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

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**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, 2016

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<sup>®</sup>**

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

(Exact name of Registrant as specified in its charter)

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

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

**2500 West Executive Parkway, Suite 100**  
**Lehi, Utah 84043**

(Address of principal executive offices and zip code)

**(801) 341-7900**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, no par value.**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☐

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2016 was approximately \$178,659,000 based on the closing price of \$9.53 as quoted by Nasdaq Capital Market on June 30, 2016.

The number of shares of Common Stock, no par value, outstanding on February 17, 2017 is 18,855,992 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, 2016, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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

For the Year Ended December 31, 2016

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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 the Company's objectives, plans and strategies. All statements (other than statements of historical fact) that address activities, events or developments that the Company intends, expects, projects, believes or anticipates 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 by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. For example, information appearing under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” includes forward-looking statements. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are more fully described in this report, including the risks set forth under “Risk Factors” in Item 1A, but include the following:

- changes in laws and regulations, or their interpretation, applicable to direct selling or the nutritional supplement industry may prohibit or restrict the Company's ability to sell its products in some markets or require the Company to make changes to its business model in some markets;
- legal challenges to its direct selling program or to the classification of its independent distributors;
- complex legal and regulatory requirements in China, including the failure to obtain the necessary approvals and licenses to engage in direct sales activities in China;
- extensive government regulations to which its products, business practices and manufacturing activities are subject;
- impact of anti-bribery laws, including the U.S. Foreign Corrupt Practices Act;
- the full implementation of its joint venture for operations in China with Fosun Industrial Co., Ltd.;
- registration of products for sale in China, or difficulty or increased cost of importing products into China;
- its ability to attract and retain independent distributors;
- the effect of fluctuating foreign exchange rates;
- negative consequences resulting from difficult economic conditions, including the availability of liquidity or the willingness of its customers to purchase products;
- geopolitical issues and conflicts;
- restrictions on the repatriation of money;
- 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;
- taxation relating to its independent distributors;
- high levels of inflation in one or more of the countries in which the Company operates;
- cyber security threats and exposure to data loss;
- reliance on information technology infrastructure;
- liabilities and obligations arising from improper activity by its agents, employees or independent distributors;
- its relationship with, and its inability to influence the actions of, its independent distributors, and other third parties with whom it does business;
- its reliance upon, or the loss or departure of any member of, its senior management team;
- challenges in managing rapid growth in China;
- the slowing of the Chinese economy;
- negative effects from its independent distributor promotions or compensation plans;
- risks associated with the manufacturing of the Company's products;
- availability and integrity of raw materials;
- obsolescence of product inventory;
- changing consumer preferences and demands;
- the competitive nature of its business and the nutritional supplement industry;
- negative publicity related to its products, ingredients, or direct selling organization and the nutritional supplement industry;
- product liability claims;
- the sufficiency of trademarks and other intellectual property rights; and
- reliance on third-parties to distribute its products and provide support services to independent distributors.



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, the Company 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, the Company refers to Nature’s Sunshine Products, Inc., together with its subsidiaries, as “the Company.”

## PART 1

### Item 1. Business

#### The Company

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

#### Business Segments

The Company has four business segments that are divided based on the different characteristics of their distributor bases, selling and distributor compensation plans and product formulations, as well as the internal organization of its officers and their responsibilities and business operations. Three business segments operate under the Nature's Sunshine Products brand (NSP Americas; NSP Russia, Central and Eastern Europe; and China and New Markets). The Company's China and New Markets segment anticipates deploying a multi-channel go-to-market strategy that offers select Nature's Sunshine branded products through direct selling, e-commerce and retail channels across China. The time to market will be dependent upon regulatory processes including product registration, permit and license approvals in China. The China and New Markets segment also includes the Company's wholesale business, in which the Company sells its products to various locally-managed entities independent of the Company that the Company has granted distribution rights for the relevant market. The fourth business segment operates under the Synergy® WorldWide brand.

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

#### Product Categories

The Company's line of over 700 products includes several different product classifications, such as immune, cardiovascular, digestive, personal care, weight management and other general health products. It purchases herbs and other raw materials in bulk and, after rigorous quality control testing, it formulates, encapsulates, tablets or concentrates them, labels and packages them for shipment. Most of its products are manufactured at its facility in Spanish Fork, Utah. Contract manufacturers produce some of the Company's products in accordance with the Company's exacting specifications and standards. The Company has implemented stringent quality control procedures to verify that its contract manufacturers have complied with its specifications and standards.

Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of general health, immune, cardiovascular, digestive, personal care and weight management products for the years ended December 31, 2016, 2015, and 2014, by business segment. This table should be read in conjunction with the information presented in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," which discusses the factors impacting revenue trends and the costs associated with generating the aggregate revenue presented (in thousands).

Year Ended December 31,	2016			2015			2014		
NSP Americas:									
General health	\$	78,187	44.4%	\$	80,315	44.8%	\$	78,218	42.9%
Immune		19,185	10.9		22,042	12.3		23,549	12.9
Cardiovascular		12,677	7.2		12,331	6.9		12,566	6.9
Digestive		47,659	27.1		49,239	27.5		53,133	29.1
Personal care		7,537	4.3		3,575	2.0		4,000	2.2
Weight management		10,677	6.1		11,649	6.5		10,929	6.0
Total NSP Americas		175,922	100.0		179,151	100.0		182,395	100.0
NSP Russia, Central and Eastern Europe:									
General health	\$	11,059	42.6%	\$	11,433	41.7%	\$	18,841	37.5%
Immune		2,898	11.2		3,328	12.1		6,512	13.0
Cardiovascular		1,918	7.4		1,714	6.3		3,104	6.2
Digestive		7,003	27.0		7,167	26.1		13,171	26.2
Personal care		2,202	8.5		2,716	9.9		6,073	12.1
Weight management		891	3.4		1,050	3.8		2,573	5.1
Total NSP Russia, Central and Eastern Europe		25,971	100.0		27,408	100.0		50,274	100.0
Synergy WorldWide:									
General health	\$	35,283	28.3%	\$	43,829	38.4%	\$	46,546	36.3%
Immune		620	0.5		752	0.7		974	0.8
Cardiovascular		51,684	41.4		34,191	30.0		42,449	33.1
Digestive		12,536	10.0		17,746	15.6		20,839	16.3
Personal care		8,981	7.2		5,697	5.0		7,196	5.6
Weight management		15,689	12.6		11,866	10.4		10,097	7.9
Total Synergy WorldWide		124,793	100.0		114,081	100.0		128,101	100.0
China and New Markets:									
General health	\$	3,399	23.5%	\$	1,903	46.8%	\$	2,370	42.3%
Immune		821	5.7		525	12.9		777	13.9
Cardiovascular		2,911	20.1		292	7.2		334	6.0
Digestive		5,329	36.8		1,011	24.9		1,608	28.7
Personal care		797	5.5		93	2.3		108	1.9
Weight management		1,216	8.4		241	5.9		400	7.1
Total China and New Markets		14,473	100.0		4,065	100.0		5,597	100.0
Consolidated:									
General health	\$	127,928	37.5%	\$	137,480	42.3%	\$	145,975	39.8%
Immune		23,524	6.9		26,647	8.2		31,812	8.7
Cardiovascular		69,190	20.3		48,528	14.9		58,453	16.0
Digestive		72,527	21.3		75,163	23.1		88,751	24.2
Personal care		19,517	5.7		12,081	3.7		17,377	4.7
Weight management		28,473	8.3		24,806	7.6		23,999	6.6
Total Consolidated	\$	341,159	100.0	\$	324,705	100.0	\$	366,367	100.0

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

Category	Description	Selected Representative Products
<b>General health</b>	The Company distributes 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.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Anxiousless™, CurcuminBP, Everflex®, Ionic Minerals, Mind-Max, Nutri-Calm®, Perfect Eyes®, Skeletal Strength®, Super Supplemental Vitamin and Mineral, Super Trio, Thai-Go®, Vitamin B-Complex and Vitamin D3</i></p> <p><i>Synergy WorldWide:</i> Core Greens®, Mistica®, Noni Plus, NutriBurst, Spirulina</p>
<b>Immune</b>	The Company distributes immune products. The immune line has been designed to offer products that support and strengthen the human immune system.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Elderberry D3fense, Immune Stimulator and Silver Shield</i></p> <p><i>Synergy WorldWide:</i> BodyGuard, Colostrum</p>
<b>Cardiovascular</b>	The Company distributes 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.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: CardioxLDL, Blood Pressurex, Co-Q10, Flax Seed Oil, Mega-Chel®, Red Yeast Rice, Super Omega-3 EPA and the IN.FORM Program</i></p> <p><i>Synergy WorldWide:</i> e9, ProArgi-9 Plus®</p>
<b>Digestive</b>	The Company distributes digestive products. The digestive line has been designed to offer products that regulate intestinal and digestive functions in support of the human digestive system.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Bifidophilus Flora Force®, CleanStart®, Food Enzymes, LBS II®, Liquid Chlorophyll, Proactazyme®, Probiotic Eleven® and the IN.FORM Purify Drink</i></p> <p><i>Synergy WorldWide:</i> Detox Plus, Liquid Chlorophyll</p>
<b>Personal care</b>	The Company distributes 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.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: EverFlex® Cream, HSN-W®, Pau-D Arco Lotion, Tei-Fu® Lotion, Vari-Gone® and Natria Eye Concentrate</i></p> <p><i>Synergy WorldWide:</i> Elemence Repair Complex, TriAction Bright Renewal Serum, Elemence Hydrating Toner, 5 in 1 Shampoo</p>
<b>Weight management</b>	The Company distributes 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.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Fat Grabbers®, Garcinia Combination, Love and Peas, Nutri-Burn®, SmartMeal, Stixated™, Ultra Therm™ and the IN.FORM Program</i></p> <p><i>Synergy WorldWide:</i> Double Burn, SLMSmart™</p>



## **Distribution and Selling**

The Company's independent distributors, known as Managers and Distributors, market products to customers through direct selling techniques, as well as sponsoring other independent distributors. The Company seeks to motivate and provide incentives to its independent distributors by offering high quality products and providing its independent distributors with product support, training seminars, sales conventions, travel programs and financial incentives.

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

As of December 31, 2016, the Company had approximately 243,600 "active independent Distributors and customers" (as defined below). A person who joins the Company's independent sales force begins as an independent Distributor. Many independent Distributors sell the Company's products on a part-time basis to friends or associates or use the products themselves. An independent Distributor may earn Manager status by attaining certain product sales levels. As of December 31, 2016, the Company had approximately 12,900 "active independent Managers" (as defined below) worldwide. In many of the Company's markets, its independent Managers and Distributors are primarily retailers of the Company's products, including practitioners, proprietors of retail stores and other health and wellness specialists.

In the United States, the Company generally sells its products on a cash or credit card basis. From time to time, the Company's U.S. operations extend short-term credit associated with product promotions. For certain of its international operations, the Company uses independent distribution centers and offers credit terms that are generally consistent with industry standards within each respective country.

The Company pays sales commissions, or "volume incentives" to its independent Managers and Distributors based upon their own product sales and the product sales of their sales organization. As an exception, China does not pay volume incentives; rather, it pays independent service fees. These volume incentives are recorded as an expense in the year earned. The amounts of volume incentives that the Company expensed during the years ended December 31, 2016, 2015, and 2014, are set forth in the Company's Consolidated Financial Statements in Item 8 of this report. In addition to the opportunity to receive volume incentives, independent Managers who attain certain levels of monthly product sales are eligible for additional incentive programs including automobile allowances, sales convention privileges and travel awards.

### *Distributor Information*

The Company's revenue is highly dependent upon the number and productivity of its independent Managers and Distributors. Growth in sales volume requires an increase in the productivity and/or growth in the total number of independent Managers and Distributors.

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

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

**Total Managers, Distributors and Customers by Segment as of December 31,**

	2016		2015		2014	
	Distributors & Customers	Managers	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	269,100	6,400	286,600	6,500	295,300	6,600
NSP Russia, Central and Eastern Europe	140,600	2,800	163,200	2,800	231,400	3,700
Synergy WorldWide	123,000	3,700	126,400	3,400	122,300	3,100
China and New Markets	4,400	—	—	—	1,600	—
Total	537,100	12,900	576,200	12,700	650,600	13,400

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

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

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

**Active Distributors and Customers by Segment as of December 31,**

	2016		2015		2014	
	Distributors & Customers	Managers	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	121,200	6,400	131,600	6,500	135,900	6,600
NSP Russia, Central and Eastern Europe	66,700	2,800	72,000	2,800	97,900	3,700
Synergy WorldWide	53,600	3,700	60,800	3,400	58,800	3,100
China and New Markets	2,100	—	—	—	—	—
Total	243,600	12,900	264,400	12,700	292,600	13,400

“Active Distributors and customers” includes the Company’s independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous three months ended as of the date indicated.

The following tables provide information concerning the number of new independent Managers, Distributors and customers by segment, for the years indicated.

**New Managers, Distributors and Customers by Segment for the year ended December 31,**

	2016		2015		2014	
	Distributors & Customers	Managers	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	116,900	3,200	127,900	3,000	130,300	3,200
NSP Russia, Central and Eastern Europe	44,900	600	47,000	700	66,400	1,200
Synergy WorldWide	72,000	3,000	76,600	2,300	73,500	2,200
China and New Markets	4,400	—	—	—	1,600	—
Total	238,200	6,800	251,500	6,000	271,800	6,600

“New Managers” includes independent Managers under the Company’s various compensation plans that first achieved the rank of Manager during the previous twelve months ended as of the date indicated.

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

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

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

#### **Trademarks and Trade Names**

The Company has obtained trademark registrations for Nature’s Sunshine®, and the landscape logo for all of its Nature’s Sunshine Products product lines. It has also obtained trademark registrations for Synergy Worldwide® for all of the Company's Synergy WorldWide product lines. The Company holds trademark registrations in the United States and in many other countries. The Company's customers’ recognition and association of its brands and trademarks with quality is an important element of its operating strategy.

The duration of the Company's 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 the Company's intellectual property protection varies throughout the world by jurisdiction and by individual product.

#### **Seasonality**

The Company operates in many regions around the world and, as a result, is 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 the Company typically experiences a decrease in activity during the third quarter due to the summer vacation season, while it experiences a decrease in activity in many of its 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 the Company's revenues and expenses reflected in its reported quarterly results. Generally, reductions in one region of the world due to seasonality are offset by increases in another, minimizing the impact on the Company's reported consolidated revenues. Changes in the relative size of the Company's revenues in one region of the world compared to another could cause seasonality to more significantly affect the Company's reported quarterly results.

#### **Inventories**

In order to provide a high level of product availability to the Company's independent Managers, Distributors, and customers, it maintains a considerable inventory of raw materials in the United States and of finished goods in most countries in which it sells its products. Due to different regulatory requirements across the countries in which the Company sells its products, its finished goods inventories have product labels and sometimes product formulations specific for each country. The Company's inventories are subject to obsolescence due to finite shelf lives.

#### **Dependence upon Customers**

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

#### **Backlog**

The Company typically ships orders for its products within 24 hours after receipt of payment. As a result, it has not historically experienced significant backlogs due to its high level of product availability as discussed above.

## **Competition**

The Company's products are sold in competition with other companies, some of which have greater sales volumes and financial resources than the Company does, and sell brands that are, through advertising and promotions, better known to consumers. The Company competes in the nutritional and personal care industry against companies that sell through retail stores, as well as against other direct selling companies. For example, it competes 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. It competes for product sales and independent distributors with many other direct selling companies, including Amway, Herbalife, Nu Skin, Shaklee and USANA, among others. The Company believes that the principal components of competition in the direct selling of nutritional and personal care products are distributor expertise and service, product quality and differentiation, price and brand recognition. In addition, the Company relies on its independent Managers and Distributors to compete effectively in the direct selling markets, and its ability to attract and retain independent Managers and Distributors depends on various factors, including the training, quality product offerings and financial incentives for the independent Managers and Distributors.

## **Research and Development**

The Company conducts research and development activities at its manufacturing facility located in Spanish Fork, Utah. During 2015, the Company opened the Hughes Center for Research and Innovation, a new state of the art research and development facility at its corporate offices in Lehi, Utah, which will further advance the Company's research of innovative products. The Company's principal emphasis in its research and development activities is clinical research in the support of the development of new products and the enhancement of existing products. The amount, excluding capital expenditures, spent on research and development activities was approximately \$3.2 million in 2016, \$2.8 million in 2015 and \$2.5 million in 2014.

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

The nature of the Company's 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 have not had any material effect upon the Company's results of operations or competitive position.

## **Regulation**

### ***General***

In both the United States and foreign markets, the Company is 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 its products; (2) product and earnings claims and advertising, including direct claims and advertising by the Company, as well as claims and advertising by independent distributors, for which the Company may be held responsible; (3) the Company's 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 its independent distributors (which in some instances may impose an obligation on the Company 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 the Company's 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 the Company's 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 adjusted several times with respect to dietary supplements, most recently 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. In

May 2016, the FDA announced new labeling requirements to reflect recently available scientific information. The new label requirements are designed to make it easier for consumers to make informed choices. Manufacturers have until July 26, 2018, to comply with the new labeling requirements. Additionally, FDA regulations require the Company to meet relevant good manufacturing practice regulations for the preparation, packaging and storage of its 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.

In some countries the Company is, or regulators may assert that the Company is, responsible for the conduct of its independent distributors, and regulations applicable to the activities of the Company's independent Managers and Distributors also affect its business. In these countries, regulators may request or require that the Company take steps to ensure that its independent distributors comply with regulations. The types of regulated conduct include: (1) representations concerning the Company's products; (2) earning representations made by the Company and/or its independent Distributors; (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 or certified for sale; and (5) classification by government agencies of the Company's independent distributors as employees of the Company.

In some markets, it is possible that improper product claims by independent Managers and Distributors could result in the Company's 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, the Company might be required to make labeling changes.

The Company is unable to predict the nature of any future regulations, nor can it predict what effect additional governmental regulations or administrative orders, when and if promulgated, would have on its 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 scientific substantiation regarding product ingredients, safety or usefulness; and/or (6) additional distributor compliance surveillance and enforcement action by the Company. Any or all of these requirements could have a material adverse effect on the Company's results of operations and financial condition.

In foreign markets, prior to commencing operations and prior to making or permitting sales of the Company's products in the market, the Company may be required to obtain an approval, license or certification from the country's ministry of health or comparable agency. Prior to entering a new market in which a formal approval, license or certificate is required, the Company works extensively with local authorities in order to obtain the requisite approvals. It must also comply with product labeling and packaging regulations that vary from country to country. Its 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***

The Company's 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"). The Company's activities, including its direct selling distribution activities, are also regulated by various agencies of the states, localities and foreign countries in which its products are sold.

The FTC, which exercises jurisdiction over the advertising of all of the Company's 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 distributor 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 distributors and change its marketing practices to avoid misleading income, earning and other representations. The Company cannot be sure that the FTC, or comparable foreign agencies, will not question its advertising or other operations in the future.

### ***Transfer Pricing***

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

Although the Company believes that it is in substantial compliance with all applicable regulations and restrictions, it is subject to the risk that governmental authorities could audit its transfer pricing and related practices and assert that additional taxes are owed.

In the event that the audits or assessments are concluded adversely to the Company, it 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, the Company cannot be sure that it would in fact be able to take advantage of any foreign tax credits in the future.

### ***Other Regulations***

The Company is 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, the Company is substantially restricted in the amount and types of rules and termination criteria that it can impose on its independent distributors without having to pay social security assessments on behalf of the independent distributors and without incurring severance obligations to terminated independent distributors. In some countries, the Company may be subject to these obligations in any event.

The Company's failure to comply with these regulations could have a material adverse effect on its business in a particular market or in general. Assertions that the Company failed to comply with regulations or the effect of adverse regulations in one market could adversely affect it 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 the Company and its independent distributors, the Company conducts considerable research into the applicable regulatory framework prior to entering any new market to identify all necessary licenses and approvals and applicable limitations on the Company's operations in that market. Typically, it conducts this research with the assistance of local legal counsel and other representatives. The Company devotes substantial resources to obtaining the necessary licenses and approvals and bringing its operations into compliance with the applicable limitations. It also researches laws applicable to independent distributor operations and revises or alters its distributor manuals and other training materials and programs to provide independent distributors with guidelines for operating a business, selling and distributing its products and similar matters, as required by applicable regulations in each market. The Company is unable to monitor its independent distributors effectively, however, to ensure that they refrain from distributing its products in countries where it has not commenced operations, and it does not devote significant resources to this type of monitoring.

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 the Company believes that it and its independent Distributors 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 the Company is subject may be influenced by public attention directed at it, its products or its direct selling program, so that extensive adverse publicity about the Company's products or its direct selling program may result in increased regulatory scrutiny.

It is an ongoing part of the Company's business to anticipate and respond to new and changing regulations and to make corresponding changes in its operations to the extent practicable. Although the Company devotes considerable resources to maintaining its compliance with regulatory constraints in each of its markets, it cannot be sure that (1) it would be found to be

in full compliance with applicable regulations in all of its 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 its operations are not in full compliance. These assertions or the effect of adverse regulations in one market could negatively affect the Company 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 the Company in a particular market or in general. Furthermore, depending upon the severity of regulatory changes in a particular market and the changes in the Company's operations that would be necessitated to maintain compliance, these changes could result in the Company experiencing a material reduction in sales in the market or determining to exit the market altogether. In this event, the Company would attempt to devote the resources previously devoted to such market to a new market or markets or other existing markets. However, the Company cannot be sure that this transition would not have a material adverse effect on its business and results of operations 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 the Company's efforts with respect to operational compliance. "Operational Compliance" is defined by the Compliance Committee's charter to include: distributor 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; 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. The charter of the Compliance Committee requires that the Compliance Committee consist of at least three directors, one of whom must be the Chair of the Company's Audit Committee, and that a majority of such members meet the independence and experience requirements of the NASDAQ Stock Market, Section 10A(m)(3) of the Securities Exchange Act of 1934 (the "Exchange Act"), and the rules and regulations of the Securities and Exchange Commission ("SEC"), as affirmatively determined by the Company's Board. The Board may, at any time and in its complete discretion, replace a Compliance Committee member.

## International Operations

A significant portion of the Company's net sales are generated within the United States, which represented 43.4 percent, 45.4 percent and 40.5 percent of net sales in 2016, 2015, and 2014, respectively. The Company's second largest market, South Korea, represented 16.9 percent, 14.9 percent and 14.8 percent of net sales in 2016, 2015, and 2014, respectively. Outside of the United States and South Korea, no one country accounted for 10.0 percent or more of net sales in any year in the last three years. A breakdown of net sales by region in 2016, 2015, and 2014, is set forth below.

(Dollar amounts in thousands)

Year Ended December 31,	2016		2015		2014	
Net Sales:						
North America	\$	168,883	49.5%	\$	171,486	52.8%
Europe		50,299	14.7		53,237	16.4
Asia Pacific		98,585	28.9		76,482	23.6
Central & South America		23,392	6.9		23,500	7.2
	\$	341,159	100.0%	\$	324,705	100.0%
				\$	366,367	100.0%

The Company's international operations are conducted in a manner that it believe is comparable with its U.S. operations; however, in order to conform to local variations, economic realities, market customs, consumer habits and regulatory environments, differences often exist in the products that the Company sells and in its distribution and selling programs.

The Company's international operations are subject to many of the same risks faced by its U.S. operations, including competition and local economic and political conditions. In addition, its international operations are subject to certain risks inherent in doing business abroad, including foreign regulatory restrictions, fluctuations in monetary exchange rates, import-export controls, effective management and support services by contracted third-parties and the economic and political policies of foreign governments. The significance of these risks will increase if the Company grows its international operations.

## Executive Officers

The Company's executive officers, as of the date of this report, are as follows:

Name	Age	Position	Served in Position Since
Gregory L. Probert	60	Chief Executive Officer and Chairman of the Board of Directors	2013
Joseph W. Baty	60	Executive Vice President, Chief Financial Officer and Treasurer	2016
Richard D. Strulson	48	Executive Vice President, General Counsel, Chief Compliance Officer, and Secretary	2013
Paul E. Noack	55	President of China and New Markets	2014
Susan M. Armstrong	52	Executive Vice President and Chief Operations Officer	2014

*Gregory L. Probert.* Mr. Probert was appointed CEO in October 2013. He has served as the Executive Chairman of the Company's Board of Directors since January 2013. Prior to this, Mr. Probert served as Executive Vice Chairman since June 2011, and served as an independent consultant to the Company from October 2010 to June 2011. Previously, he was Chairman of the Board and Chief Executive Officer of Penta Water Company from 2008 to 2010, which filed for bankruptcy protection in 2009. Mr. Probert was President and Chief Operating Officer of Herbalife International of America, Inc. from 2003 to 2008, and Chief Executive Officer of DMX Music from 2001 to 2003. Prior to that, he held various senior positions, including Executive Vice President of Worldwide Home Entertainment, at The Walt Disney Company from 1988. In February 2016, Mr. Probert joined the Board of Leaders for the USC Marshall School of Business where he helps guide the development of management education programs. Mr. Probert also serves on the Board of Directors of the Direct Selling Education Foundation, and he recently completed a three-year term of service on the Board of Directors of the Direct Selling Association. Mr. Probert received his B.A. from the University of Southern California in 1979.

*Joseph W. Baty.* Mr. Baty was appointed as the Company's Executive Vice President, Chief Financial Officer and Treasurer on October 31, 2016. Before joining the Company, Mr. Baty served as Executive Vice President and Chief Financial Officer at Schiff Nutrition International Inc. ("Schiff"), a publicly traded vitamins and nutritional supplements company, from 1999, until Schiff was acquired by Reckitt Benckiser Group PLC in December 2012. From 1997 until 1999, Mr. Baty was Senior Vice President, Finance at Schiff. Prior to 1997, Mr. Baty was a Certified Public Accountant and partner at KPMG, LLP. Mr. Baty received his B.S. in Accounting from the University of Utah in 1981.

*Richard D. Strulson.* Mr. Strulson was appointed as the Company's Executive Vice President, General Counsel, Chief Compliance Officer and Secretary of the Company, in November 2013. From 2004 to October 2013, Mr. Strulson held various senior positions at Herbalife International of America, Inc., one of the world's largest direct selling companies, including Senior Vice President, Chief Privacy Officer, and Counsel from 2007 to October 2013. From 1998 to 2004, he served in a variety of senior legal counsel positions for The Walt Disney Company and FOX Cable Networks, where he was responsible for supporting strategic planning, negotiating media rights and licensing agreements. Prior to his internal legal counsel positions, Mr. Strulson was a corporate attorney in Los Angeles with Latham and Watkins from 1995 to 1998, and clerked for Chief Justice E. Norman Veasey of the Delaware Supreme Court from 1994 to 1995. Mr. Strulson received a Doctor of Jurisprudence and Masters of Business Administration from Duke University in 1994, and a B.A. in Foreign Affairs and Economics from the University of Virginia in 1990.

*Paul E. Noack.* Mr. Noack was appointed as the Company's President of China and New Markets in October 2014. Mr. Noack served as President of ViSalus, Inc., a direct selling health and wellness company from January 2012 to October 2014. Prior to his appointment as President of ViSalus, Inc. in 2012, Mr. Noack consulted with the ViSalus, Inc. board of directors and management team. From 2009 to 2010, Mr. Noack served in several director and senior executive roles at Penta Water Company, LLC, which filed for bankruptcy protection in 2009. Mr. Noack previously served in a variety of executive roles at Herbalife International of America, Inc., one of the world's largest direct selling companies, including Managing Director of the Asia Pacific Region, as Chief Strategic Officer, and as Senior Vice President, Corporate Planning and Strategy. Mr. Noack received a B.A. in Accounting from St. Johns University in 1983.

*Susan M. Armstrong.* Ms. Armstrong has served as the Company's Chief Operations Officer since December 2014. Prior to her appointment as the Company's Chief Operations Officer, Ms. Armstrong served as Executive Vice President, Operations since joining the Company in March 2013. From June 2011 to March 2013, Ms. Armstrong served as Senior Vice President, Value Chain at Metagenics, a leading manufacturer and distributor of high quality dietary supplements and medical foods sold through health care practitioners in the U.S. and pharmacies abroad. From 2006 until 2011, Ms. Armstrong was Vice



President, Global Supply Chain at Carl Zeiss Vision, a leader in ophthalmic lenses and eye care solutions. Ms. Armstrong received a Bachelor of Science degree in Chemistry from the University of Sheffield in the United Kingdom.

## Employees

The Company employed 972 individuals as of December 31, 2016. The Company believes that its relations with its employees are satisfactory.

## Available Information

The Company's principal executive office is located at 2500 West Executive Parkway, Suite 100, Lehi, Utah 84043. Its telephone number is (801) 341-7900 and its Internet website address is [www.natr.com](http://www.natr.com). The Company makes available free of charge on its website its Annual Reports on Form 10-K, its Quarterly Reports on Form 10-Q, its 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). The Company also makes available free of charge on its website its Code of Conduct Policy and the charters of its Audit Committee, Governance Committee, Compensation Committee and Compliance Committee.

## Item 1A. Risk Factors

*You should carefully consider the following risks in evaluating the Company and its business. The risks described below are the risks that the Company currently believes are material to its business. However, additional risks not presently known to the Company, or risks that it currently believes are not material, may also impair its 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 the Company's consolidated financial statements and the related notes. The Company's business prospects, financial condition or results of operations could be adversely affected by any of the following risks. If the Company is adversely affected by such risks, then the market price of its common stock could decline.*

***Changes in laws and regulations regarding direct selling may prohibit or restrict the Company's ability to sell its products in some markets or require the Company to make changes to its business model in some markets.***

Direct selling marketing systems 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, recognition and advancement within the selling organization are based upon sales of the products. Failure to comply with these laws and regulations could result in significant penalties, which could have a material adverse effect on the Company's results of operations and financial condition. Violations could result from misconduct by an independent distributor, ambiguity in statutes, changes or new laws and regulations affecting the Company's business and court-related decisions. Furthermore, the Company may be restricted or prohibited from using direct selling activities in some foreign countries, or the Company may be required to undertake lengthy and costly application processes to obtain a direct selling license to engage in direct selling activities. In addition, changes in existing laws or additional regulations could make it difficult to register or sell the Company's products in the countries in which it operates.

In the United States, multilevel marketing companies may be the subject of investigations and enforcement actions by the FTC. 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 distributors and change its marketing practices to avoid misleading income, earning and other representations. Being the target of an investigation or enforcement action by the FTC, or being required to make significant revisions to its compensation plan, could have a material adverse effect on the Company's results of operations and financial condition.

***The Company's business activities in China require the Company to comply with complex legal and regulatory requirements, which require the Company to obtain various approvals and licenses and to utilize a different business model from that which it uses elsewhere in the world.***

The Chinese government exercises significant control over all aspects of the Chinese economy, and the direct selling industry in particular. In 2005, China published regulations governing direct selling and prohibiting pyramid promotional schemes, and a number of administrative methods and proclamations were issued in 2005 and in 2006. These regulations require the Company to use a business model different from that which it offers in other markets.

The direct selling regulations require the Company to apply for various approvals and licenses to conduct a direct selling enterprise in China. The process for obtaining the necessary licenses to conduct a direct selling business is protracted and cumbersome and involves multiple layers of Chinese governmental authorities and numerous governmental employees at each layer. While direct selling licenses are centrally issued, such licenses are generally valid only in the jurisdictions within which related approvals have been obtained. Such approvals are generally awarded on local and provincial bases, and the approval process requires involvement with multiple ministries at each level. The Company's participation and conduct during the approval process is guided not only by distinct Chinese practices and customs, but is also subject to applicable laws of China and the other jurisdictions in which the Company operates, including the U.S., as well as the Company's internal code of ethics. There is always a risk that in attempting to comply with local customs and practices in China during the application process or otherwise, the Company will fail to comply with requirements applicable in China itself or in other jurisdictions, and any such failure to comply with applicable requirements could prevent the Company from obtaining the direct selling licenses or related local or provincial approvals. Furthermore, the Company relies on certain key management, regulatory and legal personnel in China to assist during the approval process, and the loss of any such key personnel could delay or hinder the Company's ability to obtain licenses or related approvals. For all of the above reasons, the Company may be unable to obtain, or experience prolonged delays in obtaining, direct-selling licenses or related approvals necessary to expand into any or all of the localities or provinces in China that are important to the Company's business in China. The Company's inability to obtain, retain, or renew, or a prolonged delay in obtaining or renewing, any or all of the licenses or related approvals that are required to operate in China would have a material adverse effect on the Company's results of operations and financial condition.

Additionally, although certain regulations have been published with respect to obtaining and operating under such approvals and otherwise conducting business in China, other regulations are pending and there continues to be uncertainty regarding the interpretation and enforcement of Chinese regulations. The regulatory environment in China is evolving, and officials in the Chinese government exercise broad discretion in deciding how to interpret and apply regulations. As a result, the model the Company created specifically for China may not continue to be deemed compliant by national or local Chinese regulatory authorities. The Chinese government rigorously monitors the direct selling market in China, and in the past has taken serious action against companies that the government believed were engaging in activities they regarded to be in violation of applicable law, including shutting down their businesses and imposing substantial fines. As a result, there can be no guarantee that the Chinese government's current or future interpretation and application of the existing and new regulations will not negatively impact the Company's business in China, result in regulatory investigations or lead to fines or penalties, any of which could have a material adverse effect on the Company's results of operations and financial condition.

Chinese regulations prevent persons who are not Chinese nationals from engaging in direct selling in China. The Company cannot guarantee that any of its independent distributors living outside of China or any of its independent distributors or independent service providers in China have not engaged or will not engage in activities that violate the Company's policies in this market, or that violate Chinese law or other applicable law, and therefore result in regulatory action and adverse publicity that could have a material adverse effect on the Company's results of operations and financial condition.

***The Company's 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 the Company's 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. In September 2015, the New York Attorney General issued a cease and desist letter to the Company and many other national manufacturers and retailers, related to the sale of a common herbal supplement known as Devil's Claw. In the letter, the New York Attorney General requested, among other things, that the Company provide certain information with respect to the Company's manufacture and sale of Devil's Claw products. Although the Company believes it is lawfully selling Devil's Claw products, the letters that it and other retailers received, demonstrate a focus by the New York Attorney General and other states' Attorneys General on the manufacture and sale of various dietary supplements. As a result of such focus, such states'

Attorneys General could seek to take actions against the Company or other industry participants or amend applicable regulations in their State, which could have a material adverse effect on the Company's results of operations and financial condition by causing the Company to incur additional costs to comply or cease selling one or more of its products.

Generally, each international market in which the Company operates has regulatory agencies similar to the regulatory agencies in the U.S. These markets have varied regulations which often require it to reformulate products for specific markets, conform product labeling to market regulations and register or qualify products or obtain necessary approvals with the applicable governmental authorities in order to market its products in these markets. Failure to comply with the regulatory requirements of these various governmental agencies and authorities could result in enforcement actions including: cease and desist orders, injunctions, limits on advertising, consumer redress, divestitures of assets, rescission of contracts, or such other relief as may be deemed necessary. Violation of these regulations could result in substantial financial or other penalties, which could have a material adverse effect on the Company's results of operations and financial condition.

In the future, the Company 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 it considers favorable and/or more stringent interpretations of current laws or regulations. The Company can neither predict the nature of such future laws, regulations, interpretations or applications, nor what effect additional governmental regulations or administrative orders, when and if promulgated, would have on its business. They could, however, require reformulation of certain products to meet new standards, recall or discontinuance of certain products not able to be reformulated, imposition of additional record-keeping requirements, expanded documentation of the properties of certain products and expanded or altered labeling and/or scientific substantiation. Any or all such requirements could increase the Company's costs of operating the business and have a material adverse effect on the Company's results of operations and financial condition.

The FTC, which exercises jurisdiction over the advertising of all of the Company's 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. In addition, the FTC has increased its scrutiny of the use of testimonials, as well as the role of expert endorsers and product clinical studies. The FTC has also recently initiated investigations and enforcement actions against direct selling companies the FTC alleged made misleading representations relating to the earnings potential of an independent distributor within a company's compensation plan. Recently, 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 earning claims. The goal of such private watchdog groups is to get the FTC to take enforcement action against practices they believe are illegal. The Company cannot be sure that the FTC, or comparable foreign agencies, will not question its advertising claims, or advertising claims made by the Company's independent distributors, in the future. An enforcement action brought by the FTC, or other comparable foreign agency, would harm the Company's reputation and potentially result in significant penalties, either of which could have a material adverse effect on the Company's results of operations and financial condition.

The Company's failure to comply with applicable regulations could have a material adverse effect on its business in a particular market or in general. Assertions that the Company failed to comply with regulations or the effect of adverse regulations in one market could materially adversely affect it 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.

***Challenges to the form of the Company's direct selling program could harm our business.***

The Company may be subject to challenges by government regulators regarding direct selling marketing systems. 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 have discretion in their application of these laws and regulations, and the enforcement or interpretation of these laws and regulations by government agencies or courts can change. From time to time, the Company becomes aware of investigations and legal actions against other companies in the direct selling industry. An adverse ruling in these investigations or legal actions could impact the Company's business if direct selling laws or anti-pyramid laws are interpreted more narrowly or in a manner that results in additional burdens or restrictions on direct selling companies. 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 and compensation plan to settle charges relating to deceptive advertising, misrepresentation and an illegal business model.

The Company could also be subject to challenges by private parties in civil actions. From time to time, the Company becomes aware of civil actions against some of its competitors in the United States, which have and may in the future result in

significant settlements. Allegations by short sellers directed at the Company and its competitors regarding the legality of direct selling in various markets have also created intense public scrutiny of the direct selling industry.

***The Company is subject to anti-bribery laws, including the U.S. Foreign Corrupt Practices Act, a violation of which could harm the Company's business.***

The Company is 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 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 and the SEC relating to business operations within certain countries in which the Company operates, including China. For example, in January 2017, a direct selling company announced that it was the target of an investigation being conducted by the SEC to determine whether certain activities related to the direct selling company's operations in China violated the FCPA. In February 2017, another direct selling company announced that it had initiated a voluntary probe of its operations in China to determine if violations of the FCPA had occurred.

The Company's policies mandate compliance with anti-bribery laws, including the requirements to maintain accurate information and internal controls. However, the Company may be liable for actions of its employees and agents, even if such actions are inconsistent with the Company's policies. Being subject to an investigation by the Department of Justice or the SEC for an alleged violation of the FCPA could cause the Company to incur significant expenses and distractions that could harm its 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 the Company's results of operation and financial condition.

***The Company's expansion in China is subject to risks associated with operating a joint venture.***

On August 25, 2014, the Company completed a transaction with Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharma"), which created a joint venture owned 80 percent by the Company and 20 percent by a wholly-owned subsidiary of Fosun Pharma. Effective operation of the joint venture depends on good relations between the Company 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 the Company's results of operations and financial condition.

***If the Company is not able to register products for sale in Mainland China, its business could be harmed.***

The Company's registration of its 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 the Company from offering products for sale or prevent it 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. The Company currently intends to 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 the Company's ability to market such products in China and have a material adverse effect on the Company's results of operations and financial condition.

***If the Company is unable to attract and retain independent distributors, its business could suffer.***

As a direct selling company, the Company relies on its independent distributors to market and sell its products. Many independent distributors sell the Company's products on a part-time basis to friends or associates or use the products for themselves. The Company's independent distributors may terminate their service at any time, and, like most direct selling companies, the Company experiences high turnover among its independent distributors from year to year. As a result, the Company needs to retain existing independent distributors and continue to attract additional independent distributors to maintain and/or increase sales in the future. A significant amount of the Company's revenue in some of its markets is dependent on only a few independent distributors and their extensive sales networks. The loss of one of these independent distributors who, together with their extensive sales network, generate a significant amount of the Company's revenue could have a material adverse effect on the Company's results of operations and financial condition.

Many factors affect the Company's ability to attract and retain independent distributors, including:

- any adverse publicity regarding the Company, its products, its distribution channels or its competitors;
- on-going motivation of Company's independent distributors;
- the public's perceptions about the value and efficacy of the Company's products;
- the public's perceptions and acceptance of direct selling;
- general and economic business conditions;
- government regulations;
- changes to the Company's compensation arrangements, training and support for its independent distributors; and
- competition in attracting and retaining independent distributors and/or market saturation.

The Company's results of operations and financial condition could be materially adversely affected if the Company's independent distributors are unable to maintain their current levels of productivity or if the Company is unable to retain existing independent distributors and attract additional independent distributors in sufficient numbers to sustain future growth or to maintain present sales levels.

***Currency exchange rate fluctuations affect the Company's net revenue and earnings.***

In 2016, the Company recognized approximately 56.6 percent of its revenue in markets outside the United States, the majority of which was recognized in each market's respective local currency. The Company purchases inventory primarily in the United States in U.S. dollars. In preparing its financial statements, the Company translates revenues and expenses in foreign countries from their local currencies into U.S. dollars using average exchange rates. Because a majority of its sales are in foreign countries, exchange rate fluctuations may have a significant effect on its sales and earnings. The Company 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. These fluctuations had a generally negative effect on the Company's revenue in the years ended December 31, 2016, 2015, and 2014. As the Company's operations grow in countries where foreign currency transactions are made, its operating results will increasingly be subject to the risks of exchange rate fluctuations, and it may not be able to accurately estimate the impact of these changes on the Company's future results of operations or financial condition.

***Difficult economic conditions could harm the Company's business.***

Global economic conditions continue to be challenging and complex. Consumer spending habits, including spending for the Company's 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 the Company does business may adversely affect consumer spending habits and demand for the Company's products, which may result in lower net sales of the Company's products in future periods. A prolonged global or regional economic downturn could have a material adverse effect on the Company's results of operations and financial condition. For example, recent economic declines in Mainland China's stock market and other negative economic indicators have caused uncertainty regarding the potential for growth in Mainland China's economy. Continued declines in economic conditions in Mainland China could have a material adverse effect on the Company's results of operations and financial condition.

***Geopolitical issues, conflicts and other global events could adversely affect the Company's business.***

Because a substantial portion of the Company's business is conducted outside of the United States, its business is subject to global political issues and conflicts. Such political issues and conflicts could have a material adverse effect on the Company's results of operations and financial condition if they escalate in areas in which the Company does business. In addition, changes in and adverse actions by governments in foreign markets in which the Company does business could have a material adverse effect on the Company's results of operations and financial condition. For example, the Company's financial condition and results of operations of its NSP Russia, Central and Eastern Europe segment have been materially adversely

affected by the political unrest in Ukraine and Russia, the continued sanctions in Russia, significant changes in global oil prices and the impact of currency devaluation.

***Some of the markets in which the Company operates have currency controls in place which may restrict the repatriation of cash.***

Governments may restrict transfers of cash out of their country or take steps to control exchange rates, which could have a material adverse effect on the Company's results of operations and financial condition if the Company is unable to repatriate cash at exchange rates beneficial to the Company. For example, in 2014, the Company discontinued its operations in Venezuela due to the difficulties and uncertainties related to import controls, difficulties associated with repatriating cash and high inflation.

***Taxation and transfer pricing affect the Company's operations.***

The Company is subject to foreign tax and intercompany pricing laws, including those relating to the flow of funds between the U.S. parent Company and its foreign subsidiaries. These pricing laws are designed to ensure that appropriate levels of income and expense are reported by its U.S. and foreign entities, and that they are taxed appropriately. Regulators in the United States and in foreign markets closely monitor the Company's corporate structures, intercompany transactions, and how it effectuates intercompany fund transfers. The Company's effective tax rate could increase and its results of operations and financial condition could be materially adversely affect if regulators challenge the Company's corporate structures, transfer pricing methodologies or intercompany transfers. The Company is 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 the Company, it 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, the Company may not be able to take advantage of any foreign tax credits in the future. In addition, changes in the amount of the Company's total and foreign source taxable income may also limit the Company's ability to take advantage of any 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.

The Company collects and remits value-added taxes and sales taxes in jurisdictions and states in which it has determined that nexus exists. Other states may claim, from time to time, that the Company has state-related activities constituting a sufficient nexus to require the Company to collect and remit value-added taxes and sales taxes in their state, which would increase the Company's tax liability.

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

***Some of the markets in which the Company operates may become highly inflationary.***

The Company's international operations subject it to the risks associated with high levels inflation. A country is considered to have a highly inflationary economy if, among other qualitative factors, it has a cumulative inflation rate of approximately 100% or more over a three-year period. The functional currency in a highly inflationary economy is the U.S. dollar. As a result, all gains and losses resulting from the re-measurement of the Company's financial statements and other transactional foreign exchange gains and losses were reflected in the Company's earnings, which resulted in volatility within the its earnings, rather than as a component of comprehensive income within shareholders' equity. It could have a material adverse effect on the Company's results of operations and financial condition if the economy of other countries in which the Company does business are designated as highly inflationary.

***Cyber security risks and the failure to maintain the integrity of data could expose the Company to data loss, litigation and liability, and the Company's reputation could be significantly harmed.***

The Company collects and retains large volumes of data from employees and independent distributors, including credit card numbers and other personally identifiable information, for business purposes, including for transactional and promotional purposes, and its various information technology systems enter, process, summarize and report such data. The integrity and protection of this data is critical to the Company's business. The Company is subject to significant security and privacy regulations, as well as requirements imposed by the credit card industry. Maintaining compliance with these evolving regulations and requirements could be difficult and may increase the Company's expenses. In addition, a penetrated or

compromised data system or the intentional, inadvertent or negligent release or disclosure of data could result in theft, loss or fraudulent or unlawful use of company, employee, distributor or guest data which could harm the Company's reputation, disrupt its operations, or result in remedial and other costs, fines or lawsuits, which could have a material adverse effect on the Company's results of operations and financial condition.

***System failures could harm the Company's business.***

Like many companies, the Company's business is highly dependent upon its information technology infrastructure (websites, accounting and manufacturing applications, and product and customer information databases) to manage effectively and efficiently the Company's operations, including order entry, customer billing, accurately tracking purchases and volume incentives and managing accounting, finance and manufacturing operations. The occurrences of natural disasters, security breaches or other unanticipated problems could result in interruptions in the Company's day-to-day operations that could adversely affect its business. A long-term failure or impairment of any of the Company's information systems could materially adversely affect its results of operations and financial condition.

Beginning in 2013, the Company began to significantly reinvest in information technology systems. Included within this plan is an Oracle ERP implementation program to provide the Company with a single integrated software solution that will integrate the Company's business process on a worldwide basis. The unsuccessful implementation or failure of the ERP program could significantly disrupt the Company's operations, which could have a material adverse effect on its results of operations and financial condition.

***The Company could incur obligations relating to the activities of its independent distributors and contracted third-parties.***

The Company sells its products worldwide to a sales force of independent distributors who use the products themselves or resell them to customers. In addition, in certain foreign markets, the Company contracts with third-parties to distribute its product and provide support services to its independent distributors. Independent distributors and contracted third-parties are not employees and operate their own business separate and apart from the Company, and the Company may not be able to control aspects of their activities that may impact its business. If local laws and regulations or the interpretation of local laws and regulations change and require the Company to treat its independent distributors as employees, or if its independent distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which the Company operates to be its employees rather than independent contractors under existing laws and interpretations, the Company 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 the Company's results of operations and financial condition. The Company's independent distributors also operate in jurisdictions where local legislation and governmental agencies require it 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 the Company responsible for false product or income related claims or the actions of an independent distributor. If the Company was found to be responsible for any of these issues related to its independent distributors, it could have a material adverse effect on the Company's results of operations and financial condition.

***If the Company's independent distributors fail to comply with advertising laws, then its financial condition and operating results could be harmed.***

The advertisement of the Company's products is subject to extensive regulations in most of the markets in which the Company does business, including the United States. The Company's independent distributors may fail to comply with such regulations governing the advertising of the Company's products or business opportunity. In the U.S., the Company's 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 the Company's products. In the U.S., the FTC is responsible for providing consumer protection by, among other things, investigating and initiating enforcement actions against business practices it deems deceptive or fraudulent. The FTC has in recent years investigated and initiated enforcement action against direct selling companies for misleading representations relating to the earnings potential of an independent distributor within a company's compensation plan. Recently, 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 earning claims. The goal of such private watchdog groups is to get the FTC to take enforcement action against business practices they believe are illegal. Despite the Company's efforts to train its independent distributors and its attempts to monitor its independent distributors' marketing materials, the Company cannot ensure that all such materials comply with applicable regulations, including bans on therapeutic claims and earning claims. If the Company's independent distributors fail to comply with these restrictions, then the Company and its independent distributors could 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 the Company's results of operations and financial condition.

***Changes in key management personnel could materially adversely affect the Company.***

The Company believes its success depends in part on its ability to retain its executive officers, and to continue to attract additional qualified individuals to its management team. The loss or limitation of any of its executive officers or the inability to attract additional qualified management personnel could have a material adverse effect on the Company's results of operation and financial position. The Company does not carry key man insurance on the lives of any of its executive officers.

***If the Company is unable to effectively manage rapid growth in China, its operations could be harmed.***

If the Company obtains the necessary licenses and approvals and its operations in China are successful and experiences rapid growth, the Company may be unable to successfully manage rapid expansion of manufacturing operations and a rapidly growing and dynamic sales force in China. If the Company is unable to effectively manage such growth and expansion of its sales force and manufacturing operations, the Company's government relations and public perception may be compromised, which could have a material adverse effect on the Company's results of operations and financial condition.

***The Company may experience unintended negative effects from its independent distributor promotions or compensation plans.***

The payment of volume incentives to the Company's independent distributors is its most significant expense. These incentives include commissions, bonuses and certain awards and prizes based on promotions and product sales levels. From time to time, the Company adjusts its compensation plan to better manage these incentives as a percentage of net sales. The Company closely monitors the amount of volume incentives that are paid as a percentage of net sales, and may periodically adjust its compensation plan to prevent volume incentives from having a material adverse effect on the Company results of operations and financial condition. Additionally, regulations in some countries in which the Company operates limit the amount of volume incentives that can be paid to its independent distributors, and the Company may, from time to time, modify its compensation plan in these countries to comply with such regulations. In addition to the compensation plan, the Company frequently designs and implements economic and non-economic incentives and promotions to motivate and reward its independent distributors. Changes to the Company's compensation plan, product pricing, or promotions and incentives may not be successful in achieving target levels of volume incentives as a percentage of net sales. Furthermore, such programs, promotions or incentives could result in unintended or unforeseen negative economic and non-economic consequences to the Company's business, such as higher than anticipated costs or difficulty in attracting and retaining independent distributors, either of which could have a material adverse effect on the Company's results of operations and financial condition.

***The Company's manufacturing activity is subject to certain risks.***

The Company manufactures approximately 80 percent of the products sold at its manufacturing facility located in Spanish Fork, Utah. As a result, the Company is dependent upon the uninterrupted and efficient operation of its manufacturing facility in Spanish Fork and its distribution facilities throughout the country. The Company's manufacturing facilities and distribution facilities are subject to the risk of catastrophic loss due to, among other things, earthquake, fire, flood, terrorism or other natural or man-made disasters, as well as occurrence of significant equipment failures. If any of these facilities were to experience a catastrophic loss, it would be expected to disrupt the Company's operations and could have a material adverse effect on the Company's results of operations and financial condition as a result of personal injury or property damage, damaged relationships with its customers or incurring significant cost to repair or replace the facilities or systems lost.

As the primary manufacturer of its own products, the Company is subject to FDA regulations on Good Manufacturing Practices, which require the Company to maintain good manufacturing processes, including ingredient identification, manufacturing controls and record keeping. The ingredient identification requirement, which requires the Company to confirm the levels, identity and potency of ingredients listed on its product labels within a narrow range, is particularly burdensome and difficult for the Company with respect to its product formulations, which contain many different ingredients. Compliance with these regulations has increased and may further increase the cost of manufacturing the Company's products. The Company's operations could be harmed if regulatory authorities make determinations that the Company is not in compliance with Good Manufacturing Practices. A finding of noncompliance may result in administrative warnings, penalties or actions impacting the Company's ability to continue selling certain products, which could have a material adverse effect on the Company's results of operations and financial condition.



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

***Availability and integrity of raw materials could become compromised.***

The Company acquires all of its raw materials for the manufacture of its products from third-party suppliers. If the Company was to lose a significant supplier and experience difficulties in finding or transitioning to an alternative supplier, the Company could experience shortages or product back orders, which could have a material adverse effect on the Company's results of operations and financial condition. Suppliers may be unable to provide the Company with the raw materials in the quantities and at the appropriate quality that it requires or at a price the Company is willing to pay. The Company could incur delays caused by an interruption in the production of these materials including weather, crop conditions, climate change, transportation interruptions and natural disasters or other catastrophic events outside of the control of the Company and its suppliers.

Occasionally, the Company's suppliers have experienced production difficulties with respect to its products, including the delivery of materials or products that do not meet the Company's quality control standards. These quality problems could have a material adverse effect on the Company's results of operations and financial condition by causing stock outages or shortages of the Company's products.

***Inventory obsolescence due to finite shelf lives could adversely affect the Company's business.***

To provide a high level of product availability to its independent distributors and customers, the Company generally maintains a considerable inventory of raw materials in the United States and of finished goods in most countries in which it does business. The Company's inventories of both raw materials and finished goods have finite shelf lives. If the Company overestimates the demand for its products, the Company could experience significant write-downs of its inventory due to obsolescence. Such write-downs could have a material adverse effect on the Company's results of operations and financial condition.

***The Company's failure to appropriately respond to changing consumer preferences and demand for new products or product enhancements could significantly harm its distributor relationships and product sales and harm its financial condition and operating results.***

The Company's business is subject to changing consumer trends and preferences. The Company's continued success depends in part on its ability to anticipate and react to these changes, and the Company may not react in a timely or commercially appropriate manner to such changes. Furthermore, the nutritional supplement industry is characterized by rapid and frequent changes in demand for products and new product introductions and enhancements. The Company's failure to accurately predict these trends could negatively impact consumer opinion of its products, which in turn could harm its relationships with its independent distributors and cause the loss of sales. If the Company does not introduce new products or make enhancements to meet the changing needs of its customers in a timely manner, some of its products could be rendered obsolete, which could have a material adverse effect on the Company's results of operations and financial condition.

***The Company's business is involved in an industry with intense competition.***

The Company operates in an industry with numerous manufacturers, distributors and retailers of nutritional products. The market for these products is intensely competitive. Many of the Company's competitors are significantly larger, have greater financial resources, and have better name recognition than the Company. The Company also relies on independent distributors to market and sell its products through direct selling techniques, as well as sponsoring other independent distributors. The Company competes with other direct selling companies to retain existing independent distributors and attract new independent distributors. In addition, the Company currently does not have significant patent or other proprietary protection, and competitors may introduce products with the same or similar ingredients that the Company uses in its products. As a result, the Company may have difficulty differentiating its products from its competitors' product and other competing products that enter the nutritional market. Increased competition could have a material adverse effect on the Company's results of operations and financial condition.

***The Company's business is subject to the effects of adverse publicity and negative public perception.***

The Company's ability to attract and retain independent distributors, as well as its ability to maintain or grow sales in the future, may be affected by adverse publicity or negative public perception with regard to its industry, its competition, its direct selling model, the quality or efficacy of nutritional product supplements and ingredients, and its business generally, which could have a material adverse effect on the Company's financial condition and results of operations.

***Product liability claims could harm the Company's business.***

As a manufacturer and distributor of products that are ingested, the Company could face product liability claims if, among other things, the use of its products is alleged to result in injury to a consumer. The Company has accrued a reserve that it believes is sufficient to cover probable and reasonably estimable liabilities related to product liability claims based upon the Company's history. Such reserve may prove to be insufficient if the outcome of a product liability claim against the Company is beyond its estimate of probable and reasonably estimable liabilities, which could have a material adverse effect on the Company's results of operations and financial condition.

***The Company's business is subject to intellectual property risks.***

Most of the Company's 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 the Company's products impractical. The Company has other intellectual property that it considers valuable, including trademarks for the *Nature's Sunshine Products* name and logo as well as the *Synergy WorldWide* name. The Company's efforts to protect its intellectual property may be unsuccessful and third parties may assert claims against the Company for infringement of intellectual property rights, which could result in the Company being required to obtain costly licenses for such rights, to pay royalties or to terminate its manufacturing of infringing products, all of which could have a material adverse effect on the Company's results of operation and financial condition.

***Failure of third party support could negatively impact the Company's sales and profitability.***

The Company has contracted with third-parties in some of its markets to distribute its products and provide support services its independent distributors. The Company relies on these third parties to perform various required administrative functions in support of its independent distributors. Any failure of these third parties in this regard could result in the disruption of the Company's business in these markets and have a material adverse effect on the Company's results of operations and financial condition.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company's corporate offices are located in Lehi, Utah, and consist of approximately 66,000 square feet. These facilities are leased from an unaffiliated third party through a lease agreement which expires in 2018. The Company's Synergy corporate offices are located in Pleasant Grove, Utah, and consist of approximately 21,000 square feet. The Company has entered into a new lease consisting of approximately 61,000 square feet in Lehi, Utah, and anticipates relocating its corporate offices in 2018 and Synergy offices in 2019.

The Company's principal warehousing and manufacturing facilities are housed in a building consisting of approximately 270,000 square feet and located on approximately 10 acres in Spanish Fork, Utah. These facilities are owned by the Company and support all of its business segments.

The Company leases properties used primarily as distribution warehouses located in Georgia, Ohio, Texas and Utah, as well as offices and distribution warehouses in the majority of the countries in which it does business. During 2016, 2015 and 2014, the Company incurred lease expense of approximately \$6.6 million, \$6.3 million, and \$6.2 million, respectively.

The Company believes that its current facilities are adequate for its business operations.

**Item 3. Legal Proceedings**

The Company is party to various legal proceedings. Management cannot predict the ultimate outcome of these proceedings, individually or in the aggregate, or their resulting effect on the Company's business, financial position, results of operations or cash flows as litigation and related matters are subject to inherent uncertainties, and unfavorable rulings could occur. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the business, financial position, results of operations, or cash flows for the period in which the ruling occurs and/or future periods. The Company maintains 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 the Company, that such coverage will be sufficient to cover one or more large claims, or that the insurers will not successfully disclaim coverage as to a pending or future claim.

**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**

The Company's common stock is traded on the NASDAQ Global Market (symbol “NATR”).

The following table summarizes the quarterly high and low market prices of the Company's common stock for the years ended December 31, 2016 and 2015:

	<b>Market Prices</b>	
	<b>High</b>	<b>Low</b>
<b>2016</b>		
First Quarter	\$ 10.30	\$ 7.15
Second Quarter	\$ 11.77	\$ 8.50
Third Quarter	\$ 16.05	\$ 9.48
Fourth Quarter	\$ 16.45	\$ 11.10
	<b>Market Prices</b>	
	<b>High</b>	<b>Low</b>
<b>2015</b>		
First Quarter	\$ 14.98	\$ 11.88
Second Quarter	\$ 14.11	\$ 11.89
Third Quarter	\$ 13.84	\$ 11.30
Fourth Quarter	\$ 12.63	\$ 10.30

The approximate number of shareholders of record of the Company's common shares as of February 17, 2017, was 750. This number of holders of record does not represent the actual number of beneficial owners of the Company's 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**

There were 755 shareholders of record as of December 31, 2016.

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

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

## Securities Authorized for Issuance Under Equity Compensation Plans

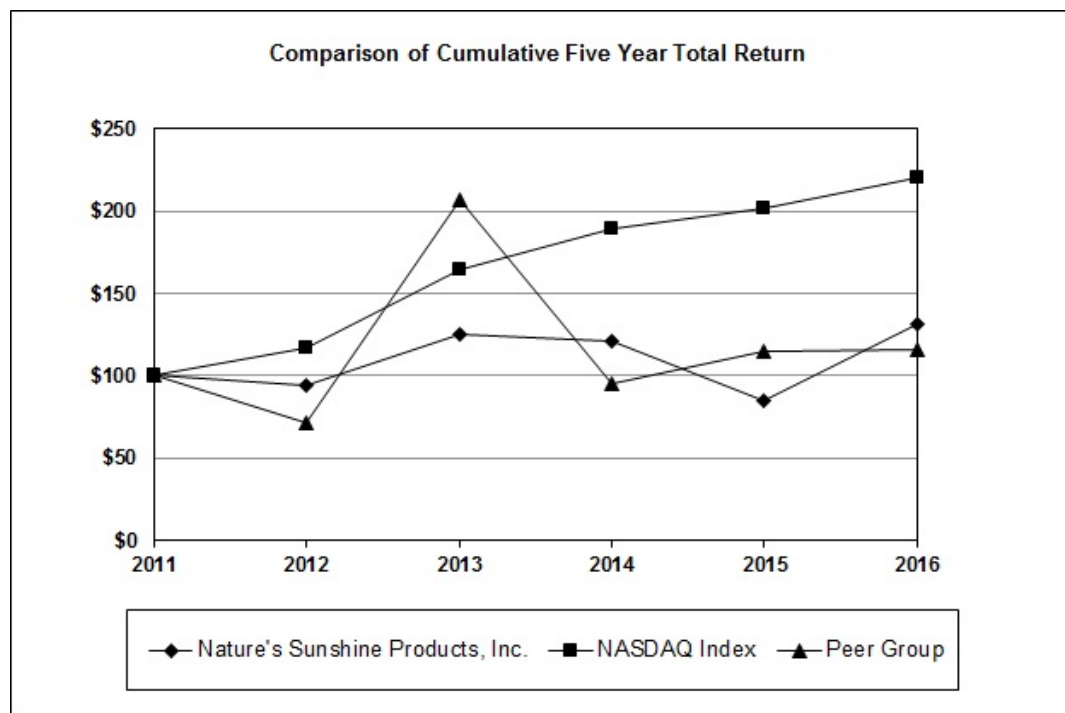
The following table contains information regarding the Company's equity compensation plans as of December 31, 2016:

Plan category	Number of securities to be issued upon exercise or vesting of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
<b>Equity compensation plans approved by security holders (1)</b>	2,361,910	\$ 12.41	883,250

- (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 the Company's shareholders on August 1, 2012, and an amendment to the 2012 Incentive Plan was approved by the Company's 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 the Company's shareholders on November 6, 2009. The terms of these plans are summarized in Note 11, "Capital Transactions", of the Notes to Consolidated Financial Statements in Item 8, Part 2 of this report.

## Performance Graph

The graph below depicts the Company's common stock as an index, assuming \$100.00 was invested on December 31, 2011, along with the composite prices of companies listed on the NASDAQ Stock Market and the Company's peer group. Standard & Poor's Investment Services has 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 the Company's common stock. The publicly-traded companies that comprise this peer group include Herbalife International, Ltd., NuSkin Enterprises, Inc. and USANA Health Sciences, Inc. The Company considers these companies to be its 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 the Company specifically and expressly incorporates it by reference into such filing.

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
<b>Nature’s Sunshine Products, Inc.</b>	\$ 100.00	\$ 94.22	\$ 125.29	\$ 121.25	\$ 85.48	\$ 131.14
<b>NASDAQ Index</b>	100.00	117.45	164.57	188.84	201.98	219.89
<b>Peer Group</b>	100.00	71.27	207.32	95.26	114.77	115.86

## Item 6. Selected Financial Data

The selected financial data presented below is summarized from the Company's results of consolidated operations for each of the five years in the period ended December 31, 2016, as well as selected consolidated balance sheet data as of December 31, 2016, 2015, 2014, 2013, and 2012.

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

### Consolidated Statement of Operations Data

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Net sales	\$ 341,159	\$ 324,705	\$ 366,367	\$ 369,826	\$ 360,826
Cost of sales	(90,937)	(85,345)	(91,584)	(92,344)	(91,369)
Gross profit	250,222	239,360	274,783	277,482	269,457
Operating expenses:					
Volume incentives	119,910	117,786	135,808	135,516	130,875
Selling, general and administrative	120,273	107,702	119,927	118,383	104,716
Operating income	10,039	13,872	19,048	23,583	33,866
Other income (loss), net	(773)	(592)	(34)	1,993	1,573
Income before income taxes	9,266	13,280	19,014	25,576	35,439
Provision (benefit) for income taxes	8,591	1,740	(743)	7,923	10,531
Net income from continuing operations	675	11,540	19,757	17,653	24,908
Income (loss) from discontinued operations	—	2,116	(9,957)	(44)	472
Net income	675	13,656	9,800	17,609	25,380
Loss attributable to noncontrolling interests	(1,464)	(1,031)	(219)	—	—
Net income attributable to common shareholders	\$ 2,139	\$ 14,687	\$ 10,019	\$ 17,609	\$ 25,380

**Consolidated Balance Sheet Data**

	December 31,				
	2016	2015	2014	2013	2012
Cash and cash equivalents	\$ 32,284	\$ 41,420	\$ 58,699	\$ 77,247	\$ 79,241
Working capital	37,086	48,382	63,340	80,025	83,943
Inventories	47,597	38,495	40,438	41,910	43,280
Property, plant and equipment, net	73,272	68,728	51,343	32,022	27,950
Total assets	205,570	200,520	196,799	199,612	193,919
Long-term liabilities	10,137	11,119	9,933	25,784	16,893
Total shareholders' equity	132,398	136,265	128,957	105,259	115,636

**Summary Cash Flow Information**

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Operating activities	\$ 3,417	\$ 10,162	\$ 14,182	\$ 29,378	\$ 26,651
Investing activities	(11,532)	(18,592)	(26,674)	(8,564)	(2,989)
Financing activities	(286)	(7,578)	(5,076)	(21,331)	(3,133)

**Common Share Summary**

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Cash dividends per share (1)	\$ 0.40	\$ 0.40	\$ 1.90	\$ 1.90	\$ 0.15
Basic and diluted earnings per share					
Basic weighted average number of shares	18,731	18,656	17,108	15,997	15,648
Diluted weighted average number of shares	19,056	19,177	17,641	16,390	15,987
Basic earnings per share attributable to common shareholders:					
Net income from continuing operations	\$ 0.11	\$ 0.67	\$ 1.15	\$ 1.10	\$ 1.59
Income (loss) from discontinued operations	\$ —	\$ 0.11	\$ (0.57)	\$ —	\$ 0.03
Net income attributable to common shareholders	\$ 0.11	\$ 0.79	\$ 0.58	\$ 1.10	\$ 1.62
Diluted earnings per share attributable to common shareholders:					
Net income from continuing operations	\$ 0.11	\$ 0.66	\$ 1.12	\$ 1.08	\$ 1.56
Income (loss) from discontinued operations	\$ —	\$ 0.11	\$ (0.56)	\$ (0.01)	\$ 0.03
Net income attributable to common shareholders	\$ 0.11	\$ 0.77	\$ 0.56	\$ 1.07	\$ 1.59

(1) — 2014 and 2013 include a special cash dividend of \$1.50 per share paid on September 19, 2014 and August 29, 2013, respectively.

**Other Information**

	December 31,				
	2016	2015	2014	2013	2012
Square footage of property in use	689,945	703,696	754,548	771,439	768,513
Number of employees	972	901	964	1,010	995

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

The following discussion highlights the principal factors that have affected the Company's financial condition, results of operations, liquidity and capital resources for the periods described. This discussion should be read in conjunction with the Company's consolidated financial statements and the related notes in Item 8 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

#### *The Company's Business, Industry and Target Market*

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

The Company has four business segments that are divided based on the different characteristics of their Distributor bases, selling and Distributor compensation plans and product formulations, as well as the internal organization of its officers and their responsibilities and business operations. Three business segments operate under the Nature's Sunshine Products brand (NSP Americas; NSP Russia, Central and Eastern Europe; and China and New Markets). The Company's China and New Markets segment anticipates deploying a multi-channel go-to-market strategy that offers select Nature's Sunshine branded products through direct selling, e-commerce and retail channels across China. The time to market will be dependent upon regulatory processes including product registration and permit approvals. The China and New Markets segment also includes the Company's wholesale business, in which the Company sells its products to various locally-managed entities independent of the Company that the Company has granted distribution rights for the relevant market. All of the net sales to date in the China and New Markets segment is through the Company's wholesale business to foreign markets, and beginning in the second quarter of 2016, pre-opening product sales through Hong Kong. The fourth business segment operates under the Synergy® WorldWide brand.

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

In 2016, the Company experienced an increase in its consolidated net sales of 5.1 percent (or 5.8 percent in local currencies) compared to 2015. NSP Russia, Central and Eastern Europe net sales decreased approximately 5.2 percent compared to 2015. Synergy WorldWide net sales increased approximately 9.4 percent compared to 2015 (or 9.7 percent in local currencies). NSP Americas net sales decreased approximately 1.8 percent compared to 2015 (or 0.7 percent in local currencies). China and New Markets net sales increased approximately 256.0 percent compared to 2015.

In 2016, the Company began making pre-opening product sales through Hong Kong while awaiting its direct selling license in China. Due to the delay in receiving a direct selling license in China, sales were lower than expected for the year ended December 31, 2016. The Company is unable to determine whether or when it will receive a direct selling license in China.

In absolute terms, selling, general and administrative expenses increased \$12.6 million during 2016, and increased as a percentage of net sales to 35.3 percent from 33.2 percent in 2015. The percentage increase was primarily the result of independent service fees in China, building the Company's China infrastructure and the reduction in internally capitalized costs related to Oracle.

The Company distributes its products to consumers through an independent sales force comprised of independent Managers and Distributors, some of whom also consume its products. Typically a person who joins the Company's independent sales force begins as a Distributor. An independent Distributor may earn Manager status by attaining certain product sales levels. On a worldwide basis, active independent Managers were approximately 12,900 and 12,700 and active independent Distributors and customers were approximately 243,600 and 264,400 at December 31, 2016 and 2015, respectively.



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

### **Critical Accounting Policies and Estimates**

The Company's 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 the Company 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, management evaluate its estimates and assumptions. Management bases its 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 the Company's financial position and results of operations. Management has discussed the development, selection and disclosure of these estimates with the Board of Directors and its Audit Committee.

A summary of the Company's significant accounting policies is provided in Note 1 of the Notes to Consolidated Financial Statements in Item 8 of this report. Management believes the critical accounting policies and estimates described below reflect its more significant estimates and assumptions used in the preparation of the Company's consolidated financial statements. The impact and any associated risks on the Company's 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*

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

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

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

#### *Investments*

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

For equity securities, when assessing whether a decline in fair value below the Company's cost basis is other-than-temporary, the Company considers the fair market value of the security, the length of time and extent to which market value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and the Company's intent and ability to hold the investment for a sufficient time in

order to enable recovery of the cost. New information and the passage of time can change these judgments. Where the Company has determined that it lacks the intent and ability to hold an equity security to its expected recovery, the security's decline in fair value is deemed to be other-than-temporary and is recorded within earnings as an impairment loss.

#### *Inventories*

Inventories are stated at the lower-of-cost-or-market, using the first-in, first-out method. The components of inventory cost include raw materials, labor and overhead. To estimate any necessary obsolescence or lower-of-cost-or-market adjustments, various assumptions are made in regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning and market conditions. The Company built its inventories for China in anticipation of receiving its direct selling license, which it has not received yet. As a result of the delay and heightened uncertainty regarding receiving a direct selling license in China, the Company recorded a \$1.7 million write-down of inventory that is expected to expire.

#### *Self-Insurance Liabilities*

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

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

#### *Property, Plant and Equipment*

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

The Company has made a significant investment in its information systems of approximately \$46.8 million as of December 31, 2016. The Company intends on implementing the new system during 2017, and will amortize the asset over 10 years. The company will also reduce its capitalization of internal development costs which were \$2.1 million, \$4.7 million and \$5.1 million during 2016, 2015 and 2014, respectively.

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

The Company reviews its long-lived assets, such as property, plant and equipment and intangible assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. It may 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 are recoverable. An impairment loss is calculated by determining the difference between the carrying values and the fair values of these assets. During the year ended December 31, 2016, the Company reclassified one of its properties in Utah as held-for-sale and recorded an impairment on the asset of \$0.2 million. Due to the continual currency devaluation of the Venezuelan bolivar, as of September 30, 2014, the Company incurred a \$2.9 million impairment charge to write down the value of its fixed assets in Venezuela to \$0, which is included in the results from discontinued operations. During the year ended December 31, 2015, the Company received \$1.3 million in net proceeds from the sales of its fixed assets in Venezuela, which is included in the results from discontinued operations.

#### *Incentive Trip Accrual*

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

#### *Contingencies*

The Company is involved in certain legal proceedings. When a loss is considered probable in connection with litigation or non-income tax contingencies and when such loss can be reasonably estimated, the Company records its best estimate within a range related to the contingency. If there is no best estimate, the Company records the minimum of the range. As additional information becomes available, the Company assesses the liability related to the contingency and revises the estimates. Revision in estimates of the liabilities could materially affect the Company's results of operations in the period of adjustment. The Company's contingencies are discussed in further detail in Note 14, "Commitments and Contingencies", of the Notes to Consolidated Financial Statements, in Item 8, Part 2 of this report.

#### *Income Taxes*

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

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating the Company's ability to recover its deferred tax assets, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, the Company develops assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income, and are consistent with the plans and estimates that the Company is using to manage the underlying businesses. Valuation allowances are recorded as reserves against net deferred tax assets by the Company when it is determined that net deferred tax assets are not likely to be realized in the foreseeable future. As of December 31, 2016 and 2015, the Company had recorded valuation allowances of \$11.3 million and \$6.6 million, respectively, as offsets to its deferred tax assets.

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

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

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

#### *Share-Based Compensation*

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

## PRESENTATION

Net sales represents net sales including shipping and handling revenues offset by volume rebates given to independent Managers, Distributors and customers. Volume rebates as a percentage of retail sales may vary by country, depending upon regulatory restrictions that limit or otherwise restrict rebates. The Company also offers reduced volume rebates with respect to certain products and promotions worldwide.

The Company's gross profit consists of net sales less cost of sales, which represents its manufacturing costs, the price it pays to its raw material suppliers and manufacturers of its products, and duties and tariffs, as well as shipping and handling costs related to product shipments and distribution to its independent Managers, Distributors and customers.

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

Selling, general and administrative expenses represent the Company's operating expenses, components of which include labor and benefits, sales events, professional fees, travel and entertainment, Distributor marketing, occupancy costs, communication costs, bank fees, independent service fees in China, depreciation and amortization, and other miscellaneous operating expenses.

Most of the Company's sales to independent Distributors outside the United States are made in the respective local currencies. In preparing its financial statements, the Company translates revenues into U.S. dollars using average exchange rates. Additionally, the majority of the Company's purchases from its suppliers generally are made in U.S. dollars. Consequently, a strengthening of the U.S. dollar versus a foreign currency can have a negative impact on the Company's reported sales and contribution margins and can generate transaction losses on intercompany transactions.

## RESULTS OF OPERATIONS

The following table summarizes the Company's consolidated net income from continuing operations results as a percentage of net sales for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	(26.7)	(26.3)	(25.0)
Gross profit	73.3	73.7	75.0
Operating expenses:			
Volume incentives	35.1	36.3	37.1
Selling, general and administrative	35.3	33.2	32.7
Operating income	2.9	4.3	5.2
Other income (expense):			
Interest and other income, net	0.2	0.5	—
Interest expense	—	—	(0.1)
Foreign exchange gains, net	(0.4)	(0.6)	0.1
	(0.2)	(0.2)	—
Income before provision for income taxes	2.7	4.1	5.2
Provision (benefit) for income taxes	2.5	0.5	(0.2)
Net income from continuing operations	0.2 %	3.6 %	5.4 %

### Net Sales

The Company's international operations have provided, and are expected to continue to provide, a significant portion of its 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 its 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, it presents net sales excluding the impact of foreign exchange fluctuations, which compares 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 its 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. The Company believes presenting the impact of foreign currency fluctuations is useful to investors because it allows a more meaningful comparison of net sales of its 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, 2016, as Compared to the Year Ended December 31, 2015

#### Net Sales

The following table summarizes the changes in the Company's net sales by operating segment with a reconciliation to net sales, excluding the impact of currency fluctuations, for the fiscal years ended December 31, 2016 and 2015 (dollar amounts in thousands).

Net Sales by Operating Segment					
	2016	2015	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency
NSP Americas:					
NSP North America	\$ 148,048	\$ 147,017	0.7 %	\$ (404)	1.0 %
NSP Latin America	27,874	32,134	(13.3)%	(1,550)	(8.4)%
	175,922	179,151	(1.8)%	(1,954)	(0.7)%
NSP Russia, Central and Eastern Europe	\$ 25,971	\$ 27,408	(5.2)%	\$ (163)	(4.6)%
Synergy WorldWide:					
Synergy Asia Pacific	89,694	76,479	17.3 %	(229)	17.6 %
Synergy Europe	24,328	25,829	(5.8)%	(68)	(5.5)%
Synergy North America	10,771	11,773	(8.5)%	—	(8.5)%
	124,793	114,081	9.4 %	(297)	9.7 %
China and New Markets	\$ 14,473	\$ 4,065	256.0 %	\$ —	256.0 %
	\$ 341,159	\$ 324,705	5.1 %	\$ (2,414)	5.8 %

Consolidated net sales for the year ended December 31, 2016, was \$341.2 million compared to \$324.7 million in 2015, or an increase of approximately 5.1 percent. The increase was primarily related to the pre-opening product sales through Hong Kong, continued growth in Synergy Korea and Japan, and moderate growth in the Company's NSP US market. Growth in these markets was offset by declines in the Synergy Europe and North American markets, as well as declines in the NSP Latin America and NSP Russia, Central and Eastern Europe markets for the year ended December 31, 2016. Excluding the unfavorable impact of foreign currency exchange rate fluctuations, the Company's consolidated net sales for the year ended December 31, 2016 would have increased by 5.8 percent, from 2015.

#### NSP Americas

Net sales related to NSP Americas for the year ended December 31, 2016, was \$175.9 million compared to \$179.2 million for 2015, a decrease of 1.8 percent. In local currency, net sales decreased by 0.7 percent compared to 2015. Fluctuations in foreign exchange rates had a \$2.0 million unfavorable impact on net sales for the year ended December 31, 2016. Active independent Managers within NSP Americas totaled approximately 6,400 and 6,500 at December 31, 2016 and 2015, respectively. Active independent Distributors and customers within NSP Americas totaled approximately 121,200 and 131,600 at December 31, 2016 and 2015, respectively. The number of independent Managers, Distributors and customers decreased primarily due to the enrollment of fewer independent distributors in the Company's Latin American markets. Independent Managers were down 1.5 percent, and active independent Distributors and customers were down 7.9 percent, compared to the prior year. The active independent Managers category includes independent Managers under the Company's various compensation plans that have achieved and maintained certain product sales levels. As such, all independent Managers are considered to be active independent Managers. The active independent Distributors and customers category includes the Company's independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous three months.

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

In the United States, net sales increased approximately \$1.5 million, or 1.1 percent, for the year ended December 31, 2016, compared to 2015, with growth for ten consecutive quarters in part due to the implementation of new sales programs. More specifically, it has experienced increased adoption of retail sales tools and the IN.FORM business model, which is a group-focused weight management program incorporating a habit of healthy eating, daily activity and consumption of the Company's products.

In Canada, net sales decreased approximately \$0.5 million, or 4.3 percent, for the year ended December 31, 2016, compared to 2015. In local currency, net sales decreased 0.7 percent compared to 2015. The decrease is in part attributable to fewer independent distributors than expected in attendance at the Company's Canadian convention, which historically provides the majority of sales momentum for the fourth quarter.

In Latin America, net sales decreased approximately \$4.3 million, or 13.3 percent, for the year ended December 31, 2016, compared to 2015. In local currency, net sales decreased 8.4 percent compared to 2015. Currency devaluation had a \$1.6 million unfavorable impact on net sales for the year ended December 31, 2016. In NSP Latin America, the Company faced continued headwinds due to changing regulations for product registration. To address this, the Company is taking steps to transition its markets to adopt the IN.FORM business model, and at the same time, ensuring that its resources are aligned with this initiative.

#### NSP Russia, Central and Eastern Europe

Net sales related to NSP Russia, Central and Eastern Europe markets was \$26.0 million for the year ended December 31, 2016, compared to \$27.4 million for 2015, a decrease of 5.2 percent. Active independent Managers within NSP Russia, Central and Eastern Europe remained constant at 2,800 and 2,800 as of December 31, 2016 and 2015, respectively. Active independent Distributors and customers within NSP Russia, Central and Eastern Europe totaled approximately 66,700 and 72,000 as of December 31, 2016 and 2015, respectively. Net sales and the number of Distributors and customers decreased primarily as a result of the current political uncertainty in Ukraine and across the region, and the decline in the value of the Ukrainian hryvnia and Russian ruble against the U.S. dollar. Although changes in exchange rates between the U.S. dollar and Ukrainian hryvnia do not result in currency fluctuations within the Company's financial statements, the Company's products in Ukraine and Russia are priced in local currencies pegged to current U.S. dollar exchange rates and, therefore, become more expensive when the local currency declines in value. The Company remains strongly supportive of and engaged with its independent distributors in the region, and is supporting their activity with additional promotions and training. However, the Company expects that sales in its NSP Russia, Central and Eastern Europe segment will continue to be significantly affected by the political unrest in Ukraine and Russia, sanctions in Russia and the impact of currency devaluation. The Company continues to evaluate various options to keep the distributor base engaged, including expansion of the Company's business into additional countries in Central and Eastern Europe. The Company believes that its partnership with its local partner provides a solid foundation to reignite growth once the political and economic conditions stabilize.

#### Synergy WorldWide

Synergy WorldWide reported net sales for the year ended December 31, 2016, of \$124.8 million, compared to \$114.1 million for 2015, an increase of 9.4 percent. Fluctuations in foreign exchange rates had a \$0.3 million unfavorable impact on net sales for the year ended December 31, 2016. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales in Synergy WorldWide would have increased by 9.7 percent from 2015. Active independent Managers within Synergy WorldWide totaled approximately 3,700 and 3,400 at December 31, 2016 and 2015, respectively. Active independent Distributors and customers within Synergy WorldWide totaled approximately 53,600 and 60,800 at December 31, 2016 and 2015, respectively.

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

In South Korea, net sales increased approximately \$9.2 million, or 18.9 percent, for the year ended December 31, 2016, compared to 2015. In local currency, net sales increased 21.9 percent compared to 2015. The increase net sales was primarily due to launching new distributor acquisition programs, including a new home health party program and improvements in the rank advancement and recognition programs.

In Europe, net sales decreased approximately \$1.5 million, or 5.8 percent, for the year ended December 31, 2016, compared to 2015. Fluctuations in foreign exchange rates, had minimal impact on net sales for the year ended December 31, 2016. In local currency, net sales decreased 5.5 percent for the year ended December 31, 2016, compared to 2015. Net sales in Europe during the year ended December 31, 2016, was negatively impacted by residual sales in the prior year tied to the launch of the Company's weight management product plan that did not recur this year. Notwithstanding the year-over-year decline, the fourth quarter represents the second quarter of year-over-year sales growth in local currency after four quarters of decline.

In Japan, net sales increased approximately \$2.7 million, or 22.3 percent, for the year ended December 31, 2016, compared to 2015. Fluctuations in foreign exchange rates had \$1.6 million favorable impact on net sales for the year ended December 31, 2016. In local currency, net sales increased 9.6 percent for the year ended December 31, 2016, compared to 2015. The Company continues to see the growth of new products and implemented programs to stimulate activity, including the

adoption of Korea's distributor recognition program, which had a positive impact on sales volume in this market in the year ended December 31, 2016.

In North America, net sales decreased approximately \$1.0 million, or 8.5 percent, for the year ended December 31, 2016, compared to 2015. The decline in net sales was primarily driven by the enrollment of fewer new Distributors and attraction of fewer new customers. Growth initiatives have been developed and implemented to more effectively attract new Distributors and provide improved training and motivation.

#### China and New Markets

China and New Markets had net sales from wholesale activities and pre-opening product sales through Hong Kong for the year ended December 31, 2016, of \$14.5 million, compared to \$4.1 million for 2015, an increase of 256.0 percent. The net sales increase is the result of \$10.4 million in pre-opening product sales through Hong Kong, which began in 2016. All sales prior to 2016 resulted from the segment's wholesale activities. The Company awaits the receipt of its direct selling license in China. However, the Company is unable to determine whether or when it will receive a direct-selling license.

Further information related to NSP Americas, NSP Russia, Central and Eastern Europe, Synergy WorldWide, and China and New Markets business segments is set forth in Note 15 of the Notes to Consolidated Financial Statements in Item 8 of this report.

#### *Cost of Sales*

Cost of sales as a percent of net sales increased to 26.7 percent in 2016, compared to 26.3 percent in 2015. The increases in the cost of sales percentages are primarily due to the additional \$1.7 million of inventory write-downs recorded for products in China that came as a result of lower than expected sales as the Company awaits the receipt of its direct-selling license. The Company is unable to determine whether or when it will receive a direct-selling license.

#### *Volume Incentives*

Volume incentives as a percent of net sales decreased to 35.1 percent in 2016, compared to 36.3 percent in 2015. The decrease in volume incentives as a percent of net sales for the period is primarily due to changes in segment market mix such as the sales growth in China and New Markets related to pre-opening product sales through Hong Kong, for which no volume incentives are paid. Rather, China and New Markets pay independent service fees which are included in selling, general and administrative expenses.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by approximately \$12.6 million to \$120.3 million for the year ended December 31, 2016. Selling, general and administrative expenses were 35.3 percent of net sales for the year ended December 31, 2016, compared to 33.2 percent for 2015.

The increase in selling, general and administrative expenses during 2016, compared to 2015, were primarily related to:

- \$4.3 million of independent service fees, respectively, related to the Company's pre-opening product sales through Hong Kong;
- \$3.5 million of increased investment in China as the Company built its infrastructure;
- \$2.6 million of increased non-capitalizable internal labor costs related to the Oracle ERP implementation project; and
- \$2.1 million of increased employee health and other benefits.

Offset by:

- A reduction of \$3.3 million related to restructuring charges for the year ended December 31, 2015, that did not reoccur during the year ended December 31, 2016.



### Other Income (Expense), Net

Other income (expense), net for the year ended December 31, 2016, decreased \$0.2 million compared to 2015. The change in other income (expense) was primarily due to changes in foreign exchange gains and losses.

### Income Taxes

Our effective income tax rate was 92.7 percent for 2016, compared to 13.1 percent for 2015. The effective rate for 2016 differed from the federal statutory rate of 35.0 percent primarily due to the following:

- (i) Adjustments to valuation allowances increased the effective rate by 77.6 percent in 2016. Included was the effect of an increase in valuation allowances on U.S. foreign tax credits, in addition to the impact of current year foreign losses that will not provide tax benefit.
- (ii) Cumulative unfavorable adjustments related to foreign operations increased the tax rate by 26.8 percent in 2016. These adjustments relate to foreign items that are treated differently for tax purposes than they are for financial reporting purposes.
- (iii) Adjustments relating to the U.S. tax impact of foreign operations decreased the effective tax rate by 53.4 percent in 2016. Included were adjustments for dividends received from foreign subsidiaries, adjustments for foreign tax credits, and foreign rate differentials.

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

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

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

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

**Year Ended December 31, 2015, as Compared to the Year Ended December 31, 2014**
**Net Sales**

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

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

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

**NSP Americas**

Net sales related to NSP Americas for the year ended December 31, 2015, was \$179.2 million compared to \$182.4 million for 2014, a decrease of 1.8 percent. In local currency, net sales increased by 1.0 percent compared to 2014. Fluctuations in foreign exchange rates had a \$5.0 million unfavorable impact on net sales for the year ended December 31, 2015. Active independent Managers within NSP Americas totaled approximately 6,500 and 6,600 at December 31, 2015 and 2014, respectively. Active independent Distributors and customers within NSP Americas totaled approximately 131,600 and 135,900 at December 31, 2015 and 2014, respectively. The number of independent Managers, Distributors and customers decreased primarily due to fewer new independent distributors enrolling in the Company's Latin American markets. Independent Managers were down 1.5 percent, and active independent Distributors and customers were down 3.5 percent, compared to the prior year. Despite the decline in active Distributors and customers year-over-year, net sales growth in local currency came as a result of higher productivity within the Company's existing base of independent Distributors and Managers. The active independent Managers category includes independent Managers under the Company's various compensation plans that have achieved and maintained certain product sales levels. As such, all independent Managers are considered to be active independent Managers. The active independent Distributors and customers category includes the Company's independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous three months.

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

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

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

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

#### NSP Russia, Central and Eastern Europe

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

#### Synergy WorldWide

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

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

In South Korea, net sales decreased approximately \$5.8 million, or 10.7 percent, for the year ended December 31, 2015, compared to 2014. This decline was partially related to the adverse impact of fluctuations in foreign exchange rates, which had a \$3.5 million unfavorable impact on net sales for the year ended December 31, 2015. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales decreased 4.2 percent for the year ended December 31, 2015. Despite the decline in local currency sales year-over-year, local currency sales for the fourth quarter of 2015 increased year-over-year by 13.0 percent. The decline in local currency net sales was primarily due to stricter enforcement of internet advertising restrictions on sites that were used successfully to promote net sales growth in 2014. To address this, the market launched new distributor acquisition programs in 2015, including a new home health party program to provide the market's distributors, affected by these internet advertising restrictions, additional tools to grow their businesses.

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

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

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

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

#### China and New Markets

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

#### *Cost of Sales*

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

#### *Volume Incentives*

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

#### *Selling, General and Administrative Expenses*

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

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

- \$2.6 million of prior year non-recurring professional fees related to pursuing a strategic alliance with Fosun Pharma and the evaluation and negotiation with a company with an alternative distribution channel, which the Company ultimately declined to pursue;
- \$3.9 million reduction of service costs due to lower net sales in Russia, Central and Eastern Europe;
- \$4.3 million reduction of U.S. healthcare and other benefit costs for the period;
- \$4.0 million of favorable exchange rate changes due to the strengthening of the U.S dollar relative to other foreign currencies, respectively; and
- \$2.2 million of non-recurring costs in 2014 related to the Company's former NSP Peru & United Kingdom markets and Synergy Vietnam market.

Offset by:

- \$3.3 million of non-recurring restructuring charges to streamline the Company's operations; and
- \$4.0 million of increased investment in China.

### Other Income (Expense), Net

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

### Income Taxes

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

- (i) Adjustments to valuation allowances decreased the effective rate by 24.5 percent in 2015. Included was the effect of a decrease in of valuation allowances on U.S. foreign tax credits, offset partially by the impact of current year losses that will not provide tax benefit. The adjustment related to valuation allowances causing the 24.5 percent rate impact does not match the \$6.6M change in valuation allowances on the balance sheet because there are elements of the balance sheet change that do not belong in the rate reconciliation, such as the removal of valuation allowances on expired foreign net operating loss carryforwards and currency translation adjustments.
- (ii) Changes in the unrecognized tax benefits increased the effective tax rate by 11.2 percent in 2015. These net gains and losses were recorded for financial reporting purposes, but were excluded from the calculation of taxable income.
- (iii) Cumulative favorable adjustments related to foreign operations decreased the tax rate by 7.4 percent in 2015. These adjustments relate to foreign items that are treated differently for tax purposes than they are for financial reporting purposes.

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

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

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

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

**SUMMARY OF QUARTERLY OPERATIONS — UNAUDITED**

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

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

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

#### Basic and diluted net income per common share

##### Basic earnings per share attributable to common shareholders:

Net income from continuing operations	\$ 0.23	\$ 0.14	\$ 0.10	\$ 0.20
Income from discontinued operations	\$ 0.07	\$ —	\$ 0.04	\$ —
Net income attributable to common shareholders	\$ 0.30	\$ 0.14	\$ 0.15	\$ 0.20

##### Diluted earnings per share attributable to common shareholders:

Net income from continuing operations	\$ 0.23	\$ 0.13	\$ 0.10	\$ 0.19
Income from discontinued operations	\$ 0.07	\$ —	\$ 0.04	\$ —
Net income attributable to common shareholders	\$ 0.30	\$ 0.13	\$ 0.14	\$ 0.19

Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
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Basic and diluted income per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly net income per share may not equal the total computed for the year.

## LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

#### Operating Activities

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

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

#### Investing Activities

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

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

#### Financing Activities

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

In December 2014, the Company completed share repurchases under its previously announced \$10 million share repurchase program. In November 2014, the Board of Directors authorized a \$20 million share repurchase program beginning January 1, 2015. Such purchases may be made in the open market, through block trades, in privately negotiated transactions or otherwise. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors and the program may be discontinued or suspended at any time. The Company will fund future dividends and the share repurchase program through available cash on hand, future cash flows from operations and borrowings under its revolving credit facility, subject to Board discretion. During the year ended December 31, 2016, the Company repurchased 0 shares of its common stock under the share repurchase program for \$6.6 million. At December 31, 2016, the remaining balance available for repurchases under the program was \$13.4 million.

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



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

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

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

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

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

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

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

## CONTRACTUAL OBLIGATIONS

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

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Operating lease obligations	\$ 35,622	\$ 6,906	\$ 8,693	\$ 4,331	\$ 15,692
Self-insurance reserves(1)	733	733	—	—	—
Other long-term liabilities reflected on the balance sheet(2)	—	—	—	—	—
Unrecognized tax benefits(3)	—	—	—	—	—
Revolving credit facility(4)	9,919	9,919	—	—	—
ERP capital commitments(5)	—	—	—	—	—
Other capital commitments(6)	1,308	1,308	—	—	—
Total	\$ 47,582	\$ 18,866	\$ 8,693	\$ 4,331	\$ 15,692

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

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

- (2) At December 31, 2016, there were \$1.4 million of liabilities. The Company provides a nonqualified deferred compensation plan for its officers and certain key employees. Under this plan, participants may defer up to 100 percent of their annual salary and bonus (less the participant's share of employment taxes). The deferrals become an obligation owed to the participant by the Company under the plan. Upon separation of the participant from the service of the Company, the obligation owed to the participant under the plan will be paid as a lump sum or over a period of either three or five years. As the Company cannot easily determine when its officers and key employees will separate from the Company, the Company is unable to estimate the years in which cash settlement may occur.
- (3) At December 31, 2016, there were \$6.8 million of liabilities. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with these liabilities, if any, the Company is unable to estimate the years in which cash settlement may occur with the respective tax authorities.
- (4) The Company entered into a revolving credit agreement with Wells Fargo Bank, National Association that permits the Company to borrow up to \$25 million through September 1, 2017, bearing interest at LIBOR plus 1.25 percent. The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. At December 31, 2016, the Company had \$15.1 million available under this facility.
- (5) In 2013, the Company began to significantly reinvest in its information technology systems. Included within this plan is an Oracle ERP implementation program to provide the Company with a single integrated software solution that will integrate the Company's business process on a worldwide basis. The Company anticipates completion of this project by early 2017.
- (6) In 2016, the Company made commitments to purchase manufacturing equipment of \$1.3 million in 2017.

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

#### **OFF-BALANCE SHEET ARRANGEMENTS**

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

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

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

##### **Foreign Currency Risk**

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

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

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

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

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

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

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

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

				With Strengthening of U.S. Dollar by:							
				10%		15%		25%			
				(Loss) (\$)	(Loss) (%)	(Loss) (\$)	(Loss) (%)	(Loss) (\$)	(Loss) (%)		
<b>Financial Instruments Included in Current Assets Subject to Exchange Rate Risk</b>											
Cash and cash equivalents	\$	32,284	\$	(2,075)	(6.4)%	\$	(2,977)	(9.2)%	\$	(4,564)	(14.1)%
Accounts receivable, net		7,738		(167)	(2.2)%		(240)	(3.1)%		(368)	(4.8)%
<b>Financial Instruments Included in Current Liabilities Subject to Exchange Rate Risk</b>											
Accounts payable		5,305		(70)	(1.3)%		(101)	(1.9)%		(155)	(2.9)%
<b>Net Financial Instruments Subject to Exchange Rate Risk</b>											
	\$	34,717	\$	(2,172)	(6.3)%	\$	(3,116)	(9.0)%	\$	(4,777)	(13.8)%

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

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

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

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

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

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

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

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

#### Interest Rate Risk

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

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

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

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

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

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

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 13, 2017

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

**CONSOLIDATED BALANCE SHEETS**  
*(Amounts in thousands)*

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

See accompanying notes to consolidated financial statements.



NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share information)

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

See accompanying notes to consolidated financial statements.

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

Year Ended December 31,	2016	2015	2014
Net income	\$ 675	\$ 13,656	\$ 9,800
Foreign currency translation gain (loss) (net of tax)	(16)	233	(1,406)
Net unrealized gains on investment securities (net of tax)	(1)	22	30
Reclassification of net realized gains on marketable securities in net income (net of tax)	—	(294)	—
Write-off of Venezuela cumulative translation adjustments	—	—	4,135
Total comprehensive income	658	13,617	12,559
Net loss attributable to noncontrolling interests	(1,464)	(1,031)	(219)
Total comprehensive income attributable to common shareholders	<u>\$ 2,122</u>	<u>\$ 14,648</u>	<u>\$ 12,778</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 Income (Loss)	Total
	Shares	Value				
Balance at January 1, 2014	16,179	\$ 83,122	\$ 36,100	\$ —	\$ (13,963)	\$ 105,259
Share-based compensation expense	—	3,948	—	—	—	3,948
Net proceeds from the issuance of shares to noncontrolling interests	2,855	44,795	—	—	—	44,795
Tax benefit from exercise of stock options	—	307	—	—	—	307
Proceeds from the exercise of stock options	124	772	—	—	—	772
Repurchase of common stock	(496)	(7,455)	—	—	—	(7,455)
Cash dividends (1.90 per share)	—	—	(35,228)	—	—	(35,228)
Net income	—	—	10,019	(219)	—	9,800
Noncontrolling interests investment in Nature's Sunshine Hong Kong Limited	—	—	—	4,000	—	4,000
Other comprehensive income	—	—	—	—	2,759	2,759
Balance at December 31, 2014	18,662	125,489	10,891	3,781	(11,204)	128,957
Share-based compensation expense	—	4,485	—	—	—	4,485
Tax deficiency from exercise of stock options	—	(520)	—	—	—	(520)
Proceeds from the exercise of stock options	427	3,861	—	—	—	3,861
Repurchase of common stock	(501)	(6,645)	—	—	—	(6,645)
Cash dividends (0.40 per share)	—	—	(7,490)	—	—	(7,490)
Net income	—	—	14,687	(1,031)	—	13,656
Other comprehensive loss	—	—	—	—	(39)	(39)
Balance at December 31, 2015	18,588	126,670	18,088	2,750	(11,243)	136,265
Share-based compensation expense	—	3,217	—	—	—	3,217
Tax deficiency from exercise of stock options	—	(233)	—	—	—	(233)
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	169	—	—	—	—	—
Cash dividends (0.40 per share)	—	—	(7,509)	—	—	(7,509)
Net income	—	—	2,139	(1,464)	—	675
Other comprehensive loss	—	—	—	—	(17)	(17)
Balance at December 31, 2016	18,757	\$ 129,654	\$ 12,718	\$ 1,286	\$ (11,260)	\$ 132,398

See accompanying notes to consolidated financial statements.

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

Year Ended December 31,	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 675	\$ 13,656	\$ 9,800
Adjustments to reconcile net income to net cash provided by operating activities:			
Write-off of cumulative translation adjustments	—	—	4,135
Impairment of property, plant and equipment, net	221	—	2,947
Provision for doubtful accounts	305	21	(121)
Depreciation and amortization	4,808	4,525	4,409
Share-based compensation expense	3,217	4,485	3,948
Tax benefit from stock option exercise	—	—	(307)
(Gain) loss on sale of property and equipment	149	(2,703)	132
Deferred income taxes	766	(3,373)	(3,927)
Amortization of bond discount	—	—	3
Purchase of trading investment securities	(429)	(252)	(162)
Proceeds from sale of trading investment securities	147	239	151
Realized and unrealized gains on investments	(63)	(470)	(56)
Foreign exchange losses (gains)	1,348	1,948	(225)
Changes in assets and liabilities:			
Accounts receivable	(343)	(1,091)	3,457
Inventories	(9,569)	933	748
Prepaid expenses and other	2,442	636	3,411
Other assets	(3,025)	(4,010)	(1,235)
Accounts payable	(935)	593	(359)
Accrued volume incentives and service fees	1,477	(1,427)	(1,905)
Accrued liabilities	1,519	(3,451)	(5,360)
Deferred revenue	(488)	(557)	544
Income taxes payable	1,924	(914)	25
Liability related to unrecognized tax positions	(1,076)	1,368	(5,804)
Deferred compensation payable	347	6	(67)
Net cash provided by operating activities	3,417	10,162	14,182
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(11,028)	(22,527)	(26,285)
Proceeds from sale of property, plant and equipment	—	3,128	85
Purchases of investments available for sale	—	(3)	(721)
Proceeds from sale/maturities of investments available for sale	5	810	247
Purchase of intangible assets	(509)	—	—
Net cash used in investing activities	(11,532)	(18,592)	(26,674)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments of cash dividends	(7,509)	(7,490)	(35,228)
Net borrowings on revolving credit facility	7,223	2,696	—
Principal payments of long-term debt	—	—	(12,267)
Net proceeds from the issuance of shares to noncontrolling interests	—	—	44,795
Investment by noncontrolling interests	—	—	4,000
Proceeds from exercise of stock options	—	3,861	772
Tax benefit from stock option exercise	—	—	307
Repurchase of common stock	—	(6,645)	(7,455)
Net cash used in financing activities	(286)	(7,578)	(5,076)
Effect of exchange rates on cash and cash equivalents	(735)	(1,271)	(980)
Net decrease in cash and cash equivalents	(9,136)	(17,279)	(18,548)
Cash and cash equivalents at beginning of the year	41,420	58,699	77,247
Cash and cash equivalents at end of the year	\$ 32,284	\$ 41,420	\$ 58,699

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

See accompanying notes to consolidated financial statements.

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

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

**Nature of Operations**

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

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

**Principles of Consolidation**

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

**Use of Estimates**

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

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

**Cash and Cash Equivalents**

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

## **Accounts Receivable**

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

## **Investment Securities**

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

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

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

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

## **Fair Value of Financial Instruments**

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

## **Inventories**

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

## **Property, Plant and Equipment**

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

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

## **Intangible Assets**

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

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

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

## **Incentive Trip Accrual**

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

## **Foreign Currency Translation**

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

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



## Revenue Recognition

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

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

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

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

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

## Advertising Costs

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

## Research and Development

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

## Contingencies

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

## Income Taxes

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

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

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

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

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

#### Net Income (Loss) Per Common Share

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

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

	2016	2015	2014
<b>Net income attributable to common shareholders:</b>			
Net income from continuing operations	\$ 2,139	\$ 12,571	\$ 19,976
Income (loss) from discontinued operations	\$ —	\$ 2,116	\$ (9,957)
Net income	\$ 2,139	\$ 14,687	\$ 10,019
<b>Basic weighted-average shares outstanding</b>	<b>18,731</b>	18,656	17,108
<b>Basic earnings per share attributable to common shareholders:</b>			
Net income from continuing operations	\$ 0.11	\$ 0.67	\$ 1.15
Income (loss) from discontinued operations	\$ —	\$ 0.11	\$ (0.57)
Net income	\$ 0.11	\$ 0.79	\$ 0.58
<b>Diluted Shares Outstanding</b>			
Basic weighted-average shares outstanding	18,731	18,656	17,108
Stock-based awards	325	521	533
Diluted weighted-average shares outstanding	19,056	19,177	17,641
<b>Diluted earnings per share attributable to common shareholders:</b>			
Net income from continuing operations	\$ 0.11	\$ 0.66	\$ 1.12
Income (loss) from discontinued operations	\$ —	\$ 0.11	\$ (0.56)
Net income	\$ 0.11	\$ 0.77	\$ 0.56
<b>Potentially dilutive shares excluded from diluted-per-share amounts:</b>			
Stock options	288	345	133
<b>Potentially anti-dilutive shares excluded from diluted-per-share amounts:</b>			
Stock options	1,347	688	210

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

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

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

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

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

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

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

#### **Strategic Alliance with Fosun Pharma**

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

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

Pursuant to a concurrent private placement transaction, Nature's Sunshine issued 2,855 shares of unregistered common stock to Fosun Pharma at a price of \$16.19 per share, representing aggregate net proceeds to Nature's Sunshine of \$44.8 million. The purchase price represented a 10 percent premium to Nature's Sunshine's average stock price over the trailing 30 business day period as of June 26, 2014. As a result of the private placement transaction, Fosun Pharma owns approximately 5 percent of Nature's Sunshine outstanding common shares with respect to which the Company has granted Fosun Pharma certain registration rights. In addition, Nature's Sunshine appointed one director designated by Fosun Pharma to its board of directors.

## Recent Accounting Pronouncements

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

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

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

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

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

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This update specifies that inventory should be subsequently measured at the lower of cost or net realizable value, which is the ordinary selling price less any completion, transportation and disposal costs. However, the ASU does not apply to inventory measured using the last-in-first-out or retail methods. This update is effective for interim and annual periods beginning after December 15, 2016. Adoption of the ASU is prospective. The adoption of this ASU is not expected to have a material impact on the Company's results of operations, consolidated financial statements and footnote disclosures.

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

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

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

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

## NOTE 2: DISCONTINUED OPERATIONS

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

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

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

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

Due to the economic instability of the Venezuelan market, as of September 30, 2014, the Company incurred a \$2.9 million impairment charge to write down the value of its fixed assets in Venezuela to \$0. The loss before income taxes for the year ended December 31, 2014, includes a charge of \$7.8 million related to exiting Venezuela, of which \$4.1 million is a non-cash write-off of accumulated translation adjustments that were previously included in shareholders' equity. The loss from discontinued operations did not have a material impact on the Company's operating cash flows during 2014.

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

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

### NOTE 3: RESTRUCTURING RELATED EXPENSES

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

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

### NOTE 4: INVENTORIES

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

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

### NOTE 5: PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

### NOTE 6: INTANGIBLE ASSETS

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

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

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

Year Ending December 31,	
2017	\$ 155
2018	218
2019	218
2020	218
2021	151
Thereafter	16
Total	<u>\$ 976</u>

#### NOTE 7: ACCRUED LIABILITIES

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

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

#### NOTE 8: INVESTMENT SECURITIES

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

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

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

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

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

## NOTE 9: REVOLVING CREDIT FACILITY

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

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

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

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

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

## NOTE 11: INCOME TAXES

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## NOTE 12: CAPITAL TRANSACTIONS

### Dividends

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

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

#### **Share Repurchase Program**

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

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

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

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

#### *Stock Options*

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

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

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

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

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

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

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

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

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

	2015	2014
Weighted average grant date fair value of grants	\$ 4.79	\$ 6.53
Expected life (in years)	5.0 to 6.0	6.0
Risk-free interest rate	1.5 to 1.8	1.5
Expected volatility	42.6 to 52.3	56.7
Dividend yield	2.8 to 3.6	2.6

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

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

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

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

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

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

#### *Restricted Stock Units*

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

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

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

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

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

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

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

RSUs are valued at the market value on the date of grant, which is the grant date share price discounted for expected dividend payments during the vesting period. For RSUs with post-vesting restrictions, a Finnerty Model was utilized to calculate a valuation discount from the market value of common shares reflecting the restriction embedded in the RSUs preventing the sale of the underlying shares over a certain period of time. The Finnerty Model proposes to estimate a discount for lack of marketability such as transfer restrictions by using an option pricing theory. This model has gained recognition through its ability to address the magnitude of the discount by considering the volatility of a company's stock price and the length of restriction. The concept underpinning the Finnerty Model is that restricted stock cannot be sold over a certain period of time. Using assumptions previously determined for the application of the option pricing model at the valuation date, the Finnerty Model discount for lack of marketability is approximately 11.9 percent for a common share.

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

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

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

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

#### NOTE 13: EMPLOYEE BENEFIT PLANS

##### Deferred Compensation Plans

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

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

#### NOTE 14: COMMITMENTS AND CONTINGENCIES

##### Contractual Obligations

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

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



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

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

### **Legal Proceedings**

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

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

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

### **Other Litigation**

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

### **Non-Income Tax Contingencies**

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

### **Self-Insurance Liabilities**

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

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

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

### **Government Regulations**

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

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

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

The Company has three business segments that operate under the Nature's Sunshine® Products brand and are divided based on the characteristics of their Distributor base, similarities in compensation plans, as well as the internal organization of NSP's officers and their responsibilities (NSP Americas and NSP Russia, Central and Eastern Europe; and China and New Markets). The Company's third business segment operates under the Synergy® WorldWide brand, which distributes its products through different selling and Distributor compensation plans and has products with formulations that are sufficiently different from those of NSP Americas and NSP Russia, Central and Eastern Europe to warrant accounting for these operations as a separate business segment. The Company's fourth business segment, China and New Markets, anticipates deploying a multi-channel go-to-market strategy that offers select Nature's Sunshine branded products through direct selling, e-commerce and retail channels across China. The time to market will be dependent upon regulatory processes including product registration and permit approvals. The China and New Markets segment also includes Company's wholesale business, in which the Company sells its products to various locally managed entities independent of the Company that have distribution rights for the relevant market. All of the net sales to date in the China and New Markets segment is through the Company's wholesale business to foreign markets, and beginning in the second quarter of 2016, pre-opening product sales through Hong Kong. Net sales for each segment have been reduced by intercompany sales as they are not included in the measure of segment profit or loss reviewed by the chief executive officer. The Company evaluates performance based on contribution margin (loss) by segment before consideration of certain inter-segment transfers and expenses.

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

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

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

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

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

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

Year Ended December 31,	2016	2015	2014
Capital expenditures:			
NSP Americas	\$ 8,999	\$ 21,437	\$ 25,581
NSP Russia, Central and Eastern Europe	131	—	8
Synergy WorldWide	564	302	1,321
China and New Markets	430	487	—
Total capital expenditures	<u>\$ 10,124</u>	<u>\$ 22,226</u>	<u>\$ 26,910</u>
Depreciation and amortization:			
NSP Americas	\$ 3,997	\$ 3,603	\$ 3,438
NSP Russia, Central and Eastern Europe	42	26	25
Synergy WorldWide	713	885	946
China and New Markets	56	11	—
Total depreciation and amortization	<u>\$ 4,808</u>	<u>\$ 4,525</u>	<u>\$ 4,409</u>
As of December 31,			
		2016	2015
Assets:			
NSP Americas		\$ 146,761	\$ 141,428
NSP Russia, Central and Eastern Europe		6,106	5,122
Synergy WorldWide		39,083	38,048
China and New Markets		13,620	15,922
Total assets		<u>\$ 205,570</u>	<u>\$ 200,520</u>

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

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

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

Year Ended December 31,	2016	2015	2014
<b>NSP Americas:</b>			
General health	\$ 78,187	\$ 80,315	\$ 78,218
Immunity	19,185	22,042	23,549
Cardiovascular	12,677	12,331	12,566
Digestive	47,659	49,239	53,133
Personal care	7,537	3,575	4,000
Weight management	10,677	11,649	10,929
	<u>175,922</u>	<u>179,151</u>	<u>182,395</u>
<b>NSP Russia, Central and Eastern Europe:</b>			
General health	\$ 11,059	\$ 11,433	\$ 18,841
Immunity	2,898	3,328	6,512
Cardiovascular	1,918	1,714	3,104
Digestive	7,003	7,167	13,171
Personal care	2,202	2,716	6,073
Weight management	891	1,050	2,573
	<u>25,971</u>	<u>27,408</u>	<u>50,274</u>
<b>Synergy WorldWide:</b>			
General health	\$ 35,283	\$ 43,829	\$ 46,546
Immunity	620	752	974
Cardiovascular	51,684	34,191	42,449
Digestive	12,536	17,746	20,839
Personal care	8,981	5,697	7,196
Weight management	15,689	11,866	10,097
	<u>124,793</u>	<u>114,081</u>	<u>128,101</u>
<b>China and New Markets:</b>			
General health	\$ 3,399	\$ 1,903	\$ 2,370
Immunity	821	525	777
Cardiovascular	2,911	292	334
Digestive	5,329	1,011	1,608
Personal care	797	93	108
Weight management	1,216	241	400
	<u>14,473</u>	<u>4,065</u>	<u>5,597</u>
<b>Total net sales</b>	<u><u>\$ 341,159</u></u>	<u><u>\$ 324,705</u></u>	<u><u>\$ 366,367</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	2016	2015
<b>Property, plant and equipment</b>		
United States	\$ 70,770	\$ 66,044
Other	2,502	2,684
<b>Total property, plant and equipment</b>	<u><u>\$ 73,272</u></u>	<u><u>\$ 68,728</u></u>

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

#### NOTE 16: RELATED PARTY TRANSACTIONS

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

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

**NOTE 17: FAIR VALUE**

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

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

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

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

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

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

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

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

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

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

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

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

**NOTE 18: SUMMARY OF QUARTERLY OPERATIONS — UNAUDITED**

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

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

**Basic and diluted net income per common share**
**Basic earnings (loss) per share attributable to common shareholders:**

Net income (loss) attributable to common shareholders	\$ 0.11	\$ 0.14	\$ 0.22	\$ (0.35)
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**Diluted earnings (loss) per share attributable to common shareholders:**

Net income (loss) attributable to common shareholders	\$ 0.11	\$ 0.14	\$ 0.22	\$ (0.35)
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Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
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Basic and diluted income per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly net loss per share may not equal the total computed for the year.

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

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

#### Basic and diluted net income per common share

##### Basic earnings per share attributable to common shareholders:

Net income from continuing operations	\$ 0.23	\$ 0.14	\$ 0.10	\$ 0.20
Income from discontinued operations	\$ 0.07	\$ —	\$ 0.04	\$ —
Net income attributable to common shareholders	\$ 0.30	\$ 0.14	\$ 0.15	\$ 0.20

##### Diluted earnings per share attributable to common shareholders:

Net income from continuing operations	\$ 0.23	\$ 0.13	\$ 0.10	\$ 0.19
Income from discontinued operations	\$ 0.07	\$ —	\$ 0.04	\$ —
Net income attributable to common shareholders	\$ 0.30	\$ 0.13	\$ 0.14	\$ 0.19

Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
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Basic and diluted income per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly net loss per share may not equal the total computed for the year.



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

None.

### **Item 9A. Controls and Procedures**

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

#### **Overview**

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

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

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

#### **Evaluation of Disclosure Controls and Procedures**

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

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

#### **Management's Report on Internal Control over Financial Reporting**

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

#### **Changes in Internal Control over Financial Reporting**

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

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

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

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 13, 2017

**Item 9B. Other Information**

None.

**PART III**

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

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

**Item 11. Executive Compensation**

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

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

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

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

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

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

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

**PART IV**

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

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

The following are filed as part of this report:

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets as of December 31, 2016 and 2015

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

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

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

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

Notes to consolidated financial statements

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

Schedule II - Valuation and Qualifying Accounts.

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

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

Exhibit Index as seen below

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

None.

**SIGNATURES**

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

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

Date: **March 13, 2017**

By: /s/ Gregory L. Probert

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

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

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

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

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

## LIST OF EXHIBITS

Item No.	Exhibit
3.1(1)	Amended and Restated Articles of Incorporation, as amended.
3.3(1)	Amended and Restated By-laws.
10.1(2)*	Tax Deferred Retirement Plan, Restated January 1, 2012.
10.2(3)*	Supplemental Elective Deferral Plan, as Amended effective as of January 1, 2008.
10.3(4)*	Employment Agreement, dated as of December 21, 2007, between Nature's Sunshine Products, Inc. and Stephen M. Bunker.
10.4(5)*	Amendment to Employment Agreement, dated as of December 30, 2008, by and between Nature's Sunshine Products, Inc. and Stephen M. Bunker.
10.5(6)*	Retirement and Consulting Agreement, dated as of December 9, 2008, by and between Nature's Sunshine Products, Inc. and Eugene Hughes.
10.6(7)	2009 Stock Incentive Plan.
10.7(7)*	Form of Award Agreement (2009 Stock Incentive Plan).
10.8(8)*	Employment Agreement, dated February 11, 2014, by and between the Company and Gregory L. Probert.
10.9(9)*	Stock Option Agreement, dated June 17, 2011, by and between the Company and Gregory L. Probert.
10.10(10)	2012 Stock Incentive Plan and Amendment No. 1 to 2012 Stock Incentive Plan.
10.11(10)*	Form of Award Agreement (2012 Stock Incentive Plan).
10.12(11)*	Employment Agreement, dated October 2, 2013, by and between the Company and Richard D. Strulson.
10.15(11)*	Stock Option Agreement, dated November 4, 2013, by and between the Company and Richard D. Strulson.
10.15(11)*	Employment Agreement, dated April 16, 2013, by and between the Company and Matthew L. Tripp.
10.16(11)*	Stock Option Agreement, dated May 6, 2013, by and between the Company and Matthew L. Tripp.
10.17(2)*	Employment Agreement, dated October 13, 2014, by and between the Company and Paul E. Noack.
10.18(2)*	Stock Option Agreement, dated January 15, 2015, by and between the Company and Paul E. Noack.
10.19(2)*	Employment Agreement, dated March 4, 2013, by and between the Company and Susan M. Armstrong.
10.20(2)*	Stock Option Agreement, dated February 11, 2014, by and between the Company and Susan M. Armstrong.
10.21(12)*	Separation Agreement, dated March 4, 2016, by and between the Company and Stephen M. Bunker.
10.22(13)*	Employment Agreement, dated October 31, 2016, by and between the Company and Joseph W. Baty.
14(1)	Code of Conduct.
21(1)	List of Subsidiaries of Registrant.
23.1(1)	Consent of Independent Registered Public Accounting Firm.
31.1(1)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2(1)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(1)	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.
32.2(1)	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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



**ARTICLES OF AMENDMENT TO THE  
AMENDED AND RESTATED ARTICLES OF INCORPORATION OF  
NATURE'S SUNSHINE PRODUCTS, INC.**

**May 10, 2013**

In accordance with Section 16-10a-1006 of the Utah Revised Business Corporation Act (the "*Utah Act*"), Nature's Sunshine Products, Inc., a Utah corporation (the "*Corporation*"), hereby declares and certifies as follows:

1. The name of the Corporation is Nature's Sunshine Products, Inc.
2. The text of the amendments (collectively, the "*Amendments*") to the Amended and Restated Articles of Incorporation of the Corporation are set forth below.

The second paragraph of Article VI of the Amended and Restated Articles of Incorporation is hereby amended and restated in its entirety as follows:

All directors elected by shareholders at and after the 2013 annual meeting of shareholders shall hold office until the next annual meeting of shareholders. Directors whose terms do not expire at the 2013 annual meeting of shareholders shall hold office until the annual meeting for the year in which the director's term expires. When a vacancy on the Board of Directors is filled, the director chosen to fill that vacancy shall serve until the next annual meeting of shareholders. Notwithstanding the foregoing, each director shall hold office 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.

The third paragraph of Article VI of the Amended and Restated Articles of Incorporation is hereby amended and restated in its entirety as follows:

The shareholders may remove one or more directors at a meeting called for that purpose if notice has been given that a purpose of the meeting is such removal. Notwithstanding the preceding sentence, directors may only be removed for cause and for the affirmative vote of at least a majority of the shares then entitled to vote at an election of directors.

The sole paragraph of Article IX of the Amended and Restated Articles of Incorporation is hereby amended and restated in its entirety as follows:

The Corporation reserves the right to amend these Restated Articles in any manner provided herein or permitted by the Revised Act, and all rights and powers, if any, conferred herein on shareholders, directors and officers are subject to the reserved power. Notwithstanding the foregoing, without the affirmative vote of the holders of record of a majority of the Corporation's shares then outstanding and entitled to vote on the amendment, the Corporation shall not alter, amend or repeal Article VI, Article VII, Article VIII or Article IX.

3. The Amendments were adopted by the Corporation's shareholders at an annual meeting of shareholders held on May 8, 2013 (the "*Shareholders' Meeting*"), in accordance with the requirements of the Utah Act.
4. The Corporation has 15,853,760 shares of Common Stock outstanding and eligible to vote on the Amendments. The number of Common Stock votes indisputably represented at the Shareholders' Meeting was 13,803,430. At the Shareholders' Meeting, votes represented by the Common Stock were cast in favor of the Amendments as set forth below. The number of votes cast in favor of the Amendments was sufficient for approval of the Amendments.(1)

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(1) In accordance with Article IX of the prior Amended and Restated Articles of Incorporation, the approval of these amendments required the vote of at least 75% of the shares outstanding and entitled to vote on the amendments.

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Amendment	Voting		
	For	Against	Abstain
Amendments to Articles of Incorporation to phase out the classified Board of Directors.	12,303,103	27,966	11,893
Amendments to Articles of Incorporation to eliminate the supermajority voting requirement with respect to the removal of directors.	For	Against	Abstain
	12,308,080	26,191	8,690
Amendments to Articles of Incorporation to eliminate the supermajority voting requirement with respect to amendments to Article VI of the prior articles.	For	Against	Abstain
	12,303,808	30,261	8,893

[Signature page follows]

IN WITNESS WHEREOF, these Articles of Amendment to the Amended and Restated Articles of Incorporation have been executed by the Corporation as of the date first written above.

**NATURE'S SUNSHINE, INC.**

By: /s/ Jamon A. Jarvis  
Name: Jamon A. Jarvis  
Its: General Counsel, Chief Compliance Officer & Secretary

*[Signature Page to Amendment to Amended and Restated Articles of Incorporation]*

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**ARTICLES OF AMENDMENT AND RESTATEMENT  
TO THE ARTICLES OF INCORPORATION OF  
NATURE'S SUNSHINE PRODUCTS, INC.**

November 9, 2009

In accordance with Sections 16-10a-1006 and 16-10a-1007 of the Utah Revised Business Corporation Act (the "*Utah Act*"), Nature's Sunshine Products, Inc., a Utah corporation (the "*Corporation*"), hereby declares and certifies as follows:

1. The name of the Corporation is Nature's Sunshine Products, Inc.
  2. The text of the Amended and Restated Articles of Incorporation (the "*Restated Articles*") is attached hereto as Exhibit A and is incorporated herein by this reference. The Restated Articles supersede the original Articles of Incorporation of the Corporation and all prior amendments and restatements thereto.
  3. The Restated Articles were adopted by the Corporation's shareholders at an annual meeting of shareholders held on November 6, 2009 (the "*Shareholders' Meeting*"), in accordance with the requirements of the Utah Act.
  4. The Corporation has 15,510,159 shares of Common Stock outstanding and eligible to vote on the Restated Articles. The number of Common Stock votes indisputably represented at the Shareholders' Meeting was 12,943,408. At the Shareholders' Meeting, votes represented by the Common Stock were cast in favor of each provision of the Restated Articles as set forth below. The number of votes cast in favor of each provision of the Restated Articles was sufficient for approval of such provision.
-

Amendment	Voting		
	For	Against	Abstain
Amendments to Articles of Incorporation to modify or remove certain provisions and to make other technical changes.	12,908,912	28,140	6,357
	For	Against	Abstain
	12,915,501	18,870	9,037
	For	Against	Abstain
Amendments to Articles of Incorporation to authorize the Board of Directors to adopt, amend, alter and repeal the Bylaws.	12,608,955	328,085	6,367
	For	Against	Abstain
Amendment to Articles of Incorporation to modify certain provisions relating to the terms of directors.	12,889,954	47,344	6,109
	For	Against	Abstain
Amendments to Articles of Incorporation to eliminate personal liability, to the extent permitted by law, of the Company's directors and officers and provide indemnification of its directors, officers, employees, fiduciaries and agents.	12,883,703	56,246	3,458
	For	Against	Abstain
Amendment to Articles of Incorporation to increase authorized shares of common stock from 20,000,000 to 50,000,000 and to clarify certain rights and preferences of common stock.	12,578,252	359,096	6,059
	For	Against	Abstain
Amendments to Articles of Incorporation to create a new class of stock designated as preferred stock and to authorize the issuance of up to 10,000,000 shares of preferred stock.	12,502,357	434,033	7,017
	For	Against	Abstain
Amendment to Articles of Incorporation to require a showing of cause for shareholders to remove directors.	12,566,256	372,952	4,200
	For	Against	Abstain
Amendment to Articles of Incorporation to require shareholders to act by shareholder meeting and not by written consent.	12,579,866	354,378	9,164
	For	Against	Abstain
Amendment to Articles of Incorporation to enhance shareholder voting requirements to adopt, amend or repeal bylaws.	12,584,231	352,584	6,592
	For	Against	Abstain
Amendments to Articles of Incorporation to authorize the Board of Directors to fix the number of directors and to fill vacancies on the Board.	12,580,776	357,813	4,820
	For	Against	Abstain
Amendment to Articles of Incorporation and the Bylaws to enhance shareholder voting requirements to alter, amend or repeal certain provisions of the Articles of Incorporation and the Bylaws.	12,577,179	359,984	6,245

[Signature page follows]

IN WITNESS WHEREOF, these Articles of Amendment and Restatement have been executed by the Corporation as of the date first written above.

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

By: /s/ Jamon A. Jarvis

Name: Jamon A. Jarvis

Title: General Counsel, Chief Compliance Officer & Secretary

[Signature Page to Articles of Amendment and Restatement]

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**AMENDED AND RESTATED  
ARTICLES OF INCORPORATION  
OF  
NATURE’S SUNSHINE PRODUCTS, INC.**

**ARTICLE I  
NAME**

The name of the Corporation is Nature’s Sunshine Products, Inc. (the “Corporation”).

**ARTICLE II  
REGISTERED OFFICE**

The address of the Corporation’s registered office in the State of Utah is 75 East 1700 South, Provo, Utah 84606. The Corporation’s registered agent at that address is the Corporation’s General Counsel.

**ARTICLE III  
PURPOSES**

The purpose for which the Corporation is organized is to engage in any lawful act or activity for which corporations may be organized under the Utah Revised Business Corporation Act (the “*Revised Act*”).

**ARTICLES IV  
CAPITALIZATION**

The Corporation is authorized to issue two classes of shares to be designated, respectively, “Common Shares” and “Preferred Shares.” The total number of Common Shares authorized to be issued is fifty million (50,000,000), no par value per share, and the total number of Preferred Shares authorized to be issued is ten million (10,000,000), no par value per share.

The preferences, limitations and relative rights of each class of shares (to the extent established hereby), and the express grant of authority to the Board of Directors to amend these Articles of Incorporation to divide the Preferred Shares into series, to establish and modify the preferences, limitations and relative rights of each Preferred Share, and to otherwise impact the capitalization of the Corporation, subject to certain limitations and procedures and as permitted by Section 602 of the Revised Act, are as follows:

A. Common Shares.

1. Voting Rights. Except as otherwise expressly provided by law or in this Article IV, each outstanding Common Share shall be entitled to one (1) vote on each matter to be voted on by the shareholders of the Corporation.

2. Liquidation Rights. Subject to any prior or superior rights of liquidation as may be conferred upon any Preferred Shares, and after payment or provision for payment of the debts and other liabilities of the Corporation, upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of Common Shares then outstanding shall be entitled to receive all of the assets and funds of the Corporation remaining and available for distribution. Such assets and funds shall be divided among and paid to the holders of Common Shares, on a pro-rata basis, according to the number of shares of Common Shares held by them.

3. Dividends. Dividends may be paid on the outstanding shares of Common Shares as and when declared by the Board of Directors, out of funds legally available therefor; provided, however, that no dividends shall be made with respect to the Common Shares until any preferential dividends required to be paid or set apart for any shares of Preferred Shares have been paid or set apart.

4. Residual Rights. All rights accruing to the outstanding shares of the Corporation not expressly provided for to the contrary herein or in any amendment hereto or thereto shall be vested in the Common Shares.

B. Preferred Shares.

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The Board of Directors, without shareholder action, may amend the Corporation's Articles of Incorporation, pursuant to the authority granted to the Board of Directors by Subsection 1002(1)(e) and within the limits set forth in Section 16-10a-602 of the Revised Act, to do any of the following:

1. designate and determine, in whole or in part, the preferences, limitations and relative rights of the Preferred Shares before the issuance of any shares of Preferred Shares;
2. create one or more series of Preferred Shares, fix the number of shares of each such series (within the total number of authorized shares of Preferred Shares available for designation as a part of such series), and designate and determine, in whole or in part, the preferences, limitations and relative rights of each series of Preferred Shares all before the issuance of any shares of such series;
3. alter or revoke the preferences, limitations and relative rights granted to or imposed upon the Preferred Shares (before the issuance of any shares of Preferred Shares, or upon any wholly-unissued series of Preferred Shares); or
4. increase or decrease the number of shares constituting any series of Preferred Shares, the number of shares of which was originally fixed by the Board of Directors, either before or after the issuance of shares of the series, provided that the number may not be decreased below the number of shares of such series then outstanding, or increased above the total number of authorized shares of Preferred Shares available for designation as a part of such series.

#### **ARTICLE V PRE-EMPTIVE RIGHTS**

No holder of shares of the Corporation of any class now or hereafter authorized, shall have any preferential or pre-emptive right to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized, or any options or warrants for such shares, or any rights to subscribe to or purchase such shares or any securities convertible into or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation. The Board of Directors of the Corporation shall have the right to issue the authorized and treasury shares of this Corporation at such time and upon such terms and conditions and for such consideration as the Board of Directors shall determine.

#### **ARTICLE VI DIRECTORS**

The number of directors to constitute the whole Board of Directors shall be such number as shall be fixed from time to time exclusively by a resolution adopted by a majority of the Board of Directors. Any vacancy in the Board of Directors, whether because of death, resignation, disqualification, an increase in the authorized number of directors, removal, or any other cause, may be filled exclusively by a vote of the majority of the remaining directors, although less than a quorum, or by a sole remaining director.

The Board of Directors shall be divided into three classes as nearly equal in number as may be feasible, hereby designated as Class I, Class II and Class III, with the term of office of one class expiring at each annual meeting. Each director shall be elected to serve a term ending at the third annual meeting of shareholders following the annual meeting of shareholders at which such director was elected, or until his or her earlier death, resignation or removal; provided, however, that (i) the directors in Class I at the time of the effectiveness of these Restated Articles shall serve for a term ending on the Corporation's first annual meeting of shareholders following the effectiveness of these Restated Articles, (ii) the directors in Class II at the time of the effectiveness of these Restated Articles shall serve for a term ending on the Corporation's second annual meeting of shareholders following the effectiveness of these Restated Articles and (iii) the directors in Class III at the time of the effectiveness of these Restated Articles shall serve for a term ending on the Corporation's third annual meeting of shareholders following the effectiveness of these Restated Articles. When a vacancy on the Board of Directors is filled, the director chosen to fill that vacancy shall complete the term of the director he or she succeeds (or shall complete the term of the class of directors in which the new directorship was created). Notwithstanding the foregoing, each director shall hold office 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 of the class of which he or she is a member until the expiration of his or her current term, and any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as may be feasible.

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The shareholders may remove one or more directors at a meeting called for that purpose if notice has been given that a purpose of the meeting is such removal. Notwithstanding the preceding sentence, directors may only be removed for cause and upon the affirmative vote of at least three-fourths (75%) of the shares then entitled to vote at an election of directors.

## **ARTICLE VII SHAREHOLDER ACTION**

The shareholders of the Corporation are not permitted to take action without a meeting of shareholders held and noticed in accordance with the bylaws of the Corporation. Any action taken by shareholders by written consent without a meeting shall be null and void. Nothing in this Article VII shall affect the validity of any shareholder action taken prior to the adoption of these Restated Articles.

## **ARTICLE VIII AMENDMENT OF BYLAWS**

In furtherance and not in limitation of the power conferred upon the Board of Directors by law, the Board of Directors shall have power to adopt, amend, alter and repeal from time to time the bylaws of the Corporation by majority vote of all directors except that any provision of the bylaws requiring, for board action, a vote of greater than a majority of the Board of Directors shall not be amended, altered or repealed except by such supermajority vote. The shareholders of the Corporation may only adopt, amend or repeal bylaws with the affirmative vote of the holders of at least a majority of the Corporation's shares then outstanding and entitled to vote on the amendment, or such greater percentage as may otherwise be set forth in the bylaws.

## **ARTICLE IX AMENDMENT OF ARTICLES**

The Corporation reserves the right to amend these Restated Articles in any manner provided herein or permitted by the Revised Act, and all rights and powers, if any, conferred herein on shareholders, directors and officers are subject to the reserved power. Notwithstanding the foregoing, without the affirmative vote of the holders of record of a majority of the Corporation's shares then outstanding and entitled to vote on the amendment, the Corporation shall not alter, amend or repeal Article VII, Article VIII or Article IX. Notwithstanding anything to the contrary in these Restated Articles, Article VI shall not be subject to amendment or repeal, either directly or through or by amendment of this Article IX, without the affirmative vote of the holders of record of at least three-fourths (75%) of the Corporation's shares then issued and outstanding and entitled to vote on the amendment.

## **ARTICLE X EXCULPATION; INDEMNIFICATION**

To the fullest extent permitted by the Revised Act or any other applicable law as now in effect or as it may hereafter be amended, a director or officer of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for any action taken or any failure to take any action, as a director or officer. The Corporation is authorized to indemnify and advance expenses to its directors, officers, employees, fiduciaries, or agents to the fullest extent permitted by law. Neither the amendment, modification or repeal of this Article nor the adoption of any provision in these Restated Articles, as amended from time to time, inconsistent with this Article X shall adversely affect any right or protection of a director, officer, employee, fiduciary, or agent of the Corporation with respect to any act or omission that occurred prior to the time of such amendment, modification, repeal or adoption.

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

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**November 2, 2016**

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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 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.

2.2 Business at an Annual Meeting of Shareholders. The business to be transacted at any annual meeting of shareholders 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 the notice procedures set forth in this Section 2.2. 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 of shareholders. 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, give written notice in proper form of such shareholder’s intent to bring a matter before the annual meeting, which notice must be received by the Secretary of the corporation at the corporation’s principal executive offices no later than the close of business on the sixtieth (60th) day, nor earlier than the close of business on the ninetieth (90th) day, prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the shareholder to be timely must

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be so received not earlier than the close of business on the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of either (i) the sixtieth (60th) day prior to such annual meeting or (ii) the close of business on the 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. In no event shall the public announcement of a postponement or adjournment of an annual meeting to a later date or time commence a new time period for the giving of a shareholder's notice as described above. 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 shall set forth: (a) the name and address of the Proposing Person (as defined below); (b) the class or series and number of shares of capital shares of the corporation entitled to vote at such meeting which are owned beneficially or of record by the Proposing Person; (c) a description of any derivative, swap or other transaction or series of transactions engaged in, directly or indirectly, by such Proposing Person, the purpose or effect of which is to give such Proposing Person economic risk similar to ownership of shares of any class or series of the corporation, including due to the fact that the value of such derivative, swap or other transactions are determined by reference to the price, value or volatility of any shares of any class or series of the corporation, or which derivative, swap or other transactions provide, directly or indirectly, the opportunity to profit from any increase in the price or value of shares of any class or series of the corporation ("*Synthetic Equity Interests*"), which Synthetic Equity Interests shall be disclosed without regard to whether (x) the derivative, swap or other transactions convey any voting rights in such shares to such Proposing Person, (y) the derivative, swap or other transactions are required to be, or are capable of being, settled through delivery of such shares or (z) such Proposing Person may have entered into other transactions that hedge or mitigate the economic effect of such derivative, swap or other transactions; (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) a representation that the Proposing Person is a holder of record of shares of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to bring such matter before the meeting; (i) a description of the business desired to be brought before the meeting and the reasons therefor; (j) such other information regarding the Proposing Person and the business proposed by such shareholder as would be required to be included in a proxy statement pursuant to the rules and regulations of the Securities and Exchange Commission; and (k) a representation as to the Proposing Person's material interest in the business being proposed (the disclosures made pursuant to the forgoing clauses (a) through (k) 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

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Proposing Shareholder shall promptly provide any other information reasonably requested by the corporation. Notwithstanding the foregoing, in order to include information with respect to a shareholder proposal in the proxy statement and form of proxy for a shareholder's meeting, shareholders must provide notice as required by, and otherwise comply with the requirements of, the Exchange Act. The Chair of the meeting shall refuse to acknowledge any business proposed to be brought before an annual meeting not made in compliance with the foregoing procedures.

A Proposing Person 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 2.2 shall be true and correct as of the record date for 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 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 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, (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 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.

**2.3 Special Meetings.** Except as otherwise required by the Revised Act, special meetings of shareholders may be called only by the Chairman, or Vice Chairman of the Board of Directors, the Chief Executive Officer, the Board of Directors acting pursuant to a resolution adopted by a majority of the Board of Directors or by the Secretary, 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 this Section 2.3 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.

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.

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 Requesting Person's Disclosable Interests (as defined in Section 2.2, 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 clauses (a) through (k) of Section 2.2 and the disclosure in clause (k) of Section 2.2

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shall be made with respect to the business proposed to be conducted at the special meeting) and (ii), as to the purpose or purposes of the special meeting, (A) a reasonably brief description of the purpose or purposes of the special meeting and the business proposed to be conducted at the special meeting, the reasons for conducting such business at the special meeting and any material interest in such business of each Requesting Person, and (B) a reasonably detailed description of all agreements, arrangements and understandings (x) between or among any of the Requesting Persons or (y) between or among any Requesting Person and any other record or beneficial holder of the shares of any class or series of the corporation (including their names) in connection with the request for the special meeting or the business proposed to be conducted 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.

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.

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 and received 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. 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, (ii) the text of the proposal or business (including the text of any resolutions proposed for consideration), 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 by a Requesting Person.

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 such a special meeting shall be fixed in

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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.

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 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 the special 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 the special 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 special meeting or any adjournment or postponement thereof).

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 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 a 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 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. In the absence of any such designation, meetings shall be held at the principal office of the corporation.

**2.5 Notice of Meetings.** Written or printed notice stating the place, date, and hour of the meeting, and in case of a special meeting, the purpose or purposes for which the meeting is called, shall be 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 Chairman or Vice Chairman of the Board of Directors or the Chief Executive Officer, calling the meeting, to each shareholder of record entitled to vote at such meeting or to any other shareholder entitled by the Revised Act, or the corporation's Articles of Incorporation, to receive notice of the meeting.

**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 is to be taken. If no record date is so fixed by the Board of Directors,

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the record date for the determination of such shareholders shall be determined in accordance with the Revised Act.

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. If the corporation's 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.

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.

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.

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.

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. 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 Chair 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 Chair 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 Chair of the meeting shall have the right and authority to prescribe such rules,

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regulations and procedures and to take or refrain from taking such actions as, in the judgment of the Chair 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 Chair 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 Chair of the meeting shall determine, (vi) restrictions on entry to the meeting after the time fixed for 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 Chair 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 Chair of the meeting, the Chair of the meeting shall have the exclusive authority to adjourn the meeting.

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 Chair 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 Chair 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 the adjourned meeting, 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 corporations 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.

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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 of the corporation. Unless the Articles of Incorporation of the corporation 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 required notice in accordance with the Revised Act.

2.16 Litigation Costs. To the fullest extent permitted by law, in the event that (i) any current Company shareholder 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 Company or 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 corporation's Articles of Incorporation or in a shareholder's agreement authorized under the Revised Act.

3.2 Nomination of Directors. Subject to the corporation's 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 corporation's 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 of the shareholders, 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 as to such 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.

In addition to any other applicable requirements, for a nomination to be made by a shareholder, such shareholder must have given timely notice thereof in proper written form to the Secretary of the

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corporation. To be timely, such shareholder's notice must be received by the Secretary of the corporation at the corporation's principal executive offices, (i) in the case of an annual meeting, in accordance with the time provisions set forth in Section 2.2, and, (ii) in the case of a special meeting of the shareholders called for the purpose of electing directors, 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. 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 (as defined below), any Disclosable Interests (as defined in Section 2.2, except that for purposes of this Section 3.2 the term "Nominating Person" shall be substituted for the term "Proposing Person" and the disclosure in clause (k) of Section 2.2 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 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) and (C) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings 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. 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.

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 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 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 for the meeting, if practicable (or, if not practicable, on the first practicable date prior to) 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).

**3.3 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 nine) 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. All directors elected by shareholders at and after the 2013 annual meeting of shareholders shall hold office until the next annual meeting of

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shareholders. Directors whose terms do not expire at the 2013 annual meeting of shareholders shall hold office until the annual meeting for the year in which the director's term expires. Notwithstanding the foregoing, each director shall hold office 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.

3.4 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 majority 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, any nominee for director in an election who does not receive a majority of votes "for" his or her election ("Majority For Vote"), shall immediately offer to tender his or her resignation following certification of such shareholder vote. For the avoidance of doubt, "broker non-votes" and "abstentions" will not be counted as votes either "withheld," "against" or "for" a director nominee's election. The Governance Committee shall promptly consider the director's resignation offer and make a recommendation to the Board of Directors on whether to accept or reject the offer taking into account such factors as the Governance Committee may in its discretion determine appropriate. If a majority of the directors serving on the Governance Committee did not receive a Majority For Vote at the same election, then the independent directors who did receive a Majority For Vote shall comprise a committee to consider, in the same manner and with the same discretion granted to the Governance Committee as set forth above, any resignation offers and recommend to the Board of Directors whether to accept or reject them. The Board of Directors shall act on the recommendation of the Governance Committee (or substitute committee of independent directors if applicable) and publicly disclose its decision within 90 days following certification of the shareholder vote. The Board of Directors may take into account such factors as the Board of Directors may, in its discretion, deem appropriate in deciding whether to accept a director's resignation.

3.5 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.

3.6 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 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.

3.7 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

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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 3.7.

3.8 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.

3.9 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 or Vice Chairman of the Board of Directors, the Chief Executive Officer, 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.

3.10 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 twenty-four (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 of the corporation, these Bylaws or the Revised Act.

3.11 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.

3.12 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 of the corporation, these Bylaws or the Revised Act, be the act of the Board of Directors.

3.13 Vacancies and Newly-Created Directorships. Subject to the corporation's 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 of shareholders and until his or her successor shall have been elected and qualified or until such

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director's earlier death, resignation or removal. The term "vacancy" includes any directorship authorized under Section 3.3, but not filled by the shareholders at the annual meeting, whether or not such directorship had previously been filled.

3.14 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 3.14 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.

3.15 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.

3.16 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.

3.17 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.

3.18 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

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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 and Assistant Vice Presidents, a Secretary and one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers and such other officers as determined by resolution of the Board of Directors in its sole and absolute discretion. Except with respect to the offices of Chief Executive Officer and Chief Financial Officer, 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 his or her successor shall have been duly appointed and qualified or 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.

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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 Vice Presidents. In the absence or disability of the Chief Executive Officer and the President, the Vice Presidents, in order of their rank as fixed by the Board of Directors or, if not ranked, a Vice President designated by the Board of Directors, shall perform all the duties of the President and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as may from time to time be prescribed for them by the Board of Directors, these Bylaws, the Chief Executive Officer, the President, or the Chairman or Vice Chairman of the Board of Directors, if any, and, unless otherwise so prescribed, the powers and duties customarily vested in the office of Vice President of a corporation.

5.9 Chief Financial Officer. The Chief Financial Officer shall be subject to the direction and control of the Board of Directors and 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

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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.

5.10 Secretary. 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.

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.

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.

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.

5.11 Treasurer. 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.

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.

5.12 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.

5.13 Salaries. The compensation of the Chairman of the Board of Directors and 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

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agreement with any exchange upon which the Company'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.

5.14 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.

5.15 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. 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.

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.

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

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

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.

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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. 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.

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.

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## **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

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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.

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**SECRETARY'S CERTIFICATE**

I, the undersigned and duly elected Secretary of Nature's Sunshine Products, Inc., a Utah corporation (the "*Corporation*"), do hereby certify that the foregoing Amended and Restated Bylaws were adopted by the Board of Directors of the Corporation as the Bylaws of the Corporation as of the 2nd day of November, 2016, which amend and restate in their entirety the prior Amended and Restated Bylaws previously adopted on August 26, 2014, and that the same do now constitute the Bylaws of the Corporation.

IN WITNESS WHEREOF, I have hereunto subscribed my name as the Secretary of the Corporation as of the 3rd day of November, 2016.

/s/ Richard D. Strulson

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Richard D. Strulson

[*Secretary's Certificate to Nature's Sunshine Products, Inc. Amended and Restated Bylaws*]



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## CORPORATE CODE OF CONDUCT POLICY

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### Letter From Our Chairman & CEO

Dear Colleagues,

We are privileged to work for a true leader in the natural health and wellness industry. Nature's Sunshine manufactures the highest quality products in the world and, as a result, is well-positioned for sustained future growth. Nevertheless, we operate in a competitive industry subject to constantly changing laws and regulations. Therefore, our commitment to compliance, ethical behavior, quality, service, and integrity remain crucial to maintaining our current success and achieving future success.

Nature's Sunshine's Code of Conduct is the foundation of our Company's compliance program. It represents an effort by NSP to identify and present the policies and procedures that are generally applicable throughout our operations. Although the Code is not intended to be a comprehensive collection of every policy and procedure relevant to our Company, it is intended to provide clear guidelines for everyone at NSP. As a result, understanding the Code and its application to our individual and collective conduct is essential to NSP's compliance efforts, as well as to our commitment to quality, service, and integrity.

Please remember that this Code applies to all employees, officers and directors of Nature's Sunshine and Synergy Worldwide. If you have questions or concerns about the Code or your responsibilities under it, speak with your supervisor. If you do not feel comfortable speaking with your supervisor, you can speak to another supervisor, contact a member of the Legal Department, contact a member of Human Resources Department, or you can utilize the Company's anonymous reporting hotline.

As this Company's Executive Chairman and on behalf of the entire executive team, I want you to know that we are committed to the principles described in this Code, as well as to the Company's compliance efforts and ethical responsibilities. The true strength of our compliance program ultimately depends upon the commitment and dedication of each one of our employees to the Company's core principles of quality, service and integrity. I want to thank each of you for your commitment to this Company, to the values on which it was built and for your continuing support of the Company's compliance efforts.

Thank you,

Greg Probert, Chairman & CEO

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## **Our Values and Mission**

**Quality.** From the raw herbs harvested in the fields to the manufacturing process in our facilities, NSP is committed to quality. Because we manufacture the vast majority of our own products and carefully assess all raw materials, we can control quality and commit to the highest standards. Every employee plays a part in this process.

**Service.** Our brand was founded on a desire to help people through better nutrition. We now reach many countries through hundreds of thousands of independent distributors. Each customer deserves our best products, backed by outstanding service. We exist to serve the customer who strives for optimal wellness.

**Integrity.** At NSP, we adhere to the highest standards and are committed to professional integrity in all we do. We offer only our best and never sacrifice sound practice for a way that seems easier or cheaper. Our reputation is bound to all we produce and the manner in which we produce it.

The mission of Nature's Sunshine Products, Inc. is to enhance the emotional, physical, and financial well-being of our independent distributors and customers by providing health and lifestyle-oriented products and services of uncompromising quality and integrity. We recognize and reward the contributions of our independent distributors, shareholders, and employees to the success of Nature's Sunshine Products.

## **Introduction**

### **How to Use This Code**

At Nature's Sunshine, we are committed to conducting our business ethically and with integrity. In most circumstances, the right course of action will be the obvious choice. From time to time, however, we all need guidance about what the law and our Company policies allow, and this is where our Code can help. The Code should be used as a guide to help make sound decisions in complex situations. Although it cannot outline every possible scenario we may encounter, our Code provides direction on the most common issues we are likely to face, as well as the resources we can call upon when the answer is still not clear. Finally, by setting forth the expectations for how NSP does business, our Code helps us maintain the trust we have built with our stakeholders, and therefore ensure our business continues to be successful.

The Q&A examples found throughout this Code are used to demonstrate how various concepts may arise in the workplace and how such issues should be resolved. Of course, these examples are by no means exhaustive, so if you ever have a question about any part of this Code, be sure to ask. Keep in mind that the topics with examples and topics without examples are equally important—to live up to our values, we are required to comply with *all* Code principles.

### **Who Does This Code Include?**

Our Code applies to all of us at Nature's Sunshine and Synergy Worldwide—employees, officers, and directors alike. Each of us is expected to be familiar with and follow its principles, and to seek guidance if we are ever unsure. In addition, we must know and follow the laws and regulations that apply to the work we do wherever we do business. If there is ever a discrepancy between local law and our Code or policies, seek advice from the Legal Department *before* taking action. We also expect our distributors, suppliers, agents, business partners, consultants, and licensees to follow similar principles of conducting business ethically. Further, we take this commitment to ethical conduct squarely into account when evaluating those with whom we will do business.

### **Reporting Concerns and Asking for Help**

We are all expected to speak up when we have questions about how to resolve an issue or when we have concerns about misconduct in our workplace. Asking for help and reporting concerns ensures that we put integrity first and allows NSP to resolve potential problems quickly.

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We maintain an open-door environment at NSP, and you should feel free to report your concerns to or ask questions of any of the following resources:

- Your supervisor, or another supervisor you trust
- The Legal Department
- The Human Resources Department
- Audit Committee (if officers and/or directors are or may be involved)
- Our Global Compliance Hotline at +1 (877) 874-8416 or online at <https://naturessunshine.alertline.com>

Our Hotline is available 24 hours a day, 7 days a week and is operated by an independent third party. You may make an anonymous report, where allowed by local law, but keep in mind that keeping your identity a secret may make it more difficult for NSP to investigate your concern. Reports to the Hotline will remain confidential, to the extent possible.

You may report any suspected violation of our Code, Company policy, or the law without fear of retaliation or any negative impact on your employment. Nature's Sunshine strictly prohibits acts of retaliation against any person for reporting, in good faith, a possible violation or participating in an investigation involving possible misconduct. Retaliation is against the law, has no place in a respectful work environment, and is not tolerated at our Company.

"Good faith" means that you come forward with all of the information you have and believe you are giving a sincere and complete report. In other words, it does not matter whether your report turns out to be true, but your intentions must be honest. Individuals who engage in retaliatory acts will be subject to disciplinary action, up to and including termination. Anyone making a report not in good faith will also be subject to disciplinary action.

NSP will treat all reports confidentially to the extent possible, consistent with the law, Company policy, and the obligation to conduct a thorough investigation. All reports will be investigated promptly and thoroughly, consistent with applicable law, and may be reported to the appropriate authorities if warranted by the circumstances. NSP will take appropriate corrective or disciplinary action (which may include termination of employment) for Code violations whenever necessary.

#### **Special Expectations for Supervisors**

While this Code applies to all of us, those of us in leadership roles are held to an even higher standard. Supervisors at NSP are expected to be champions of our Code and Values. If you are a leader at NSP, you can do this by:

- Modeling ethical behavior at all times
- Ensuring the employees who report to you understand our Code and Company policies and receive proper training on them
- Maintaining a positive, open-door environment where employees feel comfortable turning to you for guidance and reporting their concerns
- Monitoring the workplace to ensure compliance with our Code
- Never retaliating—or allowing retaliation—against anyone who makes a report in good faith

Supervisors must immediately report any violations of our Code, our policies, or applicable law, and should always escalate issues they are not prepared to handle themselves. Failing to do so is grounds for disciplinary action, up to and including termination of employment.

### **Quality Meeting Quality and Safety Standards**

#### **Our products**

The quality of our products is the foundation of our business. We are vigilant in making sure the products we bring to market are of the highest quality, without compromise. This commitment to excellence begins with our sourcing and continues through every step of our supply chain. We continually scrutinize our processes and

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products—and perform thorough audits of our suppliers—to guarantee every product we sell. If you have a concern about the quality of our products or processes, please bring it to the attention of the Quality Assurance Department immediately.

***Q.** Nature's Sunshine recently hired Marsha to play a role in the manufacturing process. Paul, who has been with the company for three years, is training her. Paul shows her the proper process for sanitation and how to check the equipment and trouble shoot typical problems. He also points out which products require extra attention such as temperature control or additional testing. But, he says, as long as a supervisor isn't around, there is no need to bother with all these fussy extra tasks. Is this okay?*

***A.** No. Quality is never compromised at Nature's Sunshine. All of our manufacturing procedures are designed to ensure that our products are safe and uniform, so we must make sure to follow them at all times. Our customers expect and deserve a superior product each and every time they make a purchase. Take pride in your position, and always report to your supervisor any conduct you observe that could, in your view, compromise the excellence of our products.*

### **Our Workplace**

Just as NSP is committed to creating products that help people stay healthy, our Company is also committed to maintaining a safe and healthy workforce. We can each do our part to promote safety and good health by complying with all applicable national, state, and local health, safety, and environmental rules and regulations, as well as all posted safety procedures within our areas of operation. We follow safe practices, and always take the time to do our work carefully. NSP's programs, training, and internal controls help us to avoid risk to our fellow employees, our neighbors, the environment, and the people who use our products. If you have a concern about workplace health, safety, or security, please contact the Human Resources Department. For a more detailed discussion of safety and our workplace, please see our *Safety Policy*.

Maintaining a safe work environment includes keeping drugs and alcohol out of the workplace. Substance abuse limits our ability to do our work safely, which puts us all at risk. We may never report to work while under the influence of alcohol, illegal drugs, or misused prescription drugs or over-the-counter medications. Regardless of whether the use occurs during working hours or on Company premises, being under the influence of these substances while at work is not allowed. In addition, we may never manufacture, use, possess, transfer, or sell illegal drugs or alcohol, or misuse prescription drugs or over-the-counter medications, during working hours or while on Company premises. For a more detailed discussion of this prohibition, please see our *Drug-Free Workplace Policy and Testing Program*.

Likewise, acts or threats of violence interfere with our commitment to health and safety and are not acceptable at NSP. Weapons of any kind are not allowed on Company premises. Any threatening behavior, brandishing of weapons, or bullying should be reported to the Human Resources Department immediately. If you or someone else is in immediate danger, call local law enforcement authorities before reporting the incident through the normal channels. For a more detailed discussion of violence and our workplace, please see our *Workplace Harassment & Violence Prevention Policy*.

### **Respect in the Workplace**

We demonstrate the quality of our character by treating others as respectfully as we would like to be treated ourselves.

### **Preventing harassment and discrimination**

NSP's commitment to treating all employees fairly stems from our belief that we will all be more successful if we work together to reach our mutual goals. This means we do not tolerate harassment in our workplace. Harassment can come in many forms—physical, verbal, or sexual. In essence, it is any action that has the purpose or effect of creating an unwelcome, intimidating, or hostile work environment. Examples of harassing behavior include:

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- Unwanted touching or leering
- Crude gestures
- Inappropriate displays of sexually-explicit materials
- Repeated requests for dates
- Disparaging or discriminatory jokes, language, or name-calling

For a more detailed discussion of harassment and our workplace, please see our *Workplace Harassment & Violence Prevention Policy*. If you know or suspect harassment has taken place, report it immediately to your supervisor, the Human Resources Department, the Legal Department, or through the anonymous hotline. Remember, you will never experience retaliation for coming forward with a good faith report of harassment.

***Q.** The marketing department often schedules lunch together or may grab a drink after work on Fridays. Two weeks ago, Arianna was seated next to Antonio, a recent divorcee, at lunch. She listened politely to the stories about his ex-wife that he seemed eager to tell. After they returned to work, he sent her an email, and then a text, and then stopped by her desk. He asked her out to dinner, but she politely said no. However, Antonio has continued to text her several times a day and has continued to push her to go on a date. She realizes he is probably lonely and hurt, but she has asked him not to contact her for personal reasons anymore. She needs him to respect her personal space and is beginning to wonder if she needs to contact her supervisor or HR for help with what has become an uncomfortable situation. What should Arianna do?*

***A.** Arianna has the right idea—her supervisor and HR can help her handle the situation appropriately. What matters here is that Antonio's actions make Arianna uncomfortable, and she should not have to feel that way at work. If your actions make another worker uncomfortable in any way, you must stop at once. Respect your co-workers and remember that inappropriate or unwanted advances, as well as crude, belittling jokes, language or comments, are not fitting for our workplace.*

#### Promoting diversity

NSP embraces differences in culture and point of view. Our Company believes that doing so can make us a stronger team because having a diversity of opinions and ideas makes us better able to provide innovative, marketable, and healthy products for our independent distributors and customers. Because of this philosophy, we never make employment decisions based on legally protected personal characteristics such as race, color, religion, national origin, gender, sexual orientation, marital status, age, or disability. NSP provides equal opportunities based on skills and abilities, always striving to create a diverse, productive workforce.

#### Protecting employee information

All of us provide a certain amount of private personal information to NSP as part of our employment. We entrust our colleagues to keep this personal information secure. Such information often includes, but is not necessarily limited to:

- Government-issued identification numbers
- Health history
- Salary history and performance reviews
- Marital status
- Contact information

If you have access to private employee information due to the nature of your work at NSP, you have a responsibility to safeguard it, accessing it only for legitimate business purposes. Never share such information outside of NSP without the owner's express permission, and be cautious even internally, sharing such information only on a need-to-know basis.

#### Keeping Accurate Books and Records

We are all responsible for ensuring that the financial documents our Company discloses to the public are accurate and honest. As a public company, the law requires this of us, but it is also an important part of ensuring the

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integrity and quality of our operations. It may not always seem as though we have a personal impact on our Company's financial records, but we all do play a role in making sure these records are always accurate. Therefore, every piece of data or information that we submit—including personnel, time, expense, and safety records—must be absolutely honest, accurate, and complete. Additionally, because our records may become public, we should avoid making derogatory remarks, exaggerations, or other inappropriate remarks in our Company records. We must follow our Company's system of internal controls and all applicable accounting requirements when recording this data.

This commitment to integrity and quality means we may not:

- Make false representations on behalf of our Company, whether verbally or in writing
- Hide Company funds
- Mischaracterize Company transactions
- Create undisclosed or unrecorded fund accounts
- Knowingly allow similar illegal activities to occur

The Chief Executive Officer ("CEO") and all senior financial and accounting officers of NSP have important and vital roles in the corporate governance of our Company. They are expected to ensure the accuracy and completeness of the public disclosures our Company provides to the government and regulatory agencies. Because of this special role, they are required to know and understand the financial disclosure laws that apply to their work.

Violations of financial disclosure laws will be viewed as a severe offense that may result in disciplinary action, up to and including termination. This includes failing to report potential violations by others. If you notice any accounting or auditing irregularities, or incidents of fraud by individuals responsible for our Company's accounting or financial reporting, you should report your observation to the Legal Department immediately. Remember, you will never experience retaliation for coming forward with a good faith report of wrongdoing.

Just as important as the content of our Company records is ensuring that they are managed properly. Effectively managing these records allows us to meet our business needs and ensure our records are available when needed. In addition, it helps us comply with all applicable laws and regulations and preserve any relevant documents in case of litigation, audits, or investigations. Such records include all electronic, email, imaged and paper documents created, received, and maintained as evidence or information used by our Company for legal, regulatory, accounting, or business purposes.

We all must follow the records management policies and retention schedules in the locations where we operate. They propose the length of time for which we should maintain business records, and procedures for compliance with legal holds. A legal hold applies to records connected with actual or anticipated litigation. If you believe that anyone has improperly concealed, altered, or destroyed a record, you should report it to the Legal Department. For a more detailed discussion of records retention and legal holds, please see our *General Corporate Record Retention Policy* or contact the Legal Department.

### **Protecting Company Property**

By using Company property appropriately, we help to ensure that Nature's Sunshine has the resources it needs to continue producing high-quality products and supporting its distributors and customers throughout the world.

#### **Physical assets**

We have all worked extremely hard to accomplish the success that Nature's Sunshine enjoys today. Each of us has a responsibility to protect what we have worked to achieve, including Company property.

These assets belong to our shareholders, and we must safeguard them from loss, misuse, theft, damage, and waste. Our physical assets include our funds, facilities, equipment, vehicles and other tangible property. Be sure to only use Company assets for legitimate Company business purposes.

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***Q.** Gary, a member of the sales team, rushes home to have dinner with his family after working late one evening. He remembers that his wife had asked him to stop by the store on his way home for a gallon of milk. Pulling up to the store, Gary jumps out quickly, neglecting to lock his car. In the produce section, Gary sees an old friend and stops to chat. When he finally gets back to his car, his laptop is missing. He thinks back and definitely remembers having packed it up to bring it home. He grows anxious as he thinks of all the confidential files he has saved on this laptop. In his haste, he has made a big mistake.*

***A.** All company property should be guarded and used carefully. In addition to physical property such as a laptop, intellectual property like lists of customers or independent distributors, or proprietary information, must be guarded as well. While it is unfortunate that Gary has lost the company's computer, the intellectual property contained on the hard drive may be the greater loss. Be alert and aware when using, transporting, and storing all company property. To minimize the damage done, Gary must report the missing laptop to his supervisor or the Human Resources Department at once.*

#### Travel and expenses

Any time we travel for business purposes or make purchases with Company funds, it's important to keep in mind that we are acting on the Company's behalf. NSP trusts us to use funds and other resources wisely, so we must take care to spend Company money only on legitimate business expenses. If you have any questions about whether an expense is allowed, seek guidance from your supervisor or refer to our *Travel/Expense Reimbursement Policy*.

#### Confidential information and intellectual property

One of our most important assets is our knowledge and experience in the supplement industry. Our Company confidential information and intellectual property ("IP") is a valuable resource, so it is our duty to protect it from loss, theft, and misuse. Our confidential information includes, but is not necessarily limited to:

- Customer lists
- Independent distributor lists
- Product formulas
- Business and technical information
- Any information on current or past employees and their performance
- Information related to distributors
- Trade secrets

We must take great care to protect and enforce our IP rights at all times. IP includes intangible property such as copyrights, patents, trademarks, design rights, logos, and brands. Similar to other forms of physical property, the law protects our rights to these assets. To the extent permissible by law, the rights to all IP created with Company materials, on Company time, at Company expense, or within the scope of our duties, belong to Nature's Sunshine.

It is important to note that we may not use or disclose any of NSP's confidential or proprietary information to others, whether during the term of our employment or after we are no longer with the Company, unless we have the prior written consent of the Legal Department.

How can I protect NSP's Intellectual Property?

- Never disclose trade secrets, or any other confidential and/or proprietary information, without a business need and prior authorization from the Legal Department to do so.
- Always properly secure your computer, documents, or other sensitive materials.
- Avoid discussing this information in places where you can be overheard, such as restaurants, taxis, airplanes, or elevators.
- Remember that these obligations continue even after your employment with NSP ends.

#### Computer systems

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A key step in ensuring Company property is protected is making sure that we follow all security measures and internal controls for our computer systems, portable electronic devices, laptops, and other storage devices. Keep the following in mind, especially when traveling with Company property:

- Never leave these devices where they could be lost or stolen
- Be mindful of where you work, and who may be able to view your monitor or overhear your conversations
- Do not share your password or access codes with anyone else
- Do not allow others to use your accounts

Also remember to compose emails, instant messages, and text messages with the same care you take in composing any other NSP document. Electronic messages, both personal and business-related, are lasting and recoverable written records that can easily be copied and forwarded without your knowledge or consent. Remember that derogatory remarks, discriminating or harassing comments, and threatening or abusive language is unacceptable in any communications using Company systems—just as it would be in person at NSP.

Nature's Sunshine reserves the right to block offensive, illegal, and non-business-related sites or any other site deemed dangerous to the security of or inappropriate to the operation of our computing assets. NSP may inspect or monitor all company resources, assets, and property without prior approval, knowledge, or consent of employees to the extent allowed by law. This includes monitoring and retrieving information that is stored or transmitted on NSP's electronic devices, computers, and systems.

#### Social media

NSP embraces the use of social media to market and promote our business and products, and recognizes that many of us engage in social media in our personal lives. However, as with all corporate communications, you must be careful not to speak or act or appear to be speaking or acting on NSP's behalf through social media unless you are authorized to do so.

As an employee of Nature's Sunshine, you must be extremely careful not to use or divulge confidential or proprietary information on any social media sites, including social networking sites like Facebook® and LinkedIn® and blogs or microblogs, like Twitter®. You must also refrain from making disparaging statements about our Company, our competitors, our independent distributors, or our customers.

You must also take care to ensure that, when posting your personal opinions and ideas unrelated to NSP online, you are clearly stating them as your personal thoughts, and not those of Nature's Sunshine.

### **Integrity**

#### **Refusing Bribes and Corrupt Payments**

We pride ourselves on our integrity, which means we succeed because of the quality of our products and not because of any improper or unethical conduct. To this end, we adhere to all anti-bribery laws in the countries where we do business, including the U.S. Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act. These laws prohibit offering or making any payment, gift, entertainment, or providing any improper benefit to any foreign government official for the purpose of obtaining or retaining any business or securing any other improper benefit for NSP.

Keep in mind that "foreign government officials" include federal, national, state, or local government employees, political candidates, and even employees of businesses that are owned by a foreign government. Similarly, we must never offer or accept a "kickback." This means we cannot accept the return of a sum already paid (or due to be paid) as a reward for making or fostering business arrangements. Company policy also prohibits us from making "facilitating payments," which are small sums (usually in cash) given to a government official to expedite a routine official activity, such as processing a visa.

More broadly, our Company also prohibits any act of commercial bribery. "Commercial bribery" refers to offering a bribe to our customers, suppliers, or anyone working on their behalf with the intent to obtain or retain business.

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In addition, we may not retain a third party to engage in any activity that we are prohibited from participating in ourselves.

Violations of the FCPA, the UK Bribery Act, or other national anti-corruption laws may subject our Company and the individuals involved to civil and criminal penalties, including prison sentences and large fines. For further guidance, refer to our *Foreign Corrupt Practices Act/Anti-Corruption Policy* and our *Due Diligence Procedures for Third Parties*.

**Q.** *On behalf of NSP, Gwen is negotiating with a representative of a foreign food agency for pre-authorization to market and sell a revolutionary new product in his country. When she submits the application for pre-authorization, her contact suggests that if she were to make a \$2,000 payment, he would make sure that the pre-authorization is granted. What should Gwen do?*

**A.** *Gwen must not make this payment. She should clearly decline the representative's offer and report the situation to her supervisor and the Legal Department. Paying or receiving a bribe is a serious violation of NSP's Code and policies, as well as applicable anti-corruption laws, and can have serious consequences for our Company and the individuals involved.*

**Q.** *Brendan works with a number of foreign regulatory officials on a consistent basis, ensuring that our products meet all regulatory requirements in various countries. One of these officials is quite short with Brendan, and he finds communicating with her to be fairly unpleasant. Hoping to improve their relationship, Brendan contacts a company in her area that delivers gourmet gifts baskets. Surely artisan cheeses and a nice bottle of wine will win her over, which will make working with her less of a chore.*

**A.** *Brendan should step back and reconsider this course of action. Trying to buy the regulator's favor can easily be considered a bribe, even if it doesn't directly affect our Company's business. There may be some acceptable gestures Brendan can extend to this official in order to build a better business relationship, but Brendan needs to follow Company policy and should look to the Legal Department for guidance. Taking these steps beforehand ensures that we follow the law in all our business dealings.*

### Money Laundering

While it is unlikely that any one of us would encounter a money-laundering scheme, we must all be aware of signs that corrupt payments or other money laundering activities are occurring, such as businesses (or other parties with which we do business):

- Not maintaining a physical presence
- Engaging in illegitimate business
- Not having proper compliance processes in place
- Requesting to make payments in cash, or overpaying and asking for a refund

NSP is committed to helping in the global fight against money laundering. "Money laundering" is the process by which persons or groups try to conceal illegal funds, or otherwise try to make the sources of their illicit funds look legitimate. To prevent money laundering, we should perform "know your customer" due diligence on suppliers and other business partners who wish to do business with our Company. If you need more information about how to identify money laundering, you should review the *Due Diligence Procedures for Third Parties* or contact Legal Department.

### Gifts and Entertainment

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Just as we do not offer bribes or other corrupt payments, we may not request any object of value, (including payments, fees, loans, services, gifts, entertainment, or other favors) from any person or firm as a condition or result of their doing business with NSP.

Occasionally, business gifts and entertainment may be appropriate courtesies that help build business relationships. However, we never want these courtesies to suggest that favorable treatment was given or received, or that the courtesies were used to influence a business decision. For this reason, we may only exchange gifts, meals, or entertainment with existing and potential suppliers, customers, or other business partners if they are:

- Infrequent
- Unsolicited
- Of nominal value
- Not cash or cash equivalents, such as gift cards
- In compliance with applicable laws and regulations

Even if we give or receive gifts that meet the criteria above, we must always take care to avoid even the appearance of bias. If a person or business offers you a business gift or appropriate courtesy of any value greater than \$100, or any entertainment having a value of over \$500, in any one calendar year, you are required to notify and obtain approval from at least a vice president level employee.

***Q.** Tanya is offered two front-row tickets to a popular concert by a supplier that she has worked with for many years. Her contacts are very friendly and are very glad to have NSP's business. They often offer Tanya small tokens of their appreciation, and earlier this year, they took her to a football game to discuss business. Tanya would love to go to the concert, but she knows that the tickets are not cheap. Is she allowed to accept the gift?*

***A.** Tanya should consider the points listed above. Although it's good that the tickets were unsolicited and are not a cash equivalent, expensive tickets are not of nominal value—meaning that she may not accept this gift. Further, since this supplier frequently gives Tanya small gifts, she should consider whether these gifts add up to \$100 or more for the calendar year. Tanya should discuss the situation with her supervisor or the Legal Department if she needs further guidance.*

### **Avoiding Conflicts of Interest**

Upholding our integrity means that we always strive to act in our Company's best interests. Specifically, we actively avoid conflicts of interest, whether real or perceived. A "conflict of interest" is any situation that has the potential to create a conflict between our personal interests and the interests of our Company, its independent distributors, or its customers. Remember, conflicts of interest may arise not just from dealings with external parties, such as independent distributors, customers, or vendors, but also from relationships or transactions with our colleagues. If a conflict or potential conflict arises, you must disclose it immediately to the Legal Department. Some of the more common conflict of interest scenarios are discussed in this section.

### **Outside activities**

While NSP realizes some of us may choose to have outside employment in addition to our jobs at Nature's Sunshine, we may not be employed by or be an independent distributor of any business that is a direct competitor of our Company. Direct competitors include all firms with which NSP competes for distributors or which sell similar products to those of NSP.

Likewise, we may not own more than one percent of the publicly traded stock in any direct competitor. If you have any questions about whether your investments or outside activities (or those of your immediate family members) pose a conflict of interest, seek guidance from the Legal Department.

"Immediate family members" include spouses, children, stepchildren, parents, stepparents, siblings, in-laws and any other relatives who are part of your household.

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### Product credit and building an NSP business

Although we may be able to obtain “free” or “discounted” products through NSP product benefits, we may provide such products only for the use of our immediate family members. We may not sell or resell such products. Also, we and our immediate family members cannot be independent distributors of NSP. This means we do not have authorization to sell, distribute, or build business “down-lines” with NSP products.

Third-party independent contractors who perform services for NSP may become independent distributors of NSP if:

- The work they perform on NSP’s behalf does not involve representing NSP before any government agency and constitutes less than 33% of the contractor’s total revenue; and
- The independent distributor relationship is reviewed and approved by the Legal Department.

### Working with family and close friends

We may not supervise or otherwise be in a reporting relationship with our immediate family members, as this could lead to an appearance of favoritism. NSP will do its best to avoid placement decisions that cause such a scenario, but if one arises, you must disclose the situation immediately.

In addition, if an immediate family member or close friend has an ownership interest in a company with which we do business (or are poised to do business), you must inform your supervisor or the Legal Department. If you are involved in vendor selection or other third party contracting, you must remove yourself from the selection process to ensure that we avoid even the appearance of favoritism.

***Q.** Carla works in the lab at NSP. She overhears her supervisor saying that the Company is looking to find a new supplier for small lab equipment. Her fiancé, Lucas, works in sales for a manufacturing company that happens to have just the right line of lab supplies. How perfect! If Lucas lands this contract, it could mean a big bonus—just in time for their honeymoon. Is it okay for Carla to give him the tip?*

***A.** While Lucas can certainly put in a bid for his company to become the new lab equipment supplier for NSP, Carla must disclose to her supervisor or the Legal Department that her fiancé, soon to be her husband, is the one asking for business. Carla must also remove herself from the selection process, and cannot share any confidential bidding or selection details with Lucas. Our Company chooses vendors and suppliers fairly based on merit, experience and capability, and we want to avoid any appearance of favoritism.*

### Corporate opportunities

In order to make objective business decisions on behalf of NSP, we must never compete with our Company. This means we may not take for ourselves any business or investment opportunities that we discover through our position at NSP or through Company property or information. In addition, we must never help anyone else take such business or investment opportunities for personal gain, including our family members and friends.

***Q.** Aakar has worked on the Nature’s Sunshine web page for five years. Through his work, he has learned about every product offered. In fact, he has learned so much that he feels that he could recommend products to customers himself. The thought has crossed his mind that he could set up another site and offer a similar customer experience with a competitor’s supplements. It would be nice to have a way to make a little extra money, managing the site at nights or on weekends. Can Aakar set up a competing website?*

***A.** No, Aakar must not create a situation where he is competing with NSP. It is a conflict of interest for Aakar (and possibly a theft of the Company’s intellectual property) to use the product information he has gained at Nature’s Sunshine to compete with Nature’s Sunshine. Seeking personal gain from the experience he has received as a NSP’s employee is unethical. The knowledge he has gained at our Company should be used solely for our Company’s best interests.*

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### **Fair Sales and Marketing Practices**

Because we always let integrity and honesty guide our interactions with our independent distributors, customers, and suppliers, we do not make misleading, false, illegal, or exaggerated claims concerning our products or those of our competitors. Moreover, we are careful to represent accurately the quality, features, and availability of our products. In particular, we have a responsibility to ensure that all of our marketing and promotional materials contain an accurate discussion of our product offerings that is fully compliant with applicable federal, national, state, or local laws.

***Q.** Genevieve, who works in Quality Assurance, is currently reviewing the ingredient list for a new product to ensure it meets regulatory requirements in the proposed market. After what she feels is a thorough check, she gives Fareed in Marketing the green light to begin developing promotional materials. What Genevieve doesn't realize is that pending legislation in one of the targeted countries could affect NSP's ability to market and sell this product in that area. Once Genevieve realizes her mistake, she reaches out to Fareed—who has already invested a significant amount of time into marketing the new product. Genevieve doesn't know what to say next.*

***A.** Genevieve needs to tell Fareed what she's realized right away. Her mistake was an honest one, and while time and resources may have been lost as a result, it isn't too late to correct the issue before misinformation is released. Nature's Sunshine never intentionally publishes false or misleading data, nor does our Company seek to market products unethically or illegally in any location. In the future, Genevieve should exercise additional care in reviewing products for compliance, and request help from her supervisor if she has questions or is unsure of how to deal with a particular situation.*

### **Promoting Fair Competition (Antitrust)**

At Nature's Sunshine, we believe in competing vigorously, but we never sacrifice our integrity to win business. This means that we comply with all applicable antitrust and competition laws in place in the countries where we do business. While these laws can be complex, they are meant to ensure fair competition in the marketplace. In effect, these laws require that we make independent business decisions, never colluding with our competitors or making other unfair business arrangements.

We must all take special care not to discuss any of the following with our competitors:

- Pricing, costs, or marketing strategies
- Market, independent distributor, or customer allocation
- Bids for contracts

If a competitor attempts to engage you in a conversation about any of these topics—or any other anticompetitive behavior—you should stop the conversation immediately and inform the Legal Department. Keep in mind that even the appearance of anti-competitive behavior can cause trouble for our Company. Be especially mindful of situations that could easily lead to questionable conduct, such as trade shows or conventions.

Competing with integrity also means we always gather competitive information ethically and legally. We never misrepresent ourselves in order to acquire information. In addition, we must never ask the former employees of our competitors—even if they now work for NSP—to share confidential data with us.

***Q.** Claude is eager to perform well in his new sales manager role by increasing the number of new independent distributors joining NSP. Lately, he has been struggling to develop new ideas to attract additional independent distributors. As he wonders how to accomplish his goal, a thought occurs to him. What if he contacts a competing company and pretends to be a holistic practitioner searching for a new product line? He could see what the competitor's sales department might do to persuade a new independent distributor to join their ranks. It might be refreshing to hear a different approach. After all, no one would ever know that he placed the call. Is there anything wrong with Claude's idea?*

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*A. Yes, there is. While it is admirable for Claude to want to improve his performance, he should not sacrifice his integrity to do so. NSP never misrepresents itself to gain information from a competitor. Our products and our performance stand on quality, not duplicity.*

#### **Handling Inside Information**

From time to time, our roles and responsibilities at NSP may give us access to inside information about our Company or our business partners. “Inside information” is information that is both material and non-public. “Material” means a reasonable investor would consider the information important when deciding whether to buy, sell, or hold a security, such as a company’s stock. Information is generally considered “non-public” until two full trading days have passed since the public release of the information. Additionally, all material, non-public information, whether positive or negative, should be considered confidential information.

Some examples of inside information include:

- Changes in senior management
- Unannounced stock splits or financial results
- Mergers, acquisitions, or divestitures
- Anticipated lawsuits or investigations
- New products or services under development

You may never make decisions about buying or selling securities based on inside information. Doing so is considered insider trading, and it is illegal—if you have inside information about a company, you must not trade in that company’s stock. You must also refrain from sharing inside information with someone else so he or she can financially benefit from the information. This practice, known as “tipping,” is also illegal.

For additional information, please see our *Statement of Company Policy Regarding Insider Trading*. If you have any questions about whether the information you possess is inside information, or whether a financial decision you are considering is allowed, contact the Legal Department for more guidance.

#### **International Trade Controls**

As a global Company, we must be alert to the laws and regulations that govern our international trading activity. Specifically, we must understand and follow the laws relating to exports, re-exports, or imports to and from the United States and, in certain circumstances, other countries.

Keep in mind that an “export” occurs when a product, service, technology, or piece of information is shipped to a person in another country. An export can also occur when technology, technical information, or software is provided in any way, including verbally, to a non-U.S. citizen wherever they are located (including within the U.S.). We must even be cautious when traveling with Company laptops or other technologies, even if we do not plan to share the information they contain. Before engaging in exporting activity, you must verify the eligibility of both the location of delivery and the recipient. You also must obtain all required licenses and permits, and pay all proper duties.

Import activity, or bringing the goods we purchase from a foreign or external source into another country, is also subject to various laws and regulations and may require the payment of duties and taxes, as well as the submission of certain filings. If you have any questions about our obligations under international trade laws, seek guidance from the Legal Department before taking action.

In addition, we must also be alert to international sanctions, which may affect our operations. Sanctions prevent us from doing business with specific countries, regimes, or certain blacklisted entities or individuals. They are imposed by various bodies worldwide, including the United Nations, the Office of Foreign Assets Control in the United States, and the European Union. These matters are complex and may change frequently, so check with the Legal Department to be sure before engaging in international transact

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## Service

### **Political and Charitable Activities**

Our Company encourages us to participate in our communities as individuals, such as through involvement in the political process or charitable activities. However, we may only participate on our own time and at our own expense. We may not use Company time, funds, facilities, or other assets for political purposes or charitable contributions without express written permission from the Legal Department.

As a corporate citizen, Nature's Sunshine may occasionally take a position on issues of public policy that could affect our business. Our Company also engages in efforts to affect legislation or government policy. However, regulations on Company activities in this area vary around the globe. Therefore, only certain individuals within our Company may engage in lobbying efforts on NSP's behalf. Do not contact a government official in an attempt to influence legislation or government policy on behalf of our Company unless your efforts have been approved by the Legal Department.

Keep in mind that U.S. law imposes criminal liabilities for violating its very strict U.S. Congressional gift rules. Whether or not we are engaged in lobbying activities, none of us may provide Members of the Congress or their staffs any gifts of value, including meals or products. For more information, contact the Legal Department.

### **Handling External Inquiries**

As a public company, it is especially important that we speak to the public with one voice. In order to maintain consistency in our messaging and always give an accurate picture of our business operations, only certain authorized individuals should speak to the media or investors on NSP's behalf.

If you receive an inquiry from the media, and it is not part of your job responsibilities to respond, you should refer the inquiry to the Chief Marketing Officer. Similarly, inquiries from investors or security analysts are to be handled by the Chief Financial Officer or designee. Do not attempt to handle these requests on your own.

It is important for us to answer and comply with all external and internal audits and investigations, including government investigations. However, if a government official requests information or documentation from you, make sure the Legal Department is involved before complying with the request. As with all our activities, we must be forthright in our representations. To this end, we must never conceal, alter, or destroy any requested records. In addition, we must never attempt to exert improper influence on the results of an investigation or audit. If you have any questions about any audit, investigation, or inquiry, and how you should respond, consult with the Legal Department.

***Q.** There has been a bit of a scandal regarding one of the largest herb suppliers in China. The media is in a frenzy to find out which American companies have used this supplier at any time in the past five years. Ian has worked at Nature's Sunshine for ten years and knows that all its suppliers have been properly vetted. NSP has never used this supplier, and he hates seeing the entire herbal supplement market affected by the bad press. After watching a particularly accusatory news segment, Ian picks up the phone to contact the station to make a statement defending the integrity of Nature's Sunshine.*

***A.** While it is admirable that Ian would want to clear the NSP brand from any accusation, he should withstand the temptation to issue any personal statements. NSP has authorized certain members of the Company to speak on the Company's behalf. Never speak to the media or investors without prior approval from the Chief Marketing Officer or the Chief Financial Officer, respectively.*

### **Environmental Sustainability**

Just as our products are designed to keep the body healthy, we also strive to keep our environment healthy. We want to do our part to conserve resources and prevent waste, so NSP pursues environmentally sound business

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practices. Our goal is to not only comply with applicable laws and regulations, but to lead our industry in responsible behavior. We also encourage our business partners to use sustainable practices.

### **Promoting Corporate Citizenship**

Because we believe that all people deserve respect, we are committed to upholding individual human rights. This means we provide reasonable working hours, working conditions, and fair wages for our employees. NSP does not condone or permit the use of forced labor or human trafficking practices and will not knowingly do business with subcontractors, business partners, or suppliers who violate these policies.

*Q. Dan is returning from a trip to India where he met with a long-time supplier of herbs. NSP has done business with this supplier for years, and the quality of product has always been exceptional. Their prices have also remained stable, while other suppliers have raised costs. On this trip, Dan noticed there were a number of very young girls working for this organization, and the working space seemed more dark and crowded than before. He would hate to get anyone in trouble, but he has a nagging feeling that these girls are younger than the legal working age and may even be forced labor. He wonders whether this situation is any of his business—as long as the product remains good.*

*A. Our Company upholds human rights, from our headquarters in Utah to all corners of the globe. If any of our subcontractors, partners, or suppliers violates human rights, we must question our relationship with that party. It is Dan's responsibility to report what he has seen to the Legal Department. If, indeed, the supplier has fallen into disreputable practices, NSP must investigate and act. We will not knowingly do business with any person or entity that violates our principles*

### **Compliance With All Laws**

Compliance with all applicable federal, national, state, and local laws, rules and regulations—both in letter and in spirit—is one of the foundations on which our Company's ethical policies are built. As employees of NSP, we all must strive to understand and take responsibility to comply with the applicable laws, rules, and regulations of the countries, states, and communities in which we operate.

If a federal, national, state, local, foreign, or international law conflicts with this Code, we must comply with the law. However, if a local custom or policy in your location conflicts with this Code, then you must comply with this Code. In many instances, this Code and NSP's related policies set higher ethical standards than those imposed by applicable laws, rules, and regulations. If you have any questions regarding such conflicts or the interpretations of policies contained in this Code, consult with the Legal Department to determine the most appropriate course of action.

### **Waivers**

The provisions of this Code are binding on all personnel of NSP and its affiliates. In the rare event that an exception to this Code is appropriate, it shall only be authorized by the Board of Directors or a committee of the Board. Any amendment or waiver of our Code will be disclosed publicly, if and as required by law or stock exchange rules.

### **Enforcement**

The standards and policies contained in this Code are important to the Company's success and must be taken seriously by all of us. Disciplinary action—including termination of employment or possible legal action—may be taken against:

- Any employee who violates or authorizes the violation of this Code
  - Any employee who deliberately fails to report a violation of this Code or other improper or illegal conduct
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- Any employee who deliberately withholds relevant and material information, or who is uncooperative in a company investigation into a possible violation of this Code or other improper or illegal conduct
- Any employee who has been convicted of a crime or who has been arrested, or jailed for conduct deemed contrary to NSP's mission, products, services, or public image.
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#### **Acknowledgment**

By signing below, I acknowledge that I have received my copy of the Nature's Sunshine Products Code of Conduct ("Code"). I understand that I am responsible for knowing and adhering to the principles and standards of our Code.

I further acknowledge and agree that NSP's Code is intended to provide a general overview of our Company's policies, and does not necessarily represent all such policies and practices in effect at any particular time. I certify that I will comply with the Code, written policies, practices, rules, regulations, or directives issued by NSP.

I understand that I should contact my supervisor, the Human Resources Department, or the Legal Department, if I have any questions concerning our Code, or any behavior or situation concerning NSP. I also understand that I have a responsibility to report any violations of our Code to my supervisor, the Human Resources Department, or the Legal Department immediately.

Finally, I understand that failure to follow our Code may result in disciplinary action, up to and including termination.

Date: \_\_\_\_\_

Employee Signature \_\_\_\_\_ Printed Name \_\_\_\_\_



## 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
Nature's Sunshine Products Direct, Inc.	Utah
NSP Casualty Insurance Company, Inc.	Hawaii
Nature's Sunshine Products of Canada, Ltd.	Canada
Nature's Sunshine Products de Mexico, S.A. de C.V.	Mexico
Arrendadora Bonaventure, S.A. de C.V.	Mexico
Nature's Sunshine Services, S.A. de C.V.	Mexico
Nature's Sunshine Products de Colombia, S.A.	Colombia
Nature's Sunshine Produtos Naturais Ltda.	Brazil
Nature's Sunshine Marketing Ltda.	Brazil
Nature's Sunshine Products de Venezuela, C.A.	Venezuela
NSP de Centroamérica, S.A.	Costa Rica
Nature's Sunshine Products de Panamá, S.A.	Panama
NSP de Guatemala, S.A.	Guatemala
Nature's Sunshine Products de El Salvador, S.A. de C.V.	El Salvador
Nature's Sunshine Products del Ecuador, S.A.	Ecuador
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 (Israel) Ltd.	Israel
Nature's Sunshine Products of Russia, Inc.	Utah
Nature's Sunshine Products Poland sp. z.o.o.	Poland
Nature's Sunshine Products Dominicana, S. R.L.	Dominican Republic
Nature's Sunshine Products International Distribution B.V.	Netherlands
NSP International Holdings C.V.	Netherlands
Quality Nutrition International, Inc.	Utah
Synergy Taiwan, Inc.	Utah
Synergy Worldwide Inc.	Utah
Synergy Worldwide Marketing (Thailand) Ltd.	Thailand
Synergy Worldwide Australia PTY Ltd.	Australia
Synergy Worldwide Canada B.V.	Netherlands
Synergy Worldwide Distribution Canada, ULC	Canada
Synergy Worldwide Italy S.R.L.	Italy
Synergy Worldwide Korea Ltd.	Korea
Synergy Worldwide Japan G.K.	Japan
Synergy Worldwide (S) PTE Ltd.	Singapore
Synergy Worldwide Nutrition Israel Ltd.	Israel
Synergy Worldwide (HK) Ltd.	Hong Kong
PT Nature's Sunshine Products Indonesia	Indonesia
NATR Distribution (M) SDN. BHD.	Malaysia
Synergy WorldWide Europe B.V.	Netherlands
Synergy Worldwide Europe Management Services B.V.	Netherlands
Synergy WorldWide New Zealand B.V.	Netherlands
Synergy Worldwide New Zealand	New Zealand
Synergy WorldWide Philippines Distribution, Inc.	Philippines

Synergy Vietnam Co., Ltd.	Vietnam
Synergy WorldWide Marketing (M) SDN BHD.	Malaysia
Nature's Sunshine (Far East) Limited	Hong Kong
Shanghai Nature's Sunshine Health Products Trading Co. Ltd.	China
Nature's Sunshine Hong Kong Limited	Hong Kong
Synergy WorldWide Nutrition Products (Hong Kong)	Hong Kong
Synergy WorldWide, Inc. (Philippines)	Philippines
PT Synergy WorldWide Indonesia	Indonesia

**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 13, 2017, relating to the consolidated financial statements and consolidated 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, 2016.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah

March 13, 2017

## CERTIFICATIONS

I, Gregory L. Probert, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2016 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/ Gregory L. Probert

Chief Executive Officer and Chairman of the Board

March 13, 2017

## CERTIFICATIONS

I, Joseph W. Baty, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2016 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 13, 2017

**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, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory L. Probert, 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/ Gregory L. Probert

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Gregory L. Probert

Chief Executive Officer and Chairman of the Board

March 13, 2017

**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, 2016 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

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Joseph W. Baty

Executive Vice President, Chief Financial Officer and Treasurer

March 13, 2017