to continue selling certain products. Failure to comply with ingredient identification requirements could also lead to private class

action lawsuits which would be costly, disruptive and could have a material adverse effect on our results of operations and financial condition.

In the future, we may be subject to additional laws or regulations administered by the FDA or other federal, state, local or foreign regulatory authorities, the repeal or amendment of laws or regulations which we consider favorable and/or more stringent interpretations of current laws or regulations. Such changes could, among other things, require reformulation of certain products to meet new standards, cause us to recall or discontinue certain of our products, impose additional record-keeping requirements, expand documentation of the properties of certain products and expand or alter labeling and/or scientific substantiation requirements. Any or all such requirements could increase our costs of operating the business and have a material adverse effect on our results of operations and financial condition.

The FTC and states' attorneys general have in the past instituted enforcement actions against cosmetic, dietary supplement, and food companies and manufacturers for false and misleading advertising of some of their products. The FTC has sent warning letters to companies for deceptive or scientifically unsupported claims that certain products could treat or cure COVID-19. The FDA also issued warning letters to companies for claiming their products prevented, treated, mitigated, diagnosed or cured COVID-19. The FTC and states' attorneys general from time to time have initiated investigations and enforcement actions against direct selling companies alleging that the companies operated a pyramid scheme. Although the FTC and states' attorneys general exercise a substantial degree of subjectivity in determining whether a company is operating a pyramid scheme, the FTC and states' attorneys general consider whether the compensation received by our independent consultants is based primarily on recruitment of other persons as participants in the compensation program and not on bona fide sales of products to consumers. The FTC and states' attorneys general have also initiated investigations and enforcement actions as a result of misleading representations relating to the earnings potential of independent consultants within a company's compensation plan. Additionally, in recent years, private watchdog groups have increased their attention on companies in the dietary supplement and direct selling industries with allegations of false or misleading product and earnings claims. Such private watchdog groups actively monitor dietary supplement and direct selling companies and their independent consultants with the goal of encouraging the FTC and/or states' attorneys general to take enforcement action against practices they believe are misleading or illegal. We cannot be sure that the FTC or states' attorneys general, or comparable foreign agencies, will not question our advertising claims, or advertising claims made by our independent consultants, in the future. Additionally, plaintiffs' lawyers have filed class action lawsuits against some of our competitors, which are often expensive to defend against. An enforcement action brought by a government agency, like the FTC in the United States, or a class action lawsuit, could adversely affect our reputation and potentially result in significant penalties and costs, either of which could have a material adverse effect on our results of operations and financial condition.

***Our direct selling system could be challenged in one or more countries in which we do business.***

Legal and regulatory requirements concerning the direct selling industry generally do not include "bright line" rules and are inherently fact-based and subject to interpretation. As a result, regulators and courts often have discretion in their application of these laws and regulations. The enforcement or interpretation of these laws and regulations by government agencies or courts can change from time to time. We periodically become aware of investigations and enforcement actions against other companies in the direct selling industry. An adverse ruling in an investigation or enforcement action involving a direct selling company could have a material adverse effect on our results of operations and financial condition if direct selling laws or anti-pyramid laws are interpreted more narrowly or in a manner that results in significant burdens or restrictions on direct selling companies.

We could also be subject to challenges by private parties in civil actions, including class action cases brought by plaintiffs' lawyers. From time to time, we become aware of civil class actions brought against our competitors in the United States, which have resulted and may in the future result in adverse judgments and significant settlements. An adverse judgment or significant settlement from a civil class action lawsuit, brought against us, could have a material adverse effect on our results of operations and financial condition.

Government regulations in China are particularly demanding and the Chinese regulatory authorities exercise broad discretion in interpreting and apply regulations. As a result, the model we created specifically for China may not continue to be deemed compliant by national or local Chinese regulatory authorities if applicable regulations, or their interpretations, evolve in a manner that is averse to us and our business model in China. In December 2018, the Chinese government took significant action against a Chinese direct selling company that it alleged was engaged in illegal activity, including false and misleading product and income related claims and other illegal pyramid activities. In January 2019, the Chinese government announced that it was initiating a period of heightened monitoring and enforcement of the dietary supplement and direct selling industries. During such period, additional dietary supplement and direct selling companies have been the subject of investigation and enforcement actions by the Chinese government. There can be no guarantee that the Chinese government's on-going period of

heightened monitoring and enforcement will not have a material adverse impact on our result of operations and financial condition or that current or future interpretation and application of the existing and new regulations will not adversely impact our business in China, result in regulatory investigations or lead to fines or penalties, any of which could have a material adverse effect on our results of operations and financial condition.

***Difficulties in registering our products for sale in Mainland China could have a material adverse effect on our results of operations and financial condition.***

Our registration of our products for sale in China is extremely time intensive. The requirements for obtaining product registrations and/or licenses involve extended periods of time that may delay us from offering products for sale or prevent us from launching new product initiatives in China on the same timelines as other markets around the world. For example, products marketed in China as “health foods” or for which certain claims are used are subject to “blue cap” or “blue hat” registrations, which involve extensive laboratory and clinical analysis by governmental authorities. This registration process can take anywhere from 18 months to 3 years but may be substantially longer. We currently market both “health foods” and “general foods” in China. There is risk associated with the common practice in China of marketing a product as a “general food” while seeking “health food” classification. If government officials feel the categorization of products is inconsistent with product claims, ingredients or function, this could end or limit our ability to market such products in China and have a material adverse effect on our results of operations and financial condition.

***If our independent consultants fail to comply with advertising laws, it could adversely affect our results of operations and financial condition.***

The advertisement of our products is subject to extensive regulations in most of the markets in which we do business, including the United States. Our independent consultants may fail to comply with such regulations governing the advertising of our products or business opportunity. In the U.S., our products are sold principally as dietary supplements and cosmetics and are subject to rigorous FDA regulations limiting the types of therapeutic claims that can be made relating to the products. The treatment or cure of disease, for example, is not a permitted claim for our products. In the U.S., the FTC and states' attorneys general are primarily responsible for providing consumer protection by, among other things, investigating and initiating enforcement actions against business practices it deems deceptive or fraudulent. In recent years, private watchdog groups have increased their scrutiny of companies in the dietary supplement and direct selling industries with allegations of false or misleading product and earnings claims. Such private watchdog groups actively monitor companies and their independent consultants with the goal of encouraging the FTC or one or more states' attorneys general to take enforcement action against practices they believe are misleading or illegal. We cannot ensure that all marketing materials used by our independent consultants comply with applicable regulations, including bans on false and misleading product and earnings potential related claims. If our independent consultants fail to comply with these restrictions, then we could both be subjected to claims of false advertising, misrepresentation, significant financial penalties, costly mandatory product recalls and relabeling requirements, any of which could have a material adverse effect on our results of operations and financial condition.

***Product liability claims could adversely affect our business.***

As a manufacturer and distributor of products that are ingested, we could face product liability claims if, among other things, our products are alleged to result in injury to a consumer. We carry product liability insurance coverage; however, such insurance may not be sufficient to cover one or more large claims, or the insurer may successfully disclaim coverage as to a pending or future claim, which could have a material adverse effect on our results of operations and financial condition.

***Our Cannabidiol (“CBD”) product line is subject to varying, rapidly changing federal, state and local laws, regulations, and rules, which could adversely affect our results of operations and financial condition.***

We launched a new CBD-infused product line. The CBD industry is evolving and subject to varying, and rapidly changing, laws, regulations and administrative practices. For example, the Agricultural Improvement Act of 2018 (the “2018 Farm Bill”) formally defined “hemp” as the *Cannabis sativa* plant and its derivatives, extracts and cannabinoids with a delta-9 tetrahydrocannabinol (“THC”) concentration of not more than 0.3%, and removed hemp from the federal definition of marijuana, making it no longer a Schedule I illegal drug under the Controlled Substances Act. The 2018 Farm Bill thus opened a pathway for the production and marketing of hemp and hemp derivatives, subject to compliance with certain federal requirements and state and local law. Our CBD Products are derived from hemp as defined in the 2018 Farm Bill. The FDA, however, has taken the position that CBD is currently not lawful in food and dietary supplements because of the FDA’s prior approval of CBD as an active pharmaceutical ingredient in an approved new drug, though the agency has stated it will prioritize enforcement against CBD marketers making claims that their products can treat, prevent, or mitigate disease. At the direction of Congress, FDA is currently engaged in a process of evaluating a regulatory approach for the lawful marketing of CBD-

containing foods and dietary supplements. Continued development of CBD-related industries is dependent upon continued legalization of CBD-related products at the federal and state levels, and a number of factors could slow or halt progress in this area. Additionally, changes in applicable federal, state and local laws or regulations could restrict the products and services we offer or impose additional compliance costs on us or our customers.

In addition, the manufacture, labeling, and distribution of our CBD products are regulated by various federal, state and local agencies. These governmental authorities or litigators, such as class action lawyers or attorneys general, may commence regulatory or legal proceedings, which could restrict the permissible scope of our product claims or our ability to sell products in the future. Violations of applicable laws, or allegations of such violations, could disrupt our business and result in material adverse effects on our operations and financial condition. We cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will have a material adverse effect on our business, including our ability to develop, sell, and expand our CBD-infused product line. Further, in the event of either repeal of federal, state or local laws and regulations, or of amendments thereto that are averse to our intended products, we may be restricted or limited with respect to those products that we may sell or distribute, which could adversely impact our intended business plan with respect to such products.

***Risks related to actions on trade by the U.S. and foreign governments could adversely affect our results of operations and financial condition.***

Recently, there has been increasing rhetoric, in some cases coupled with legislative or executive action, from several U.S. and foreign leaders regarding the institution or future institution of tariffs against foreign imports of certain materials. U.S. and foreign leaders have also indicated an intent to renegotiate, modify or terminate international trade agreements or policies with foreign countries. It remains unclear what U.S. or foreign governments will or will not do with respect to tariffs, international trade agreements and policies. A trade war or other governmental action related to tariffs, international trade agreements or policies has the potential to adversely impact our business and/or the U.S. and global economy or certain sectors thereof and, thus, could have a material adverse effect on our results of operations and financial condition. Some tariffs, changes to international trade agreements and policy changes have been announced and are subject to a number of uncertainties as they are implemented, including future adjustments and changes in the countries excluded from such tariffs. While ultimate reaction of other countries, including individuals in each of these countries, and the impact of these tariffs or other actions on the United States, China, the global economy and our business, financial condition and results of operations, cannot be predicted at this time, the impact could be materially adverse.

***We are subject to anti-bribery laws, including the U.S. Foreign Corrupt Practices Act ("FCPA").***

We are subject to anti-bribery laws, including the FCPA, which generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business as well as requiring companies and their intermediaries to maintain accurate books and records. In recent years, there has been a substantial increase in anti-bribery law enforcement activity by the Department of Justice ("DOJ") and the SEC relating to business operations within certain countries in which we operate, including China. For example, in recent years, U.S. based direct selling companies with operations in China have been the subject of investigations and enforcement actions, or in some cases have initiated their own internal investigation, relating to alleged violations of the FCPA.

Our policies mandate compliance with anti-bribery laws by our employees and agents, including the requirements to maintain accurate information and internal controls. However, we may be liable for actions of our employees and agents, even if such actions are inconsistent with our policies. Being subject to an investigation by the DOJ or the SEC for an alleged violation of the FCPA could cause us to incur significant expenses and distractions that could adversely affect our business. Violations of the FCPA, or a similar anti-bribery law, may result in criminal or civil sanctions, including contract cancellations or debarment, and loss of reputation, which could have a material adverse effect on our results of operations and financial condition.

**Risks Related to Our Business**

***We may be unable to attract and retain independent consultants.***

As a direct selling company, our revenue depends primarily on the number and productivity of our independent consultants. We, like most direct selling companies, experience high levels of turnover among our independent consultants from year to year, who may terminate their service at any time. Generally, we need to increase the productivity of our independent consultants and/or retain existing independent consultants and attract additional independent consultants to maintain and/or increase future sales.

Many factors may affect our ability to attract and retain independent consultants, including:

- publicity regarding us, our products, our distribution channels or our competitors;
- on-going motivation of our independent consultants;
- the public's perceptions about the value and efficacy of our products;
- the public's perceptions and acceptance of direct selling;
- general and economic business conditions;
- government regulations;
- our compensation arrangements, including any changes thereto, training and support for our independent consultants; and
- competition in attracting and retaining independent consultants.

Our results of operations and financial condition could be materially adversely affected if our independent consultants are unable to maintain their current levels of productivity and/or if we are unable to retain existing independent consultants and attract additional independent consultants in sufficient numbers to sustain future growth or to maintain present sales levels.

***The loss of key independent consultants who have a significant sales networks could have a material adverse effect on our results of operations and financial condition.***

A significant amount of our net sales, in some of our markets, is dependent on a few independent consultants and their extensive sales networks. The loss or inactivity of one of these independent consultants who, together with their extensive sales network, generate a significant amount of our net sales could have a material adverse effect on our results of operations and financial condition.

***Our expansion in China is subject to risks associated with operating a joint venture.***

On August 25, 2014, we completed a transaction with Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharma"), which created a joint venture owned 80 percent by us and 20 percent by a wholly owned subsidiary of Fosun Pharma. Effective operation of the joint venture depends on good relations between us and Fosun Pharma, active synergies between the two companies and positive legal and regulatory recognition of the joint venture. Any disruption in relations, inability to work efficiently or disadvantageous treatment of the joint venture by the Chinese or other authorities could have a material adverse effect on our results of operations and financial condition.

***Currency exchange rate fluctuations could adversely affect our results of operation and financial condition.***

In 2020, we recognized approximately 65.0 percent of our net sales in markets outside the United States, the majority of which were recognized in each market's respective local currency. We purchase inventory from companies in foreign markets and in the United States, primarily in U.S. dollars. In preparing our financial statements, we translate net sales and expenses in foreign countries from their local currencies into U.S. dollars using average exchange rates. Because a majority of our sales are in foreign countries, exchange rate fluctuations may have a significant effect on net sales and earnings. Our reported earnings have in the past been, and are likely to continue to be, significantly affected by fluctuations in currency exchange rates, with net sales and earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar.

***We could incur obligations resulting from the activities of our independent consultants.***

We sell our products worldwide to a sales force of independent consultants who use the products themselves or resell them to customers. Independent consultants are not employees and operate their own business separate and apart from us. We may not be able to control aspects of their activities that may impact our business. If local laws and regulations, or the interpretation of local laws and regulations, change and require us to treat our independent consultants as employees, or if our independent consultants are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for a variety of obligations that are imposed upon employers relating to their employees, including employment related taxes and penalties, which could have a material adverse effect on our results of operations and financial condition. Our independent consultants also operate in jurisdictions where local legislation and governmental agencies require us to collect and remit taxes such as sales tax or value-added taxes. In addition, there is the possibility that some jurisdictions could seek to hold us responsible for false product or earnings potential related claims due to the actions of an independent consultant. If we were found to be responsible for any of these issues related to our independent consultants, it could have a material adverse effect on our results of operations and financial condition.



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

We modify components of our compensation plans from time to time to keep them competitive and attractive to existing and potential independent consultants, to address changing market dynamics, to provide incentives to our independent consultants that we believe will help grow our business, to conform to local regulations and to address other business-related considerations. In September 2020, we implemented significant changes to our compensation plan for independent consultants in our North America and Latin America operating segments. 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 consultants, either of which could have a material adverse effect on our results of operations and financial condition.

***Geopolitical issues, conflicts and other global events could adversely affect our results of operations and financial condition.***

Because a substantial portion of our business is conducted outside of the United States, our business is subject to global political issues and conflicts. Such political issues and conflicts could have a material adverse effect on our results of operations and financial condition if they escalate in areas in which we do business. In addition, changes in and adverse actions by governments in foreign markets in which we do business could have a material adverse effect on our results of operations and financial condition.

***The ongoing coronavirus pandemic 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 restricting travel, or for their citizens to shelter-in-place to slow 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.

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 materially 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 a widespread 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 consultants to sell our products. Additionally, the procedures we take to mitigate the effect of COVID-19 on our workforce, including but not limited to, social distancing and additional sanitizing measures, could reduce the efficiency of our operations, increase our operating costs or prove insufficient to protect our employees.

***Difficult economic conditions could adversely affect our results of operations and financial condition.***

Consumer spending habits, including spending for our products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, consumer confidence and consumer perception of economic conditions. Economic slowdowns in the markets in which we do business may adversely affect consumer spending habits and demand for our products, which may result in lower net sales in future periods. A prolonged global or regional economic downturn could have a material adverse effect on our results of operations and financial condition.

***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.

***Taxation and transfer pricing could adversely affect our results of operations and financial condition.***

We are subject to foreign tax and intercompany pricing laws, including those relating to the flow of funds between our U.S. parent company and our foreign subsidiaries. These pricing laws are designed to ensure that appropriate levels of income and expense are reported by our U.S. and foreign entities, and that they are taxed appropriately. Regulators in the United States and in foreign markets closely monitor our corporate structures, intercompany transactions, and how we effectuate intercompany fund transfers. Our effective tax rate could increase, and our results of operations and financial condition could be materially adversely affected if regulators challenge our corporate structures, transfer pricing methodologies or intercompany transfers. We are eligible to receive foreign tax credits in the United States for certain foreign taxes actually paid abroad. In the event any audits or assessments are concluded adversely to us, we may not be able to offset the consolidated effect of foreign income tax assessments through the use of U.S. foreign tax credits. Because the laws and regulations governing U.S. foreign tax credits are complex and subject to periodic legislative amendment, we may not be able to take advantage of any foreign tax credits in the future. In addition, changes in the amount of our total and foreign source taxable income may also limit our ability to take advantage of foreign tax credits in the future. The various customs, exchange control and transfer pricing laws are continually changing, and are subject to the interpretation of governmental agencies.

We collect and remit value-added taxes and sales taxes in jurisdictions and states in which we have determined that nexus exists. Other states may claim, from time to time, that we have state-related activities constituting a sufficient nexus to require us to collect and remit value-added taxes and sales taxes in their state.

Despite our efforts to be aware of and to comply with such laws and changes to the interpretations thereof, we may not be able to continue to operate in compliance with such laws. We may need to adjust our operating procedures in response to these interpretational changes, and such changes could have a material adverse effect on our results of operations and financial condition.

**Risks Related to Our Use of Technology and Intellectual Property**

***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 consultants, 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, consultant 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.

***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 that could adversely affect our results of operation and financial condition.***

Some data we store, process and use, contains personal information, which subjects us to a variety of privacy, rights of publicity, data protection, content, protection of minors, and consumer protection laws and regulations in the United States and other countries. These laws and regulations are evolving in both the United States and in other countries. Such laws and regulations may impose significant fines or penalties and can be particularly restrictive. The application and interpretation of these laws and regulations are often uncertain and could result in investigations, claims, changes to our business practices, increased cost of operations and declines in growth, retention or engagement, any of which could have a material adverse effect on our results of operations and financial condition.

While several proposals and discussions are before the United States federal government, a number of states have enacted laws or are considering the enactment of laws governing the release of credit card or other personal information received from consumers. For example, the California Consumer Privacy Act ("CCPA"), which went into effect January 1, 2020, among other things, requires covered companies to provide new disclosures to California consumers, affords such consumers new abilities to opt-out of certain sales of personal information, and subjects companies to increased financial penalties and damages in the event of a data breach or other violation. Additionally, the EU General Data Protection Regulation ("GDPR"), which went into effect on May 25, 2018, establishes requirements applicable to the processing of personal data, affords data protection rights to individuals, and imposes penalties for serious data breaches, including fines of up to 4% of our annual revenue, or €20 million, whichever is greater. Individuals also have a right to compensation under both CCPA and GDPR for financial or non-financial losses. GDPR and CCPA have imposed additional responsibility and liability in relation to our processing of personal data in the EU and our collection, use and sharing of personal information of California residents. GDPR and CCPA have also required us to change our various policies and procedures in the EU and the U.S., and if we are not compliant, could have a material adverse effect on our results of operations and financial condition. Another example is China's new cybersecurity law. Foreign governments also may attempt to apply such laws extraterritorially or through treaties or other arrangements with U.S. governmental entities.

We cannot assure you that the privacy policies and other statements regarding our practices will be found sufficient to protect us from liability or adverse publicity relating to the privacy and security of personal information. Whether and how existing domestic and international privacy and consumer protection laws and regulations apply is still uncertain and may take years to resolve. If privacy laws and regulations are drafted or interpreted broadly, they could be deemed to apply to the technology we use and could restrict our information collection methods or decrease the utility of information we would be permitted to store, process or use. The costs of compliance with these and other laws or regulatory actions may prevent us from selling our products, or increase the costs of doing so, and may affect our ability to invest in or develop products. In addition, a determination by a court or government agency that any of our practices, or those of our independent consultants, do not meet these standards could result in liability or adverse publicity, which could have a material adverse effect on our results of operations and financial condition.

***System failures could adversely affect our results of operations and financial condition.***

Like many companies, our business is highly dependent upon our information technology infrastructure (websites, accounting and manufacturing applications, and product and customer information databases) to manage effectively and efficiently our operations, including order entry, customer billing, accurate tracking of purchases and volume incentives and managing accounting, finance and manufacturing operations. The occurrence of a natural disaster, security breach or other unanticipated problem could result in interruptions in our day-to-day operations that could adversely affect our business. A long-term failure or impairment of any of our information systems could have a material adverse effect on our results of operations and financial condition.

***Our business is subject to intellectual property risks.***

Most of our products are not protected by patents. Restrictive regulations governing the precise labeling of ingredients and percentages for nutritional supplements, the large number of manufacturers that produce products with many active ingredients in common and the rapid change and frequent reformulation of products generally make obtaining patent protection for our products impractical. We have other intellectual property that we consider valuable, including trademarks for the Nature's Sunshine Products and Synergy names and logos. Our efforts to protect our intellectual property may be unsuccessful and third-parties may assert claims against us for infringement of intellectual property rights, which could result in us being required to obtain costly licenses for such rights, to pay royalties or to terminate our manufacturing of infringing products, all of which could have a material adverse effect on our results of operations and financial condition.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our corporate and Synergy offices are located in a facility in Lehi, Utah, that consists of approximately 61,000 square feet. This facility is leased from an unaffiliated third-party through a lease agreement which expires in 2029.

We own our principal warehousing and manufacturing facilities housed in a building consisting of approximately 270,000 square feet and located on approximately 10 acres in Spanish Fork, Utah.

We lease properties used primarily as distribution warehouses located in Georgia, Ohio, Texas and Utah, as well as offices and/or distribution warehouses in many of the countries in which we conduct business. For additional disclosure of leased properties, see Note 18, "Leases," to our Consolidated Financial Statements, in Item 8, Part 2 of this report.

We believe that our current facilities are adequate for our business operations.

**Item 3. Legal Proceedings**

We are party to various legal proceedings and disputes. Management cannot predict the ultimate outcome of these matters, 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, insurance may not continue to be available at an acceptable cost to us, such coverage may not be sufficient to cover one or more large claims, or the insurers may successfully disclaim coverage as to a pending or future claim. During the fourth quarter of 2019, we made payments of \$2.0 million related to settlement of litigation.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

#### Market and Share Prices

Our common stock is traded on the NASDAQ Global Market (symbol “NATR”).

The approximate number of our shareholders, of record as of February 26, 2021, was 1,341. This number of holders of record does not represent the actual number of beneficial owners of our common shares because shares are frequently held in “street name” by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

#### Recent Sales of Unregistered Securities

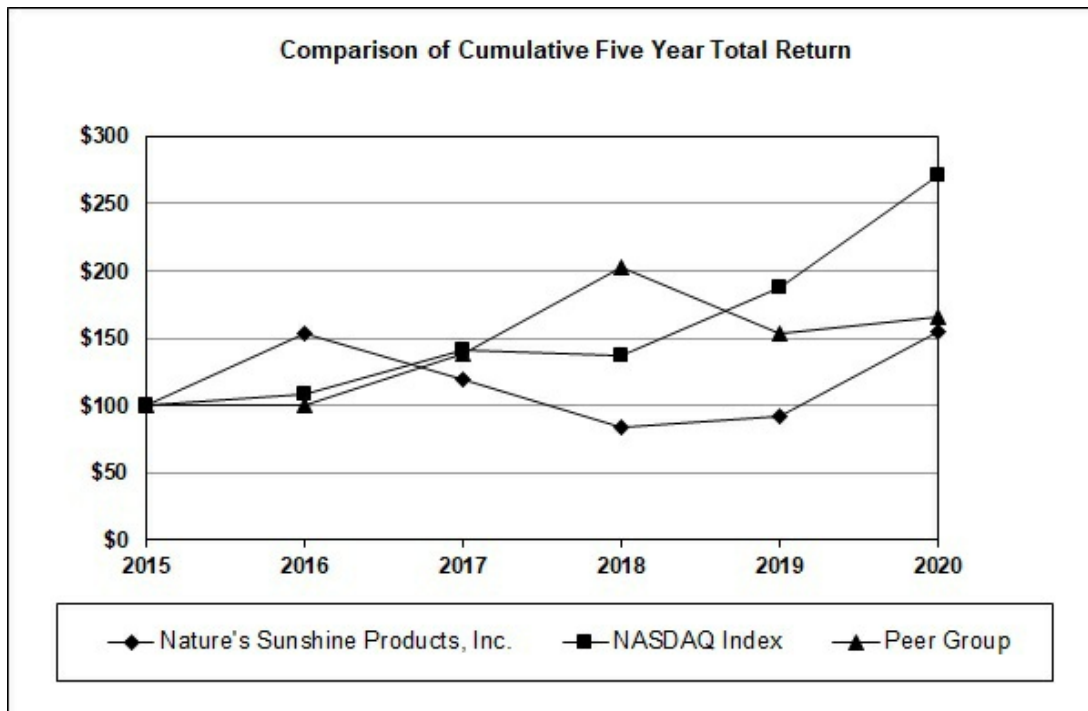
None.

#### Dividends

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

#### Performance Graph

The graph below depicts our common stock as an index, assuming \$100.00 was invested on December 31, 2015, along with the composite prices of companies listed on the NASDAQ Stock Market and a selection of our peer group. Standard & Poor’s Investment Services provided this information. The comparisons in the graph are required by regulations of the SEC, and are not intended to forecast or be indicative of the possible future performance of our common stock. The publicly-traded companies that comprise this peer group include Herbalife International, Ltd., LifeVantage Corporation, NuSkin Enterprises, Inc. and USANA Health Sciences, Inc. We consider these companies to be representative of our peer group as they have similar product lines and distribution techniques.



The material in this section captioned "Performance Graph" is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall the material in this section be deemed to be incorporated by reference in any registration statement or other document filed with the SEC under the Securities Act of 1933, except to the extent we specifically and expressly incorporate it by reference into such filing.

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
<b>Nature's Sunshine Products, Inc.</b>	\$ 100.00	\$ 153.75	\$ 119.57	\$ 84.37	\$ 92.45	\$ 154.77
<b>NASDAQ Index</b>	100.00	108.87	141.13	137.12	187.44	271.64
<b>Peer Group</b>	100.00	100.74	138.99	202.17	153.62	165.26

**Item 6. Selected Financial Data**

The selected financial data presented below is summarized from our results of consolidated operations for each of the years in the five-year period ended December 31, 2020, as well as selected consolidated balance sheet data as of December 31, 2020, 2019, 2018, 2017, and 2016.

*(Dollar and Share Amounts in Thousands, Except for Per Share Information and Other Information)*

**Consolidated Statement of Operations Data**

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Net sales	\$ 385,205	\$ 362,215	\$ 364,810	\$ 342,029	\$ 341,159
Cost of sales	(101,276)	(93,940)	(95,691)	(91,037)	(90,937)
Gross profit	283,929	268,275	269,119	250,992	250,222
Operating expenses:					
Volume incentives	131,150	123,410	125,337	119,970	119,910
Selling, general and administrative	131,297	128,740	138,431	129,635	120,273
Operating income	21,482	16,125	5,351	1,387	10,039
Other income (expense), net	1,339	(483)	(2,151)	1,835	(773)
Income before income taxes	22,821	15,642	3,200	3,222	9,266
Provision (benefit) for income taxes	(137)	8,713	4,402	17,039	8,591
Net income (loss)	22,958	6,929	(1,202)	(13,817)	675
Income (loss) attributable to noncontrolling interests	1,621	164	(348)	(875)	(1,464)
Net income (loss) attributable to common shareholders	\$ 21,337	\$ 6,765	\$ (854)	\$ (12,942)	\$ 2,139

**Consolidated Balance Sheet Data**

	December 31,				
	2020	2019	2018	2017	2016
Cash and cash equivalents	\$ 92,069	\$ 53,629	\$ 50,638	\$ 42,910	\$ 32,284
Working capital	84,411	54,758	40,138	48,852	31,466
Inventories	47,683	46,666	42,048	44,047	47,597
Property, plant and equipment, net	54,355	59,512	64,061	69,106	73,272
Total assets	249,498	213,068	193,016	195,195	205,570
Long-term liabilities	22,610	25,685	5,761	21,806	10,137
Total shareholders' equity	157,234	129,436	120,568	119,732	132,398

**Summary Cash Flow Information**

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Operating activities	\$ 37,659	\$ 8,545	\$ 21,833	\$ 10,524	\$ 3,417
Investing activities	(4,905)	(5,102)	211	(3,204)	(11,532)
Financing activities	3,878	(63)	(12,192)	1,573	(286)

**Common Share Summary**

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Cash dividends per share	\$ —	\$ —	\$ —	\$ 0.10	\$ 0.40
Basic and diluted earnings per share:					
Basic weighted-average number of shares	19,537	19,314	19,123	18,882	18,731
Diluted weighted-average number of shares	19,968	19,663	19,123	18,882	19,056
Basic earnings (loss) per share attributable to common shareholders:	\$ 1.09	\$ 0.35	\$ (0.04)	\$ (0.69)	\$ 0.11
Diluted earnings (loss) per share attributable to common shareholders:	\$ 1.07	\$ 0.34	\$ (0.04)	\$ (0.69)	\$ 0.11

**Other Information**

	December 31,				
	2020	2019	2018	2017	2016
Square footage of property in use	673,717	637,034	725,616	690,716	689,945
Number of employees	837	834	905	911	972

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

The following discussion highlights the principal factors that have affected our financial condition, results of operations, liquidity and capital resources for the periods described. This discussion should be read in conjunction with our consolidated financial statements and the related notes in Item 8, Part 2 of this report. This discussion contains forward-looking statements. Please see "Cautionary Note Regarding Forward-Looking Statements" for the risks, uncertainties and assumptions associated with these forward-looking statements.

**OVERVIEW***Our Business, Industry and Target Market*

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 consultants who use the products themselves or resell them to consumers.

Our independent consultants market and sell our products to customers and sponsor other independent consultants who also market our products to customers. Our sales are highly dependent upon the number and productivity of our independent consultants. Growth in sales volume generally requires an increase in the productivity of our independent consultants and/or growth in the total number of independent consultants. We seek to motivate and provide incentives to our independent consultants by offering high quality products and providing independent consultants 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. Throughout our markets, governments issued orders to shelter in place and other restrictions that have limited the ability of our independent consultants to meet with consumers, which put downward pressure on our sales in many of our markets and added substantial uncertainties to our global supply chain. However, despite such restrictions, we experienced an increase in sales during the fourth quarter due primarily to increased demand for nutritional supplements. Although we are taking appropriate actions to mitigate the effects COVID-19 may have on our business, such actions may ultimately be insufficient to avoid substantial impact on the consolidated financial statement or material health of the Company. At this time, the duration of any business disruption and related financial impact cannot be reasonably estimated.

In 2020, we experienced an increase in our consolidated net sales of 6.3 percent (or 6.6 percent in local currencies) compared to 2019. Asia net sales increased approximately 0.1 percent (or 0.1 percent in local currencies) compared to 2019. Europe net sales increased approximately 24.3 percent (or 24.0 percent in local currencies) compared to 2019. North America net sales increased approximately 5.3 percent (or 5.4 percent in local currencies) compared to 2019. Latin America and Other net sales increased approximately 1.4 percent (or 5.1 percent in local currencies) compared to 2019.

In absolute terms, selling, general and administrative expenses increased \$2.6 million during 2020, and as a percentage of net sales were 34.1 percent and 35.5 percent for 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.

### **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, "Nature of Operations and Significant Accounting Policies," to our Consolidated Financial Statements, in Item 8, Part 2 of this report. We believe the critical accounting policies and estimates described below reflect our more significant estimates and assumptions used in the preparation of 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 2, "Revenue Recognition," to our Consolidated Financial Statements, in Item 8, Part 2 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 expenses associated with our direct sales program, which rewards independent consultants with paid attendance for incentive trips, including our conventions and meetings. Expenses associated with incentive trips are accrued over qualification periods as the trips 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 in amounts greater or less than the amounts recorded. We accrued incentive trip costs of approximately \$6.4 million and \$5.5 million at December 31, 2020 and 2019, respectively, which are included in accrued liabilities in the consolidated balance sheets. Due to restrictions associated with COVID-19, we were unable to hold traditional incentive trips during the year ended December 31, 2020.



### *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, we recognize a liability within a best estimate 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 liability related to the contingency and revise the estimate. Revisions in estimates of the liabilities could materially affect our results of operations in the period of adjustment. Contingencies are discussed in further detail in Note 13, "Commitments and Contingencies," to our Consolidated Financial Statements, in Item 8, Part 2 of this report.

### *Income Taxes*

Our income tax expense, deferred tax assets and liabilities and contingent reserves reflect our 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 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 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. As of December 31, 2020 and 2019, we had recorded valuation allowances of \$15.3 million and \$21.4 million, respectively, as offsets to deferred tax assets.

At December 31, 2020, foreign subsidiaries had unused operating loss carryovers for tax purposes of approximately \$6.0 million. The net operating losses will expire at various dates from 2020 through 2029, with the exception of those in some foreign jurisdictions where there is no expiration. As of December 31, 2020, we had approximately \$14.5 million of foreign tax and withholding credits. Of the \$14.5 million credits, \$14.1 million are foreign tax credits, most of which expire in 2024 and the majority of which are offset by valuation allowances.

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.

### **PRESENTATION**

Net sales represents gross sales including shipping and handling offset by volume rebates given to independent consultants. Volume rebates as a percentage of retail sales may vary by country, depending upon regulatory restrictions that limit or otherwise restrict rebates. We also offer reduced volume rebates with respect to certain products and promotions worldwide.

Our gross profit consists of net sales less cost of sales, which represents our manufacturing costs, the price we pay to raw material suppliers and manufacturers of our products, and duties and tariffs, as well as shipping and handling costs related to product shipments and distribution to our independent consultants.

Volume incentives are a significant part of our direct sales marketing program, and represent commission payments made to our independent consultants. These payments are designed to provide incentives for reaching higher sales levels through their own sales and the sales of independent consultants in their sales organization. Volume incentives vary slightly, on a percentage basis, by product due to our pricing policies and commission plans in place in various operations.

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

Most of our sales to independent consultants outside the United States are made in the respective local currencies. In preparing our consolidated financial statements, sales are translated into U.S. dollars using average exchange rates.

Additionally, the majority of our purchases from suppliers are generally made in U.S. dollars. Consequently, a strengthening of the U.S. dollar versus a foreign currency can have a negative impact on our reported sales and contribution margins and can generate transaction losses on intercompany payable balances in the local markets.

## RESULTS OF OPERATIONS

The following table summarizes our consolidated net income (loss) from continuing operations results as a percentage of net sales for the periods indicated:

	Year Ended December 31,	
	2020	2019
Net sales	100.0 %	100.0 %
Cost of sales	(26.3)	(25.9)
Gross profit	73.7	74.1
Operating expenses:		
Volume incentives	34.0	34.1
Selling, general and administrative	34.1	35.5
Operating income	5.6	4.5
Other income (expense):		
Interest and other income, net	—	0.1
Foreign exchange gains (losses), net	0.3	(0.2)
	0.3	(0.1)
Income before provision for income taxes	5.9	4.4
Provision for income taxes	—	2.4
Net income	5.9 %	2.0 %

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

*Year Ended December 31, 2020, as Compared to the Year Ended December 31, 2019**Net Sales*

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 years ended December 31, 2020 and 2019 (dollar amounts in thousands).

Net Sales by Operating Segment						
	2020	2019	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency	
Asia	\$ 138,717	\$ 138,536	0.1 %	\$ 19	0.1 %	
Europe	77,688	62,523	24.3 %	156	24.0 %	
North America	145,481	138,163	5.3 %	(105)	5.4 %	
Latin America and Other	23,319	22,993	1.4 %	(839)	5.1 %	
	<u>\$ 385,205</u>	<u>\$ 362,215</u>	6.3 %	<u>\$ (769)</u>	6.6 %	

Consolidated net sales for the year ended December 31, 2020, were \$385.2 million compared to \$362.2 million in 2019, or an increase of approximately 6.3 percent. The increase was related to product sales growth in all of our operating business segments. Excluding the unfavorable impact of foreign currency exchange rate fluctuations, consolidated net sales for the year ended December 31, 2020 would have increased by 6.6 percent from 2019.

Asia

Net sales related to Asia for the year ended December 31, 2020, were \$138.7 million compared to \$138.5 million for 2019, an increase of 0.1 percent. The increase for the Asia business is further discussed in the Japan and China commentary below. Those increases were partially offset by the decrease discussed in the South Korea commentary below. Although not consistent across every market, the increase in the Asia business is partially attributed to an increase in demand for nutritional supplements as a result of the continued spread of COVID-19 during 2020. In local currency, net sales increased by 0.1 percent compared to 2019. Fluctuations in foreign exchange rates had a \$19,000 favorable impact on net sales for the year ended December 31, 2020.

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

In our South Korea market, net sales decreased approximately \$8.5 million, or 12.1 percent, for the year ended December 31, 2020, compared to 2019. Fluctuations in foreign exchange rates had a \$0.8 million unfavorable impact on net sales for the year ended December 31, 2020. In local currency, net sales decreased 11.0 percent compared to 2019. The decrease in local currency net sales was primarily the result of government restrictions in the market intended to slow the spread of COVID-19 that limited independent consultant meetings.

In our Japan market, net sales increased approximately \$3.7 million, or 15.8 percent, for the year ended December 31, 2020, compared to 2019. Fluctuations in foreign exchange rates had a \$0.6 million favorable impact on net sales for the year ended December 31, 2020. In local currency, net sales increased 13.4 percent for the year ended December 31, 2020, compared to 2019. We attribute the growth in net sales primarily to the introduction of new products and the implementation of programs intended to stimulate activity which had a positive impact on market sales volume in the year ended December 31, 2020.

In our China market, net sales increased approximately \$6.2 million, or 21.7 percent, for the year ended December 31, 2020, compared to 2019. Fluctuations in foreign exchange rates had a \$0.1 million favorable impact on net sales for the year ended December 31, 2020. In local currency, net sales increased 21.2 percent for the year ended December 31, 2020, compared to 2019. Although growth has been impacted by current market conditions, including those driven by the effects of COVID-19, China has shown growth primarily due to initiatives designed to increase independent service providers' engagement levels and gain market share in the year ended December 31, 2020.

Europe

Net sales related to Europe were \$77.7 million for the year ended December 31, 2020, compared to \$62.5 million for 2019, an increase of 24.3 percent. The functional currency for many of these markets is the US Dollar which reduces the effect from foreign currency fluctuations. Fluctuations in foreign exchange rates had a \$0.2 million favorable impact on net sales for the year ended December 31, 2020. Net sales increased primarily as a result of the relative stabilization of Russian ruble against the U.S. dollar, product promotions that have improved independent consultant engagement and an increase in demand for nutritional supplements as a result of the continued spread of COVID-19 during 2020.

North America

Net sales related to North America for the year ended December 31, 2020, were \$145.5 million, compared to \$138.2 million for 2019, an increase of 5.3 percent. Fluctuations in foreign exchange rates had a \$0.1 million unfavorable impact on net sales for the year ended December 31, 2020. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales in North America increased by 5.4 percent from 2019.

In the United States, net sales increased \$7.0 million, or 5.4 percent, for the year ended December 31, 2020, compared to 2019. The increase in the market is due to several factors including, among others, launch of our new website and introduction of our new compensations plan for independent consultants, rebranding and rebuilding efforts of the Nature's Sunshine brand and independent consultant tools in the U.S. and an increase in demand for nutritional supplements as a result of the continued spread of COVID-19 during 2020.

Latin America and Other

Net sales related to Latin America and Other markets for the year ended December 31, 2020, were \$23.3 million, compared to \$23.0 million for 2019, an increase of 1.4 percent. Fluctuations in foreign exchange rates had a \$0.8 million unfavorable impact on net sales for the year ended December 31, 2020. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales in Latin America and Other increased by 5.1 percent from 2019. The increase was primarily the result of changes in the independent consultant compensation plan as well as an increase in demand for nutritional supplements as a result of continued spread of COVID-19 during 2020.

Further information related to our Asia, Europe, North America, and Latin America and Other business segments is set forth in Note 14, "Operating Business Segment and International Operation Information," to our Consolidated Financial Statements, in Item 8, Part 2 of this report.

*Cost of Sales*

Cost of sales as a percent of net sales increased to 26.3 percent in 2020, compared to 25.9 percent in 2019. The increase in cost of sales percentage is driven by unfavorable changes in market mix, an increase in free shipping promotions and an increase in inventory obsolescence reserves.

*Volume Incentives*

Volume incentives as a percent of net sales decreased to 34.0 percent in 2020, compared to 34.1 percent in 2019. 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 the 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 decrease in volume incentives as a percent of net sales for the year ended December 31, 2020 is primarily due to changes in market mix, reflecting growth in markets where volume incentives as a percentage of net sales are lower than the consolidated average, and the growth in NSP China.

*Selling, General and Administrative Expenses*

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 increased by \$2.6 million to \$131.3 million for the year ended December 31, 2020. Selling, general and administrative expenses were 34.1 percent and 35.5 percent of net sales for the years ended December 31, 2020 and 2019, respectively. The increase in selling, general and administrative expenses, was primarily related to increased selling costs related to growth in Europe and China intended to drive growth, including the rollout of a new compensation plan for independent consultants, increased stock compensation and bonuses, and introduction of virtual events.

#### *Other Income (Loss), Net*

Other income (loss), net, for the years ended December 31, 2020 and 2019, were gains of \$1.3 million and losses of \$0.5 million, respectively. Other income, for the year ended December 31, 2020 primarily consisted of foreign exchange gains as a result of net changes in foreign currencies.

#### *Income Taxes*

For 2020, we had a benefit of 0.6 percent for 2020, compared to an effective income tax rate of 55.7 percent for 2019. The decrease in the effective rate from 2019 to 2020 is primarily attributable to the release of valuation allowances for credits and net operating losses which we expect to be able to utilize, cancellations of stock options in the prior year which did not repeat in the current year, and a reduced impact from GILTI. The effective rate for 2020 differed from the federal statutory rate of 21.0 percent primarily due to the following:

- Reduction of liabilities for unrecognized tax benefits related to the lapse of applicable statute of limitations decreased the tax rate by 6.1 percent in 2020.
- Cumulative unfavorable adjustments related to foreign operations increased the tax rate by 3.1 percent in 2020. These adjustments relate to foreign items that are treated differently for tax purposes than they are for financial reporting purposes.
- Adjustments to valuation allowances decreased the effective rate by 25.0 percent in 2020. Included was the effect of releasing the valuation allowance on foreign tax credits and net operating losses which are expected to be utilized before expiration, offset in part by the impact of current year foreign losses in foreign affiliates that currently do not provide tax benefit.
- Adjustments relating to the U.S. tax impact of foreign operations increased the effective tax rate by 6.7 percentage points in 2020. The components of this calculation were:

<b>Components of U.S. tax impact of foreign operations</b>	<b>2020</b>
Foreign tax credits	<b>(4.0)%</b>
Foreign tax rate differentials	<b>3.1</b>
Foreign withholding taxes	<b>2.8</b>
Transfer pricing adjustment	<b>4.3</b>
Impact of GILTI	<b>0.6</b>
Impact of FDII	<b>(0.1)</b>
<b>Total</b>	<b>6.7 %</b>

Changes to the effective rate due to impact of foreign tax credits, foreign tax rate differentials, foreign withholding taxes, transfer pricing and GILTI are expected to be recurring; however, depending on various factors, the changes may be favorable or unfavorable for a particular period. Given the large number of jurisdictions in which we do business and the number of factors that can impact effective tax rates in any given year, this rate is likely to reflect significant fluctuations from year-to-year.

#### *Year Ended December 31, 2019, as Compared to the Year Ended December 31, 2018*

For a discussion regarding our financial condition and results of operations for fiscal 2019 compared to fiscal 2018, see Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 11, 2020.

**SUMMARY OF QUARTERLY OPERATIONS — UNAUDITED**

The following tables present our unaudited summary of quarterly operations during 2020 and 2019 for each of three month periods ended March 31, June 30, September 30, and December 31 (amounts in thousands).

	For the Quarter Ended			
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Net sales	\$ 95,926	\$ 87,286	\$ 100,250	\$ 101,743
Cost of sales	(24,681)	(23,017)	(27,175)	(26,403)
Gross profit	71,245	64,269	73,075	75,340
Volume incentives	33,018	29,165	34,310	34,657
Selling, general and administrative	31,065	28,504	33,294	38,434
Operating income	7,162	6,600	5,471	2,249
Other income (expense)	(2,410)	1,509	671	1,569
Income before income taxes	4,752	8,109	6,142	3,818
Provision (benefit) for income taxes	1,746	1,976	(1,027)	(2,832)
Net income	3,006	6,133	7,169	6,650
Net income attributable to noncontrolling interests	44	379	414	784
Net income attributable to common shareholders	\$ 2,962	\$ 5,754	\$ 6,755	\$ 5,866
Basic and diluted net income per common share:				
Basic earnings per share attributable to common shareholders:	\$ 0.15	\$ 0.30	\$ 0.35	\$ 0.30
Diluted earnings per share attributable to common shareholders:	\$ 0.15	\$ 0.29	\$ 0.34	\$ 0.29

	For the Quarter Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Net sales	\$ 91,272	\$ 90,724	\$ 88,524	\$ 91,695
Cost of sales	(23,429)	(23,865)	(22,784)	(23,862)
Gross profit	67,843	66,859	65,740	67,833
Volume incentives	31,013	31,302	29,862	31,233
Selling, general and administrative	33,852	31,019	31,177	32,692
Operating income	2,978	4,538	4,701	3,908
Other income (expense), net	(48)	306	(1,243)	502
Income before income taxes	2,930	4,844	3,458	4,410
Provision for income taxes	1,201	2,215	2,107	3,190
Net income	1,729	2,629	1,351	1,220
Net income (loss) attributable to noncontrolling interests	(28)	(60)	34	218
Net income attributable to common shareholders	\$ 1,757	\$ 2,689	\$ 1,317	\$ 1,002
Basic and diluted net income per common share:				
Basic earnings per share attributable to common shareholders:	\$ 0.09	\$ 0.14	\$ 0.07	\$ 0.05
Diluted earnings per share attributable to common shareholders:	\$ 0.09	\$ 0.14	\$ 0.07	\$ 0.05

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

## LIQUIDITY AND CAPITAL RESOURCES

Our principal use of cash is to pay for operating expenses and costs, including volume incentives, inventory and raw material purchases, capital assets and funding of international expansion. As of December 31, 2020, working capital was \$84.4 million, compared to \$54.8 million as of December 31, 2019. At December 31, 2020, we had \$92.1 million in cash and cash equivalents, of which \$51.1 million was held in our foreign markets and may be subject to various withholding taxes and other restrictions related to repatriations.

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

	Year Ended December 31,	
	2020	2019
Operating activities	\$ 37,659	\$ 8,545
Investing activities	(4,905)	(5,102)
Financing activities	3,878	(63)

### Operating Activities

For the year ended December 31, 2020, operating activities provided cash in the amount of \$37.7 million compared to \$8.5 million in 2019. Operating cash flows increased due to improved net sales and operating income from successful cost reduction strategies, as well as the timing of payments for accrued liabilities, accounts payables, inventories, income taxes payable and accrued volume incentives and service fees. Those increases were partially offset by timing of changes in prepaid expenses and liability related to unrecognized tax positions.

*Investing Activities*

Cash paid for capital expenditures related to the purchase of equipment, computer systems and software for the years ended December 31, 2020 and 2019, were \$4.9 million and \$5.1 million, respectively.

*Financing Activities*

For the year ended December 31, 2020, financing activities provided \$3.9 million in cash, compared to using \$0.1 million in cash used for the same period in 2019. For the years ended December 31, 2020 and 2019, we had net borrowings of \$3.7 million and \$0, respectively.

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 matured on July 11, 2020 (the "Credit Agreement"). On June 11, 2020 the credit agreement was amended to extend the term to mature on July 1, 2023. The amendment also allows for additional borrowings of \$15.0 million or up to three separate increases of no less than \$5.0 million each. We pay interest on any borrowings under the Credit Agreement, which through June 10, 2020, was at LIBOR plus 1.25 percent (3.05 percent as of December 31, 2019), and an annual commitment fee of 0.2 percent on the unused portion of the commitment. Interest under the amended Credit Agreement is at LIBOR, or the Index floor of 0.75 percent, plus 2.25 percent (3.00 percent as of December 31, 2020), and an annual commitment fee of 0.25 percent on the unused portion of the commitment. We are required to settle our net borrowings under the Credit Agreement only upon maturity. At December 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 and leverage. 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. We were in compliance with the debt covenants set forth in the Credit Agreement as of December 31, 2020.

On April 21, 2020, we entered into a credit agreement with Banc of America Leasing and Capital, LLC, with a borrowing limit of \$6.0 million (the "Capital Credit Agreement"). On November 19, 2020, we executed on the Capital Credit Agreement and borrowed \$3.7 million. We do not expect to make any additional borrowings under the Capital Credit Agreement. We pay interest on any borrowings under the Capital Credit Agreement at a fixed rate of 3.00 percent and are required to settle our borrowings under the Capital Credit Agreement in thirty-six monthly payments, each equal to \$0.1 million. The Capital Credit Agreement is collateralized by any new equipment purchased under the agreement. As of December 31, 2020, there was \$3.7 million outstanding balance under the Capital Credit Agreement, \$1.3 million of which was classified as current.

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, among other considerations, the significant economic uncertainty facing the Company and its supply chain worldwide as a result of COVID-19. On December 28, 2020 we repaid the outstanding principal and interest amounts of Loan. At December 31, 2020, there was no outstanding balance under the PPP.

During the years ended December 31, 2020 and 2019, there were no additional borrowings made by our joint venture from the Company or its joint venture partner. The note between the joint venture and the Company eliminates in consolidation.

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.

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.



**CONTRACTUAL OBLIGATIONS**

The following table summarizes information about contractual obligations as of December 31, 2020 (*in thousands*):

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Operating lease obligations	\$ 24,625	\$ 5,834	\$ 7,186	\$ 5,105	\$ 6,500
Self-insurance reserves (1)	418	418			
Other long-term liabilities reflected on the balance sheet (2)	—	—	—	—	—
Unrecognized tax benefits (3)	—	—	—	—	—
Revolving credit facility (4)	—	—	—	—	—
Capital credit agreement (5)	3,724	1,306	2,418	—	—
<b>Total</b>	<b>\$ 28,767</b>	<b>\$ 7,558</b>	<b>\$ 9,604</b>	<b>\$ 5,105</b>	<b>\$ 6,500</b>

(1) At December 31, 2020, there were \$0.7 million of liabilities. We retain a significant portion of the risks associated with certain employee medical benefits and product liability insurance. Recorded liabilities for self-insured risks are calculated using actuarial methods and are not discounted. Amounts for self-insurance obligations are included in accrued liabilities and long-term other liabilities on the consolidated balance sheet.

We maintain product liability coverage to cover possible claims, and still maintain accruals for periods prior to obtaining coverage. Prior to this, we accrued \$0.3 million that we believe is sufficient to cover probable and reasonably estimable liabilities related to product liability claims based on our history of such claims. However, there can be no assurance that these estimates will prove to be sufficient, nor can there be any assurance that the ultimate outcome of any litigation for product liability will not have a material negative impact on our business prospects, financial position, results of operations or cash flows. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with the product liability obligations, we are unable to estimate the years in which cash settlement may occur.

(2) At December 31, 2020, there were \$1.0 million of liabilities. We provide a nonqualified deferred compensation plan for our officers and certain key employees. Under this plan, participants may defer up to 100 percent of their annual salary and bonus (less the participant's share of employment taxes). The deferrals become an obligation owed to the participant by us under the plan. Upon separation of the participant from the service with us, the obligation owed to the participant under the plan will be paid as a lump sum or over a period of either three or five years. As we cannot easily determine when our officers and key employees will separate from us, we are unable to estimate the years in which cash settlement may occur.

(3) At December 31, 2020, there were \$0.1 million of liabilities. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with these liabilities, if any, we are unable to estimate the years in which cash settlement may occur with the respective tax authorities.

(4) We entered into a revolving credit agreement with Bank of Americas, N.A., that permits us to borrow up to \$25.0 million through July 11, 2020, bearing interest at LIBOR, or the Index floor of 0.75 percent, plus 2.25 percent. We must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. At December 31, 2020, we had \$25.0 million available under this facility. At December 31, 2020, there was no outstanding balance under the Credit Agreement.

(5) We entered into a credit agreement with Banc of America Leasing and Capital, LLC, under which we borrowed \$3.7 million, bearing interest at a fixed rate of 3.00 percent. We are required to settle our borrowings over thirty-six monthly payments, each equal to \$0.1 million. As of December 31, 2020, there was \$3.7 million outstanding balance under the Capital Credit Agreement.

We have entered into long-term agreements with third-parties in the ordinary course of business, in which we have agreed to pay a percentage of net sales in certain regions in which we operate, or royalties on certain products. In 2020 and 2019, the aggregate amounts of these payments were \$23,000 and \$10,000, respectively.

**OFF-BALANCE SHEET ARRANGEMENTS**

We have no off-balance sheet arrangements other than operating leases. We do not believe that these operating leases are material to our current or future financial position, results of operations, revenues or expenses, cash flows, capital expenditures or capital resources.

**Item 7A. 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.

**Foreign Currency Risk**

During the year ended December 31, 2020, approximately 65.0 percent of our net sales and approximately 60.5 percent of our operating expenses were realized outside of the United States. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency of each international subsidiary is generally the functional currency. We conduct business in multiple currencies with exchange rates that are not on a one-to-one relationship with the U.S. dollar. All revenues and expenses are translated at average exchange rates for the periods reported. Therefore, our operating results will be positively or negatively affected by a weakening or strengthening of the U.S. dollar in relation to another fluctuating currency. Given the uncertainty and diversity of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations or financial condition, but we have provided consolidated sensitivity analyses below of functional currency/reporting currency exchange rate risks. Changes in various currency exchange rates affect the relative prices at which we sell our products. We regularly monitor our foreign currency risks and periodically take measures to reduce the risk of foreign exchange rate fluctuations on our operating results. We do not use derivative instruments for hedging, trading or speculating on foreign exchange rate fluctuations. Additional discussion of the impact on the effect of currency fluctuations has been included in Management's Discussion and Analysis included in Part II, Item 7 of this report.

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

Exchange rate sensitivity for the year ended December 31, 2020 (dollar amounts in thousands)

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Net sales	\$ 385,205	\$ (17,023)	(4.4)%	\$ (24,424)	(6.3)%	\$ (37,450)	(9.7)%
<b>Cost and expenses:</b>							
Cost of sales	101,276	(5,130)	(5.1)%	(7,361)	(7.3)%	(11,287)	(11.1)%
Volume incentives	131,150	(6,281)	(4.8)%	(9,012)	(6.9)%	(13,818)	(10.5)%
Selling, general and administrative	131,297	(3,504)	(2.7)%	(5,028)	(3.8)%	(7,709)	(5.9)%
Operating income	\$ 21,482	\$ (2,108)	(9.8)%	\$ (3,023)	(14.1)%	\$ (4,636)	(21.6)%

Certain of our operations, including Russia and Ukraine, are served by a U.S. branch through third-party entities, for which all business is conducted in U.S. dollars. Although changes in exchange rates between the U.S. dollar and the Russian ruble or the Ukrainian hryvnia do not result in currency fluctuations within our financial statements, a weakening or

strengthening of the U.S. dollar in relation to these other currencies can significantly affect the prices of our products and the purchasing power of our independent consultants within these markets.

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

Exchange Rate Sensitivity of financial assets and liabilities as of December 31, 2020 (dollar amounts in thousands)

	With Strengthening of U.S. Dollar by:						
	10%		15%		25%		
	(Loss) (\$)	(Loss) (%)	(Loss) (\$)	(Loss) (%)	(Loss) (\$)	(Loss) (%)	
<b>Financial Assets Included in Current Assets Subject to Exchange Rate Risk</b>							
Cash and cash equivalents	\$ 92,069	\$ (4,579)	(5.0) %	\$ (6,570)	(7.1) %	\$ (10,075)	(10.9) %
Accounts receivable, net	7,375	(437)	(5.9) %	(627)	(8.5) %	(961)	(13.0) %
<b>Financial Liabilities Included in Current Liabilities Subject to Exchange Rate Risk</b>							
Accounts payable	6,486	(187)	(2.9) %	(268)	(4.1) %	(411)	(6.3) %
<b>Net Financial Assets Subject to Exchange Rate Risk</b>	<b>\$ 92,958</b>	<b>\$ (4,829)</b>	<b>(5.2) %</b>	<b>\$ (6,929)</b>	<b>(7.5) %</b>	<b>\$ (10,625)</b>	<b>(11.4) %</b>

The following table sets forth the local currencies other than the U.S. dollar in which our assets that are subject to exchange rate risk were denominated as of December 31, 2020, and represent a significant concentration upon translation into U.S. dollars. None of our liabilities that are denominated in a local currency other than the U.S. dollar and that are subject to exchange rate risk represent a significant concentration upon translation into U.S. dollars. We use the spot exchange rate for translating balance sheet items from local currencies into our reporting currency. The respective spot exchange rate for each such local currency meeting the foregoing thresholds is provided in the table as well.

Translation of Cash Amounts Denominated in Local Currency as of December 31, 2020 (dollar amounts in thousands)

	Translated into U.S. Dollars	At Spot Exchange Rate per One U.S. Dollar
Cash and Cash Equivalents		
China (Yuan Renminbi)	\$ 14,871	6.5
Japan (Yen)	8,204	103.3
South Korea (Won)	7,973	1,087.7
Poland (Zloty)	3,502	3.7
Other	15,823	Varies
Total foreign denominated cash and cash equivalents	50,373	
U.S. dollars held by foreign subsidiaries	712	
Total cash and cash equivalents held by foreign subsidiaries	\$ 51,085	

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

<b>Year ended December 31,</b>	<b>2020</b>	<b>2019</b>
Canada (Dollar)	1.3	1.3
China (Yuan Renminbi)	6.9	7.0
European Markets (Euro)	0.9	0.9
Japan (Yen)	106.8	109.1
South Korea (Won)	1,178.6	1,157.2
Poland (Zloty)	3.9	3.8

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

The functional currency in highly inflationary economies is the U.S. dollar, and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The re-measurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three-year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation and other pertinent economic factors. During the years ended December 31, 2020 and 2019, we did not operate in any countries considered to be highly inflationary.

#### **Interest Rate Risk**

On December 31, 2020, we did not have any available for sale investments.

On December 31, 2020, we had no outstanding balance on our revolving credit line.

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

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Nature's Sunshine Products, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2020, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Deferred Income Tax Assets—Valuation Allowance—Refer to Notes 1 and 11 to the financial statements*

##### *Critical Audit Matter Description*

The Company recognizes deferred income taxes for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The Company files tax returns in multiple jurisdictions with complex tax laws and regulations. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized based on estimates of future taxable income. As of December 31, 2020, the Company has \$32.2 million of gross deferred tax assets and a valuation allowance of \$15.3 million.

The valuation of deferred tax assets was determined to be a critical audit matter due to taxable income across the multiple jurisdictions in which the Company files its tax returns and the complexity of the tax laws and regulations. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our income tax specialists, when performing audit procedures to evaluate the reasonableness of management's estimates of future taxable income and the determination of whether it is more likely than not that the deferred tax assets will be realized.

##### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to management's estimates of future taxable income across multiple jurisdictions and the determination of whether it is more likely than not that the deferred tax assets will be realized included the following, among others:

- We tested the effectiveness of controls over the valuation allowance for deferred tax assets, including management’s controls over the estimates of future taxable income and the determination of whether it is more likely than not that the deferred tax assets will be realized.
- We evaluated the reasonableness of the methods, assumptions, and judgments used by management to determine whether a valuation allowance was necessary.
- With the assistance of our income tax specialists, we evaluated the sources of management’s estimated future taxable income and the related impact on the determination of whether it is more likely than not that the deferred tax assets will be realized. This included evaluation of:
  - Whether the sources of taxable income were of the appropriate character and sufficient to utilize the deferred tax assets under the relevant tax law.
  - The timing of future reversals of existing temporary differences.
  - Tax planning strategies.
- We evaluated management’s ability to accurately estimate future taxable income by comparing actual results to management’s historical estimates.
- We evaluated the reasonableness of management’s estimates of future taxable income by comparing the estimates to:
  - Historical taxable income.
  - Historical information for certain of its peer companies.
  - Internal communications to management and the Board of Directors.
  - Evidence obtained in other areas of the audit.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 10, 2021

We have served as the Company's auditor since 2007.

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

## CONSOLIDATED BALANCE SHEETS

*(Amounts in thousands)*

As of December 31,	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 92,069	\$ 53,629
Accounts receivable, net of allowance for doubtful accounts of \$454 and \$407, respectively	7,375	7,319
Inventories	47,683	46,666
Prepaid expenses and other	6,938	5,091
Total current assets	154,065	112,705
Property, plant and equipment, net	54,355	59,512
Operating lease right-of-use assets	20,210	23,951
Restricted investment securities - trading	989	1,150
Deferred income tax assets	8,693	4,899
Other assets	11,186	10,851
	<u>\$ 249,498</u>	<u>\$ 213,068</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 6,486	\$ 4,406
Accrued volume incentives and service fees	19,481	18,893
Accrued liabilities	31,710	25,531
Deferred revenue	2,092	1,266
Current installments of long-term debt and revolving credit facility	1,306	—
Related party note	1,200	1,518
Income taxes payable	2,387	1,392
Current portion of operating lease liabilities	4,992	4,941
Total current liabilities	69,654	57,947
Liability related to unrecognized tax benefits	92	1,499
Long-term portion of operating lease liabilities	16,412	20,213
Long-term debt and revolving credit facility	2,418	—
Deferred compensation payable	989	1,150
Long-term deferred income tax liabilities	1,391	1,655
Other liabilities	1,308	1,168
Total liabilities	92,264	83,632
Shareholders' equity:		
Common stock, no par value; 50,000 shares authorized, 19,697 and 19,410 shares issued and outstanding as of December 31, 2020, and 2019, respectively	139,311	135,741
Retained earnings	26,030	4,693
Noncontrolling interests	1,848	227
Accumulated other comprehensive loss	(9,955)	(11,225)
Total shareholders' equity	157,234	129,436
	<u>\$ 249,498</u>	<u>\$ 213,068</u>

See accompanying notes to consolidated financial statements.



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

CONSOLIDATED STATEMENTS OF INCOME  
(Amounts in thousands, except per share information)

Year Ended December 31,	2020	2019
Net sales	\$ 385,205	\$ 362,215
Cost of sales	(101,276)	(93,940)
Gross profit	283,929	268,275
Operating expenses:		
Volume incentives	131,150	123,410
Selling, general and administrative	131,297	128,740
Operating income	21,482	16,125
Other income (expense):		
Interest and other income, net	171	262
Interest expense	(102)	(43)
Foreign exchange gains (losses), net	1,270	(702)
	1,339	(483)
Income from operations before provision for income taxes	22,821	15,642
Provision (benefit) for income taxes	(137)	8,713
Net income	22,958	6,929
Net income attributable to noncontrolling interests	1,621	164
Net income attributable to common shareholders	\$ 21,337	\$ 6,765
Basic and diluted net income per common share		
Basic earnings per share attributable to common shareholders	\$ 1.09	\$ 0.35
Diluted earnings per share attributable to common shareholders	\$ 1.07	\$ 0.34
Weighted-average basic common shares outstanding	19,537	19,314
Weighted-average diluted common shares outstanding	19,968	19,663

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(Amounts in thousands)*

Year Ended December 31,	2020	2019
Net income	\$ 22,958	\$ 6,929
Foreign currency translation gain (net of tax)	1,270	477
Write-off of cumulative translation adjustments	—	(595)
Total comprehensive income	24,228	6,811
Net income attributable to noncontrolling interests	1,621	164
Total comprehensive income attributable to common shareholders	<u>\$ 22,607</u>	<u>\$ 6,647</u>

See accompanying notes to consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Amounts in thousands, except per share data)

	Common Stock		Retained Earnings	Noncontrolling Interests	Accumulated Other Comprehensive Loss	Total
	Shares	Value				
Balance at January 1, 2019	19,204	\$ 133,684	\$ (2,072)	\$ 63	\$ (11,107)	\$ 120,568
Share-based compensation expense	—	2,120	—	—	—	2,120
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	206	(63)	—	—	—	(63)
Net income	—	—	6,765	164	—	6,929
Other comprehensive loss	—	—	—	—	(118)	(118)
<b>Balance at December 31, 2019</b>	<b>19,410</b>	<b>135,741</b>	<b>4,693</b>	<b>227</b>	<b>(11,225)</b>	<b>129,436</b>
Share-based compensation expense	—	3,787	—	—	—	3,787
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	287	(217)	—	—	—	(217)
Net income	—	—	21,337	1,621	—	22,958
Other comprehensive loss	—	—	—	—	1,270	1,270
<b>Balance at December 31, 2020</b>	<b>19,697</b>	<b>\$ 139,311</b>	<b>\$ 26,030</b>	<b>\$ 1,848</b>	<b>\$ (9,955)</b>	<b>\$ 157,234</b>

See accompanying notes to consolidated financial statements.

**NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Amounts in Thousands)*

Year Ended December 31,	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 22,958	\$ 6,929
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	77	10
Depreciation and amortization	10,743	10,599
Noncash lease expense	4,735	5,394
Share-based compensation expense	3,787	2,120
Loss on sale of property and equipment	29	43
Deferred income taxes	(4,357)	4,279
Purchase of trading investment securities	(60)	(83)
Proceeds from sale of trading investment securities	339	464
Realized and unrealized gains on investments	(115)	(224)
Foreign exchange (gains) losses	(1,270)	107
Loss on write-off of cumulative translation adjustment	—	595
Changes in operating assets and liabilities:		
Accounts receivable	106	375
Inventories	(154)	(4,870)
Prepaid expenses and other	(1,762)	1,229
Other assets	(55)	475
Accounts payable	2,090	(960)
Accrued volume incentives and service fees	77	(1,564)
Accrued liabilities	5,341	(8,593)
Deferred revenue	766	69
Lease liabilities	(4,716)	(5,039)
Income taxes payable	671	(1,960)
Liability related to unrecognized tax positions	(1,407)	(693)
Deferred compensation payable	(164)	(157)
Net cash provided by operating activities	<u>37,659</u>	<u>8,545</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(4,905)	(5,104)
Proceeds from sale of property, plant and equipment	—	2
Net cash used in investing activities	<u>(4,905)</u>	<u>(5,102)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from revolving credit facility	—	2,064
Principal payments of revolving credit facility	—	(2,064)
Proceeds from notes payable	9,098	—
Principal payments of long-term debt	(5,374)	—
Principal payments of borrowings from related party	(318)	—
Proceeds from exercise of stock options	472	257
Tax benefit from exercise of stock options	—	(320)
Net cash provided by (used in) financing activities	<u>3,878</u>	<u>(63)</u>
Effect of exchange rates on cash and cash equivalents	<u>1,808</u>	<u>(389)</u>
Net increase in cash and cash equivalents	<u>38,440</u>	<u>2,991</u>
Cash and cash equivalents at beginning of the year	<u>53,629</u>	<u>50,638</u>
Cash and cash equivalents at end of the year	<u>\$ 92,069</u>	<u>\$ 53,629</u>

<b>Year Ended December 31,</b>	<b>2020</b>		<b>2019</b>	
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid for income taxes, net of refunds	\$	<b>4,832</b>	\$	6,861
Cash paid for interest		<b>86</b>		64
<b>Supplemental disclosure of noncash investing, and financing activities:</b>				
Purchases of property, plant and equipment included in accounts payable and accrued liabilities		<b>85</b>		194
Additions to asset retirement obligations and related assets	\$	—	\$	649

See accompanying notes to consolidated financial statements.

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

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

**Nature of Operations**

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 consultants who uses the products themselves or resells them to consumers.

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

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts and transactions of the Company and our subsidiaries. At December 31, 2020 and 2019, substantially all of our subsidiaries were wholly owned. Intercompany balances and transactions have been eliminated in consolidation. We consolidate the joint ventures in Hong Kong and China in our consolidated financial statements, with another party's interest presented as a noncontrolling interest. Additionally, we operate a limited number of markets in jurisdictions where local laws require the formation of a partnership with an entity domiciled in that market. These partners have no rights to participate in the sharing of revenues, profits, losses or distribution of assets upon liquidation of these partnerships.

Based on materiality, Intangible Assets have been reclassified as Other Assets on the Consolidated Balance Sheets. The balances as of December 31, 2019 have been reclassified to conform to the current-year presentation.

**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 independent consultant 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.

**Cash and Cash Equivalents**

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

### **Accounts Receivable**

Accounts receivable consist principally of receivables from credit card companies, arising from the sale of products to our independent consultants, and receivables from independent consultants in foreign markets. Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. However, due to the geographic dispersion of credit card and independent consultant receivables, the collection risk is not considered to be significant. Substantially all of the receivables from credit card companies were current as of December 31, 2020 and 2019. We maintain an allowance for potential credit losses that is based primarily on the aging category, historical trends and management's evaluation of the financial condition of account holder. This reserve is adjusted periodically as information about specific accounts becomes available.

### **Restricted Investment Securities**

We have certain restricted investment securities classified as trading securities. We maintain our trading securities portfolio to generate returns that are offset by corresponding changes in certain liabilities related to our deferred compensation plans (see Note 12). The trading securities portfolio consists of marketable securities, which are recorded at fair value and are included in long-term restricted investment securities on the consolidated balance sheets because they remain our assets until they are actually paid out to the participants. These investment securities are not available to us to fund operations as they are restricted for the payment of the deferred compensation payable. We have established a rabbi trust to finance obligations under the plan. Both realized and unrealized gains and losses on trading securities are included in interest and other income.

### **Fair Value of Financial Instruments**

Our financial instruments, consisting primarily of cash and cash equivalents, accounts receivable, investments, and accounts payable, approximate fair value due to their short-term nature. The carrying value of our debt approximates fair value due to its recent acquisition and short maturity. During the years ended December 31, 2020, and 2019, we did not have any write-offs related to the remeasurement of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

### **Inventories**

Inventories are 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 management's assumptions, additional inventory adjustments could be required.

### **Property, Plant and Equipment**

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

### **Other Assets**

Other assets include lease deposits, deposits with third-party service providers, intangible assets, and deposits to operate in certain markets.

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

We review our long-lived assets, such as property, plant and equipment and intangible assets, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If an impairment indicator existed, we would use an estimate of future undiscounted net cash flows of the related assets or groups of assets over their remaining lives in measuring whether the assets were recoverable. An impairment loss would be calculated by determining the difference between the carrying values and the fair values of these assets.

### **Incentive Trip Accrual**

We accrue for expenses associated with our direct sales program, which rewards independent consultants 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. We have accrued convention and meeting costs of \$6.4 million and \$5.5 million at December 31, 2020, and 2019, respectively, which are included in accrued liabilities in the consolidated balance sheets. Due to restrictions associated with COVID-19, we were unable to hold traditional incentive trips during the year ended December 31, 2020.

### **Foreign Currency Translation**

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

The functional currency in highly inflationary economies is the U.S. dollar and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The remeasurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three-year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation, and other pertinent economic factors. During the years ended December 31, 2020 and 2019, we did not operate in any countries considered to be highly inflationary.

### **Revenue Recognition**

Net sales include sales of 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 we satisfy our performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with revenue recognized upon shipment, the point in time in which the customer obtains control of the products. Revenue recognition is discussed in further detail in Note 2.

### **Advertising Costs**

Advertising costs are expensed as incurred and classified in selling, general and administrative expenses. Advertising expense incurred for the years ended December 31, 2020 and 2019, totaled approximately \$1.8 million.

### **Research and Development**

All research and development costs are expensed as incurred and classified in selling, general and administrative expense. Total research and development expenses were approximately \$1.5 million and \$2.1 million for the years ended December 31, 2020 and 2019, respectively.

### **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, we record our best estimate within a 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 liability related to the contingency and revise the estimates. Revisions in estimates of the liabilities could materially affect our results of operations in the period of adjustment. Our contingencies are discussed in further detail in Note 13.



**Income Taxes**

Our income tax expense includes amounts related to the United States and many foreign jurisdictions and is comprised of current year income taxes payable, changes in our deferred tax assets and liabilities and contingent reserves. Deferred tax assets are offset by a valuation allowance if it is believed to be more likely than not that some portion of the deferred tax asset will not be fully realized.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we develop assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

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.

**Net Income Per Common Share**

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

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

	2020	2019
<b>Net income attributable to common shareholders:</b>		
Net income	\$ 21,337	\$ 6,765
<b>Basic weighted-average shares outstanding</b>	<b>19,537</b>	19,314
<b>Basic earnings per share attributable to common shareholders:</b>		
Net income	\$ 1.09	\$ 0.35
<b>Diluted Shares Outstanding:</b>		
Basic weighted-average shares outstanding	19,537	19,314
Share-based awards	431	349
Diluted weighted-average shares outstanding	19,968	19,663
<b>Diluted earnings per share attributable to common shareholders:</b>		
Net income	\$ 1.07	\$ 0.34
<b>Potentially dilutive shares excluded from diluted-per-share amounts:</b>		
Share-based awards	703	439
<b>Potentially anti-dilutive shares excluded from diluted-per-share amounts:</b>		
Share-based awards	176	214

For the year ended December 31, 2020, potentially dilutive shares excluded from diluted-per-share amounts include performance-based restricted stock units ("RSU"), for which certain metrics have not been achieved. Potentially anti-dilutive shares excluded from diluted-per-share amounts include both non-qualified stock options and unearned performance-based options to purchase shares of common stock with exercise prices greater than the weighted-average share price during the period and shares that would be anti-dilutive to the computation of diluted net income per share for each of the years presented.

#### **Share-Based Compensation**

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

Our outstanding RSUs include time-based RSUs, which vest over differing periods ranging from 12 months up to 36 months from the RSU grant date, as well as performance-based RSUs, which vest upon achieving targets relating to revenue and earnings growth, earnings-per-share, and/or stock price levels. RSUs granted to the Board of Directors contain a restriction period in which the shares are not issued until two years after vesting.

We recognize all share-based payments to Directors and employees, including grants of stock options and RSUs, in the statement of operations based on their grant-date fair values. We record compensation expense over the vesting period of the stock options and RSUs based on the fair value of the stock options and RSUs on the date of grant.

#### **Comprehensive Income (Loss)**

Comprehensive income (loss) includes all changes in shareholders' equity except those resulting from investments by, and distributions to, shareholders. Accordingly, our comprehensive income (loss) includes net income and foreign currency adjustments that arise from the translation of the financial statements of our foreign subsidiaries.

#### **Recent Accounting Pronouncements**

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this update are elective and subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This could affect balances of right of use assets, lease liabilities, and notes payables. The amendments in this update are effective as of March 12, 2020 through December 31, 2022. The adoption of this ASU is not expected to have a significant impact on our Consolidated Financial Statements.

#### **NOTE 2: REVENUE RECOGNITION**

Net sales include sales of 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 we satisfy our 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. Amounts received for unshipped merchandise are recorded as deferred revenue.

A reserve for product returns is recorded based upon historical experience. We allow independent consultants to return the unused portion of products within 30 days of purchase if they are not satisfied with the product. In some of our markets, the requirements to return product are more restrictive. Sales returns for the years ended December 31, 2020 and 2019, were \$2.0 million and \$1.9 million, respectively.

Amounts billed to customers for shipping and handling are reported as a component of net sales. Shipping and handling revenues of approximately \$4.4 million and \$6.2 million were reported as net sales for the years ended December 31, 2020 and 2019, respectively. The decrease is primarily due to promotions designed to drive growth in our North America segment.

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 consultants. These payments are designed to provide incentives for reaching higher sales levels. The amount of volume incentive recognized is determined based upon the amount of qualifying purchases in a given month and recorded as volume incentive expense. Payments to independent consultants 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.

Taxes that have been assessed by governmental authorities and that are directly imposed on revenue-producing transactions between us and our customers, including sales, use, value-added, and some excise taxes, are presented on a net basis (excluded from net 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 are redeemed for additional products.

The following table presents changes in these contract liability balances for the years ended December 31, 2019 and 2020 (dollar amounts in thousands):

Outstanding at January 1, 2019	\$	1,079
Increase (decrease) attributed to:		
Customer loyalty net deferrals		4,969
Customer loyalty redemptions		(5,093)
Outstanding at December 31, 2019		955
Increase (decrease) attributed to:		
Customer loyalty net deferrals		7,370
Customer loyalty redemptions		(7,342)
Outstanding at December 31, 2020	\$	983

*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 have four 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 14, Segment Information, for further information on our reportable segments and our 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 than one year. The value of any unsatisfied performance obligations is insignificant.

#### NOTE 3: RESTRUCTURING RELATED EXPENSES

In 2019, we continued to execute our strategy to reduce costs and improve efficiencies. During the year ended December 31, 2019, we incurred \$3.4 million of non-recurring expenses that are recorded primarily in selling, general and administrative

expense consisting of severance. Of the restructuring expenses incurred during the year ended December 31, 2019, \$0.4 million of severance remained payable at December 31, 2019.

During 2019, we wrote-off cumulative translation adjustments from the closure of a market that resulted in a loss of \$0.6 million. This loss is included in Foreign exchange losses, net, within the Consolidated Statements of Operation during the year ended December 31, 2019.

In 2020, we continued to execute our strategy to reduce costs and improve efficiencies. During the year ended December 31, 2020, we incurred \$0.8 million of non-recurring expenses that are recorded primarily in selling, general and administrative expense consisting of severance. Of the restructuring expenses incurred during the year ended December 31, 2020, \$0.4 million of severance and rent expenses remained payable at December 31, 2020.

The following table summarizes the 2019, and 2020 restructuring activity (dollar amounts in thousands):

	<b>Total</b>
Liability balance at January 1, 2019	\$ 265
Increase in liability	2,375
Reduction in liability (payments)	(2,257)
<b>Liability balance at December 31, 2019</b>	<b>383</b>
<b>Increase in liability</b>	<b>808</b>
<b>Reduction in liability (payments)</b>	<b>(840)</b>
<b>Liability balance at December 31, 2020</b>	<b>\$ 351</b>

#### NOTE 4: INVENTORIES

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

As of December 31,	2020	2019
Raw materials	\$ 13,956	\$ 13,329
Work in process	1,351	1,426
Finished goods	32,376	31,911
Total inventory	\$ 47,683	\$ 46,666

#### NOTE 5: PROPERTY, PLANT AND EQUIPMENT

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

As of December 31,	2020	2019
Land and improvements	\$ 363	\$ 448
Buildings and improvements	32,324	32,374
Machinery and equipment	27,955	28,533
Furniture and fixtures	12,557	18,162
Computer software and hardware	56,838	52,837
	130,037	132,354
Accumulated depreciation and amortization	(75,682)	(72,842)
Total property, plant and equipment	\$ 54,355	\$ 59,512

Depreciation expense was \$10.4 million and \$10.5 million for the years ended December 31, 2020 and 2019, respectively.

Capitalized interest was immaterial for the years ended December 31, 2020 and 2019.

**NOTE 6: INVESTMENT SECURITIES**

Our trading securities portfolio totaled \$1.0 million and \$1.2 million at December 31, 2020 and 2019, respectively, and generated a gains of \$0.1 million and \$0.2 million, for the years ended December 31, 2020 and 2019, respectively.

**NOTE 7: ACCRUED LIABILITIES**

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

As of December 31,	2020	2019
Salaries and employee benefits	\$ 15,293	\$ 11,265
Sales, use and property tax (See Note 14)	3,256	2,830
Convention and meeting costs	6,375	5,501
Other	6,786	5,935
Total	<u>\$ 31,710</u>	<u>\$ 25,531</u>

**NOTE 8: 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 \$5.0 million, that matures on July 11, 2020 (the "Credit Agreement"). On June 11, 2020 the credit agreement was amended to extend the term to mature on July 1, 2023. The amendment also allows for additional borrowings of \$15.0 million or up to three separate increases of no less than \$5.0 million each. We pay interest on any borrowings under the Credit Agreement, which through June 10, 2020, was at LIBOR plus 1.25 percent (3.05 percent as of December 31, 2019), and an annual commitment fee of 0.2 percent on the unused portion of the commitment. Interest under the amended Credit Agreement is at LIBOR, or the Index floor of 0.75 percent, plus 2.25 percent (3.00 percent as of December 31, 2020), and an annual commitment fee of 0.25 percent on the unused portion of the commitment. We are required to settle our net borrowings under the Credit Agreement only upon maturity. At December 31, 2020, there was no outstanding balance under the Credit Agreement. On March 8, 2020, we signed an amendment to the credit agreement that eliminates the Index floor from the calculation of interest.

The Credit Agreement contains customary financial covenants, including financial covenants relating to our solvency and leverage. 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. We were in compliance with the debt covenants set forth in the Credit Agreement as of December 31, 2020.

On April 21, 2020, we entered into a credit agreement with Banc of America Leasing and Capital, LLC, with a borrowing limit of \$0.0 million (the "Capital Credit Agreement"). On November 19, 2020, we executed on the Capital Credit Agreement and borrowed \$3.7 million. We do not expect to make any additional borrowings under the Capital Credit Agreement. We pay interest on any borrowings under the Capital Credit Agreement at a fixed rate of 3.00 percent and are required to settle our borrowings under the Capital Credit Agreement in thirty-six monthly payments, each equal to \$0.1 million. The Capital Credit Agreement is collateralized by any new equipment purchased under the agreement. As of December 31, 2020, there was \$3.7 million outstanding balance under the Capital Credit Agreement, \$1.3 million of which was classified as current.

Future maturities of long-term debt at December 31, 2020 (dollar amounts in thousands):

Year Ending December 31,		
2021	\$	1,306
2022		1,244
2023		1,174
Thereafter		—
Total	<u>\$</u>	<u>3,724</u>

On April 14, 2020, we obtained a loan (the "Loan") from Bank of America, B.A. in the amount of \$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, among other considerations, the significant economic uncertainty facing the Company and its supply chain worldwide as a result of COVID-19. On December 28, 2020 we repaid the outstanding principal and interest amounts of the Loan. At December 31, 2020, there was no outstanding balance under the PPP.

**NOTE 9: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

	Foreign Currency Translation Adjustments	Write-off of cumulative translation adjustments	Total Accumulated Other Comprehensive Loss
Balance as of January 1, 2019	\$ (11,107)	\$ —	\$ (11,107)
Activity, net of tax	477	(595)	(118)
Balance as of December 31, 2019	<u>(10,630)</u>	<u>(595)</u>	<u>(11,225)</u>
Activity, net of tax	1,270	—	1,270
Balance as of December 31, 2020	<u>\$ (9,360)</u>	<u>\$ (595)</u>	<u>\$ (9,955)</u>

**NOTE 10: INCOME TAXES**

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

Year Ended December 31,	2020	2019
Domestic	\$ 3,273	\$ 1,770
Foreign	19,548	13,872
Total	<u>\$ 22,821</u>	<u>\$ 15,642</u>

Components of the provision (benefit) for income taxes for each of the two years in the period ended December 31, 2020 are as follows (dollar amounts in thousands):

Year Ended December 31,	2020	2019
<b>Current:</b>		
Federal	\$ (1,056)	\$ (476)
State	147	94
Foreign	5,129	4,816
Subtotal	<u>4,220</u>	<u>4,434</u>
<b>Deferred:</b>		
Federal	(2,332)	3,044
State	52	475
Foreign	(2,077)	760
Subtotal	<u>(4,357)</u>	<u>4,279</u>
Total provision (benefit) for income taxes	<u>\$ (137)</u>	<u>\$ 8,713</u>

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

Year Ended December 31,	2020	2019
Statutory U.S. federal income tax rate	21.0 %	21.0 %
State income taxes, net of U.S. federal income tax benefit	1.3	2.9
U.S. tax impact of foreign operations	6.7	12.3
Valuation allowance change	(25.0)	10.3
Unrecognized tax benefits	(6.1)	(3.3)
Permanent foreign items	3.1	4.4
Withholding tax on royalties	2.8	4.2
Stock compensation	(0.4)	7.1
Tax return to provision differences	(3.3)	(3.7)
Elimination of provision on intercompany transactions	(2.0)	(0.6)
Other	1.3	1.1
Effective income tax rate	<u>(0.6)%</u>	<u>55.7 %</u>

Adjustments relating to the U.S. impact of foreign operations increased the effective tax rate by 6.7 percentage points in 2020 and increased the effective tax rate by 12.3 percentage points in 2019. The components of this calculation were:

Components of U.S. tax impact of foreign operations	2020	2019
Foreign tax credits	(4.0)%	(6.3)%
Foreign tax rate differentials	3.1	3.6
Foreign withholding taxes	2.8	3.9
Transfer pricing adjustment	4.3	4.6
Impact of GILTI	0.6	6.5
Impact of FDII	(0.1)	—
Total	<u>6.7 %</u>	<u>12.3 %</u>

Certain prior year amounts included in the table below have been reclassified for comparative purposes. The significant components of the deferred tax assets (liabilities) are as follows (dollar amounts in thousands):

As of December 31,	2020	2019
Inventory	\$ 1,011	\$ 1,013
Accrued liabilities	3,696	2,608
Operating lease liabilities	3,273	3,639
Deferred compensation	233	273
Equity-based compensation	1,332	1,127
Intangibles assets	149	161
Bad debts	102	92
Net operating losses	5,978	7,139
Foreign tax and withholding credits	14,453	14,640
Other deferred tax assets	1,933	2,178
Valuation allowance	(15,262)	(21,388)
Total deferred tax assets	<u>16,898</u>	<u>11,482</u>
Accelerated depreciation	(4,197)	(3,168)
Right of use assets	(2,943)	(3,315)
Tax on unremitted earnings	(2,318)	(1,642)
Other deferred tax liabilities	(138)	(113)
Total deferred tax liabilities	<u>(9,596)</u>	<u>(8,238)</u>
Total deferred taxes, net	<u>\$ 7,302</u>	<u>\$ 3,244</u>

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

As of December 31,	2020	2019
Net deferred tax assets	\$ 8,693	\$ 4,899
Net deferred tax liabilities	(1,391)	(1,655)
Total deferred taxes, net	\$ 7,302	\$ 3,244

We have elected the period cost method (costs are treated as a current period expense when incurred) under U.S. GAAP as it relates to GILTI income inclusions in U.S. taxable income. Each reporting period we analyze our indefinite reinvestment assertions with respect to undistributed foreign earnings. As of December 31, 2020, we continue to assert that we do not intend to reinvest undistributed foreign earnings indefinitely in our foreign subsidiaries.

We have provided a valuation allowance of \$15.3 million and \$21.4 million as of December 31, 2020 and 2019, respectively, for certain deferred tax assets, including foreign net operating losses, for which we cannot conclude it is more likely than not that they will be realized. We reviewed our tax positions and decreased the valuation allowance by approximately \$6.1 million in 2020 primarily due to a domestic decrease of \$2.7 million and a foreign decrease of \$3.4 million. For financial reporting purposes, the decrease in valuation allowances decreases income tax expenses in the year recorded. At December 31, 2020, we had approximately \$14.5 million of foreign tax and withholding credits. Of the \$14.5 million credits, \$14.1 million are foreign tax credits, most of which expire in 2024 and the majority of which are offset by a valuation allowance.

At December 31, 2020, foreign subsidiaries had unused operating loss carryovers for tax purposes of approximately \$6.0 million. The net operating losses will expire at various dates from 2021 through 2029, with the exception of those in some foreign jurisdictions where there is no expiration. The foreign net operating losses have a valuation allowance recorded against the portion expected to expire before utilization.

We are subject to regular audits by federal, state and foreign tax authorities. These audits may result in additional tax liabilities. We believe we have appropriately provided for income taxes for all years. Several factors drive the calculation of our tax reserves. Some of these factors include: (i) the expiration of various statutes of limitations; (ii) changes in tax law and regulations; (iii) the issuance of tax rulings; and (iv) settlements with tax authorities. Changes in any of these factors may result in adjustments to our reserves, which would impact our reported financial results.

Our U.S. federal income tax returns for 2017 through 2019 are open to examination for federal tax purposes. We have several foreign tax jurisdictions that have open tax years from 2015 through 2019.

The total outstanding balance for liabilities related to unrecognized tax benefits at December 31, 2020 and 2019 was \$0.1 million and \$1.5 million, respectively, all of which would favorably impact the effective tax rate if recognized. Included in these amounts is approximately \$36,000 and \$0.1 million, respectively, of combined interest and penalties. We decreased interest and penalties approximately \$0.1 million and \$33,000 for the years ended December 31, 2020 and 2019, respectively. We account for interest expense and penalties for unrecognized tax benefits as part of our income tax provision.

During the years ended December 31, 2020 and 2019, we added approximately \$0 and \$0.2 million, respectively, to our liability for unrecognized tax benefits. Included in these amounts are approximately \$0 and \$0.1 million for the years ended December 31, 2020 and 2019, respectively, related to interest and penalties. In addition, we recorded a benefit related to the lapse of applicable statute of limitations of approximately \$1.3 million and \$0.8 million for the years ended December 31, 2020 and 2019, respectively, all of which favorably impacted our effective tax rate.



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

Year Ended December 31,	2020	2019
Unrecognized tax benefits, opening balance	\$ 1,385	\$ 1,966
Settlement of liability reclassified as income tax payable	—	—
Payments on liability	—	(16)
Tax positions taken in a prior period		
Gross increases	—	—
Gross decreases	(106)	(9)
Tax positions taken in the current period		
Gross increases	—	132
Gross decreases	—	—
Lapse of applicable statute of limitations	(1,210)	(686)
Currency translation adjustments	(13)	(2)
Unrecognized tax benefits, ending balance	<u>\$ 56</u>	<u>\$ 1,385</u>

We anticipate that liabilities related to unrecognized tax benefits will increase approximately \$0 to \$0.1 million within the next twelve months due to additional transactions related to commissions and transfer pricing.

We believe that it is reasonably possible that unrecognized tax benefits may decrease by \$0 to \$0.1 million within the next twelve months due to the expiration of statutes of limitations in various jurisdictions.

Although we believe our estimates are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which it has 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.

**NOTE 11: CAPITAL TRANSACTIONS**

**Dividends**

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

No dividends were declared for the years ended December 31, 2020 and 2019.

**Share-Based Compensation**

During the year ended December 31, 2012, our shareholders adopted and approved 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 common stock were originally authorized for the granting of awards under the 2012 Stock Incentive Plan. In January 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 the 2009 Incentive Plan, which was approved by shareholders in 2009. The 2009 Incentive Plan also provided for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, performance awards, stock awards and other stock-based awards. Under the 2012 Incentive Plan, any shares subject to award, or awards forfeited or reacquired by the Company issued under the 2009 Incentive Plan are available for award up to a maximum of 400,000 shares.

*Stock Options*

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

Stock option activity for 2020 and 2019 consisted of the following (share amounts in thousands, except for per share information):

	Number of Shares	Weighted- Average Exercise Price Per Share	Weighted-Average Grant Date Fair Value
Options outstanding at January 1, 2019	1,114	\$ 12.23	
Granted	25	8.72	
Forfeited or canceled	(797)	12.87	
Exercised	(52)	4.98	
<b>Options outstanding at December 31, 2019</b>	<b>290</b>	<b>11.49</b>	
<b>Granted</b>	—	—	\$ —
<b>Forfeited or canceled</b>	—	—	—
<b>Exercised</b>	<b>(64)</b>	<b>9.33</b>	<b>5.56</b>
<b>Options outstanding at December 31, 2020</b>	<b>226</b>	<b>\$ 12.10</b>	<b>\$ 5.42</b>

During the year ended December 31, 2020, no options to purchase shares of common stock under the 2012 Stock Incentive Plan were granted.

During the year ended December 31, 2019, we granted options to purchase 25,000 shares of common stock under the 2012 Stock Incentive Plan to two members of our Board of Directors, which are composed of both time-based stock options and net sales performance-based stock options. These options were issued with a weighted-average exercise price of \$8.72 per share and a weighted-average grant date fair value of \$3.44 per share. All of the options issued have an option termination date of ten years from the option grant date.

For the years ended December 31, 2020 and 2019, we issued 64,000 and 52,000 shares of common stock upon the exercise of stock options at an average exercise price of \$9.33 and \$4.98 per share, respectively. The aggregate intrinsic values of options exercised during the years ended December 31, 2020 and 2019 was \$0.2 million and \$0.2 million, respectively. For the years ended December 31, 2020 and 2019, we recognized \$0.1 million and \$0.1 million of tax benefits from the exercise of stock options during the period, respectively.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the years ended December 31, 2020 and 2019:

	2020	2019
Weighted-average grant date fair value of grants	\$ —	3.44
Expected life (in years)	0.0	5.0
Risk-free interest rate	— %	1.5 %
Expected volatility	— %	43.2 %
Dividend yield	— %	— %

Share-based compensation expense from time-based stock options for the years ended December 31, 2020 and 2019, was \$0 and \$0.1 million, respectively. As of December 31, 2020 and 2019, the unrecognized share-based compensation cost related to grants described above was \$0, respectively. As of December 31, 2020, there are no unvested options.

At December 31, 2020, the aggregate intrinsic value of outstanding and exercisable options to purchase 226,000 shares of common stock was \$0.7 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.

*Restricted Stock Units*

Our outstanding restricted stock units ("RSUs"), include time-based RSUs, which vest over differing periods ranging from 12 months 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 December 31, 2020 and 2019, there were 82,000 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 years ended December 31, 2020 and 2019 is as follows: (share amounts in thousands, except per share information):

	Number of Shares	Weighted-Average Grant Date Fair Value
Units outstanding at January 1, 2019	1,058	\$ 8.87
Granted	333	7.23
Issued	(179)	10.21
Forfeited	(391)	9.88
<b>Units outstanding at December 31, 2019</b>	<b>821</b>	<b>7.43</b>
<b>Granted</b>	<b>691</b>	<b>5.84</b>
<b>Issued</b>	<b>(301)</b>	<b>8.28</b>
<b>Forfeited</b>	<b>(32)</b>	<b>11.93</b>
<b>Units outstanding at December 31, 2020</b>	<b>1,179</b>	<b>\$ 6.18</b>

During the year ended December 31, 2020, we granted 691,000 RSUs of common stock under the 2012 Incentive Plan to our board, executive officers and other employees, which are composed of both time-based RSUs and share-price performance-based RSUs. The time-based RSUs were granted with a weighted-average grant date fair value \$7.68 per share and vest in 12 monthly installments over a one year period from the grant date or in annual installments over three year period from the grant date. The share-price performance-based RSUs were granted with a weighted-average grant date fair value of \$4.51 per share and vest upon achieving share-price targets over a three year period from the grant date.

During the year ended December 31, 2019, we granted 333,000 RSUs of common stock under the 2012 Incentive Plan to our board, executive officers and other employees, which are composed of both time-based RSUs and share-price performance-based RSUs. The time-based RSUs were granted with a weighted-average grant date fair value of \$8.59 per share and vest in 12 monthly installments over a one year period from the grant date or in annual installments over a three year period from the grant date. The share-price performance-based RSUs were granted with a weighted-average grant date fair value of \$4.38 per share and vest upon achieving share-price targets over a three year period from the grant date with applicable compensation accelerated upon vesting.

Except for share-price performance-based RSUs, RSUs are valued at the market value on the date of grant, which is the grant date share price discounted for expected dividend payments during the vesting period. For RSUs with post-vesting restrictions, a Finnerty Model was utilized to calculate a valuation discount from the market value of common shares reflecting the restriction embedded in the RSUs preventing the sale of the underlying shares over a certain period of time. 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 between 12.0 percent and 12.7 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 between 50.0 percent and 55.6 percent, and a range of risk free rates between 0.3 percent and 2.9 percent.

Share-based compensation expense from RSUs for the period ended December 31, 2020 and 2019 was approximately \$0.8 million and \$2.0 million, respectively. As of December 31, 2020, and 2019, the unrecognized share-based compensation expense related to the grants described above was \$1.3 million and \$1.1 million, respectively. As of December 31, 2020, the remaining compensation expense is expected to be recognized over the weighted-average period of approximately 0.7 years.

Share-based compensation expense related to performance-based RSUs for the years ended December 31, 2020 and 2019, was approximately \$0.9 million and \$0.6 million, respectively. Should we attain all of the metrics related to the performance-based RSU grant, we would recognize up to \$3.0 million of potential share-based compensation expense. We currently expect to recognize an additional \$1.2 million of that potential share-based compensation expense.

The number of shares issued upon vesting or exercise for restricted stock units granted, pursuant to our share-based compensation plans, is net of shares withheld to cover the minimum statutory withholding requirements that we pay on behalf of our employees, which was 63,000 and 36,000 shares for the years ended December 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.

## **NOTE 12: EMPLOYEE BENEFIT PLANS**

### **Deferred Compensation Plans**

We sponsor a qualified deferred compensation plan which qualifies under Section 401(k) of the Internal Revenue Code. During 2020, we made matching contributions of 70.0 percent of employee contributions up to a maximum of 5.0 percent of the employee's compensation. Our contributions to the plan vest after a period of three years. During 2020 and 2019, we contributed to the plan \$0.9 million and \$1.0 million, respectively.

We provide a nonqualified deferred compensation plan for our officers and certain key employees. Under this plan, participants may defer up to 100 percent of their annual salary and bonus. Although participants direct the investment of these funds, they are classified as trading securities and are included in long-term investment securities on the consolidated balance sheets because they remain our assets until they are actually paid out to the participants. We have established a trust to finance obligations under the plan. At the end of each year and at other times provided under the plan, we adjust our obligation to a participant by the investment return or loss on the funds selected by the participant under rules established in the plan. Upon separation of employment of the participant with the Company, the obligation owed to the participant under the plan will be paid as a lump sum or over a period of either three or five years (and will continue to be adjusted by the applicable investment return or loss during the period of pay-out). We had deferred compensation plan assets of approximately \$1.0 million and \$1.2 million as of December 31, 2020, and 2019, respectively. The change in the liability associated with the deferred compensation plan is recorded in the deferred compensation payable.

## **NOTE 13: COMMITMENTS AND CONTINGENCIES**

### **Contractual Obligations**

We have entered into long-term agreements with third-parties in the ordinary course of business, in which we have agreed to pay a percentage of net sales in certain regions in which we operate, or royalties on certain products. In 2020 and 2019, the aggregate amounts of these payments were \$23,000 and \$10,000, respectively.

### **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. As of December 31, 2020 and 2019, accrued liabilities include \$0.2 million and \$0.4 million related to non-income tax contingencies, respectively. While we believe that the assumptions and estimates used to determine this liability 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 \$2.6 million.

## **Other Litigation**

We are party to various other legal proceedings in the United States and several foreign jurisdictions related to value-added tax assessments and other civil litigation. We have accrued \$0.5 million related to the estimated outcome of these proceedings as of December 31, 2020. In addition, we are 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. During the years ended December 31, 2020 and 2019, we made payments of \$0 and \$2.0 million related to the settlement of litigation.

## **Self-Insurance Liabilities**

Similar to other manufacturers and distributors of products that are ingested, we face an inherent risk of exposure to product liability claims in the event that, among other things, the use of our products results in injury. During 2017, we secured product liability coverage to cover possible claims. Such insurance may not be sufficient to cover one or more large claims, or the insurer may successfully disclaim coverage as to a pending or future claim. As a result, there can be no assurance that the ultimate outcome of any litigation for product liability will not have a material negative impact on our business prospects, financial position, results of operations or cash flows. Subsequent to obtaining the product liability coverage, we have recorded a reserve which is an estimate of potential costs.

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

We review our self-insurance accruals on a quarterly basis and determine, based upon a review of our recent claims history and other factors, which portions of our self-insurance accruals should be considered short-term and long-term. We have accrued \$0.7 million and \$0.8 million for product liability and employee medical claims at December 31, 2020 and 2019, respectively, of which \$0.4 million and \$0.5 million was classified as short-term. Such amounts are included in accrued liabilities and other long-term liabilities on our consolidated balance sheets.

## **Government Regulations**

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

**NOTE 14: OPERATING BUSINESS SEGMENT AND INTERNATIONAL OPERATION 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 with three 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.

Reportable business segment information for the years ended December 31, 2020 and 2019 is as follows (dollar amounts in thousands):

Year Ended December 31,	2020	2019
Net sales:		
Asia	\$ 138,717	\$ 138,536
Europe	77,688	62,523
North America	145,481	138,163
Latin America and Other	23,319	22,993
Total net sales	<u>385,205</u>	<u>362,215</u>
Contribution margin (1):		
Asia	66,801	65,871
Europe	26,014	19,954
North America	50,193	49,327
Latin America and Other	9,771	9,713
Total contribution margin	<u>152,779</u>	<u>144,865</u>
Selling, general and administrative (2)	131,297	128,740
Operating income	<u>21,482</u>	<u>16,125</u>
Other income (loss), net	1,339	(483)
Income before provision for income taxes	<u>\$ 22,821</u>	<u>\$ 15,642</u>

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

(2) Service fees in China totaled \$11.7 million and \$9.4 million for the years ended December 31, 2020 and 2019, respectively. These service fees are included in our selling, general and administrative expenses.

<b>Year Ended December 31,</b>	<b>2020</b>	<b>2019</b>
<b>Capital expenditures:</b>		
Asia	\$ 542	\$ 3,262
Europe	34	27
North America	4,267	2,605
Latin America and Other	62	21
Total capital expenditures	<u>\$ 4,905</u>	<u>\$ 5,915</u>
<b>Depreciation and amortization:</b>		
Asia	\$ 1,919	\$ 1,544
Europe	77	75
North America	8,673	8,855
Latin America and Other	74	125
Total depreciation and amortization	<u>\$ 10,743</u>	<u>\$ 10,599</u>

<b>As of December 31,</b>	<b>2020</b>	<b>2019</b>
<b>Assets:</b>		
Asia	\$ 82,572	\$ 65,959
Europe	16,398	15,187
North America	142,324	124,337
Latin America and Other	8,204	7,585
Total assets	<u>\$ 249,498</u>	<u>\$ 213,068</u>

From an individual country perspective, only the United States and South Korea comprise approximately 10 percent or more of consolidated net sales for the years ended December 31, 2020 and 2019 as follows (dollar amounts in thousands):

<b>Year Ended December 31,</b>	<b>2020</b>	<b>2019</b>
<b>Net sales:</b>		
United States	\$ 134,976	\$ 128,019
South Korea	62,041	70,556
Other	188,188	163,640
Total net sales	<u>\$ 385,205</u>	<u>\$ 362,215</u>

Revenue generated by each of our product lines is set forth below (dollars in thousands):

Year Ended December 31,	2020	2019
<b>Asia:</b>		
General health	\$ 36,445	\$ 37,795
Immunity	847	940
Cardiovascular	40,496	44,541
Digestive	32,605	24,434
Personal care	10,606	13,753
Weight management	17,718	17,073
	<u>138,717</u>	<u>138,536</u>
<b>Europe:</b>		
General health	\$ 32,822	\$ 22,469
Immunity	8,231	5,130
Cardiovascular	10,863	10,672
Digestive	18,673	14,456
Personal care	4,663	7,463
Weight management	2,436	2,333
	<u>77,688</u>	<u>62,523</u>
<b>North America:</b>		
General health	\$ 61,897	\$ 59,847
Immunity	23,036	15,341
Cardiovascular	15,852	18,750
Digestive	32,851	33,077
Personal care	7,587	6,170
Weight management	4,258	4,978
	<u>145,481</u>	<u>138,163</u>
<b>Latin America and Other:</b>		
General health	\$ 6,867	\$ 6,919
Immunity	3,122	2,453
Cardiovascular	1,512	1,446
Digestive	9,863	10,258
Personal care	1,203	1,056
Weight management	752	861
	<u>23,319</u>	<u>22,993</u>
<b>Total net sales</b>	<u><u>\$ 385,205</u></u>	<u><u>\$ 362,215</u></u>

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

As of December 31	2020	2019
<b>Property, plant and equipment</b>		
United States	\$ 50,025	\$ 54,470
Other	4,330	5,042
<b>Total property, plant and equipment</b>	<u><u>\$ 54,355</u></u>	<u><u>\$ 59,512</u></u>

#### NOTE 15: RELATED PARTY TRANSACTIONS

Our joint venture in China, owned 80 percent by us and 20 percent by a wholly owned subsidiary of Fosun Pharma, borrowed \$0 from the Company, during the years ended December 31, 2020 and 2019. At December 31, 2020 and 2019 our joint venture in China held a note payable to the Company of \$4.8 million and \$6.1 million, respectively. Our joint venture in China borrowed \$0 from our joint venture partner, during the years ended December 31, 2020 and 2019. At December 31, 2020



and 2019, our joint venture in China held a note payable to our joint venture partner of \$1.2 million and \$1.5 million, respectively. These notes are payable in one year and bear interest of 3.0 percent. The note between the joint venture and the Company eliminates in consolidation.

**NOTE 16: FAIR VALUE**

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

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

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

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Restricted investment securities - trading	\$ 989	\$ —	\$ —	\$ 989
Total assets measured at fair value on a recurring basis	<u>\$ 989</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 989</u>

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

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

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

For the years ended December 31, 2020 and 2019, there were no fair value measurements using significant other observable inputs (Level 2) or significant unobservable inputs (Level 3).

During the years ended December 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.

**NOTE 17: SUMMARY OF QUARTERLY OPERATIONS — UNAUDITED**

The following tables presents our unaudited summary of quarterly operations during 2020 and 2019 for each of three month periods ended March 31, June 30, September 30, and December 31 (dollar amounts in thousands, except per share information).

	For the Quarter Ended			
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Net sales	\$ 95,926	\$ 87,286	\$ 100,250	\$ 101,743
Cost of sales	(24,681)	(23,017)	(27,175)	(26,403)
Gross profit	71,245	64,269	73,075	75,340
Volume incentives	33,018	29,165	34,310	34,657
Selling, general and administrative	31,065	28,504	33,294	38,434
Operating income	7,162	6,600	5,471	2,249
Other income (expense)	(2,410)	1,509	671	1,569
Income before income taxes	4,752	8,109	6,142	3,818
Provision (benefit) for income taxes	1,746	1,976	(1,027)	(2,832)
Net income	3,006	6,133	7,169	6,650
Net income attributable to noncontrolling interests	44	379	414	784
Net income attributable to common shareholders	\$ 2,962	\$ 5,754	\$ 6,755	\$ 5,866
Basic and diluted net income per common share:				
Basic earnings per share attributable to common shareholders:	\$ 0.15	\$ 0.30	\$ 0.35	\$ 0.30
Diluted earnings per share attributable to common shareholders:	\$ 0.15	\$ 0.29	\$ 0.34	\$ 0.29

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

	For the Quarter Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Net sales	\$ 91,272	\$ 90,724	\$ 88,524	\$ 91,695
Cost of sales	(23,429)	(23,865)	(22,784)	(23,862)
Gross profit	67,843	66,859	65,740	67,833
Volume incentives	31,013	31,302	29,862	31,233
Selling, general and administrative	33,852	31,019	31,177	32,692
Operating income	2,978	4,538	4,701	3,908
Other income (expense), net	(48)	306	(1,243)	502
Income before income taxes	2,930	4,844	3,458	4,410
Provision for income taxes	1,201	2,215	2,107	3,190
Net income	1,729	2,629	1,351	1,220
Net income (loss) attributable to noncontrolling interests	(28)	(60)	34	218
Net income attributable to common shareholders	\$ 1,757	\$ 2,689	\$ 1,317	\$ 1,002
Basic and diluted net income per common share:				
Basic earnings per share attributable to common shareholders:	\$ 0.09	\$ 0.14	\$ 0.07	\$ 0.05
Diluted earnings per share attributable to common shareholders:	\$ 0.09	\$ 0.14	\$ 0.07	\$ 0.05

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

#### NOTE 18: LEASES

##### Adoption of ASU Topic 842

We adopted ASU No. 2016-02, Leases (Topic 842): Accounting for Leases, as of January 1, 2019. This update requires lessees to recognize right-of-use assets and lease liabilities arising from leases. We elected certain practical expedients permitted under the transition guidance. We elected the optional transition method that allows for a cumulative-effect adjustment and will not restate prior periods. Under the new guidance, all leases will continue to be classified as operating.

Adoption of the new standard resulted in recording of additional net operating lease right-of-use assets and lease liabilities of approximately \$3.1 million and \$24.0 million, respectively, as of January 1, 2019. The difference between the operating lease right-of-use assets and lease liabilities reflects deferred rent balances at the time of adoption. The standard did not materially impact consolidated net earnings and cash flows.

We lease certain retail stores, warehouses, distribution centers, office spaces and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. For leases beginning in 2019 and later, we account for lease components including rent, real estate taxes and insurance costs separately from non-lease components, like common-area maintenance fees. Most of our leases include one or more options to renew, with renewal terms that can extend the lease term for one or more years. The exercise of the lease option to renew is solely at our discretion.

Operating lease costs were approximately \$6.6 million and \$6.7 million for the years ended December 31, 2020 and 2019, respectively. Short-term lease costs were approximately \$0.4 million and \$0.2 million for the years ended December 31, 2020 and 2019, respectively. Operating lease costs were offset by sublease income of \$0.1 million and \$0.1 million for the years ended December 31, 2020 and 2019, respectively. Short-term lease costs represent our costs with respect to leases with a duration of 12 months or less and are not reflected on our Consolidated Balance Sheets.

Information related to the Company's operating right-of-use assets and related operating lease liabilities were as follows (dollar amounts in thousands, except lease term and discount rate):

As of December 31,	2020	2019
<b>Assets:</b>		
Operating lease right-of-use assets	\$ 20,210	\$ 23,951
<b>Liabilities:</b>		
Current	4,992	4,941
Long-term	16,412	20,213
Total operating lease liabilities	<u>\$ 21,404</u>	<u>\$ 25,154</u>

Weighted-average remaining lease term	6.3	7.0
Weighted-average discount rate	4.23 %	4.21 %

Year Ended December 31,	2020	2019
Cash paid for operating lease liabilities	\$ 5,703	\$ 6,147
Right-of-use assets obtained in exchange for new operating lease obligations (1)	1,996	29,883
Cancellations or adjustments of leases that resulted in the reduction of lease assets in exchange for lease liabilities	\$ (1,111)	\$ (486)

(1) Balance as of December 31, 2019 includes \$23.1 million for operating leases existing on January 1, 2019.

There were no material operating leases that we have entered into and that were yet to commence as of December 31, 2020.

The approximate aggregate commitments under non-cancelable operating leases in effect at December 31, 2020, were as follows (dollar amounts in thousands):

Year Ending December 31,	
2021	\$ 5,834
2022	4,077
2023	3,109
2024	2,917
2025	2,188
Thereafter	6,500
Total lease payments	<u>\$ 24,625</u>
Less: Imputed interest (1)	3,221
Present value of lease liabilities	<u>\$ 21,404</u>

(1) Calculated using our corporate borrowing rate based on the term of each lease ranging from 3.50 percent to 4.29 percent.

Because of leases entered into during 2019, we incurred asset retirement obligations in the amount of \$0.6 million and reductions of \$0.3 million.

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

None.

**Item 9A. Controls and Procedures**

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

**Overview**

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

The following discussion sets forth a summary of management’s evaluation of our disclosure controls and procedures as of December 31, 2020. In addition, this item provides a discussion of management’s evaluation of internal control over financial reporting.

Our independent registered public accountants have also issued an audit report on our internal control over financial reporting. This report appears below.

**Evaluation of Disclosure Controls and Procedures**

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

In connection with the preparation of our Annual Report as of December 31, 2020, 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 December 31, 2020. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2020.

**Management’s Report on Internal Control over Financial Reporting**

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in “*Internal Control—Integrated Framework (2013)*” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management’s assessment under this framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2020. Our internal control over financial reporting as of December 31, 2020 has been assessed by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

**Changes in Internal Control over Financial Reporting**

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Nature's Sunshine Products, Inc. and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated March 10, 2021, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of a new accounting standard.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

### Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 10, 2021

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2020.

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2020.

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

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table contains information regarding our equity compensation plans as of December 31, 2020:

Plan category	Number of securities to be issued upon exercise or vesting of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
<b>Equity compensation plans approved by security holders (1)</b>	1,405,707	(2) \$ 9.33	(3) 678,972

(1) Consists of two plans: The Nature’s Sunshine Products, Inc. 2012 Stock Incentive Plan (the “2012 Incentive Plan”), and the Nature’s Sunshine Products, Inc. 2009 Stock Incentive Plan (the “2009 Incentive Plan”). The 2012 Incentive Plan was approved by our shareholders on August 1, 2012. An amendment to the 2012 Incentive Plan was approved by our shareholders on January 14, 2015, to increase the number of shares available for issuance under the 2012 Incentive Plan by 1,500,000. The 2009 Incentive Plan was approved by our shareholders on November 6, 2009. The terms of these plans are summarized in Note 11, “Capital Transactions”, in the Notes to Consolidated Financial Statements in Item 8, Part 2 of this report.

(2) Consists of 290,094 stock options and 821,086 restricted stock units.

(3) Excludes the impact of restricted stock units, which are exercised for no consideration.

(4) Represents the number of shares available for future issuance under the 2012 Incentive Plan and the 2009 Incentive Plan.

Other information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2020.

**Item 13. Certain Relationships and Related Transactions and Director Independence**

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2020.

**Item 14. Principal Accounting Fees and Services.**

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2020.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(a)(1) List of Financial Statements**

The following are filed as part of this report:

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets as of December 31, 2020 and 2019

Consolidated statements of income for the years ended December 31, 2020 and 2019

Consolidated statements of comprehensive income for the years ended December 31, 2020 and 2019

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2020 and 2019

Consolidated statements of cash flows for the years ended December 31, 2020 and 2019

Notes to consolidated financial statements

**(a)(2) List of Financial Statement Schedules**

Schedule II - Valuation and Qualifying Accounts.

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

**(a)(3) List of Exhibits**

Exhibit Index as seen below



LIST OF EXHIBITS

<u>Item No.</u>	<u>Exhibit</u>
3.1(1)	<a href="#">Amended and Restated Articles of Incorporation.</a>
3.2(2)	<a href="#">Amended and Restated Bylaws.</a>
10.1(3)*	<a href="#">Tax Deferred Retirement Plan, Restated January 1, 2012.</a>
10.2(4)*	<a href="#">Supplemental Elective Deferral Plan, as Amended effective as of January 1, 2008.</a>
10.3(5)	<a href="#">2009 Stock Incentive Plan.</a>
10.4(5)*	<a href="#">Form of Award Agreement (2009 Stock Incentive Plan).</a>
10.5(6)*	<a href="#">Employment Agreement, dated January 1, 2015, by and between the Company and Gregory L. Probert.</a>
10.6(7)*	<a href="#">Stock Option Agreement, dated June 16, 2011, by and between the Company and Gregory L. Probert.</a>
10.7(8)	<a href="#">2012 Stock Incentive Plan and Amendment No. 1 to 2012 Stock Incentive Plan.</a>
10.8(8)*	<a href="#">Form of Award Agreement (2012 Stock Incentive Plan).</a>
10.9(9)*	<a href="#">Amended and Restated Employment Agreement, dated March 31, 2020, by and between the Company and Joseph W. Baty.</a>
10.10(10) *	<a href="#">Amended and Restated Employment Agreement, dated March 31, 2020, by and between the Company and Bryant J. Yates.</a>
10.11 (11)*	<a href="#">Consulting Service Agreement, dated September 25, 2018, between the Company and Gregory L. Probert.</a>
10.12 (12)*	<a href="#">Letter Agreement, dated September 25, 2018, between the Company and Gregory L. Probert.</a>
10.13 (13)*	<a href="#">Executive Agreement, dated September 14, 2018, between the Company and Terrence Moorehead.</a>
10.14 (14)*	<a href="#">Amendment to Executive Agreement, dated October 19, 2018, between the Company and Terrence Moorehead.</a>
21(15)	<a href="#">List of Subsidiaries of Registrant.</a>
23.1(15)	<a href="#">Consent of Independent Registered Public Accounting Firm.</a>
31.1(15)	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2(15)	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1(15)	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.</a>
32.2(15)	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.</a>
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 Annual Report on Form 10-K filed on March 16, 2018, and is incorporated herein by reference.
- (2) Filed herewith.
- (3) Previously filed as Exhibit 10.1 to the Annual Report on Form 10-K filed on March 13, 2015, and is incorporated herein by reference.
- (4) Previously filed as Exhibit 10.2 to the Annual Report on Form 10-K filed on March 14, 2016, and is incorporated herein by reference.
- (5) Previously filed as Appendix C to the Registrant's Proxy Statement filed on October 19, 2009, and is incorporated herein by reference.
- (6) Previously filed as Exhibit 10.1 to the Current report on Form 8-K filed on February 19, 2015, and is incorporated herein by reference.
- (7) Previously filed as Exhibit 10.2 to the Current report on Form 8-K filed on June 22, 2011, and is incorporated herein by reference.
- (8) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed on January 15, 2015, and is incorporated herein by reference.
- (9) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed on April 7, 2020, and is incorporated herein by reference.
- (10) Previously filed as Exhibit 10.2 to the Annual Report on Form 10-K filed on April 7, 2020, and is incorporated herein by reference.
- (11) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed on September 26, 2018, and is incorporated herein by reference.
- (12) Previously filed as Exhibit 10.2 to the Current Report on Form 8-K filed on September 26, 2018, and is incorporated herein by reference.
- (13) Previously filed as Exhibit 10.3 to the Current Report on Form 8-K filed on September 26, 2018, and is incorporated herein by reference.
- (14) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed on October 24, 2018, and is incorporated herein by reference.
- (15) Filed herewith.
- \* Management contract or compensatory plan.

**Item 15. Form 10-K Summary.**

None.

**SIGNATURES**

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

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

Date: **March 10, 2021**

By: /s/ Terrence O. Moorehead  
Terrence O. Moorehead,  
Chief Executive Officer (Principal Executive Officer)

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Terrence O. Moorehead</u> Terrence O. Moorehead	Chief Executive Officer (Principal Executive Officer)	March 10, 2021
<u>/s/ J. Christopher Teets</u> J. Christopher Teets	Chairman of the Board	March 10, 2021
<u>/s/ Joseph W. Baty</u> Joseph W. Baty	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 10, 2021
<u>/s/ Robert B. Mercer</u> Robert B. Mercer	Director	March 10, 2021
<u>/s/ Richard D. Moss</u> Richard D. Moss	Director	March 10, 2021
<u>/s/ Mary Beth Springer</u> Mary Beth Springer	Director	March 10, 2021
<u>/s/ Robert D. Straus</u> Robert D. Straus	Director	March 10, 2021
<u>/s/ Jeffrey D. Watkins</u> Jeffrey D. Watkins	Director	March 10, 2021
<u>/s/ Lily Zou</u> Lily Zou	Director	March 10, 2021

NATURE'S SUNSHINE PRODUCTS, INC.  
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
*(Amounts in thousands)*

Description	Balance at Beginning of Year	Provisions	Amounts Written Off	Amounts Recovered	Effect of Currency Translation	Balance at End of Year
<b>Year Ended December 31, 2020</b>						
Allowance for doubtful accounts receivable	\$ 407	\$ 77	\$ (30)	\$ —	\$ —	\$ 454
Allowance for sales returns	298	2,029	(1,989)	—	13	351
Tax valuation allowance	21,388	(6,120)	—	—	(6)	15,262
<b>Year Ended December 31, 2019</b>						
Allowance for doubtful accounts receivable	\$ 460	\$ 10	\$ (63)	\$ —	\$ —	\$ 407
Allowance for sales returns	329	1,843	(1,872)	—	(2)	298
Tax valuation allowance	20,256	1,591	(107)	(372)	20	21,388

**AMENDED AND RESTATED BYLAWS  
OF  
NATURE'S SUNSHINE PRODUCTS, INC.**

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**March 8, 2021**

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**AMENDED AND RESTATED BYLAWS**  
**OF**  
**NATURE'S SUNSHINE PRODUCTS, INC.**

**ARTICLE 1. OFFICES**

1.1 Business Offices

The principal office of the corporation shall be located at such place either within or outside the State of Utah, as may be determined by the Board of Directors. The corporation may have such other offices, either within or without the State of Utah as the Board of Directors may designate or as the business of the corporation may require from time to time.

1.2 Registered Office

The registered office of the corporation shall be located within the State of Utah and may be, but need not be, identical with the principal office (if located within the State of Utah). The address of the registered office may be changed from time to time by the Board of Directors.

**ARTICLE 2. SHAREHOLDERS**

2.1 Annual Meeting

The annual meeting of shareholders ("*Annual Meeting*") shall be held each year on a date and at a time designated by the Board of Directors. At the meeting, directors shall be elected and any other proper business may be transacted. The Board of Directors may postpone, reschedule or cancel any previously scheduled Annual Meeting of shareholders.

2.2 Business at an Annual Meeting of Shareholders

(a) The business to be transacted at any Annual Meeting shall be limited to business that is properly brought before the meeting. For the purposes of this Section 2.2, "properly brought before the meeting" shall mean the business that is (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise brought before an Annual Meeting by or at the direction of the Board of Directors, or (iii) a proper matter for shareholder action under the Utah Revised Business Corporation Act (the "*Revised Act*") that has been otherwise properly brought before an Annual Meeting by a shareholder who (A) is a shareholder of record both on the date of the giving of the notice provided for in this Section 2.2 and at the time of the meeting, (B) is entitled to vote at the meeting and (C) has complied with this Section 2.2 in all applicable respects. Except for proposals properly made in accordance with Rule 14a-8 under the Securities and Exchange Act of 1934, as amended, and the rules and regulations thereunder (as amended and inclusive of such rules and regulations, the "*Exchange Act*") and included in the notice of meeting given by or at the direction of the Board of Directors, the foregoing clause (iii) shall be the exclusive means for a shareholder to propose business to be brought before an Annual Meeting.



(b) In order for business to be properly brought before an Annual Meeting by a shareholder, the shareholder must, in addition to any other applicable requirements, (i) provide Timely Notice (as defined below) thereof in writing and in proper form of such shareholder's intent to bring a matter before the Annual Meeting and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 2.2. To be timely, a shareholder's notice must be delivered to, or mailed to and received by, the Secretary of the corporation at the corporation's principal executive offices not less than ninety (90) days nor more than one hundred twenty (120) days prior to the one-year anniversary of the preceding year's Annual Meeting; *provided, however*, that in the event that no Annual Meeting was held in the previous year or the date of the Annual Meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the shareholder to be timely must be so delivered, or mailed and received, on the later of (i) the ninetieth (90th) day prior to such Annual Meeting or (ii) the tenth (10th) day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made by the corporation, whichever occurs first (such notice within such time periods, "*Timely Notice*"). In no event shall any postponement or adjournment of an Annual Meeting or the announcement thereof commence a new time period for the giving of Timely Notice as described above.

(c) Except with respect to nominations for the election of directors, which shall be governed by Section 3.2 hereof, to be in proper form, each such notice to the Secretary shall set forth:

i. as to each Proposing Person (as defined below), (A) the name and address of such Proposing Person (including, if applicable, the name and address that appear on the corporation's books and records); (B) the class or series and number of shares of capital shares of the corporation that are, directly or indirectly, beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) or owned of record by such Proposing Person, except that such Proposing Person shall in all events be deemed to beneficially own any shares of any class or series of the corporation as to which such Proposing Person has a right to acquire beneficial ownership at any time in the future; (C) the full notional amount of any securities that, directly or indirectly, underlie any "derivative security" (as such term is defined in Rule 16a-1(c) under the Exchange Act) that constitutes a "call equivalent position" (as such term is defined in Rule 16a-1(b) under the Exchange Act) ("*Synthetic Equity Position*") and that is, directly or indirectly, held or maintained by such Proposing Person with respect to any shares of any class or series of shares of the corporation ("*Synthetic Equity Interests*"); *provided that*, for the purposes of the definition of "Synthetic Equity Position," the term "derivative security" shall also include any security or instrument that would not otherwise constitute a "derivative security" as a result of any feature that would make any conversion, exercise or similar right or privilege of such security or instrument becoming determinable only at some future date or upon the happening of a future occurrence, in which case the determination of the amount of securities into which such security or instrument would be convertible or exercisable shall be made assuming that such security or instrument is immediately convertible or exercisable at the time of such determination; *provided, further*, that any Proposing Person satisfying the requirements of Rule 13d-1(b)(1) under the Exchange Act (other than a Proposing Person that so satisfies Rule 13d-1(b)(1) under the Exchange Act solely by reason of Rule 13d-1(b)(1)(ii)(E)) shall not be deemed to hold or maintain the notional amount of any securities that underlie a Synthetic Equity Position held by such Proposing Person as a hedge with respect to a bona fide derivatives trade or position of such

Proposing Person arising in the ordinary course of such Proposing Person's business as a derivatives dealer, (D) any proxy (other than a revocable proxy or consent given in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a solicitation statement filed on Schedule 14A), agreement, arrangement, understanding or relationship pursuant to which such Proposing Person has or shares a right to vote any shares of any class or series of the corporation, (E) any agreement, arrangement, understanding or relationship, including any repurchase or similar so-called "stock borrowing" agreement or arrangement, engaged in, directly or indirectly, by such Proposing Person, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of shares of any class or series of the corporation held by, manage the risk of share price changes for, or increase or decrease the voting power of, such Proposing Person with respect to the shares of any class or series of the corporation, or which provides, directly or indirectly, the opportunity to profit from any decrease in the price or value of the shares of any class or series of the corporation ("*Short Interests*"), (F) any rights to dividends on the shares of any class or series of the corporation owned beneficially by such Proposing Person that are separated or separable from the underlying shares of the corporation, (G) any performance related fees (other than an asset based fee) that such Proposing Person is entitled to receive based on any increase or decrease in the price or value of shares of any class or series of the corporation, or any Synthetic Equity Interests or Short Interests, if any; (H) any material pending or threatened legal proceeding in which such Proposing Person is a party or material participant involving the corporation or any of its officers or directors, or any affiliate of the corporation, (I) any direct or indirect material interest in any material contract or agreement of such Proposing Person with the corporation or any affiliate of the corporation (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement), (J) any other material relationship between such Proposing Person, on the one hand, and the corporation or any affiliate of the corporation, on the other hand, (K) a representation that the Proposing Person is a holder of record of shares of the corporation entitled to vote at such meeting and such Proposing Person intends or is party of a group which intends to deliver a proxy statement or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or otherwise solicit proxies from shareholders in support of such proposal; and (L) any other information relating to such Proposing Person and the business proposed by such Proposing Person that would be required to be disclosed in a proxy statement pursuant to the rules and regulations of the Securities and Exchange Commission or other filing required to be made in connection with solicitations of proxies or consents by such Proposing Person in support of the business being proposed (the disclosures made pursuant to the forgoing clauses (A) through (L) are referred to as "*Disclosable Interests*"); *provided, however*, that Disclosable Interests shall not include any such disclosures with respect to the ordinary course business activities of any broker, dealer, commercial bank, trust company or other nominee who is a Proposing Person solely as a result of being the shareholder directed to prepare and submit the notice required by these Bylaws on behalf of a beneficial owner. In addition, the Proposing Person shall promptly provide any other information reasonably requested by the corporation; and

ii. as to each item of business that the Proposing Person(s) proposes to bring before the Annual Meeting or a special meeting, (A) a brief description of the business desired to be brought before the Annual Meeting or a special meeting, the reasons for conducting such business at the Annual Meeting or a special meeting and any material interest in such business

of each Proposing Person, (B) the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws, the language of the proposed amendment), and (C) a reasonably detailed description of all agreements, arrangements and understandings (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other person or entity (including their names) in connection with the proposal of such business by such shareholder; and (D) any other information relating to such item of business that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act; *provided, however*, that the disclosures required by this paragraph (ii) shall not include any disclosures with respect to any broker, dealer, commercial bank, trust company or other nominee who is a Proposing Person solely as a result of being the shareholder directed to prepare and submit the notice required by these Bylaws on behalf of a beneficial owner (the disclosures made pursuant to the foregoing clauses (A) through (D) are referred to as “*Business Proposal Information*”).

For purposes of this Section 2.2, the term “*Proposing Person*” shall mean (i) the shareholder providing the notice of business proposed to be brought before an Annual Meeting or a special meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the business proposed to be brought before the Annual Meeting or a special meeting is made and (iii) any affiliate or associate (each within the meaning of Rule 12b-2 under the Exchange Act) of such shareholder or beneficial owner.

(d) A Proposing Person shall further update and supplement its notice to the corporation of its intent to propose business at an Annual Meeting or a special meeting, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 2.2 shall be true and correct as of the record date for shareholders entitled to vote at the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for shareholders entitled to vote at the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight (8) business days prior to the date of the meeting, or any adjournment or postponement thereof, if practicable, or if not practicable, on the first practicable date prior to the meeting, or any adjournment or postponement thereof (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof). For the avoidance of doubt, the obligation to update and supplement as set forth in this paragraph or any other Section of these Bylaws shall not limit the corporation’s rights with respect to any deficiencies in any notice provided by a shareholder, to extend any applicable deadlines hereunder or enable or be deemed to permit a shareholder who has previously submitted notice hereunder to amend or update any proposal or to submit any new proposal, including by changing or adding matters, business or resolutions proposed to be brought before a meeting of the shareholders.

(e) Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at an Annual Meeting or a special meeting that is not properly brought before the meeting in accordance with this Section 2.2 or Section 2.3, as applicable. The presiding officer of the meeting shall, if the facts warrant, determine that the business was not properly brought

before the meeting in accordance with this Section 2.2 or Section 2.3, as applicable, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(f) This Section 2.2 is expressly intended to apply to any business proposed to be brought before an Annual Meeting of shareholders other than any proposal made in accordance with Rule 14a-8 under the Exchange Act and included in the corporation's proxy statement. In addition to the requirements of this Section 2.2 with respect to any business proposed to be brought before an Annual Meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act with respect to any such business. Nothing in this Section 2.2 shall be deemed to affect the rights of shareholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

### 2.3 Special Meetings

(a) Except as otherwise required by the Revised Act or the corporation's Articles of Incorporation (as amended, amended and restated, supplemented or otherwise modified from time to time, the "*Articles of Incorporation*"), special meetings of shareholders may be called only by the Board of Directors acting pursuant to a resolution adopted by a majority of the Board of Directors or by the Secretary of the corporation following his or her receipt of one or more written demands to call a special meeting of the shareholders in accordance with, and subject to, this Section 2.3 from shareholders of record as of the record date fixed in accordance with Section 2.6 who hold, in the aggregate, at least ten percent (10%) of the voting power of the outstanding shares of the corporation. The notice of a special meeting shall state the purpose or purposes of the special meeting, and the business to be conducted at the special meeting shall be limited to the purpose or purposes stated in the notice. Except in accordance with this Section 2.3, shareholders shall not be permitted to propose business to be brought before a special meeting of the shareholders. Shareholders who nominate persons for election to the Board of Directors at a special meeting must also comply with the requirements set forth in this Section 2.3 and Section 3.3.

(b) No shareholder may demand that the Secretary of the corporation call a special meeting of the shareholders unless a shareholder of record has first submitted a request in writing that the Board of Directors fix a record date for the purpose of determining the shareholders entitled to demand that the Secretary of the corporation call such special meeting, which request shall be in proper form and delivered to, or mailed and received by, the Secretary of the corporation at the principal executive offices of the corporation.

(c) To be in proper form for purposes of this Section 2.3, a request by a shareholder for the Board of Directors to fix a record date shall set forth:

i. as to each Requesting Person (as defined below), the Disclosable Interests (as defined in Section 2.2(c)(i), except that for purposes of this Section 2.3 the term "Requesting Person" shall be substituted for the term "Proposing Person" in all places it appears in of Section 2.2(c)(i)) and the disclosure with respect to the business to be brought before the meeting in Section 2.2(c)(i) shall be made with respect to the business proposed to be conducted at the special meeting or the proposed election of directors at the special meeting, as the case may be; and

ii. as to the purpose or purposes of the special meeting, (A) the Business Proposal Information (as defined in Section 2.2(c)(ii)), or (B) if directors are proposed to be elected at the special meeting, the Nominee Information (as defined below) for each person whom a Requesting Person expects to nominate for election as a director at the special meeting.

For purposes of this Section 2.3, the term “*Requesting Person*” shall mean (i) the shareholder making the request to fix a record date for the purpose of determining the shareholders entitled to demand that the Secretary call a special meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf such request is made and (iii) any affiliate or associate of such shareholder or beneficial owner.

(d) Within ten (10) days after receipt of a request to fix a record date in proper form and otherwise in compliance with this Section 2.3 from any shareholder of record, the Board of Directors may adopt a resolution fixing a record date for the purpose of determining the shareholders entitled to demand that the Secretary of the corporation call a special meeting, which date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no resolution fixing a record date has been adopted by the Board of Directors within the ten (10) day period after the date on which such a request to fix a record date was received, the record date in respect thereof shall be deemed to be the twentieth (20th) day after the date on which such a request is received. Notwithstanding anything in this Section 2.3 to the contrary, no record date shall be fixed if the Board of Directors determines that the demand or demands that would otherwise be submitted following such record date could not comply with the requirements set forth in Section 2.3.

(e) Without qualification, a special meeting of the shareholders shall not be called by the shareholders unless shareholders of record as of the record date fixed in accordance with this Section 2.3 who hold, in the aggregate, more than ten percent (10%) of the voting power of the outstanding shares of the corporation (the “*Requisite Percentage*”) timely provide one or more demands to call such special meeting in writing and in proper form to the Secretary of the corporation at the principal executive offices of the corporation. Only shareholders of record on the record date shall be entitled to demand that the Secretary of the corporation call a special meeting of the shareholders pursuant to this Section 2.3. To be timely, a shareholder’s demand to call a special meeting must be delivered to, or mailed to and received by, the Secretary at the principal executive offices of the corporation not later than the sixtieth (60th) day following the record date fixed in accordance with this Section 2.3 and Section 2.6. To be in proper form for purposes of this Section 2.3, a demand to call a special meeting shall set forth (i) the business proposed to be conducted at the special meeting or the proposed election of directors at the special meeting, as the case may be, (ii) the text of the proposal or business (including the text of any resolutions proposed for consideration), if applicable, and (iii) with respect to any shareholder or shareholders submitting a demand to call a special meeting (except for any shareholder that has provided such demand in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a solicitation statement filed on Schedule 14A) (a “*Solicited Shareholder*”), the information required to be provided pursuant to this Section 2.3(c) and Section 3.2, as applicable, by a Requesting Person.

(f) The Secretary shall not accept, and shall consider ineffective, a written demand from a shareholder to call a special meeting (i) that does not comply with this Section 2.3, (ii)

that relates to an item of business to be transacted at such meeting that is not a proper subject for shareholder action under applicable law, and (iii) that includes an item of business to be transacted at such meeting that did not appear on the written request that resulted in the determination of the record date.

(g) After receipt of demands in proper form and in accordance with this Section 2.3 from a shareholder or shareholders holding the Requisite Percentage, the Board of Directors shall duly call, and determine the place, date and time of, a special meeting of shareholders for the purpose or purposes and to conduct the business specified in the demands received by the corporation. Notwithstanding anything in these Bylaws to the contrary, the Board of Directors may submit its own proposal or proposals for consideration at such a special meeting. The record date for notice and voting for such a special meeting shall be fixed in accordance with Section 2.6 of these Bylaws. The Board of Directors shall provide written notice of such special meeting to the shareholders in accordance with Section 2.5 of these Bylaws.

(h) In connection with a special meeting called in accordance with this Section 2.3, the shareholder or shareholders (except for any Solicited Shareholder) who requested that the Board of Directors fix a record date for notice and voting for the special meeting in accordance with this Section 2.3 or who delivered a demand to call a special meeting to the Secretary shall further update and supplement the information previously provided to the corporation in connection with such request or demand, if necessary, so that the information provided or required to be provided in such request or demand pursuant to this Section 2.3 shall be true and correct as of the record date for shareholders entitled to vote at the special meeting and as of the date that is ten (10) business days prior to the special meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for shareholders entitled to vote at the special meeting (in the case of the update and supplement required to be made as of such record date), and not later than eight (8) business days prior to the date of the special meeting, or any adjournment or postponement thereof, if practicable, or if not practicable, on the first practicable date prior to the date to which the special meeting has been adjourned or postponed (in the case of the update and supplement required to be made as of ten (10) business days prior to the special meeting or any adjournment or postponement thereof). For the avoidance of doubt, the obligation to update and supplement as set forth in this paragraph or any other Section of these Bylaws shall not limit the corporation's rights with respect to any deficiencies in any request or demand provided by a shareholder, extend any applicable deadlines hereunder or enable or be deemed to permit a shareholder who has previously submitted a request or demand hereunder to amend or update any such request or demand, including by changing or adding nominees, matters, business or resolutions proposed to be brought before a meeting of the shareholders.

(i) Notwithstanding anything in these Bylaws to the contrary, the Secretary shall not be required to call a special meeting except in accordance with this Section 2.3. If the Board of Directors shall determine that any request to fix a record date for notice and voting for the special meeting or demand to call and hold a special meeting was not properly made in accordance with this Section 2.3, or shall determine that the shareholder or shareholders requesting that the Board of Directors fix such record date or submitting a demand to call the special meeting has or have not otherwise complied with this Section 2.3, then the Board of

Directors shall not be required to fix such record date or to call and hold the special meeting. In addition to the requirements of this Section 2.3, each Requesting Person shall comply with all requirements of applicable law, including all requirements of the Exchange Act, with respect to any request to fix a record date for notice and voting for the special meeting or demand to call a special meeting.

#### 2.4 Place of Meetings

Meetings of shareholders may be held at any place within or outside the State of Utah as designated by the Board of Directors and stated in the notice of the meeting. In the absence of any such designation, meetings shall be held at the principal office of the corporation.

#### 2.5 Notice of Meetings

Except as may otherwise be required by the Revised Act, the Articles of Incorporation or these Bylaws, the notice of any meeting of shareholders shall be sent or otherwise given not less than ten (10) nor more than sixty (60) days before the date of the meeting, either personally, by any form of electronic transmission, or by mail or express courier, by or at the direction of the Board of Directors to each shareholder of record entitled to vote at such meeting. The notice shall specify the place, if any, date and hour of the meeting, the means of remote communication, if any, by which shareholders and proxy holders may be deemed to be present in person and vote at such meeting, the record date for determining the shareholders entitled to vote at the meeting (if such date is different from the record date for shareholders entitled to notice of the meeting) and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

#### 2.6 Fixing of Record Date

For the purpose of determining shareholders of any voting group entitled to notice of or to vote at any meeting of shareholders, or shareholders entitled to receive payment of any distribution or dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix, in advance, a date as the record date. Such record date shall not be more than seventy (70) days prior to the date on which the particular action requiring such determination of the shareholders. If the Board of Directors so fixes a date, such date shall also be the record date for determining the shareholders entitled to vote at such meeting unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is so fixed by the Board of Directors, the record date for the determination of such shareholders shall be determined in accordance with the Revised Act. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; *provided, however*, that the Board of Directors shall fix a new record date for the adjourned meeting if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

#### 2.7 Voting List

The Secretary of the corporation, or such other officer as directed by the Board of Directors, shall prepare a list of the names of all of the shareholders who are entitled to be given notice of the meeting. The list shall be arranged by voting group and within each voting group by class or series of shares. The list shall be alphabetical within each class or series and must show the address of, and the number

of shares held by each shareholder. The shareholder list must be made available for inspection by any shareholder in accordance with the Revised Act.

#### 2.8 Meetings by Telecommunication

Any or all of the shareholders may participate in an annual or special meeting of the shareholders by, or the meeting may be conducted through the use of, any means of communication by which all persons participating in the meeting can hear each other during the meeting.

#### 2.9 Shareholder Quorum and Voting Requirements

(a) If the Articles of Incorporation or the Revised Act provide for voting by a single voting group on a matter, action on that matter is taken when voted upon by that voting group.

(b) If the Articles of Incorporation or the Revised Act provide for voting by two or more voting groups on a matter, action on that matter is taken only when voted upon by each of those voting groups counted separately. Action may be taken by one voting group on a matter even though no action is taken by another voting group entitled to vote on the matter.

(c) Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. Unless the Articles of Incorporation, these Bylaws or the Revised Act provide otherwise, a majority of the votes entitled to be cast on the matter by the voting group constitutes a quorum of that voting group for action on that matter.

(d) Once a share is represented for any purpose at a meeting, including the purpose of determining that a quorum exists, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting, unless a new record date is or must be set for the adjourned meeting pursuant to the Revised Act or these Bylaws.

(e) If a quorum exists, action on a matter, other than the election of directors, by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation, these Bylaws, or the Revised Act require a greater number of affirmative votes.

#### 2.10 Conduct of Meetings of Shareholders

(a) The Chairman of the Board of Directors or, if there shall be none or in his or her absence, the Vice Chairman of the Board of Directors, or if there shall be none or in his or her absence, the Chief Executive Officer or if there shall be none or in his or her absence, the President, who is present at the meeting, or in all of their absences an individual designated by the Board of Directors, shall call to order and act as the presiding officer of any meeting of the shareholders of the corporation. The Secretary of the corporation shall serve as the Secretary of the meeting or, if there shall be none or in his or her absence, the Secretary of the meeting shall be such person as the presiding officer of the meeting appoints. The Board of Directors may, to the extent not prohibited by law, adopt by resolution such rules, regulations and procedures for the conduct of the meeting of shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules, regulations and procedures as adopted by the Board of Directors, the presiding officer of the meeting shall have the right and authority to prescribe



such rules, regulations and procedures and to take or refrain from taking such actions as, in the judgment of the presiding officer of the meeting, are appropriate for the conduct of the meeting. To the extent not prohibited by applicable law or these Bylaws, such rules, regulations and procedures, whether adopted by the Board of Directors or prescribed by the presiding officer of the meeting, may include, without limitation, establishment of (i) an agenda or order of business for the meeting, (ii) the method by which business may be proposed and procedures for determining whether business has been properly (or not properly) introduced before the meeting, (iii) procedures for casting and the form of ballots to be used by shareholders in attendance at the meeting and the procedures to be followed for counting shareholder votes, (iv) rules, regulations and procedures for maintaining order at the meeting and the safety of those present, (v) limitations on attendance at or participation in the meeting to shareholders of record of the corporation, their duly authorized proxies or such other persons as the presiding officer of the meeting shall determine, (vi) restrictions on entry to the meeting after the time fixed for the commencement thereof and (vii) limitations on the time allotted to questions or comments by participants. Unless and to the extent otherwise determined by the Board of Directors or the presiding officer of the meeting, it shall not be necessary to follow Roberts' Rules of Order or any other rules of parliamentary procedure at the meeting of shareholders. Following completion of the business of the meeting as determined by the presiding officer of the meeting, the presiding officer of the meeting shall have the exclusive authority to adjourn the meeting.

(b) No business shall be conducted at an annual or special meeting of shareholders of the corporation except business brought before the meeting in accordance with the procedures set forth in these Bylaws. If the introduction of any business at an annual or special meeting of shareholders does not comply with the procedures specified in these Bylaws, the presiding officer of the meeting may declare that such business is not properly before the meeting and shall not be considered at the meeting.

#### 2.11 Adjournment and Notice of Adjourned Meetings

Any meeting of shareholders, whether annual or special, may be adjourned from time to time exclusively by the presiding officer of the meeting. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting which the adjournment is taken unless the adjournment is for more than thirty (30) days or if after the adjournment a new record date is fixed for the adjourned meeting. At such adjourned meeting at which a quorum shall be present or represented, the corporation may transact any business which might have been transacted at the original meeting.

#### 2.12 No Shareholder Action Without a Meeting

As provided in and subject to the Articles of Incorporation, the shareholders of the corporation are not permitted to take action without a meeting of shareholders held and noticed in accordance with these Bylaws. Any action taken by shareholders by written consent or without a meeting shall be null and void. Notwithstanding the foregoing, this Section 2.12 shall not affect the validity of shareholder action taken prior to the adoption of these Bylaws.

### 2.13 Proxies

At all meetings of shareholders, a shareholder may vote in person or by proxy. Each shareholder entitled to vote at any meeting of the shareholders, or such shareholder's duly authorized agent or attorney-in-fact, may appoint a proxy to vote or otherwise act for the shareholder by signing an appointment form or by an electronic transmission containing or accompanied by information that indicates that such shareholder, such shareholder's agent, or such shareholder's attorney-in-fact, authorized such electronic transmission. Such proxy shall be filed with the inspector of election or the officer or agent of the corporation authorized to tabulate votes before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution unless a longer period is expressly provided in the proxy appointment form.

### 2.14 Voting Shares

. Each outstanding share, regardless of class, shall be entitled to one (1) vote, and each fractional share is entitled to a corresponding fractional vote, on each matter submitted to a vote at a meeting of the shareholders, except as otherwise required by the Revised Act and to the extent that the voting rights of the shares of any class or classes are limited or denied by the Articles of Incorporation. Unless the Articles of Incorporation provide otherwise, at each election for directors, every shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, all of the votes to which the shareholder's shares are entitled for as many persons as there are directors to be elected and for whose election such shareholder has a right to vote.

### 2.15 Waiver

A shareholder may waive any notice required by the Revised Act, the Articles of Incorporation or these Bylaws before or after the date and time stated in the notice as the date or time when any action will occur or has occurred.

### 2.16 Litigation Costs

To the fullest extent permitted by law, in the event that (i) any current shareholder of the corporation or anyone on its behalf ("*Claiming Party*") initiates or asserts any claim or counterclaim ("*Claim*"), or joins, offers substantial assistance to or has a direct financial interest in any Claim against the corporation any of its directors, officers employees or affiliates (the "*Company Parties*") and (ii) the Claiming Party (or the third party that received substantial assistance from the Claiming Party or in whose Claim the Claiming Party had a direct financial interest) does not obtain a judgment on the merits that substantially achieves, in substance and amount, the full remedy sought, then each Claiming Party shall be obligated jointly and severally to reimburse the Company Parties for all reasonable fees, costs and expenses of every kind and description (including, but not limited to, all reasonable attorneys' fees and other litigation expenses) that the Company Parties may incur in connection with such Claim.

## **ARTICLE 3. BOARD OF DIRECTORS**

### 3.1 General Powers

All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board of Directors, subject to any limitation

set forth in the Articles of Incorporation or in a shareholder's agreement authorized under the Revised Act.

### 3.2 Nomination of Directors

(a) Subject to the Articles of Incorporation, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors, except as may be otherwise provided in the Articles of Incorporation with respect to the right, if any, of holders of a class of preferred shares of the corporation to nominate and elect a specified number of directors. To be properly brought before an Annual Meeting, or any special meeting of the shareholders called for the purpose of electing directors, nominations for the election of a director must be (i) made by or at the direction of the Board of Directors or any duly authorized committee thereof and specified in the notice of annual or special meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) made by or at the direction of the Board of Directors or any duly authorized committee thereof to be brought before the Annual Meeting, or (iii) made by a shareholder of the corporation who (A) is a shareholder of record on the date of the giving of the notice provided for in this Section 3.2 and at the time of such meeting, (B) is entitled to vote at the meeting and (C) has complied with this Section 3.2 and Section 3.3 as to such notice and nomination. The foregoing clause (iii) shall be the exclusive means for a shareholder to make any nomination of a person or persons for election to the Board of Directors at an annual or special meeting.

i. Without qualification, for a shareholder to make any nomination of a person or persons for election to the Board of Directors at an Annual Meeting, such shareholder must (A) provide Timely Notice (as defined in Section 2.2(b)) thereof in proper written form to the Secretary of the corporation, (B) provide the information, agreements and questionnaires with respect to such shareholder and its proposed nominee as required to be set forth by this Section 3.2 and Section 3.3 and (C) provide any updates or supplements to such notice at the time and in the forms required by this Section 3.2 and Section 3.3.

ii. Without qualification, if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling a special meeting, then for a shareholder to make any nomination of a person or persons for election to the Board of Directors at a special meeting, the shareholder must (A) provide timely notice thereof in writing and in proper form to the Secretary of the corporation at the principal executive offices of the corporation, (B) provide the information with respect to such shareholder and its proposed nominee as required by this Section 3.2 and Section 3.3 and (C) provide any updates or supplements to such notice at the times and in the forms required by this Section 3.2. To be timely, a shareholder's notice for nominations of directors to be made at a special meeting called for purposes of electing directors must be received by the Secretary of the corporation at the corporation's principal executive offices not earlier than the one hundred twentieth (120th) day prior to such special meeting and not later than the ninetieth (90th) day prior to such special meeting or, if later, the tenth (10th) day following the day on which public disclosure of the date of such special meeting was first made.

iii. In no event shall any adjournment or postponement of an Annual Meeting or special meeting or the announcement thereof commence a new time period for the giving of a shareholder's notice as described above.

(b) To be in proper form for purposes of this Section 3.2, a shareholder's notice to the Secretary shall set forth:

i. as to each Nominating Person, any Disclosable Interests (as defined in Section 2.2(c)(i)), except that for purposes of this Section 3.2 the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 2.2(c)(i) and the disclosure with respect to the business to be brought before the meeting in Section 2.2(c)(i) shall be made with respect to the election of directors at the meeting; and

ii. as to each person whom a Nominating Person proposes to nominate for election as a director, (A) all information with respect to such proposed nominee that would be required to be set forth in a shareholder's notice pursuant to this Section 3.2 and Section 3.3 if such proposed nominee were a Nominating Person, (B) all information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14(a) under the Exchange Act (including such proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (C) a description of all direct and indirect material interests in any material contract, agreement, arrangement or understanding during the past three years, and any other material relationships, between or among any Nominating Person, on the one hand, and each proposed nominee, his or her respective affiliates and associates, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K if such Nominating Person were the "registrant" for purposes of such rule and the proposed nominee were a director or executive officer of such registrant, and (D) a completed and signed questionnaire, representation and agreement as provided in Section 3.3(a) (the disclosures to be made pursuant to the foregoing clauses (A) through (D) are referred to as "*Nominee Information*"). The corporation may require any proposed nominee to furnish such other information that could be material to a reasonable shareholder's understanding of the independence or lack of independence of such proposed nominee.

For purposes of this Section 3.2, the term "*Nominating Person*" shall mean (i) the shareholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the nomination proposed to be made at the meeting is made, and (iii) any affiliate or associate of such shareholder or beneficial owner.

(c) A shareholder providing notice of any nomination proposed to be made at a meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 3.2 shall be true and correct as of the record date for shareholders entitled to vote at the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for shareholders entitled to vote at the meeting (in the case of the update and supplement required to be made as of such record date), and not later than eight (8) business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or

postponement thereof). For the avoidance of doubt, the obligation to update and supplement as set forth in this paragraph or any other Section of these Bylaws shall not limit the corporation's rights with respect to any deficiencies in any notice provided by a shareholder, extend any applicable deadlines hereunder or enable or be deemed to permit a shareholder who has previously submitted notice hereunder to amend or update any nomination or to submit any new nomination.

(d) In addition to the requirements of this Section 3.2 with respect to any nomination proposed to be made at a meeting, each Nominating Person shall comply with all applicable requirements of the Exchange Act with respect to any such nominations.

### 3.3 Additional Requirements For Nomination of Directors

(a) To be eligible to be a proposed nominee for election as a director at an annual or special meeting, a proposed nominee must be nominated in the manner prescribed in Section 3.2 and the proposed nominee, whether nominated by the Board of Directors or by a shareholder of record, must have previously delivered (in accordance with the time period prescribed for delivery in a notice to such proposed nominee given by or on behalf of the Board of Directors), to the Secretary at the principal executive offices of the corporation, (i) a completed written questionnaire (in a form provided by the corporation) with respect to the background, qualifications, stock ownership and independence of such proposed nominee and (ii) a written representation and agreement (in a form provided by the corporation) that such proposed nominee (A) is not and, if elected as a director during his or her term of office, will not become a party to (1) any agreement, arrangement or understanding with, and has not given and will not give any commitment or assurance to, any person or entity as to how such proposed nominee, if elected as a director, will act or vote on any issue or question (a "*Voting Commitment*") or (2) any Voting Commitment that could limit or interfere with such proposed nominee's ability to comply, if elected as a director, with such proposed nominee's fiduciary duties under applicable law, (B) is not, and will not become a party to, any agreement, arrangement or understanding with any person or entity other than the corporation with respect to any direct or indirect compensation or reimbursement for service as a director that has not been disclosed therein, (C) if elected as a director, will comply with all applicable corporate governance, conflict of interest, confidentiality, stock ownership and trading and other policies and guidelines of the corporation applicable to directors and in effect during such person's term in office as a director (and, if requested by any proposed nominee, the Secretary of the corporation shall provide to such proposed nominee all such policies and guidelines then in effect), and (D) consents to being named as a nominee in the corporation's proxy statement pursuant to Rule 14a-4(d) under the Exchange Act and any associated proxy card of the corporation and agrees to serve if elected as a director.

(b) The Board of Directors may also require any proposed nominee as a director to furnish such other information as may reasonably be requested by the Board of Directors in writing prior to the meeting of shareholders at which such proposed nominee's nomination is to be acted upon in order for the Board of Directors to determine the eligibility of such proposed nominee to be an independent director in accordance with any national securities exchange on which the corporation's securities are listed.

(c) A proposed nominee for election as a director shall further update and supplement the materials delivered pursuant to this Section 3.3, if necessary, so that the information provided or required to be provided pursuant to this Section 3.3 shall be true and correct as of the record date for shareholders entitled to vote at the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the corporation (or any other office specified by the corporation in any public announcement) not later than five (5) business days after the record date for shareholders entitled to vote at the meeting (in the case of the update and supplement required to be made as of such record date), and not later than eight (8) business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof). For the avoidance of doubt, the obligation to update and supplement as set forth in this paragraph or any other Section of these Bylaws shall not limit the corporation's rights with respect to any deficiencies in any notice provided by a shareholder, extend any applicable deadlines hereunder or enable or be deemed to permit a shareholder who has previously submitted notice hereunder to amend or update any proposal or to submit any new proposal, including by changing or adding nominees, matters, business or resolutions proposed to be brought before a meeting of the shareholder.

(d) No proposed nominee shall be eligible for nomination as a director unless such proposed nominee and the Nominating Person seeking to place such proposed nominee's name in nomination has complied with Section 3.2 and this Section 3.3, as applicable. The presiding officer of the meeting shall, if the facts warrant, determine that a nomination was not properly made in accordance with Section 3.2 and this Section 3.3, and if he or she should so determine, he or she shall so declare such determination to the meeting, the defective nomination shall be disregarded and any ballots cast for the proposed nominee (but in the case of any form of ballot listing other qualified nominees, only the ballots cast for the proposed nominee in question) shall be void and of no force or effect.

(e) Notwithstanding anything in these Bylaws to the contrary, no proposed nominee shall be eligible to be seated as a director unless nominated and elected in accordance with Section 3.2 and this Section 3.3.

#### 3.4 Number of Directors, Tenure and Qualification

The number of directors to constitute the whole Board of Directors shall be such number (not less than three nor more than ten) as shall be fixed from time to time exclusively by resolution adopted by a majority of the entire Board of Directors. Directors need not be shareholders or residents of the State of Utah. Directors shall hold office until the next Annual Meeting and until his or her successor shall have been elected and qualified or until such director's earlier death, resignation or removal. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office. When the number of directors is changed, each director then serving as such shall nevertheless continue as a director until the expiration of his or her current term.

### 3.5 Election of Directors

At each election of directors, unless otherwise provided in the Articles of Incorporation or the Revised Act, every shareholder entitled to vote at the election has the right to cast, in person or by proxy, all of the votes to which the shareholder's shares are entitled for as many persons as there are directors to be elected and for whose election the shareholder has the right to vote. Directors are to be elected by a plurality of the votes cast by the shares entitled to vote in the election, at a meeting of shareholders at which a quorum is present. However, to the extent permitted by the Revised Act, an election of directors shall be governed by the terms of Section 16-10a-1023 of the Revised Act.

### 3.6 Removal of Directors

The shareholders may remove one or more directors at a meeting called for that purpose only if notice has been given in accordance with these Bylaws that a purpose of the meeting is such removal. Notwithstanding the preceding sentence, directors may only be removed in accordance with the Articles of Incorporation. If a director is elected by a voting group of shareholders, only the shareholders of that voting group may participate in the vote to remove such director.

### 3.7 Chairman of the Board of Directors

The Board of Directors may elect a Chairman of the Board of Directors, which person shall at all times be a director. The position of Chairman of the Board of Directors and the office of Chief Executive Officer shall not be held by the same person at the same time. The Chairman of the Board of Directors, if such a person is elected, shall, if present, preside at meetings of the Board of Directors and exercise and perform such other powers and duties as may from time to time be assigned to him or her by the Board of Directors or as may be prescribed by these Bylaws. The period(s) of service by the Chairman of the Board of Directors shall be determined by the Board of Directors. In the absence of the Chairman of the Board of Directors, if elected, the Board of Directors may appoint another member of the Board of Directors to conduct the meeting(s) of the Board of Directors.

### 3.8 Vice Chairman of the Board of Directors

The Board of Directors may elect a Vice Chairman of the Board of Directors, which person shall at all times be a director. The Vice Chairman of the Board of Directors, if such a person is elected, shall, if present, preside at meetings of the Board of Directors when the Chairman is absent or otherwise unable to preside and exercise and perform such other powers and duties as may from time to time be assigned to him or her by the Board of Directors or as may be prescribed by these Bylaws. The period(s) of service by the Vice Chairman of the Board of Directors shall be determined by the Board of Directors. In the absence of the Vice Chairman of the Board of Directors, if elected, the Board of Directors may appoint another member of the Board of Directors to conduct the meeting(s) of the Board of Directors under the circumstances provided for in this Section 3.8.

### 3.9 Regular Meetings

The Board of Directors may provide by resolution the time and place, either within or without the State of Utah, for the holding of regular meetings without notice other than such resolution.

### 3.10 Special Meetings

Special meetings of the Board of Directors for any purpose or purposes may be called at any time by or at the request of the Chairman of the Board of Directors or a majority of the directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Utah, as the place for holding any special meeting of the Board of Directors.

### 3.11 Notice

Notice of the date, time, and place of any special meeting of the Board of Directors shall be delivered personally or by telephone to each director, sent by electronic transmission to each director or sent by mail or express courier, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be effective if deposited in the United States mail at least two (2) days before the time of the holding of the meeting. If the notice is delivered personally, by express courier, or by telephone or electronic transmission, it shall be effective if delivered at least twentyfour (24) hours before the meeting begins. The method of notice need not be the same to each director. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving notice has reason to believe will promptly communicate it to the director. Any director may waive notice of any meeting by delivering a written waiver to the corporation to file in its corporate records, and attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where the director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened and does not thereafter vote for or consent to action taken at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors needs to be specified in the notice or waiver of notice of such meeting unless required by the Articles of Incorporation, these Bylaws or the Revised Act.

### 3.12 Quorum

A majority of the directors in office immediately before the meeting begins shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than a majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice until a quorum shall be present.

### 3.13 Manner of Acting

The act of a majority of the directors present at a meeting at which a quorum is present shall, unless the act of a greater number of directors is required by the Articles of Incorporation, these Bylaws or the Revised Act, be the act of the Board of Directors.

### 3.14 Vacancies and Newly-Created Directorships

Subject to the Articles of Incorporation and the provisions of these Bylaws, any vacancy occurring in the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors, although less than a quorum, or by the sole remaining director. A director elected to fill a vacancy shall be elected until the next Annual Meeting and until his or her successor shall have been elected and qualified or until such director's earlier death, resignation or removal. The term "vacancy"



includes any directorship authorized under Section 3.4, but not filled by the shareholders at the Annual Meeting, whether or not such directorship had previously been filled.

### 3.15 Fees and Compensation

Directors and members of committees designated by the Board of Directors may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the Board of Directors. This Section 3.15 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise and receiving compensation for those services.

### 3.16 Presumption of Assent

A director who is present at a meeting of the Board of Directors when any corporate action is taken is presumed to have consented to the action taken at the meeting unless the director objects at the beginning of the meeting, or promptly upon arrival, to holding the meeting or transacting business at the meeting and does not thereafter vote for or consent to any action taken at the meeting, or the director contemporaneously requests his or her dissent or abstention as to any specific action to be entered into the minutes of the meeting, or the director causes written notice of a dissent or abstention as to a specific action to be received by the presiding officer of the meeting before adjournment of the meeting or by the corporation promptly after adjournment of the meeting.

### 3.17 Resignations

A director may resign at any time by giving a written notice of resignation to either the Chairman or Vice Chairman of the Board of Directors, the Chief Executive Officer, or the Secretary. Unless otherwise provided in the resignation, the resignation shall become effective when the notice is received by the Chairman, Vice Chairman, Chief Executive Officer or the Secretary. If the resignation is effective at a future time, the Board of Directors may elect a successor to take office when the resignation becomes effective.

### 3.18 Action by Written Consent

Any action required to be taken at a meeting of the Board of Directors of the corporation or any other action that may be taken at a meeting of the Board of Directors or of a committee, may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all of the directors, or all of the members of the committee, as the case may be. Such consent shall have the same legal effect as a unanimous vote of all the directors or members of the committee, as the case may be, and may be described as such in any document or instrument. Action taken pursuant to this Section is effective when the last director signs a writing describing the action taken, unless the Board of Directors establishes a different effective date.

### 3.19 Meetings by Telephone Conference Call

Members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or committee, as the case may be, by means of conference telephone call or similar communications equipment by which all persons participating in the meeting can hear each other throughout the meeting. Participation in such a meeting shall constitute presence in person at such meeting.

## **ARTICLE 4. COMMITTEES**

### **4.1 Committees**

The Board of Directors may from time to time by resolution adopted by a majority of the Board of Directors designate from among its members one or more committees, which may include, but is not limited to, a Compensation Committee, an Audit Committee, a Governance Committee, and such other committees as the Board of Directors shall deem appropriate, each of which shall have such authority of the Board of Directors as may be specified in the resolution of the Board of Directors designating such committee; *provided, however*, that any such committee so designated shall not have any powers not allowed under the Revised Act. The Chairman of any such committee shall be designated by the Board of Directors. The Board of Directors may also designate a Vice Chairman of any such committee. Each committee must have at least two (2) directors as members. The Board of Directors shall have power at any time to change the members of any such committee, designate alternate members of any such committee, and fill all vacancies therein. The members of any such committee shall serve at the pleasure of the Board of Directors.

### **4.2 Procedures, Meetings and Quorum**

Unless the Board of Directors provides otherwise and subject to these Bylaws, each committee of the Board of Directors may make, alter and repeal rules for the conduct of its business. Meetings of any committee designated by the Board of Directors may be called and held at such times and places as the Chairman of such committee shall from time to time determine. A meeting of any committee designated by the Board of Directors may also be called by the Vice Chairman of such committee, a majority of the directors assigned to such committee, the Chairman of the Board, or by a majority of the Board of Directors. Notice of such meetings shall be given within the same times and by the same means as set forth in these Bylaws for meetings of the Board of Directors. At every meeting of any such committee, the presence of a majority of all of the members of such committee shall be necessary for the transaction of business, and the action of any such committee must be authorized by the affirmative vote of a majority of the members present at such meeting at which a quorum is present. Any such committee shall keep minutes of its proceedings, and all action by such committee shall be reported to the Board of Directors at its meeting next succeeding such action. Any action by a committee shall be subject to review by the Board of Directors, provided, no rights of third parties shall be affected by such review.

## **ARTICLE 5. OFFICERS**

### **5.1 Officers**

Except as provided otherwise by a resolution of the Board of Directors, the officers of the corporation shall include a Chief Executive Officer, a President, a Chief Financial Officer, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as determined by resolution of the Board of Directors in its sole and absolute discretion. Any two (2) or more offices may be held by the same person at the same time.

### **5.2 Appointment, Term of Office and Qualification**

The officers of the corporation shall be appointed by, and serve at the pleasure of, the Board of Directors, subject to any rights of an officer under any contract of employment. Appointment of the

Chief Executive Officer, the President, the Chief Financial Officer, Vice Presidents, the Secretary and the Treasurer shall take place annually or at such other intervals as the Board of Directors may determine, subject to any rights of an officer under any contract of employment, and may be made at regular or special meetings of the Board of Directors or by the written consent of the directors. Subject to the foregoing, the Chief Executive Officer shall appoint all Assistant or Divisional Vice Presidents, Assistant Secretaries and Assistant Treasurers from time to time in his or her discretion. Each officer shall hold office until such officer's death, resignation, or removal in the manner provided in these Bylaws. No officer provided for in this Article 5 need be a director of the corporation nor shall any such officer be a director unless elected a director in accordance with these Bylaws.

### 5.3 Resignations

Any officer may resign at any time by delivering a written resignation to the Board of Directors, the Chief Executive Officer or the Secretary. Unless otherwise specified therein, such resignation shall take effect upon such delivery of the resignation; and, unless otherwise specified in the resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

### 5.4 Removal

Any officer may be removed by the Board of Directors or by a committee thereof, if so authorized by the Board of Directors, whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice and subject to the contract rights, if any, of the person so removed.

### 5.5 Vacancies and Newly-Created Offices

A vacancy in any office may be filled by the Board of Directors at any regular or special meeting or by the unanimous written consent of the directors.

### 5.6 Chief Executive Officer

The Chief Executive Officer shall, subject to the direction and control of the Board of Directors, have general control and management of the business, affairs and policies of the corporation and over its officers and shall see that all orders and resolutions of the Board of Directors are carried into effect. The Chief Executive Officer shall have the power to sign all certificates, contracts and other instruments on behalf of the corporation.

### 5.7 President

The President shall be subject to the direction and control of the Chief Executive Officer and the Board of Directors and shall, subject to such direction and control, have general active management of the business, affairs and policies of the corporation. The President shall have the power to sign all certificates, contracts and other instruments on behalf of the corporation. If the Board of Directors has not elected a Chief Executive Officer, the President shall be the Chief Executive Officer. If the Board of Directors has elected a Chief Executive Officer and that officer is absent, disqualified from acting, unable to act or refuses to act, then the President shall have the powers of, and shall perform the duties, of the Chief Executive Officer.

## 5.8 Chief Financial Officer

The Chief Financial Officer shall be subject to the direction and control of the Chief Executive Officer, shall have primary responsibility for the financial affairs of the corporation and shall (i) keep accurate financial records for the corporation; (ii) deposit all moneys, drafts and checks in the name of, and to the credit of, the corporation in such banks and depositories as the Board of Directors shall, from time to time, designate or otherwise authorize; (iii) have the power to endorse, for deposit, all notes, checks and drafts received by the corporation; (iv) disburse the funds of the corporation in accordance with the corporation's policies and procedures as adopted by resolution of the Board of Directors, making or causing to be made proper vouchers therefor; (v) render to the Chief Executive Officer and the Board of Directors, whenever requested, an account of all of his or her transactions as Chief Financial Officer and of the financial condition of the corporation, and (vi) shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws or by the Chief Executive Officer.

## 5.9 Secretary

(a) The Secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the Board of Directors may direct, a book of minutes of the proceedings of all meetings of, and a record of all actions taken by, the Board of Directors or any committees of the Board of Directors. The Secretary shall cause all notices of meetings to be duly given in accordance with the provisions of these Bylaws and as required by the Revised Act.

(b) The Secretary shall be the custodian of the corporate records and of the seal, if any, of the corporation. Unless otherwise required by applicable law or by the Board of Directors, the adoption or use of a corporate seal is not required. The Secretary shall see that the books, reports, statements, certificates, and other documents and records required by the Revised Act are properly kept and filed.

(c) The Secretary shall have charge of the share books of the corporation and cause the share and transfer books to be kept in such manner as to show at any time the amount of the shares of the corporation of each class issued and outstanding, the manner in which and the time when such shares were paid for, the alphabetically arranged names and addresses of the holders of record thereof, the number of shares held by each holder, and the time when each became a holder of record. The Secretary may discharge this responsibility through a transfer agent or transfer agents approved by the Chief Executive Officer or the Board of Directors. The Secretary shall exhibit at all reasonable times to any director, upon application, the original or duplicate share register. The Secretary shall cause the share ledger to be kept and exhibited at the principal office of the corporation or the office of the corporation's transfer agent in the manner and for the purposes provided by these Bylaws and the Revised Act.

(d) The Secretary shall perform all duties incident to the office of Secretary and such other duties as are given to him or her by applicable law or these Bylaws or as from time to time may be assigned by the Board of Directors.

#### 5.10 Treasurer

(a) The Treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

(b) The Treasurer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the corporation as may be ordered by the Board of Directors, shall render to the President and the Board of Directors, whenever they request it, an account of all transactions taken as Treasurer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

#### 5.11 Assistant Secretaries and Treasurers

Any Assistant Secretaries or Assistant Treasurers shall perform such of the duties of the Secretary or the Treasurer, respectively, as may be assigned to them by the officers they are elected to assist, or as may otherwise be prescribed for them by the Board of Directors or the Chief Executive Officer.

#### 5.12 Salaries

The compensation of the Chief Executive Officer shall be fixed from time to time by the Board of Directors or any duly authorized committee thereof. Subject to compliance with applicable law and the requirements of any listing agreement with any exchange upon which the corporation's shares trade, the compensation of the other officers shall be fixed from time to time based on the recommendation of the Chief Executive Officer and after review by the Board of Directors or any duly authorized committee thereof.

#### 5.13 Surety Bonds

In the event the Board of Directors shall so require, any officer or agent of the corporation shall provide the corporation with a bond, in such sum and with such surety or sureties as the Board of Directors may direct, conditioned upon the faithful performance of his or her duties to the corporation, including responsibility for negligence and for the accounting of all property, monies, or securities of the corporation that may come under his or her responsibility.

#### 5.14 Delegation of Authority

The Board of Directors may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

## ARTICLE 6. CAPITAL SHARES

### 6.1 Share Certificates

(a) The shares of the corporation may, but need not be, represented by certificates. If the shares are represented by certificates, the certificates shall be signed by any two (2) of the following officers: the Chief Executive Officer, the President, any Vice President, the Secretary, or any Assistant Secretary of the corporation. The signatures of the designated officers upon a certificate may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer at the date of its issue.

(b) If the corporation is authorized to issue different classes of shares or a different series within a class, the designations, preferences, limitations, and relative rights applicable to each class, the variations in preferences, limitations, and relative rights determined for each series, and the authority of the Board of Directors to determine variations for any existing or future class or series, must be summarized on the front or back of each share certificate. Alternatively, each certificate may state conspicuously on its front or back that the corporation will furnish the shareholder this information upon written request, without charge.

(c) Each certificate representing shares shall also state upon the face thereof:

- i. The name of the corporation and that it is organized under the laws of the State of Utah.
- ii. The name of the person to whom the certificate is issued.
- iii. The number and class of shares, and the designation of the series, if any, which such certificate represents.

(d) There shall be entered upon the share transfer books of the corporation at the time of issuance of each share, the number of the certificate issued, the name and address of the person owning the shares represented thereby, the number and kind, class, or series of such shares, and the date of issuance thereof. Every certificate exchanged or returned to the corporation shall be marked "Canceled" with the date of cancellation. Unless otherwise required by the Revised Act, or by the Board of Directors in accordance with applicable law, the foregoing with respect to shares does not affect shares already represented by certificates.

### 6.2 Shares Without Certificates

The Board of Directors may authorize the issuance of some or all of the shares of any or all of the classes or series of the corporation's shares without certificates or as book-entry shares. The authorization does not affect shares already represented by certificates until they are surrendered to the corporation. Within a reasonable time after the issuance or transfer of shares without certificates, the corporation shall send the shareholder a written statement of the information required to be on certificates by Section 6.1 of these Bylaws or the Revised Act.

### 6.3 Transfer of Shares

Shares shall be transferred on the books of the corporation by the holder thereof in person or by his attorney, (i) with regard to certificated shares, upon surrender to the corporation or to a transfer agent for cancellation of certificates for the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, and with such proof of the authenticity of the signature as the corporation or its agents may reasonably require, and (ii) with regard to uncertificated shares, upon delivery of an instruction duly executed, and with such proof of the authenticity of the signature as the corporation or its agents may reasonably require. Whenever any transfer of shares shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of transfer if, when the certificates are presented to the corporation for transfer or uncertificated shares are requested to be transferred, both the transferor and transferee request the corporation to do so. Except as may be otherwise required by the Revised Act, the Articles of Incorporation or these Bylaws, the corporation shall be entitled to treat the record holder of shares as shown on its books as the owner of such shares for all purposes, including the payment of dividends and the right to vote with respect to such shares, regardless of any transfer, pledge or other disposition of such shares until the shares have been transferred on the books of the corporation in accordance with the requirements of these Bylaws.

### 6.4 Restrictions on Transfer or Registration of Shares

(a) Subject to the Articles of Incorporation or the provisions of these Bylaws, the Board of Directors may, as they may deem expedient, impose restrictions on the transfer or registration of transfer of shares of the corporation. Such restrictions do not affect shares issued before the restriction was adopted unless the holders of the shares are parties to the restriction agreement or voted in favor of the restriction or otherwise consented to the restriction.

(b) The restriction on the transfer or registration of transfer of shares is valid and enforceable against the holder or a transferee of the holder, if the restriction is authorized by the Revised Act and its existence is noted conspicuously on the front or back of the certificate, or if the restriction is contained in the information statement that is sent to shareholders whose shares are not represented by certificates pursuant to Section 6.2 of these Bylaws.

### 6.5 Regulations

Subject to the provisions of these Bylaws and of the Articles of Incorporation, the Board of Directors may make such rules and regulations as it may deem expedient concerning the issuance, transfer, redemption, and registration of certificates for shares of the corporation.

### 6.6 Transfer Agent(s) and Registrar(s)

The Board of Directors may appoint one or more transfer agent(s) and one or more registrar(s) with respect to the certificates representing shares of the corporation, and may require all such certificates to bear the signature of either or both. The Board of Directors may from time to time define the respective duties of such transfer agent(s) and registrar(s).

### 6.7 Lost or Destroyed Certificates

The corporation may issue (i) a new stock certificate or (ii) uncertificated shares in place of any certificates previously issued by the corporation alleged to have been lost, stolen or destroyed, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board of Directors may require for the protection of the corporation or any transfer agent or registrar.

## **ARTICLE 7. INDEMNIFICATION**

### 7.1 Indemnification

Except as provided in Section 7.2 of these Bylaws, the corporation may, to the maximum extent and in the manner permitted by the Revised Act, indemnify an individual made a party to a proceeding because he or she is or was a director, officer, employee, fiduciary, or agent of the corporation, against liability incurred in the proceeding if his or her conduct was in good faith, he or she reasonably believed that his or her conduct was in, or not opposed to, the corporation's best interests, and in the case of any criminal proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful. Termination of the proceeding by judgment, order, settlement, conviction, upon a plea of *nolo contendere* or its equivalent, is not, of itself, determinative that the director, officer, employee, fiduciary, or agent of the corporation, did not meet the standard of conduct described in this Section 7.1.

### 7.2 Certain Restrictions on Indemnification

The corporation may not indemnify a director, officer, employee, fiduciary, or agent of the corporation under Section 7.1 of these Bylaws, in connection with a proceeding by or in the right of a corporation in which such party was adjudged liable to the corporation, or in connection with any other proceeding charging that such party derived an improper personal benefit, whether or not involving action in his or her official capacity, in which proceeding he or she was adjudged liable on the basis that he or she derived an improper personal benefit.

### 7.3 Mandatory Indemnification

The corporation shall indemnify a director or officer of the corporation who was successful, on the merits or otherwise, in the defense of any proceeding, or in the defense of any claim, issue, or matter in the proceeding, to which he or she was a party because he or she is or was a director or officer of the corporation, against reasonable expenses incurred by him or her in connection with the proceeding or claim with respect to which he or she has been successful.

### 7.4 Determination

The corporation may not indemnify a director, officer, employee, fiduciary, or agent of the corporation under Section 7.1 of these Bylaws unless authorized and a determination has been made in a specific case that indemnification of such party is permissible in the circumstances because such party has met the applicable standard of conduct set forth in Section 7.1 of these Bylaws. Such determination shall be made either (a) by the Board of Directors by majority vote of those present at a meeting at which a quorum is present, and only those directors not parties to the proceedings shall be counted in satisfying the quorum requirement, (b) if a quorum cannot be obtained, by majority vote of a committee of the



Board of Directors designated by the Board of Directors, which committee shall consist of two (2) or more directors not parties to the proceeding, except that the directors who are not parties to the proceeding may participate in the designation of directors for the committee, (c) by special legal counsel selected by the Board of Directors or a committee of the Board of Directors in the manner prescribed by the Revised Act, or (d) by the shareholders, by a majority of the votes entitled to be cast by holders of qualified shares present in person or by proxy at a meeting. The majority of the votes entitled to be cast by the holders of all qualified shares constitutes a quorum for purposes of action that complies with this Section 7.4. Shareholders' action that otherwise complies with this Section 7.4 is not affected by the presence of holders, or the voting, of shares that are not qualified shares as determined under the Revised Act.

#### 7.5 General Indemnification

The indemnification and advancement of expenses provided by this Article 7 shall not be construed to be exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under the Articles of Incorporation, these Bylaws, any agreement, any vote of shareholders or disinterested directors, or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

#### 7.6 Advances

The corporation in accordance with the Revised Act may pay for or reimburse the reasonable expenses incurred by any director, officer, employee, fiduciary, or agent of the corporation who is a party to a proceeding in advance of final disposition of the proceeding if (a) such party furnishes the corporation a written affirmation of his or her good faith belief that he or she has met the applicable standard of conduct described in Section 7.1 of these Bylaws, (b) such party furnishes to the corporation a written undertaking in the form required by the Revised Act, executed personally or on his or her behalf, to repay the advance if it is ultimately determined that he or she did not meet the applicable standard of conduct, and (c) a determination is made that the facts then known to those making a determination would not preclude indemnification under this Article 7.

#### 7.7 Scope of Indemnification

Except as otherwise provided in these Bylaws, the indemnification and advancement of expenses authorized by this Article 7 are intended to permit the corporation to indemnify to the fullest extent permitted by the laws of the State of Utah, any and all persons whom it shall have power to indemnify under such laws from and against any and all of the expenses, liabilities, or other matters referred to in or covered by such laws. Any indemnification or advancement of expenses hereunder shall, unless otherwise provided when the indemnification or advancement of expenses is authorized or ratified, continue as to a person who has ceased to be a director, officer, employee, fiduciary, or agent of the corporation and shall inure to the benefit of such person's heirs, executors, and administrators.

#### 7.8 Insurance

The corporation may purchase and maintain liability insurance on behalf of a person who is or was a director, officer, employee, fiduciary, or agent of the corporation, or who, while serving as a director, officer, employee, fiduciary, or agent of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary, or agent of another foreign or domestic corporation, or other person, or of an employee benefit plan, against liability asserted against

or incurred by him or her in any such capacity or arising out of his or her status in any such capacity, whether or not the corporation would have the power to indemnify him or her against the liability under the provisions of this Article 7 or the laws of the State of Utah, as the same may hereafter be amended or modified.

7.9 Effect of Repeal or Modification of Article 7

Any repeal or modification to this Article 7 by the shareholders of the corporation shall not adversely affect any right or protection of any person existing at the time of such repeal, modification or amendment.

**ARTICLE 8. FISCAL YEAR**

The fiscal year of the corporation shall be fixed by resolution of the Board of Directors.

**ARTICLE 9. AMENDMENTS**

These Bylaws may be altered, amended or repealed, or new bylaws adopted, as set forth in the Articles of Incorporation.

**ARTICLE 10. FORUM SELECTION**

Unless the corporation consents in writing to the selection of an alternative forum, a state or federal court located within the State of Utah shall be the sole and exclusive forum for: (a) any derivative action or proceeding brought on behalf of the corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the corporation to the corporation or the corporation's shareholders, (c) any action asserting a claim arising pursuant to any provision of the Revised Act, the Articles of Incorporation or these Bylaws, or (d) any action asserting a claim governed by the internal affairs doctrine. None of the foregoing actions, claims or proceedings may be brought in any court sitting outside the State of Utah unless the corporation consents in writing to such court. If any action the subject matter of which is within the scope of the preceding sentence is filed in a court other than a court located within the State of Utah (a "*Foreign Action*") in the name of any shareholder, such shareholder shall be deemed to have consented to (i) the personal jurisdiction of the state and federal courts located within the State of Utah in connection with any action brought in any such court to enforce the precedent sentence and (ii) having service of process made upon such shareholder in any such action by service upon such shareholder's counsel in the Foreign Action as agent for such shareholder.

## SUBSIDIARIES

Set forth below is a list of all active subsidiaries of the Registrant and the state or other jurisdiction of incorporation or organization of each. Each subsidiary listed below is doing business under its corporate name.

Subsidiary	Jurisdiction
Impact Foundation	Utah
NATR Distribution (M) SDN. BHD.	Malaysia
Nature's Sunshine (Far East) Limited	Hong Kong
Nature's Sunshine Hong Kong Limited	Hong Kong
Nature's Sunshine Marketing Ltda.	Brazil
Nature's Sunshine Products de Honduras, S.A. de C.V.	Honduras
Nature's Sunshine Products de Nicaragua, S.A.	Nicaragua
Nature's Sunshine Products de Panamá, S.A.	Panama
Nature's Sunshine Products del Ecuador, S.A.	Ecuador
Nature's Sunshine Products Dominicana, S. R.L.	Dominican Republic
Nature's Sunshine Products International Distribution B.V.	Netherlands
Nature's Sunshine Products of Russia, Inc.	Utah
Nature's Sunshine Products Poland sp. z.o.o.	Poland
Nature's Sunshine (Hangzhou) Limited	China
Nature's Sunshine Products (Israel) Ltd.	Israel
Nature's Sunshine Products de Colombia, S.A.	Colombia
Nature's Sunshine Products de El Salvador, S.A. C.V.	El Salvador
Nature's Sunshine Products de Mexico, S.A. de C.V.	Mexico
Nature's Sunshine Products de Venezuela, C.A.	Venezuela
Nature's Sunshine Products of Canada, Ltd.	Canada
Nature's Sunshine Produtos Naturais Ltda.	Brazil
NSP de Centroamérica, S.A	Costa Rica
NSP de Guatemala, S.A.	Guatemala
NSP International Holdings C.V.	Netherlands
NSP Labs Inc	Utah
PT Nature's Sunshine Products Indonesia	Indonesia
PT Synergy WorldWide Indonesia	Indonesia
Qemp Inc	Utah
Quality Nutrition International, LLC	Utah
Shanghai Nature's Sunshine Health Products Trading Co. Ltd.	China
Synergy (Shanghai) Food Co., Ltd.	China
Synergy Taiwan, Inc.	Utah
Synergy Vietnam Co., Ltd.	Vietnam
Synergy Worldwide (HK) Ltd.	Hong Kong
Synergy Worldwide (S) PTE Ltd.	Singapore
Synergy Worldwide Canada B.V.	Netherlands
Synergy Worldwide Distribution Canada, ULC	Canada
Synergy WorldWide Europe B.V.	Netherlands
Synergy Worldwide Europe Management Services Spain S.L.U.	Spain
Synergy Worldwide Inc.	Utah
Synergy Worldwide Italy S.R.L.	Italy
Synergy Worldwide Japan G.K.	Japan
Synergy Worldwide Korea Ltd.	Korea

Synergy WorldWide Marketing (M) SDN BHD.	Malaysia
Synergy Worldwide Marketing (Thailand) Ltd.	Thailand
Synergy Worldwide Nutrition Israel Ltd.	Israel
Synergy WorldWide Nutrition Products (Hong Kong)	Hong Kong
Synergy WorldWide Philippines Distribution, Inc.	Philippines
Synergy Worldwide Switzerland GmbH	Switzerland

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 033-59497, 333-08139, 333-117916, 333-126166, 333-164054, and 333-189116 on Forms S-8 of our reports dated March 10, 2021, relating to the financial statements and financial statement schedule of Nature's Sunshine Products, Inc. and subsidiaries and the effectiveness of Nature's Sunshine Products, Inc. and subsidiaries' internal control over financial reporting appearing in this Annual Report on Form 10-K of Nature's Sunshine Products, Inc. and subsidiaries for the year ended December 31, 2020.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 10, 2021

## CERTIFICATIONS

I, Terrence O. Moorehead, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Terrence O. Moorehead

Chief Executive Officer

March 10, 2021

**EXHIBIT 31.2**

**CERTIFICATIONS**

I, Joseph W. Baty, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Joseph W. Baty

Executive Vice President, Chief Financial Officer and Treasurer

March 10, 2021

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF**

**NATURE'S SUNSHINE PRODUCTS, INC.  
PURSUANT TO 18 U.S.C. § 1350**

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

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

/s/ Terrence O. Moorehead

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Terrence O. Moorehead  
Chief Executive Officer  
March 10, 2021



**CERTIFICATION OF CHIEF FINANCIAL OFFICER OF**

**NATURE'S SUNSHINE PRODUCTS, INC.  
PURSUANT TO 18 U.S.C. § 1350**

In connection with the Annual Report on Form 10-K of Nature's Sunshine Products, Inc. (the "Company") for the year ended December 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 Nature's Sunshine Products, Inc. (the "Company"), hereby certify that, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Joseph W. Baty

Joseph W. Baty  
Executive Vice President, Chief Financial Officer and Treasurer  
March 10, 2021