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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, 2015

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, 2015 was approximately \$258,266,000 based on the closing price of \$13.75 as quoted by Nasdaq Capital Market on June 30, 2015.

The number of shares of Common Stock, no par value, outstanding on February 19, 2016 is 18,712,499 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 fiscal year ended December 31, 2015, 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 Fiscal Year Ended December 31, 2015**

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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:

- any negative consequences resulting from the economy, including the availability of liquidity to the Company, its independent distributors and its suppliers or the willingness of its customers to purchase products;
- its relationship with, and its inability to influence the actions of, its independent distributors, and other third parties with whom it does business;
- improper activity by its employees or independent distributors;
- negative publicity related to its products, ingredients, or direct selling organization and the nutritional supplement industry;
- changing consumer preferences and demands;
- its reliance upon, or the loss or departure of any member of, its senior management team which could negatively impact its distributor relations and operating results;
- increased state and federal regulatory scrutiny of the nutritional supplement industry, including, but not limited to targeting of ingredients, testing methodology and product claims;
- the competitive nature of its business and the nutritional supplement industry;
- regulatory matters governing its products, ingredients, the nutritional supplement industry, its direct selling program, or the direct selling market in which it operates;
- legal challenges to its direct selling program or to the classification of its independent distributors;
- risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with the its third party importers, governmental sanctions, ongoing Ukraine and Russia political conflict, pricing and currency devaluation risks, especially in countries such as Ukraine, Russia and Belarus;
- uncertainties relating to the application of transfer pricing, duties, value-added taxes, and other tax regulations, and changes thereto;
- its dependence on increased penetration of existing markets;
- cyber security threats and exposure to data loss;
- its reliance on its information technology infrastructure;
- the sufficiency of trademarks and other intellectual property rights;
- changes in tax laws, treaties or regulations, or their interpretation;
- taxation relating to its independent distributors;
- product liability claims;
- the full implementation of its joint venture for operations in China with Fosun Industrial Co., Ltd., as well as the legal complexities, unique regulatory environment and challenges of doing business in China generally;
- its inability to register products for sale in Mainland China;
- managing rapid growth in China; and
- the slowing of the Chinese economy and/or the devaluation of the Chinese Renminbi.

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, it refers to Nature’s Sunshine Products, Inc., together with its subsidiaries, as “we,” “us,” “our Company” or “the Company.”

## PART 1

### Item 1. Business

#### The Company

Nature's Sunshine Products, Inc., together with its subsidiaries (hereinafter referred to collectively as 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 who uses the products themselves or resells them to consumers. 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.

#### 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 is deploying a multi-channel go-to-market strategy that offers select Nature's Sunshine branded products through a direct selling model across China as well as through e-commerce channels. The time to market will be dependent upon regulatory processes including product registration and permit approvals. Due to a change in the Chinese regulatory environment, the Company has indefinitely deferred its entry into the retail channel 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 have distribution rights for the relevant market. All of the net sales revenue to date in the China and New Markets segment is through the Company's wholesale business to foreign markets outside of China detailed below. The wholesale business was previously part of NSP Americas. 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, the Philippines, 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 Argentina, Australia, Chile, Israel, New Zealand, Norway, Peru 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 its 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, 2015, 2014, and 2013, 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,	2015			2014			2013		
NSP Americas:									
General health	\$	80,315	44.8%	\$	78,218	42.9%	\$	80,379	42.2%
Immune		22,042	12.3		23,549	12.9		23,374	12.3
Cardiovascular		12,331	6.9		12,566	6.9		13,018	6.8
Digestive		49,239	27.5		53,133	29.1		55,936	29.3
Personal care		3,575	2.0		4,000	2.2		5,162	2.7
Weight management		11,649	6.5		10,929	6.0		12,815	6.7
Total NSP Americas		179,151	100.0		182,395	100.0		190,684	100.0
NSP Russia, Central and Eastern Europe:									
General health	\$	11,433	41.7%	\$	18,841	37.5%	\$	22,690	36.2%
Immune		3,328	12.1		6,512	13.0		7,902	12.6
Cardiovascular		1,714	6.3		3,104	6.2		4,324	6.9
Digestive		7,167	26.1		13,171	26.2		15,693	25.0
Personal care		2,716	9.9		6,073	12.1		8,817	14.1
Weight management		1,050	3.8		2,573	5.1		3,321	5.3
Total NSP Russia, Central and Eastern Europe		27,408	100.0		50,274	100.0		62,747	100.0
Synergy WorldWide:									
General health	\$	43,829	38.4%	\$	46,546	36.3%	\$	36,723	33.9%
Immune		752	0.7		974	0.8		1,394	1.3
Cardiovascular		34,191	30.0		42,449	33.1		42,154	38.9
Digestive		17,746	15.6		20,839	16.3		16,897	15.6
Personal care		5,697	5.0		7,196	5.6		7,097	6.6
Weight management		11,866	10.4		10,097	7.9		4,025	3.7
Total Synergy WorldWide		114,081	100.0		128,101	100.0		108,290	100.0
China and New Markets:									
General health	\$	1,903	46.8%	\$	2,370	42.3%	\$	3,259	40.2%
Immune		525	12.9		777	13.9		1,006	12.4
Cardiovascular		292	7.2		334	6.0		461	5.7
Digestive		1,011	24.9		1,608	28.7		2,365	29.2
Personal care		93	2.3		108	1.9		126	1.6
Weight management		241	5.9		400	7.1		888	11.0
Total China and New Markets		4,065	100.0		5,597	100.0		8,105	100.0
Consolidated:									
General health	\$	137,480	42.3%	\$	145,975	39.8%	\$	143,051	38.7%
Immune		26,647	8.2		31,812	8.7		33,676	9.1
Cardiovascular		48,528	14.9		58,453	16.0		59,957	16.2
Digestive		75,163	23.1		88,751	24.2		90,891	24.6
Personal care		12,081	3.7		17,377	4.7		21,202	5.7
Weight management		24,806	7.6		23,999	6.6		21,049	5.7
Total Consolidated	\$	324,705	100.0	\$	366,367	100.0	\$	369,826	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.	<i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Anxiousless<sup>tm</sup>, CurcuminBP, Everflex®, Ionic Minerals, Mind-Max, Nutri-Calm®, Perfect Eyes®, Skeletal Strength®, Super Supplemental Vitamin and Mineral, Super Trio, Tai-Go®, Vitamin B-Complex, Vitamin D3</i>  <i>Synergy WorldWide: Core Greens®, Mistica®, Noni Plus, NutriBurst, Spirulina</i>
<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.	<i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Elderberry D3fense, HistaBlock®, Immune Stimulator, Silver Shield, VS-C®</i>  <i>Synergy WorldWide: BodyGuard, Colostrum</i>
<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.	<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</i>  <i>Synergy WorldWide: E-9, ProArgi-9 Plus®</i>
<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.	<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®</i>  <i>Synergy WorldWide: Detox Plus, Liquid Chlorophyll</i>
<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.	<i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: EverFlex® Cream, HSN-W®, Pau-D Arco Lotion, Pro-G Yam® Cream, Tei-Fu® Lotion, Vari-Gone®</i>  <i>Synergy WorldWide: Bright Renewal Serum, Hydrating Toner, 5 in 1 Shampoo, Repair Complex</i>
<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.	<i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Fat Grabbers®, Garcinia Combination, Love and Peas, Nature's Harvest, Nutri-Burn®, SmartMeal, Stixated<sup>TM</sup>, Ultra Therm<sup>TM</sup></i>  <i>Synergy WorldWide: Double Burn, SLMSmart<sup>TM</sup></i>

## Distribution and Selling

The Company's independent distributors, known as Managers and Distributors, market its 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 with 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, 2015, the Company had approximately 264,400 "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, 2015, the Company had approximately 12,700 "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. 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, 2015, 2014, and 2013, 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. The declines in active independent Managers and Distributors within the NSP Americas and NSP Russia, Central and Eastern Europe segments have resulted in declines in overall sales revenues. 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 independent Manager and Distributor counts. As a result, from time-to-time, changes in overall active independent Manager and Distributor counts may not be indicative of actual sales trends for the segment.

Due to the size of NSP Peru and United Kingdom markets, lack of net sales growth, and continuing operating losses, the Company made the decision to transition these markets to wholesale markets, in which it sells its products to a locally managed entity independent of the Company that has distribution rights for the market, effective December 30, 2014 and April 1, 2014, respectively. Manager, Distributor and customer totals for Peru and the United Kingdom are included in the table below in the China and New Markets segment for the years prior to their conversion to wholesale markets. There are no Managers, Distributors, and customers in the China and New Markets segment as the wholesale business accounts for all of the segment's sales to date.

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,**

	2015		2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	286,600	6,500	296,900	6,600	312,900	7,300
NSP Russia, Central and Eastern Europe	163,200	2,800	231,400	3,700	260,200	6,000
Synergy WorldWide	126,400	3,400	122,300	3,100	118,500	3,000
China and New Markets	—	—	—	—	9,300	100
Total	576,200	12,700	650,600	13,400	700,900	16,400

“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,**

	2015		2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	131,600	6,500	135,900	6,600	144,500	7,300
NSP Russia, Central and Eastern Europe	72,000	2,800	97,900	3,700	131,800	6,000
Synergy WorldWide	60,800	3,400	58,800	3,100	51,800	3,000
China and New Markets	—	—	—	—	4,300	100
Total	264,400	12,700	292,600	13,400	332,400	16,400

“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, as of the dates indicated.

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

	2015		2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	127,900	3,000	130,300	3,200	137,100	3,100
NSP Russia, Central and Eastern Europe	47,000	700	66,400	1,200	89,300	1,600
Synergy WorldWide	76,600	2,300	73,500	2,200	71,800	1,900
China and New Markets	—	—	1,600	—	6,800	100
Total	251,500	6,000	271,800	6,600	305,000	6,700



“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.

#### **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**

As a result of the Company's business model, it is not dependent upon a single Manager, Distributor or customer, the loss of which would not have a material adverse effect on its business.

#### **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 managers and distributors with many other direct selling companies, including Amway, Herbalife, Pharmanex (NuSkin), 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 recruitment, training, travel 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 the development of new products and the enhancement of existing products. The amount, excluding capital expenditures, spent on research and development activities was approximately \$2.8 million in 2015, \$2.5 million in 2014 and \$2.0 million in 2013.

## **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 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 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. The most active of these is the United States Food and Drug Administration ("FDA"), which 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. 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, regulations applicable to the activities of the Company's independent Managers and Distributors also may affect its business because in some countries the Company is, or regulators may assert that the Company is, responsible for its independent Distributors' conduct. 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) income 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 Managers and 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) the 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.

In 2014, the Company passed several audits performed by the United States National Sanitation Foundation and independent auditors; as well as the Utah Department of Agriculture. Both entities noted that the Company continues to be in the top tier of companies with regard to compliance against GMP (Good Manufacturing Standards) requirements.

#### ***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. In addition, the FTC has increased its scrutiny of the use of testimonials, which it also utilizes, as well as the role of expert endorsers and product clinical studies. The Company cannot be sure that the FTC, or comparable foreign agencies, will not question its advertising or other operations in the future. It is unclear whether the FTC will subject the Company's advertisements to increased surveillance to ensure compliance with the principles set forth in its published advertising guidance.

#### ***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 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 an 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 FCPA. 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 45.4 percent, 40.5 percent and 41.2 percent of net sales in 2015, 2014, and 2013, respectively. The Company's second largest market, South Korea, represented 14.9 percent, 14.8 percent and 9.2 percent of net sales in 2015, 2014, and 2013, respectively. Outside of the United States and South Korea, no one country accounted for 10.0 percent or more of net sales revenue in any year in the last three years. As the Company continues to grow its international business, its operating results will likely become more sensitive to economic and political conditions in foreign markets, as well as to foreign currency fluctuations. A breakdown of net sales revenue by region in 2015, 2014, and 2013, is set forth below.

(Dollar amounts in thousands)

Year Ended December 31,	2015		2014		2013	
Net Sales Revenue:						
North America	\$	171,486	52.8%	\$	175,118	47.8%
Europe		53,237	16.4		83,048	22.7
Asia Pacific		76,482	23.6		81,199	22.2
Central & South America		23,500	7.2		27,002	7.4
	\$	324,705	100.0%	\$	366,367	100.0%
					\$	369,826
						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 the strength of the local economy. 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 as the Company grows its international operations.

The Company has international operations in Belarus, which is considered to be a highly inflationary economy. Also, in 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. See below for further discussion of the Company's exit of the Venezuela market in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of 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	59	Chief Executive Officer and Chairman of the Board of Directors	2013
Stephen M. Bunker	57	Executive Vice President, Chief Financial Officer and Treasurer	2006
Richard D. Strulson	47	Executive Vice President, General Counsel, Chief Compliance Officer, and Secretary	2013
Paul E. Noack	54	President of China and New Markets	2014
Susan M. Armstrong	51	Executive Vice President and Chief Operations Officer	2014

*Gregory L. Probert.* Mr. Probert has served as the Company's Chief Executive Officer since October 1, 2013. He has served as the Chairman of the Company's Board of Directors since January 2013, and as Executive Vice Chairman since June 2011. Mr. Probert served as an independent consultant to the Company from September 2010 to June 2011. Mr. Probert previously served as 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 at The Walt Disney Company from 1988. He has been a member of the Board of Trustees of the California Science Museum since 2007. Mr. Probert received his B.A. from the University of Southern California in 1979.

*Stephen M. Bunker.* Mr. Bunker has served as the Company's Executive Vice President, Chief Financial Officer and Treasurer since March 27, 2006. Before joining the Company, Mr. Bunker worked for Geneva Steel Holdings Corporation, where he served as Vice President of Finance and Treasurer from 2001 to 2006 and as Corporate Controller from 1990 until 2001. Mr. Bunker is a Certified Public Accountant, and worked for Arthur Andersen for six years. Mr. Bunker received his B.A. in Accounting from Brigham Young University in 1983 and his Masters of Accountancy from Brigham Young University in 1984.

*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 Vice President 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 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 901 individuals as of December 31, 2015. 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.***

Direct selling 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. Violations could result from misconduct by an associate, ambiguity in statutes, changes or new laws and regulations affecting Nature Sunshine's business and court-related decisions. Furthermore, the Company may be restricted or prohibited from using direct selling plans in some foreign countries. 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. For example, in Peru, changes in local regulations restricted the Company's ability to sell a majority of its key products in this market through its traditional direct selling business model. In response to this change in regulations, in 2014, the Company transitioned this market to an export market, in which it sells its products to a locally managed entity independent of the Company that has distribution rights for the market.

### ***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 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.

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. Any action against the Company could materially affect its ability to successfully market its products.

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, 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 negative impact on the Company's financial position, results of operations or cash flows.

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 Company cannot be sure that the FTC, or comparable foreign agencies, will not question its advertising or other operations in the future. It is unclear whether the FTC will subject the Company's advertisements to increased surveillance to ensure compliance with the principles set forth in its published advertising guidance.

The Company is subject to the U.S. Foreign Corrupt Practices Act (the "FCPA"), which prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business, and the anti-bribery laws of other jurisdictions. A finding of FCPA noncompliance could subject the Company to, among other things, significant penalties and legal expenses, as well as reputational harm, which could have a material adverse effect on its business, financial condition and results of operations.

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.

***If the Company is unable to attract and retain 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 in order to maintain and/or increase sales in the future.

Several 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 recruiting and retaining independent distributors and/or market saturation.

The Company cannot provide any assurance that its independent distributors will continue to maintain their current levels of productivity, or that it will be able to retain existing independent distributors, or attract additional independent distributors, in sufficient numbers to sustain future growth or to maintain present sales levels.

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

Global economic conditions continue to be challenging. 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 negative impact on the Company's financial position, results of operation or cash flows. 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 negatively impact the Company's business prospects in that market and in other markets globally.

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

In 2015, the Company recognized approximately 54.6 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 net earnings have in the past been, and are likely to continue to be, significantly affected by fluctuations in currency exchange rates, with net sales revenue 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, 2015, 2014, and 2013. 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.

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

Inflation is another risk associated with the Company's international operations. For example, in 2010, prior to the discontinuation of the Company's operations in Venezuela, the Venezuela was designated as a highly inflationary economy under generally accepted accounting principles in the United States ("U.S. GAAP"). 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 negative impact on the Company's results of operations if the economy of other countries in which the Company does business are designated as highly inflationary.

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

The possibility that foreign governments may impose currency remittance restrictions is another risk faced by the Company's international operations. Due to the possibility of government restrictions on transfers of cash out of the country and control of exchange rates, the Company may not be able to repatriate cash at exchange rates beneficial to the Company, which could have a material adverse effect on its financial position, results of operations or cash flows. 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.

***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 harm its business. There can be no assurance that suppliers will be able to provide the Company with the raw materials in the quantities and at the appropriate level of quality that it requests or at a price that it is willing to pay. The Company is also subject to the delays caused by any interruption in the production of these materials including weather, crop conditions, climate change, transportation interruptions and natural disasters or other catastrophic events.

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 have in the past resulted in, and in the future could result in, stock outages or shortages of the Company's products, and could harm its sales and create inventory write-offs for unusable product.

***Geopolitical issues and conflicts 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. If these conflicts or issues escalate, it could harm the Company's foreign operations. In addition, changes in and actions by governments in foreign markets could harm its business. For example, the Company has cautioned that it anticipates sales in its NSP Russia, Central and Eastern Europe segment to continue to be affected by the political unrest in Ukraine and Russia, possible sanctions in Russia and the impact of currency devaluation.

***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. There can be no assurance that the Company will not be subject to adverse publicity or negative public perception in the future or that it would not have an adverse or material negative impact on its financial position, results of operations or cash flows.

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

As a U.S. company doing business in many international markets, the Company is subject to foreign tax and intercompany pricing laws, including those relating to the flow of funds between the parent Company and its 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. If regulators challenge the Company's corporate structures, transfer pricing methodologies or intercompany transfers, its operations may be harmed, and its effective tax rate may increase. 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 cannot be sure that it would in fact be able 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 such collection.

Despite the Company's efforts to be aware of and to comply with such laws and changes to the interpretations thereof, there is a risk that it may not 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 negative impact on its financial position, results of operation or cash flows.

***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 negative impact on the Company's financial position, results of operations or cash flows.

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

As a manufacturer and distributor 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 is alleged to result in injury to consumers. The Company has historically had a very limited number of product liability claims or reports from individuals who have asserted that they have suffered adverse consequences as a result of using its products. The Company has established a wholly-owned captive insurance company to provide it with product liability insurance coverage, and 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 our estimate of probable and reasonably estimable liabilities, which could have a material negative impact on the Company's business prospects, financial position, results of operations or cash flows.

***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 negative impact on the Company's financial position, results of operations or cash flows.

***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.

***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 adversely affect its ability to conduct its day-to-day business.

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 this ERP program could disrupt or adversely affect the Company's operations.

***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. 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 claims or the actions of an independent distributor. If the Company were found to be responsible for any of these issues related to its independent distributors, it could have a material negative impact on the Company's financial position, results of operations or cash flows.

***If the Company's independent distributors fail to comply with advertising laws, then its financial condition and operating results would 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. 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. 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. 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, significant financial penalties, costly mandatory product recalls or relabeling requirements, any of which could harm the Company's financial condition and operating results.

***Changes in key management 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 Company has entered into employment agreements with each of its executive officers. The Company cannot guarantee the continued service of its key officers. The loss or limitation of any of its executive officers or the inability to attract additional qualified management personnel could have a material negative impact on the Company's financial position, results of operations or cash flows. The Company does not carry key man insurance on the lives of any of its executive officers.

***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 it does. 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's ability to compete with other direct selling companies depends greatly on its ability 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. The Company's future operations could be harmed as a result of changing market conditions and future competition.

***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 significant adverse effect on the Company's earnings. 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.

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

The Company manufacture 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 result in personal injury or property damage, damage relationships with its customers or result in large expenses to repair or replace the facilities or systems, as well as result in other liabilities and adverse impacts.

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. 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. In addition, compliance with these regulations has increased and may further increase the cost of manufacturing certain of the Company's products.

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. Any difficulties, delays and defects in the Company's products resulting from the activities of its contract manufacturers may have an adverse effect on the Company's business and results of operations.

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

The Company has contracted with third-parties in several of its key markets to distribute its product and provide support services to the Company's independent sales force of 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 adversely affect revenue and profitability.

***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 negatively impact the Company's revenues, financial condition and operating results.

***The Company's expansion in China is subject to risks associated with operating a joint venture, as well as general, industry-specific, economic, political, currency and legal risks in China and requires it to utilize a different business model from that which it uses elsewhere in the world.***

The Company's expansion of operations into China is subject to risks and uncertainties related to operating a joint venture, as well as general economic, political and legal developments in China, among other things. The Chinese government exercises significant control over all aspects of the Chinese economy, and the direct selling industry in particular. Accordingly, any adverse change in the Chinese economy, the Chinese legal system or Chinese governmental, economic or other policies could have a material adverse effect on the Company's business in China and its prospects generally.

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. Smooth 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 business in China and its prospects generally.

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 Company is creating a model specifically for China to operate under these regulations.

The direct selling regulations require the Company to apply for various approvals 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, there can be no assurance that the Company will obtain direct-selling licenses, or obtain related approvals to expand into any or all of the localities or provinces in China that are important to this venture. The Company's inability to obtain, retain, or renew any or all of the licenses or related approvals that are required to operate in China could negatively impact the Company.

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. The Company cannot be certain that its business model will 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.

Chinese regulations prevent persons who are not Chinese nationals from engaging in direct selling in China. The Company cannot guarantee that any of its Members living outside of China or any of its sales representatives 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.

***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.

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

If the Company's operations in China are successful and it experiences rapid growth, there can be no assurances that the Company will be able to successfully manage rapid expansion of manufacturing operations and a rapidly growing and dynamic sales force. If the Company is unable to effectively manage such growth and expansion of its retail stores and manufacturing operations, the Company's government relations may be compromised and its operations in China may be harmed.

#### **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 2017.

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 owns approximately 28,000 square feet of office space in Mexico.

The Company also owns approximately 53 acres of undeveloped land in Springville, Utah, and approximately 8 acres of undeveloped land in Provo, Utah.

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. The Company believes these facilities are suitable for their respective uses and are, in general, adequate for the Company's present and near-term future needs. During 2015, 2014 and 2013, the Company incurred approximately \$6.3 million, \$6.2 million, and \$6.1 million, respectively, for all of its leased facilities in lease expense.

The Company believes that its current facilities are adequate for its business operation and that additional space, if required, will be available on commercially reasonable terms for the foreseeable future.

#### **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, 2015 and 2014:

	<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
	<b>Market Prices</b>	
	<b>High</b>	<b>Low</b>
<b>2014</b>		
First Quarter	\$ 18.81	\$ 18.34
Second Quarter	\$ 18.37	\$ 12.91
Third Quarter	\$ 17.35	\$ 14.12
Fourth Quarter	\$ 15.76	\$ 13.40

The approximate number of shareholders of record of the Company's common shares as of February 19, 2016, was 772. 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 772 shareholders of record as of December 31, 2015.

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 25, 2015, 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 23, 2015, to shareholders of record on March 12, 2015. On May 7, 2015, 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 2, 2015, to shareholders of record on May 22, 2015. On August 10, 2015, 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 8, 2015, to shareholders of record on August 25, 2015. On November 3, 2015, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1.9 million that was paid on November 30, 2015, to shareholders of record on November 18, 2015.

## Securities Authorized for Issuance Under Equity Compensation Plans

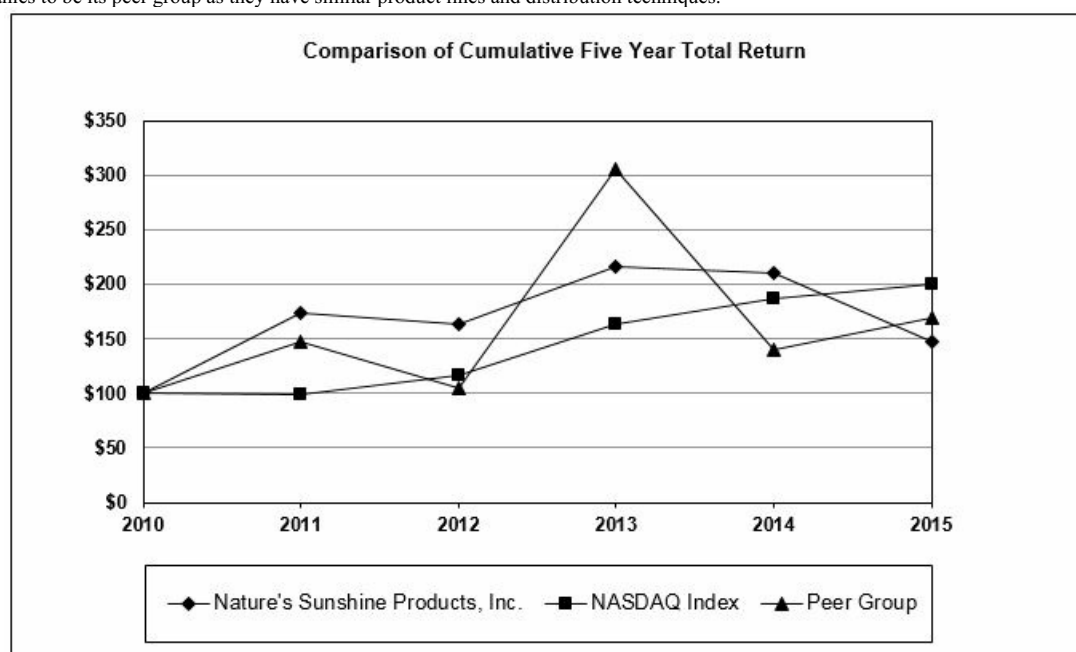
The following table contains information regarding the Company's equity compensation plans as of December 31, 2015:

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>	2,427,288	\$ 12.21	885,850

- (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 shareholders on August 1, 2012. The 2009 Incentive Plan was approved by 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, 2010, 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 incorporate it by reference into such filing.

	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
<b>Nature's Sunshine Products, Inc.</b>	\$ 100.00	\$ 172.83	\$ 162.84	\$ 216.54	\$ 209.55	\$ 147.74
<b>NASDAQ Index</b>	100.00	99.17	116.48	163.21	187.27	200.31
<b>Peer Group</b>	100.00	147.26	104.96	305.29	140.28	169.00

## 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, 2015, as well as selected consolidated balance sheet data as of December 31, 2015, 2014, 2013, 2012, and 2011.

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

### Consolidated Statement of Operations Data

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Net sales revenue	\$ 324,705	\$ 366,367	\$ 369,826	\$ 360,826	\$ 362,497
Cost of sales	(85,345)	(91,584)	(92,344)	(91,369)	(87,906)
Gross profit	239,360	274,783	277,482	269,457	274,591
Operating expenses:					
Volume incentives	117,786	135,808	135,516	130,875	131,840
Selling, general and administrative	107,702	119,927	118,383	104,716	107,752
Contract termination costs	—	—	—	—	14,750
Operating income	13,872	19,048	23,583	33,866	20,249
Other income (loss), net	(592)	(34)	1,993	1,573	1,256
Income before income taxes	13,280	19,014	25,576	35,439	21,505
Provision (benefit) for income taxes	1,740	(743)	7,923	10,531	5,136
Net income from continuing operations	11,540	19,757	17,653	24,908	16,369
Income (loss) from discontinued operations	2,116	(9,957)	(44)	472	1,232
Net income	13,656	9,800	17,609	25,380	17,601
Loss attributable to noncontrolling interests	(1,031)	(219)	—	—	—
Net income attributable to common shareholders	\$ 14,687	\$ 10,019	\$ 17,609	\$ 25,380	\$ 17,601

### Consolidated Balance Sheet Data

	December 31,				
	2015	2014	2013	2012	2011
Cash and cash equivalents	\$ 41,420	\$ 58,699	\$ 77,247	\$ 79,241	\$ 58,969
Working capital	48,382	63,340	80,025	83,943	57,305
Inventories	38,495	40,438	41,910	43,280	41,611
Property, plant and equipment, net	68,728	51,343	32,022	27,950	25,137
Total assets	200,520	196,799	199,612	193,919	175,811
Long-term liabilities	11,119	9,933	25,784	16,893	20,575
Total shareholders' equity	136,265	128,957	105,259	115,636	87,438

## Summary Cash Flow Information

	December 31,				
	2015	2014	2013	2012	2011
Operating activities	\$ 10,162	\$ 14,182	\$ 29,378	\$ 26,651	\$ 3,908
Investing activities	(18,592)	(26,674)	(8,564)	(2,989)	(1,679)
Financing activities	(7,578)	(5,076)	(21,331)	(3,133)	9,588

## Common Share Summary

	December 31,				
	2015	2014	2013	2012	2011
Cash dividend per share (1)	\$ 0.40	\$ 1.90	\$ 1.90	\$ 0.15	\$ —
Basic and diluted earnings per share					
Basic weighted average number of shares	18,656	17,108	15,997	15,648	15,550
Diluted weighted average number of shares	19,177	17,641	16,390	15,987	15,695
Basic earnings per share attributable to common shareholders:					
Net income from continuing operations	\$ 0.67	\$ 1.15	\$ 1.10	\$ 1.59	\$ 1.05
Income (loss) from discontinued operations	\$ 0.11	\$ (0.57)	\$ —	\$ 0.03	\$ 0.08
Net income attributable to common shareholders	\$ 0.79	\$ 0.58	\$ 1.10	\$ 1.62	\$ 1.13
Diluted earnings per share attributable to common shareholders:					
Net income from continuing operations	\$ 0.66	\$ 1.12	\$ 1.08	\$ 1.56	\$ 1.04
Income (loss) from discontinued operations	\$ 0.11	\$ (0.56)	\$ (0.01)	\$ 0.03	\$ 0.08
Net income attributable to common shareholders	\$ 0.77	\$ 0.56	\$ 1.07	\$ 1.59	\$ 1.12

(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,				
	2015	2014	2013	2012	2011
Square footage of property in use	703,696	754,548	771,439	768,513	763,389
Number of employees	901	964	1,010	995	1,003

## 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*

Nature's Sunshine Products, Inc., together with its subsidiaries (hereinafter referred to collectively as 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 Managers and Distributors who use the products themselves and resell them to other independent

Distributors or consumers. 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.

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 is deploying a multi-channel go-to-market strategy that offers select Nature's Sunshine branded products through a direct selling model across China as well as through e-commerce channels. The time to market will be dependent upon regulatory processes including product registration and permit approvals. Due to a change in the Chinese regulatory environment, the Company has indefinitely deferred its entry into the retail channel 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 have distribution rights for the relevant market. All of the net sales revenue to date in the China and New Markets segment is through the Company's wholesale business to foreign markets outside of China detailed below. The wholesale business was previously part of NSP Americas. 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, the Philippines, 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 Argentina, Australia, Chile, Israel, New Zealand, Norway, Peru and the United Kingdom. The Company discontinued operations in Vietnam during the second quarter of 2015, which were approximately 0.1 percent and 0.4 percent of consolidated net sales during the twelve month periods ended December 31, 2015 and 2014, respectively.

In 2015, the Company experienced a decrease in its consolidated net sales of 11.4 percent (or 6.7 percent in local currencies) compared to the same period in 2014. NSP Russia, Central and Eastern Europe net sales decreased approximately 45.5 percent compared to the same period in 2014. Synergy WorldWide net sales decreased approximately 10.9 percent compared to the same period in 2014 (or 1.8 percent in local currencies). NSP Americas net sales decreased approximately 1.8 percent compared to the same period in 2014 (or increased 1.0 percent in local currencies). China and New Markets net sales decreased approximately 27.4 percent compared to the same period in 2014. During 2015, the Synergy Worldwide segment experienced net sales growth in local currencies in Japan, Thailand and Indonesia and the NSP Americas experienced net sales growth in local currencies in North America. Excluding the NSP Russia, Central and Eastern Europe segment, net sales decreased by approximately 5.9 percent (or 0.7 percent in local currencies) during 2015. The strengthening of the U.S. dollar versus the local currencies of the Company's European, Latin American and Asian markets resulted in an approximate 5.2 percent or \$16.7 million reduction of its net sales during 2015.

The Company expects that sales in NSP Russia, Central and Eastern Europe will continue to be affected by political unrest in Ukraine and Russia, sanctions against Russia and the significant impact of currency devaluation. The Company does not expect this decline in net sales to reverse in the near term. The Company remains strongly supportive and engaged with its independent Distributors in the region, and believes its solid foundation and strong relationships in the region will allow it to reignite growth once the political situation and currency value stabilize.

In absolute terms, selling, general and administrative expenses decreased \$12.2 million during 2015. Over the same period, selling, general and administrative expenses as a percentage of net sales revenue for 2015 increased to 33.2 percent from 32.7 percent in 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 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. A Distributor may earn Manager status by committing more time and effort to selling the Company's products, recruiting productive independent Distributors and attaining certain product sales levels. On a worldwide basis, active independent Managers were approximately 12,700 and 13,400 and active independent Distributors and customers were approximately 264,400 and 292,600 at December 31, 2015 and 2014, respectively, primarily due to declines in the Company's NSP Russia, Central and Eastern Europe segment as a result of the conditions noted above, as well as the conversion of the NSP Peru and United Kingdom markets to wholesale markets.

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 revenue 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 2015, 2014 and 2013, were \$1.2 million, \$1.5 million, and \$1.5 million, respectively.

#### *Accounts Receivable Allowances*

Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. 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.

#### *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.

#### *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 a wholly-owned captive insurance company to provide it with product liability insurance coverage. 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.

#### *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. 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 has accrued incentive trip costs of approximately \$4.8 million and \$4.2 million at December 31, 2015 and 2014, 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 with a range, it records its best estimate

within the range related to the contingency. If there is no best estimate, its records the minimum of the range. As additional information becomes available, it assesses the potential liability related to the contingency and revise the estimates. Revision in estimates of the potential liabilities could materially affect its 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, 2015 and 2014, the Company had recorded valuation allowances of \$6.6 million and \$13.2 million, respectively, as offsets to its net deferred tax assets.

At December 31, 2015, foreign subsidiaries had unused operating loss carryovers for tax purposes of approximately \$5.4 million. The net operating losses will expire at various dates from 2016 through 2025, with the exception of those in some foreign jurisdictions where there is no expiration. For financial reporting purposes, the release of these valuation allowances would reduce income tax expenses. At December 31, 2015, the Company had approximately \$11.7 million of foreign tax and withholding credits, most of which expire in 2024.

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.

#### *Share-Based Compensation*

The Company recognizes all share-based payments to Directors and employees, including grants of stock options and restricted stock units, to be recognized 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 revenue 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 and for recruiting additional independent Distributors. 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, 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 revenue for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Net sales revenue	<b>100.0 %</b>	100.0 %	100.0 %
Cost of sales	<b>(26.3)</b>	(25.0)	(25.0)
Gross profit	<b>73.7</b>	75.0	75.0
Operating expenses:			
Volume incentives	<b>36.3</b>	37.1	36.6
Selling, general and administrative	<b>33.2</b>	32.7	32.0
Operating income	<b>4.3</b>	5.2	6.4
Other income (expense):			
Interest and other income, net	<b>0.5</b>	—	0.2
Interest expense	<b>—</b>	(0.1)	(0.1)
Foreign exchange gains, net	<b>(0.6)</b>	0.1	0.4
	<b>(0.2)</b>	—	0.5
Income before provision for income taxes	<b>4.1</b>	5.2	6.9
Provision (benefit) for income taxes	<b>0.5</b>	(0.2)	2.1
Net income from continuing operations	<b>3.6 %</b>	5.4 %	4.8 %

### Net Sales Revenue

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 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. Net sales in local currency 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, 2015, as Compared to the Year Ended December 31, 2014**

*Net Sales Revenue*

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

	Net Sales Revenue 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)%
	<u>179,151</u>	<u>182,395</u>	<u>(1.8)%</u>	<u>(5,045)</u>	<u>1.0 %</u>
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)%
	<u>114,081</u>	<u>128,101</u>	<u>(10.9)%</u>	<u>(11,683)</u>	<u>(1.8)%</u>
China and New Markets	\$ 4,065	\$ 5,597	(27.4)%	\$ —	(27.4)%
	<u>\$ 324,705</u>	<u>\$ 366,367</u>	<u>(11.4)%</u>	<u>\$ (17,191)</u>	<u>(6.7)%</u>

Consolidated net sales revenue 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 revenue 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 revenue would have decreased by 6.7 percent from 2014 for the year ended December 31, 2015.

## NSP Americas

Net sales revenue related to NSP Americas for the year ended December 31, 2015, was \$179.2 million compared to \$182.4 million for the same period in 2014, a decrease of 1.8 percent. In local currency, net sales increased by 1.0 percent compared to the same period in 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 lower recruiting 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 has come as a result of higher productivity within the Company's existing base of Distributors. 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 revenues increased approximately \$2.7 million, or 2.1 percent, for the year ended December 31, 2015, compared to the same period in 2014, with growth for six consecutive quarters as it continued to see its new sales programs gain traction. This market has seen 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 addition, this year the Company launched two new patent pending products and re-launched an updated essential oils line in support of this key market.

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

In Latin America, net sales revenues decreased approximately \$4.6 million, or 12.5 percent, for the year ended December 31, 2015, compared to the same period in 2014. In local currency, net sales decreased 3.6 percent compared to the same period in 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 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 revenue 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 the same period in 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 buying and distributing the Company's products 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. The Company remains strongly supportive and engaged with its independent Distributors in the region, and is supporting their activity with additional promotions and training. However, at this time, the Company expects that sales in its NSP Russia, Central and Eastern Europe segment will continue to be affected by the political unrest in Ukraine and Russia, sanctions in Russia and the impact of currency devaluation. It is continuing to evaluate various options to keep its distributor base engaged by reviewing its pricing and providing product kits aligned with areas of distributor focus. The Company's strong partnership with its local partner should provide a solid foundation to reignite growth once the situation stabilizes.

## Synergy WorldWide

Synergy WorldWide reported net sales revenue for the year ended December 31, 2015, of \$114.1 million, compared to \$128.1 million for the same period in 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 the same period in 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. Synergy WorldWide's business model is operating under a traditional direct selling approach. Synergy WorldWide reported declines in net sales revenue in local currencies due to lower year-over-year sales in South Korea, Europe and North America, offset by improvements in Japan, Indonesia and Thailand.

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

In South Korea, net sales revenues decreased approximately \$5.8 million, or 10.7 percent, for the year ended December 31, 2015, compared to the same period in 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, 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 revenues decreased approximately \$5.9 million, or 18.6 percent, for the year ended December 31, 2015, compared to the same period in 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 the same period in 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 revenues increased approximately \$0.7 million, or 6.5 percent, for the year ended December 31, 2015, compared to the same period in 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 the same period in 2014. The Company continues to see the growth of new products and implemented programs to stimulate activity, which have had a positive impact on sales volume in this market since the first quarter of 2015.

In North America, net sales revenues decreased approximately \$3.4 million, or 22.4 percent, for the year ended December 31, 2015, compared to the same period in 2014. The decline in sales is primarily driven by lower Distributor recruiting. Growth initiatives have been developed and implemented to more effectively support recruiting and Distributor training and motivation.

## China and New Markets

China and New Markets reported wholesale related net sales revenue for the year ended December 31, 2015, of \$4.1 million, compared to \$5.6 million for the same period in 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 in 2014.

Due to the size of NSP Peru and United Kingdom markets, lack of net sales growth, and continuing operating losses, the Company made the decision to transition these markets to wholesale markets, in which it sells its products to a locally managed entity independent of the Company that has distribution rights for the market, effective December 30, 2014 and April 1, 2014, respectively.

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 revenue increased to 26.3 percent in 2015, compared to 25.0 percent in 2014. The increases in the cost of sales percentages are 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 revenue decreased to 36.3 percent in 2015, compared to 37.1 percent in 2014. The decreases were 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 revenue for the year ended December 31, 2015, compared to 32.7 percent for the same period in 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 the same period in 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, Net*

Other income (expense), net for the year ended December 31, 2015, decreased \$0.6 million compared to the same period in 2014. The decrease in other income 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 removal 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 a decrease 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.

**Year Ended December 31, 2014, as Compared to the Year Ended December 31, 2013**
**Net Sales Revenue**

The following table summarizes the changes in the Company's net sales revenue by operating segment for the fiscal years ended December 31, 2014 and 2013.

	Net Sales Revenue by Operating Segment				
	2014	2013	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency
NSP Americas:					
NSP North America	\$ 145,650	\$ 148,397	(1.9)%	\$ (910)	(1.2)%
NSP Latin America	36,746	38,960	(5.7)%	(998)	(3.1)%
NSP Other	—	3,327	(100.0)%	—	— %
	<u>182,396</u>	<u>190,684</u>	<u>(4.3)%</u>	<u>(1,908)</u>	<u>(3.3)%</u>
NSP Russia, Central and Eastern Europe	\$ 50,274	\$ 62,747	(19.9)%	\$ 4	(19.9)%
Synergy WorldWide:					
Synergy North America	\$ 15,170	\$ 17,079	(11.2)%	\$ —	(11.2)%
Synergy Asia Pacific	81,199	59,605	36.2 %	130	36.0 %
Synergy Europe	31,732	31,606	0.4 %	28	0.3 %
	<u>128,101</u>	<u>108,290</u>	<u>18.3 %</u>	<u>158</u>	<u>18.1 %</u>
China and New Markets	\$ 5,596	\$ 8,105	(31.0)%	\$ —	(31.0)%
	<u>\$ 366,367</u>	<u>\$ 369,826</u>	<u>(0.9)%</u>	<u>\$ (1,746)</u>	<u>(0.5)%</u>

Consolidated net sales revenue for the year ended December 31, 2014, was \$366.4 million compared to \$369.8 million in 2013, a decrease of approximately 0.9 percent. The Company experienced a \$1.7 million unfavorable impact in foreign currency exchange rate fluctuation in 2014, and its consolidated net sales revenue would have decreased by 0.5 percent from 2013, but for such negative impact. The decrease in net sales revenue for the year ended December 31, 2014 compared to the same period in 2013 is primarily due to a decline of net sales in the Company's NSP Americas and NSP Russia, Central and Eastern Europe segment, partially offset by an increase of net sales in its Synergy WorldWide and China and New Markets segments.

**NSP Americas**

Net sales revenue related to NSP Americas for the year ended December 31, 2014, was \$182.4 million compared to \$190.7 million for the same period in 2013, a decrease of 4.3 percent. Fluctuation in foreign exchange rates had a \$1.9 million unfavorable impact on net sales for the year ended December 31, 2014, and net sales revenue would have decreased by 3.3 percent excluding this negative impact. Active independent Managers within NSP Americas totaled approximately 6,600 and 7,300 at December 31, 2014 and 2013, respectively. Active independent Distributors and customers within NSP Americas totaled approximately 135,900 and 144,500 at December 31, 2014 and 2013, respectively. Segment net sales revenue and the number of independent Managers, Distributors and customers decreased primarily due to combining the Company's NSP Japan business with its Synergy Japan business and lower net sales in the United States. 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 revenues decreased approximately \$2.1 million, or 1.5 percent, for the year ended December 31, 2014, compared to the same period in 2013. Despite the overall decline in net sales in 2014 that occurred in the first half of the year, the market saw a growth in the third and fourth quarters in sales of 0.7 percent and 2.6 percent, respectively, as it continued to see its new sales programs gain traction. The U.S. market has seen increased adoption of both the IN.FORM sales method, which is focused on weight management, and its retail sales tools. Its August Leaders Conference held in Salt Lake City focused on this program as well as on sharing its business opportunity more effectively. In addition, in time for the winter season, the market re-launched the Silver immune product line, improving the formula to provide even greater efficacy, as well as rebranding its packaging, which has generated a positive uptake.

In Canada, net sales revenues decreased approximately \$0.7 million, or 5.0 percent, for the year ended December 31, 2014, compared to the same period in 2013. In local currency, net sales increased 1.8 percent compared to the same period in 2013. Currency devaluation had a \$0.9 million unfavorable impact on net sales for the year ended December 31, 2014, respectively. The NSP Canada market is following the same strategy as in the Company's NSP United States market, and it saw a growth in the third and fourth quarters in local currency sales of 5.1 percent and 9.6 percent, (the first quarters of growth since the first quarter of 2012), as it saw the uptake from the launch of weight management product line, ahead of its IN.FORM program launch in October.

In Latin America, net sales revenues decreased approximately \$2.2 million, or 5.7 percent, for the year ended December 31, 2014, compared to the same period in 2013. In local currency, net sales decreased 3.1 percent compared to the same period in 2013. Currency devaluation had a \$1.0 million unfavorable impact on net sales for the year ended December 31, 2014, respectively. 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 sales motion to adopt the IN.FORM business method, and at the same time, ensuring that the Company's resources are aligned with this initiative.

Due to the continued challenges in returning the NSP Japan business to growth, the Company made the decision to cease operating under the NSP brand and to merge its NSP Japan business with its Synergy Japan business to create one unified approach to the market with a common product offering and business opportunity model. As part of this transition, the Company allowed NSP Japan independent Distributors to transfer their businesses to its Synergy Japan brand. The combined businesses began operating as Synergy Japan in January 2014, and provide a greater opportunity for a return to profitable growth. The Company therefore had no net sales revenue from NSP Japan for the year ended December 31, 2014, compared to approximately \$3.3 million of net sales revenue in 2013.

#### NSP Russia, Central and Eastern Europe

Net sales revenue related to NSP Russia, Central and Eastern Europe markets (primarily Russia, the Ukraine, and Belarus) for the year ended December 31, 2014, was \$50.3 million, compared to \$62.7 million for the same period in 2013, a decrease of 19.9 percent. Active independent Managers within NSP Russia, Central and Eastern Europe totaled approximately 3,700 and 6,000 at December 31, 2014 and 2013, respectively. Active independent Distributors and customers within NSP Russia, Central and Eastern Europe totaled approximately 97,900 and 131,800 at December 31, 2014 and 2013, respectively. Net sales and the number of independent Managers, Distributors and customers buying and distributing the Company's products decreased primarily as a result of the current political uncertainty in Ukraine and across the region, and the market 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 its financial statements, the Company's 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. The Company remains strongly supportive and engaged with its independent Distributors in the region, and is supporting their activity with additional promotions and training. However, at this time, the Company has cautioned that sales in its NSP Russia, Central and Eastern Europe segment will be significantly affected by the political unrest in Ukraine and Russia, possible sanctions in Russia and the impact of currency devaluation. It is continuing to evaluate various options to keep its distributor base engaged. Nevertheless, the Company's strong and renewed partnership with its local partner should provide a solid foundation to reignite growth once the situation stabilizes.

#### Synergy WorldWide

Synergy WorldWide reported net sales revenue for the year ended December 31, 2014, of \$128.1 million, compared to \$108.3 million for the same period in 2013, an increase of 18.3 percent. Fluctuations in foreign exchange rates had a \$0.2 million favorable impact on net sales for the year ended December 31, 2014, and net sales revenue would have increased by



18.1 percent from 2013 excluding the positive impact. Active independent Managers within Synergy WorldWide totaled approximately 3,100 and 3,000 at December 31, 2014 and 2013, respectively. Active independent Distributors and customers within Synergy WorldWide totaled approximately 58,800 and 51,800 at December 31, 2014 and 2013, respectively. Synergy WorldWide's business model is operating under a traditional direct selling approach. Synergy WorldWide reported a growth of net sales revenue due to improvements in South Korea and Japan, partially offset by lower net sales in North America.

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

In South Korea, net sales revenues increased approximately \$20.1 million, or 58.8 percent, for the year ended December 31, 2014, compared to the same period in 2013. In local currency, net sales increased 52.6 percent for the year ended December 31, 2014, compared to the same period in 2013. Fluctuations in foreign exchange rates had a \$2.1 million favorable impact on net sales for the year ended December 31, 2014. Momentum has been sustained since September 2013, due to the Synergy WorldWide global summit held in South Korea and the launch of the SLMsmart weight-management program, which further contributed to sustained growth in combination with the continued strong Distributor leadership in this market. However, due to certain internet advertising restrictions, the Company must caution that it does not expect to maintain this level of growth subsequent to December 31, 2014.

In Japan, net sales revenues increased approximately \$3.0 million, or 34.8 percent, for the year ended December 31, 2014, compared to the same period in 2013. In local currency, net sales increased 46.1 percent for the year ended December 31, 2014, compared to the same period in 2013. Fluctuations in foreign exchange rates had a \$1.0 million unfavorable impact on net sales for the year ended December 31, 2014. In the second half of 2013, the market introduced new products and implemented programs to stimulate activity, which had a positive impact in this market that continued through 2014. In addition, as referenced above, in order to provide a more stable platform for growth, the Company made the decision to cease to operate under the NSP brand in Japan and to combine the NSP Japan and Synergy Japan businesses, and operate as a single entity from January 2014 forward. As part of this transition, the Company provided certain NSP products, a business opportunity and encouraged NSP Japan independent Distributors to transfer their businesses to the Company's Synergy Japan brand. Net sales revenue of \$1.5 million attributable NSP Japan's historical sales force was included within these results for the year ended December 31, 2014.

In Europe, net sales revenues increased approximately \$0.1 million, or 0.4 percent, for the year ended December 31, 2014, compared to the same period in 2013. The market is seeing growth across several regions, which led to its second consecutive quarterly net sales growth in local currencies in the third and fourth quarter of 2.3 percent and 23.3 percent, respectively. The growth has been driven by the investment in additional sales resources in the second half of 2013. In addition, momentum was created in the third quarter of 2014 as independent Distributors qualified for promotions ahead of the market's European Summit held in Barcelona at the end of September.

In North America, net sales revenues decreased approximately \$1.9 million, or 11.2 percent, for the year ended December 31, 2014, compared to the same period in 2013. The decline in sales is primarily driven by lower Distributor recruiting. Growth initiatives have been developed and implemented to more effectively support recruiting and Distributor training and motivation.

#### China and New Markets

China and New Markets reported export related net sales revenue for the year ended December 31, 2014, of \$5.6 million, compared to \$8.1 million for the same period in 2013, a decrease of 31.0 percent. Active independent Managers and Active independent Distributors and customers within China and New Markets were approximately 100 and 4,300 at December 31, 2013, respectively. As NSP United Kingdom and NSP Peru were fully transitioned as export markets by December 31, 2014, there were no Managers, Distributors, and customers in the China and New Markets segment in 2014.

Due to the size of the NSP United Kingdom market, lack of net sales growth, and continuing operating losses, the Company made the decision to transition its NSP United Kingdom market to an export market, in which it sells its products to a locally managed entity independent of the Company that has distribution rights for the market, effective April 1, 2014. As a result of this change to a wholesale model, the Company's net sales revenue declined by \$2.9 million for the year ended December 31, 2014, respectively, as compared to 2013.

Further information related to the Company's 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 revenue remained flat at 25.0 percent in 2014, compared to 25.0 percent in 2013.

*Volume Incentives*

Volume incentives as a percent of net sales revenue increased to 37.1 percent in 2014, compared to 36.6 percent in 2013. The increase was primarily due to net sales increases in markets such as South Korea and Japan that pay a higher sales commission in the Company's Synergy WorldWide segment.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by approximately \$1.5 million to \$119.9 million for the year ended December 31, 2014. Selling, general and administrative expenses were 32.7 percent of net sales revenue for the year ended December 31, 2014, compared to 32.0 percent for the same period in 2013.

Significant increases to selling, general and administrative expenses during 2014 compared to the same period in 2013 included:

- \$2.1 million in start-up costs for the China joint venture;
- \$1.1 million associated with the evaluation of and possible acquisition of a company with an alternative distribution channel that the Company ultimately declined to pursue.

In addition, the increases in selling, general and administrative were partially offset by the following nonrecurring expenses incurred in 2013 but not in 2014:

- \$1.4 million of nonrecurring severance costs and the acceleration of stock option expense incurred in 2013 related to the resignation of the Company's former Chief Executive Officer; and
- \$1.3 million of nonrecurring costs related to a five-year customs audit assessment in the Company's Synergy South Korea market incurred in 2013.

*Other Income, Net*

There was minimal other income, net for the year ended December 31, 2014, compared to \$2.0 million in 2013. The decrease in other income was primarily due to a decrease in foreign exchange gains in 2014.

*Income Taxes*

The Company's effective income tax rate was (3.9) percent for 2014, compared to 31.0 percent for 2013. The effective rate for 2014 differed from the federal statutory rate of 35.0 percent primarily due to the following:

- (i) Adjustments relating to the U.S. tax impact of foreign operations decreased the effective tax rate by 73.0 percentage points in 2014. Included were adjustments for dividends received from foreign subsidiaries and adjustments for foreign tax credits.
- (ii) Adjustments to valuation allowances increased the effective rate by 48.8 percent in 2014. Included were the effect of valuation allowances on U.S. foreign tax credits and the impact of current year losses that will not provide tax benefit.
- (iii) Changes in the unrecognized tax benefits decreased the effective tax rate by 8.6 percent in 2014. These net gains and losses were recorded for financial reporting purposes, but were excluded from the calculation of taxable income.

Adjustments relating to the U.S. impact of foreign operations decreased the effective tax rate by 73.0 percentage points in 2014, and decreased the effective tax rate by 16.2 percentage points in 2013. The components of this calculation were:

Components of U.S. tax impact of foreign operations	2014	2013
Dividends received from foreign subsidiaries	59.5 %	29.4 %
Foreign tax credits	(121.3 )	(34.3 )
Foreign tax rate differentials	(11.0 )	(10.8 )
Unremitted earnings	(0.2 )	(0.5 )
Total	(73.0 )%	(16.2 )%

From 2013 to 2014, 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 2013 to 2014.

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 2015 and 2014 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, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Net sales revenue	\$ 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 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
Income 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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	For the Quarter Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Net sales revenue	\$ 93,467	\$ 92,831	\$ 93,406	\$ 86,663
Cost of sales	(22,581 )	(22,793 )	(22,742 )	(23,468 )
Gross profit	70,886	70,038	70,664	63,195
Volume incentives	34,893	34,270	34,918	31,727
Selling, general and administrative	29,152	29,941	30,200	30,634
Operating income	6,841	5,827	5,546	834
Other income (expense)	(262 )	(79 )	(42 )	349
Income from continuing operations before income taxes	6,579	5,748	5,504	1,183
Provision (benefit) for income taxes	(3,657 )	2,198	407	309
Net income from continuing operations	10,236	3,550	5,097	874
Loss from discontinued operations	(571 )	(316 )	(4,106 )	(4,964 )
Net income (loss)	9,665	3,234	991	(4,090 )
Net loss attributable to noncontrolling interests	—	—	(26 )	(193 )
Net income (loss) attributable to common shareholders	\$ 9,665	\$ 3,234	\$ 1,017	\$ (3,897 )
Basic and diluted net income per common share				
Basic earnings per share attributable to common shareholders:				
Net income from continuing operations	\$ 0.63	\$ 0.22	\$ 0.30	\$ 0.05
Loss from discontinued operations	\$ (0.03)	\$ (0.02)	\$ (0.24)	\$ (0.26)
Net income (loss) attributable to common shareholders	\$ 0.60	\$ 0.20	\$ 0.06	\$ (0.21)
Diluted earnings per share attributable to common shareholders:				
Net income from continuing operations	\$ 0.61	\$ 0.22	\$ 0.29	\$ 0.05
Income (loss) from discontinued operations	\$ (0.03)	\$ (0.02)	\$ (0.23)	\$ (0.25)
Net income (loss) attributable to common shareholders	\$ 0.58	\$ 0.20	\$ 0.06	\$ (0.20)
Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 1.60	\$ 0.10

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

## LIQUIDITY AND CAPITAL RESOURCES

The Company's principal use of cash is to pay for operating expenses, including volume incentives, inventory and raw material purchases, capital assets and funding of international expansion. As of December 31, 2015, working capital was \$48.4 million, compared to \$63.3 million as of December 31, 2014. At December 31, 2015, the Company had \$41.4 million in cash and cash equivalents, of which \$38.4 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,		
	2015	2014	2013
Operating activities	\$ 10,162	\$ 14,182	\$ 29,378
Investing activities	(18,592)	(26,674)	(8,564)
Financing activities	(7,578)	(5,076)	(21,331)

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, 2015, operating activities provided cash in the amount of \$10.2 million compared to \$14.2 million for the same period in 2014. Operating cash flows decreased due to the timing of payments and receipts for other assets, accounts receivable, prepaid expenses and other, and income tax payable; and the decrease in non-cash expenses added back to net income. Those decreases were partially offset by the timing of payments and receipts for accounts payable, accrued liabilities, and liabilities related to unrecognized tax positions.

For the year ended December 31, 2014, the Company generated cash from operating activities of \$14.2 million compared to \$29.4 million in 2013. 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, 2015, 2014, and 2013, were \$22.5 million, \$26.3 million, and \$8.6 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, 2015, 2014, and 2013, the Company used cash to purchase available-for-sale investments of \$3,000, \$0.7 million, and \$0.4 million, respectively, and had cash proceeds of \$0.8 million, \$0.2 million, and \$0.2 million for 2015, 2014, and 2013, respectively, from the sale of such investments.

#### Financing Activities

During the years ended December 31, 2015, 2014, and 2013, the Company used cash to pay dividends in an aggregate amount of \$7.5 million, \$35.2 million, and \$30.4 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. During the year ended December 31, 2015, the Company repurchased 501,000 shares of its common stock under the share repurchase program for \$6.6 million. At December 31, 2015, 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. Nature's Sunshine Hong Kong Limited currently anticipates deploying a multi-brand, multi-channel go-to-market strategy, which will offer select Nature's Sunshine-branded products a direct selling model. The time to market will be dependent upon regulatory processes including product registration, permit and license approvals.

Pursuant to a concurrent private placement transaction, Nature's Sunshine issued 2.9 million shares of unregistered common stock to Fosun Pharma at a price of \$16.19 per share, representing aggregate net proceeds to Nature's Sunshine of \$44.8 million. The purchase price represented a 10 percent premium to Nature's Sunshine's average stock price over the trailing 30 business day period as of June 26, 2014. As a result of the private placement transaction, Fosun Pharma owns approximately 15 percent of Nature's Sunshine outstanding common shares with respect to which the Company has granted Fosun Pharma certain registration rights. In addition, Nature's Sunshine appointed one director designated by Fosun Pharma to its board of directors.

During the years ended December 31, 2014 and 2013, the Company used cash to make principal payments of \$12.3 million and \$3.4 million, on long-term debt, respectively. The Company held no long-term debt during the year ended December 31, 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 (1.75 percent and 1.50 percent as of December 31, 2015 and 2014, respectively). The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. The Company retains ample 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, 2015, and 2014, the outstanding balance under the revolving credit agreement was \$2.7 million and \$0, respectively.

The revolving credit agreement contains restrictions on 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, and the merger, consolidation and the transfer of assets except in the ordinary course of business. As of December 31, 2015, 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 dividends, share repurchases, and capital expenditures, as well as potential business development activity. 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, 2015 (*in thousands*):

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Operating lease obligations	\$ 13,374	\$ 5,454	\$ 7,053	\$ 577	\$ 290
Self-insurance reserves(1)	440	440	—	—	—
Other long-term liabilities reflected on the balance sheet(2)	—	—	—	—	—
Unrecognized tax benefits(3)	—	—	—	—	—
Revolving credit facility(4)	2,696	2,696	—	—	—
ERP capital commitments(5)	250	250	—	—	—
Other capital commitments(6)	2,432	2,432	—	—	—
Total	\$ 19,192	\$ 11,272	\$ 7,053	\$ 577	\$ 290

(1) At December 31, 2015, there were \$2.3 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, 2015, there were \$1.0 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, 2015, there were \$7.8 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, 2015, the Company had \$22.3 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 2015, the Company made commitments to purchase manufacturing equipment of \$2.4 million in 2016.

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 2015, 2014, and 2013, the aggregate amounts of these payments were \$0.1 million, \$0.2 million, and \$1.5 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 revenue, 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, 2015, approximately 54.6 percent of the Company's net sales revenue and approximately 53.6 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 revenue, 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 revenue, 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, 2015 (dollar amounts in thousands)

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Net sales revenue	\$ 324,705	\$ (12,479)	(3.8)%	\$ (17,905)	(5.5)%	\$ (27,454)	(8.5)%
Cost and expenses							
Cost of sales	85,345	(3,878)	(4.5)%	(5,565)	(6.5)%	(8,532)	(10.0)%
Volume incentives	117,786	(4,758)	(4.0)%	(6,827)	(5.8)%	(10,468)	(8.9)%
Selling, general and administrative	107,702	(3,311)	(3.1)%	(4,750)	(4.4)%	(7,284)	(6.8)%
Operating income	\$ 13,872	\$ (532)	(3.8)%	\$ (763)	(5.5)%	\$ (1,170)	(8.4)%

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, 2015 (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	\$ 41,420	\$ (2,916)	(7.0)%	\$ (4,108)	(9.9)%	\$ (6,206)	(15.0)%
Accounts receivable, net	7,700	(166)	(2.2)%	(238)	(3.1)%	(365)	(4.7)%
<b>Financial Instruments Included in Current Liabilities Subject to Exchange Rate Risk</b>							
Accounts payable	6,341	(71)	(1.1)%	(101)	(1.6)%	(156)	(2.5)%
<b>Net Financial Instruments Subject to Exchange Rate Risk</b>							
	\$ 42,779	\$ (3,011)	(7.0)%	\$ (4,245)	(9.9)%	\$ (6,415)	(15.0)%

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, 2015, 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, 2015 (dollar amounts in thousands)

	Translated into U.S. Dollars	At Spot Exchange Rate per One U.S. Dollar
Cash and Cash Equivalents		
Shanghai (Yuan)	\$ 8,333	6.5
South Korea (Won)	5,784	1,177.4
Japan (Yen)	3,794	120.4
European Markets (Euro)	3,633	0.9
Canada (Dollar)	1,430	1.4
Thailand (Baht)	1,257	36.14
Other	6,096	Varies
Total foreign dominated cash and cash equivalents	\$ 30,327	
U.S. dollars held by foreign subsidiaries	\$ 8,065	
Total cash and cash equivalents held by foreign subsidiaries	\$ 38,392	

During the year ended December 31, 2015, the Company repatriated \$7.1 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 revenue 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,	2015	2014	2013
Canada (Dollar)	1.3	1.1	1.0
European Markets (Euro)	0.9	0.8	0.8
Japan (Yen)	121.0	105.6	97.4
South Korea (Won)	1,132.5	1,055.3	1,098.3
Mexico (Peso)	15.8	13.3	12.8

The local currency of the foreign subsidiaries is used as the functional currency, except for subsidiaries operating in highly inflationary economies or 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 re-measurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three-year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation and other pertinent economic factors. During the year ended December 31, 2015, Belarus was considered to be highly inflationary. During the periods ended December 31, 2015, 2014 and 2013, the Company's Belarusian subsidiary's net sales revenue represented approximately 1.8 percent, 2.4 percent and 2.2 percent, of consolidated net sales revenue, respectively. With the exception of Belarus, there were no other countries considered to have a highly inflationary economy during the periods ended December 31, 2015, 2014 and 2013.

#### 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, 2015, 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, 2015, and 2014, 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, 2015. 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, 2015, and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, 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, 2015, 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 14, 2016 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 14, 2016

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

**CONSOLIDATED BALANCE SHEETS**

*(Amounts in thousands)*

	As of December 31,	2015	2014
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$	41,420	\$ 58,699
Accounts receivable, net of allowance for doubtful accounts of \$190 and \$849, respectively		7,700	6,732
Investments available for sale		1,772	2,546
Inventories		38,495	40,438
Deferred income tax assets		5,021	4,950
Prepaid expenses and other		7,110	7,884
Total current assets		101,518	121,249
Property, plant and equipment, net		68,728	51,343
Investment securities - trading		1,044	1,038
Intangible assets, net		559	704
Deferred income tax assets		17,339	14,495
Other assets		11,332	7,970
	\$	200,520	\$ 196,799
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable	\$	6,341	\$ 5,237
Accrued volume incentives		14,913	16,867
Accrued liabilities		23,726	28,957
Deferred revenue		4,160	4,717
Revolving credit facility		2,696	—
Income taxes payable		1,300	2,131
Total current liabilities		53,136	57,909
Liability related to unrecognized tax benefits		7,809	6,598
Deferred compensation payable		1,044	1,038
Other liabilities		2,266	2,297
Total liabilities		64,255	67,842
Commitments and Contingencies			
Shareholders' equity:			
Common stock, no par value; 50,000 shares authorized, 18,588 and 18,662 shares issued and outstanding as of December 31, 2015, and 2014, respectively		126,670	125,489
Retained earnings		18,088	10,891
Noncontrolling interests		2,750	3,781
Accumulated other comprehensive loss		(11,243)	(11,204)
Total shareholders' equity		136,265	128,957
	\$	200,520	\$ 196,799

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,	2015	2014	2013
Net sales revenue	\$ 324,705	\$ 366,367	\$ 369,826
Cost of sales	(85,345)	(91,584)	(92,344)
Gross profit	239,360	274,783	277,482
Operating expenses:			
Volume incentives	117,786	135,808	135,516
Selling, general and administrative	107,702	119,927	118,383
Operating income	13,872	19,048	23,583
Other income (expense):			
Interest and other income (expense), net	1,486	(72)	836
Interest expense	(130)	(187)	(231)
Foreign exchange gains (losses), net	(1,948)	225	1,388
	(592)	(34)	1,993
Income from continuing operations before provision for income taxes	13,280	19,014	25,576
Provision (benefit) for income taxes	1,740	(743)	7,923
Net income from continuing operations	11,540	19,757	17,653
Income (loss) from discontinued operations	2,116	(9,957)	(44)
Net income	13,656	9,800	17,609
Net loss attributable to noncontrolling interests	(1,031)	(219)	—
Net income attributable to common shareholders	\$ 14,687	\$ 10,019	\$ 17,609
Basic and diluted net income per common share			
Basic earnings per share attributable to common shareholders:			
Net income from continuing operations	\$ 0.67	\$ 1.15	\$ 1.10
Income (loss) from discontinued operations	\$ 0.11	\$ (0.57)	\$ —
Net income attributable to common shareholders	\$ 0.79	\$ 0.58	\$ 1.10
Diluted earnings per share attributable to common shareholders:			
Net income from continuing operations	\$ 0.66	\$ 1.12	\$ 1.08
Income (loss) from discontinued operations	\$ 0.11	\$ (0.56)	\$ (0.01)
Net income attributable to common shareholders	\$ 0.77	\$ 0.56	\$ 1.07
Weighted average basic common shares outstanding	18,656	17,108	15,997
Weighted average diluted common shares outstanding	19,177	17,641	16,390
Dividends declared per common share	\$ 0.40	\$ 1.90	\$ 1.90

See accompanying notes to consolidated financial statements.

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

Year Ended December 31,	2015	2014	2013
Net income	\$ 13,656	\$ 9,800	\$ 17,609
Foreign currency translation gain (loss) (net of tax)	233	(1,406)	(3,480)
Net unrealized gains on investment securities (net of tax)	22	30	83
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	13,617	12,559	14,212
Net loss attributable to noncontrolling interests	(1,031)	(219)	—
Total comprehensive income attributable to common shareholders	\$ 14,648	\$ 12,778	\$ 14,212

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, 2013	15,810	\$ 77,292	\$ 48,910	\$ —	\$ (10,566)	\$ 115,636
Share-based compensation expense	—	3,389	—	—	—	3,389
Tax benefit from exercise of stock options	—	653	—	—	—	653
Proceeds from the exercise of stock options	509	4,334	—	—	—	4,334
Repurchase of common stock	(140)	(2,546)	—	—	—	(2,546)
Cash dividends (1.90 per share)	—	—	(30,419)	—	—	(30,419)
Net income	—	—	17,609	—	—	17,609
Other comprehensive loss	—	—	—	—	(3,397)	(3,397)
Balance at December 31, 2013	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 loss	—	—	—	—	2,759	2,759
<b>Balance at December 31, 2014</b>	<b>18,662</b>	<b>125,489</b>	<b>10,891</b>	<b>3,781</b>	<b>(11,204)</b>	<b>128,957</b>
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 income	—	—	—	—	(39)	(39)
<b>Balance at December 31, 2015</b>	<b>18,588</b>	<b>\$ 126,670</b>	<b>\$ 18,088</b>	<b>\$ 2,750</b>	<b>\$ (11,243)</b>	<b>\$ 136,265</b>

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Amounts in Thousands)*

Year Ended December 31,	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 13,656	\$ 9,800	\$ 17,609
Adjustments to reconcile net income to net cash provided by operating activities:			
Write-off of cumulative translation adjustments	—	4,135	—
Impairment of Venezuela property, plant and equipment, net	—	2,947	—
Provision for doubtful accounts	21	(121)	535
Depreciation and amortization	4,525	4,409	4,466
Share-based compensation expense	4,485	3,948	3,389
Tax benefit from stock option exercise	—	(307)	(653)
(Gain) loss on sale of property and equipment	(2,703)	132	(128)
Deferred income taxes	(3,373)	(3,927)	1,092
Amortization of bond discount	—	3	1
Purchase of trading investment securities	(252)	(162)	(88)
Proceeds from sale of trading investment securities	239	151	510
Realized and unrealized gains on investments	(470)	(56)	(122)
Foreign exchange losses (gains)	1,948	(225)	(1,254)
Changes in assets and liabilities:			
Accounts receivable	(1,091)	3,457	(1,358)
Inventories	933	748	838
Prepaid expenses and other	636	3,411	(5,728)
Other assets	(4,010)	(1,235)	(303)
Accounts payable	593	(359)	(552)
Accrued volume incentives	(1,427)	(1,905)	1,286
Accrued liabilities	(3,451)	(5,360)	7,379
Deferred revenue	(557)	544	(138)
Income taxes payable	(914)	25	1,071
Liability related to unrecognized tax positions	1,368	(5,804)	1,831
Deferred compensation payable	6	(67)	(305)
Net cash provided by operating activities	10,162	14,182	29,378
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(22,527)	(26,285)	(8,570)
Proceeds from sale of property, plant and equipment	3,128	85	248
Purchases of investments available for sale	(3)	(721)	(442)
Proceeds from sale/maturities of investments available for sale	810	247	200
Net cash used in investing activities	(18,592)	(26,674)	(8,564)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments of cash dividends	(7,490)	(35,228)	(30,419)
Borrowings on long-term debt	—	—	10,000
Net borrowings on revolving credit facility	2,696	—	—
Principal payments of long-term debt	—	(12,267)	(3,353)
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	4,334
Tax benefit from stock option exercise	—	307	653
Repurchase of common stock	(6,645)	(7,455)	(2,546)
Net cash used in financing activities	(7,578)	(5,076)	(21,331)
Effect of exchange rates on cash and cash equivalents	(1,271)	(980)	(1,477)
Net decrease in cash and cash equivalents	(17,279)	(18,548)	(1,994)
Cash and cash equivalents at beginning of the year	58,699	77,247	79,241
Cash and cash equivalents at end of the year	\$ 41,420	\$ 58,699	\$ 77,247

Year Ended December 31,	2015	2014	2013
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 9,782	\$ 6,450	\$ 10,278
Cash paid for interest	56	171	128
Supplemental disclosure of noncash investing and financing activities:			
Purchases of property, plant and equipment included in accounts payable and accrued liabilities	\$ 1,081	\$ 780	\$ 155

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**

Nature's Sunshine Products, Inc., together with its subsidiaries (hereinafter referred to collectively as 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 Managers and Distributors who use the products themselves or resell them to other independent Distributors or consumers. 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.

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, the Philippines, Poland, Russia, Singapore, Slovenia, South Korea, Spain, Sweden, Taiwan, Thailand, Ukraine, the United Kingdom, the United States and Vietnam. The Company also exports its products to Argentina, Australia, Chile, Israel, New Zealand, Norway, Peru and the United Kingdom.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts and transactions of the Company and its subsidiaries. At December 31, 2015 and 2014, substantially all of the Company's subsidiaries were wholly owned. 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.

Intercompany balances and transactions have been eliminated in consolidation.

**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 the collection of accounts receivable, 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.

**Classification of Belarus as a Highly Inflationary Economy and Devaluation of Its Currency**

Since June 30, 2012, Belarus has been designated as a highly inflationary economy. The U.S. dollar is the Company's functional currency for this market. As a result, there were no resulting gains or losses from a re-measurement of the financial statements using official rates of the Company's Belarusian subsidiary. However, as a result of the weakening of the Belarusian ruble, the purchasing power of the Company's independent Distributors in this market has diminished. During the periods ended December 31, 2015, 2014, and 2013, the Company's Belarusian subsidiary's net sales revenue represented approximately 1.8 percent, 2.4 percent and 2.2 percent of consolidated net sales revenue, respectively.

## **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, 2015 and 2014. 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 revolving credit facility. Other than investments, which are carried at fair value, and the revolving credit facility, the carrying values of these financial instruments approximate their fair values due to their short-term nature. During the years ended December 31, 2015, and 2014, the Company did not have any write-offs related to the re-measurement 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.

## **Intangible Assets**

Intangible assets consist of purchased product formulations. 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 \$0.6 million and \$0.7 million, at December 31, 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. 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 \$4.8 million and \$4.2 million at December 31, 2015, and 2014, 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 subsidiaries operating in highly inflationary economies or 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 re-measurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation, and other pertinent economic factors. Belarus was considered to be highly

inflationary as noted above. With the exception of Belarus, there were no countries considered to have a highly inflationary economy during 2015, 2014, or 2013.

## **Revenue Recognition**

Net sales revenue 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 2015, 2014 and 2013, were \$1.2 million, \$1.5 million, and \$1.5 million, respectively.

Amounts billed to customers for shipping and handling are reported as a component of net sales revenue. Shipping and handling revenues of approximately \$9.2 million, \$9.8 million, and \$10.9 million were reported as net sales revenue for the years ended December 31, 2015, 2014, and 2013, 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, 2015, 2014, and 2013 totaled approximately \$2.2 million, \$2.3 million and \$2.2 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 \$2.8 million, \$2.5 million, and \$2.0 million in 2015, 2014, and 2013, 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 with a range, the Company records its best estimate within the 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 potential liability related to the contingency and revises the estimates. Revision in estimates of the potential 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):

	2015	2014	2013
<b>Net income attributable to common shareholders:</b>			
Net income from continuing operations	\$ 12,571	\$ 19,976	\$ 17,653
Income (loss) from discontinued operations	\$ 2,116	\$ (9,957)	\$ (44)
Net income	\$ 14,687	\$ 10,019	\$ 17,609
<b>Basic weighted-average shares outstanding</b>	<b>18,656</b>	<b>17,108</b>	<b>15,997</b>
<b>Basic earnings per share attributable to common shareholders:</b>			
Net income from continuing operations	\$ 0.67	\$ 1.15	\$ 1.10
Income (loss) from discontinued operations	\$ 0.11	\$ (0.57)	\$ —
Net income	\$ 0.79	\$ 0.58	\$ 1.10
<b>Diluted Shares Outstanding</b>			
Basic weighted-average shares outstanding	18,656	17,108	15,997
Stock-based awards	521	533	393
Diluted weighted-average shares outstanding	19,177	17,641	16,390
<b>Diluted earnings per share attributable to common shareholders:</b>			
Net income from continuing operations	\$ 0.66	\$ 1.12	\$ 1.08
Income (loss) from discontinued operations	\$ 0.11	\$ (0.56)	\$ (0.01)
Net income	\$ 0.77	\$ 0.56	\$ 1.07
<b>Potentially dilutive shares excluded from diluted-per-share amounts:</b>			
Stock options	345	133	135
<b>Potentially anti-dilutive shares excluded from diluted-per-share amounts:</b>			
Stock options	688	210	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; performance-based stock options, which vest upon achieving cumulative annual net sales revenue growth targets over a rolling two-year period, subject to the Company maintaining at least an eight percent operating income margin during the applicable period; and performance-based stock options, which vest upon achieving annual net sales targets over a rolling one-year period.

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 based on the fair value of the stock options 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-brand, multi-channel go-to-market strategy that will offer select Nature's Sunshine-branded products through certain of Fosun Pharma's existing retail locations across China, and select Synergy-branded products through a direct selling model. The time to market will be dependent upon regulatory processes, including product registration, permit and license approvals. Due to a change in the Chinese regulatory environment, the Company has indefinitely deferred its entry into the retail channel.

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

## **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). This update requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. As such, this update affects an entity that either enters into contracts with customers or transfers goods and services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This update will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606. In July 2015, the FASB approved a proposal that extended the required implementation date one year to the interim and annual periods beginning after December 15, 2017, but would also permit companies to adopt the standard at the original effective date, which was the interim and annual periods beginning after December 15, 2016. 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 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 February 2015, the FASB issued ASU No. 2015-02, Consolidations (Topic 810): "Amendments to the Consolidation Analysis." This update makes amendments to the current consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. Under this analysis, limited partnerships and

other similar entities will be considered a variable interest entity unless the limited partners hold substantive kick-out rights or participating rights. This update is effective for interim and annual periods beginning after December 15, 2015. The Company is currently evaluating both methods of adoption, as well as the effect this ASU will have 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 2018. Early adoption is permitted for financial statements that have not been previously issued and may be applied on either a prospective or retrospective basis. 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 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. For public companies, 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 or footnote disclosures; however, it is expected to gross-up the consolidated balance sheet.

## 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	2013
Net sales revenue	\$ —	\$ 7,559	\$ 8,270
Income (loss) before income tax provision	\$ 2,604	\$ (10,597)	\$ 77
Income tax provision (benefit)	488	(640)	121
Income (loss) from discontinued operations	<u>\$ 2,116</u>	<u>\$ (9,957)</u>	<u>\$ (44)</u>

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 are recorded primarily in selling, general and administrative expenses, of which \$2.8 million was related to severance and termination benefits and \$0.5 million was related to other exit costs. Of the restructuring costs incurred during the year ended December 31, 2015, only \$0.6 million of severance costs and \$0.2 million of other exit costs remained payable at year-end.

### NOTE 4: INVENTORIES

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

As of December 31,	2015	2014
Raw materials	\$ 13,351	\$ 11,206
Work in process	789	534
Finished goods	24,355	28,698
Total inventory	<u>\$ 38,495</u>	<u>\$ 40,438</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,	2015	2014
Land and improvements	\$ 2,518	\$ 2,418
Buildings and improvements	30,013	31,245
Machinery and equipment	22,293	19,716
Furniture and fixtures	18,964	18,311
Computer software and hardware	44,194	27,294
	<u>117,982</u>	<u>98,984</u>
Accumulated depreciation and amortization	<u>(49,254)</u>	<u>(47,641)</u>
Total property, plant and equipment	<u>\$ 68,728</u>	<u>\$ 51,343</u>

Depreciation expense was \$4.4 million, \$4.3 million, and \$4.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

### NOTE 6: INTANGIBLE ASSETS

At December 31, 2015, and 2014, intangibles for product formulations had a gross carrying amount of \$1.4 million, and \$1.8 million, accumulated amortization of \$0.8 million, and \$1.1 million, and a net amount of \$0.6 million, and \$0.7 million, respectively. The estimated useful lives of the product formulations range from 9 to 15 years.

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Amortization expense for intangible assets for the years ended December 31, 2015, 2014, and 2013 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,	
2016	\$ 91
2017	91
2018	91
2019	91
2020	91
Thereafter	104
Total	<u>\$ 559</u>

#### NOTE 7: ACCRUED LIABILITIES

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

As of December 31,	2015	2014
Foreign non-income tax contingencies (See Note 14)	\$ 204	\$ 2,622
Sales, use and property tax	3,231	3,575
Salaries and employee benefits	9,706	13,445
Convention and meeting costs	4,798	4,243
Other	5,787	5,072
Total	<u>\$ 23,726</u>	<u>\$ 28,957</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, 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>

As of December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal obligations	\$ 100	\$ 1	\$ —	\$ 101
U.S. government securities funds	1,791	—	(15)	1,776
Equity securities	227	454	(12)	669
Total short-term investment securities	<u>\$ 2,118</u>	<u>\$ 455</u>	<u>\$ (27)</u>	<u>\$ 2,546</u>

During 2015, 2014, and 2013, the proceeds from the sales of available-for-sale securities were \$0.8 million, \$0.2 million, and \$0.2 million, respectively. 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 years ended December 31, 2014 and 2013, respectively.

The Company's trading securities portfolio totaled \$1.0 million and \$1.0 million at December 31, 2015 and 2014, respectively, and generated losses of \$5,000, and gains of \$0.1 million, and \$0.1 million, for the years ended December 31, 2015, 2014, and 2013, 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 (1.75 percent and 1.50 percent as of

December 31, 2015 and 2014, 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 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, 2015. At December 31, 2015, and 2014, the outstanding balance under the revolving credit agreement was \$2.7 million and \$0, respectively.

The revolving credit agreement contains restrictions on 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, and the merger, consolidation and the transfer of assets except in the ordinary course of business. The Company remains in compliance with these debt covenants as of December 31, 2015.

#### 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, 2013	\$ (10,713)	\$ 147	\$ (10,566)
Activity, net of tax	(3,480)	83	(3,397)
Balance as of December 31, 2013	(14,193)	230	(13,963)
Activity, net of tax	2,729	30	2,759
<b>Balance as of December 31, 2014</b>	<b>(11,464)</b>	<b>260</b>	<b>(11,204)</b>
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>

#### 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,	2015	2014	2013
Domestic	\$ 6,290	\$ 4,577	\$ 6,111
Foreign	6,990	14,437	19,465
<b>Total</b>	<b>\$ 13,280</b>	<b>\$ 19,014</b>	<b>\$ 25,576</b>

Components of the provision (benefit) for income taxes from continuing operations for each of the three years in the period ended December 31, 2015 are as follows (dollar amounts in thousands):

Year Ended December 31,	2015	2014	2013
Current:			
Federal	\$ 537	\$ (2,713)	\$ (773)
State	73	514	399
Foreign	4,503	5,539	7,230
Subtotal	5,113	3,340	6,856
Deferred:			
Federal	(3,624)	(3,804)	1,654
State	430	(326)	186
Foreign	(179)	47	(773)
Subtotal	(3,373)	(4,083)	1,067
<b>Total provision (benefit) for income taxes</b>	<b>\$ 1,740</b>	<b>\$ (743)</b>	<b>\$ 7,923</b>

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,	2015	2014	2013
Statutory U.S. federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of U.S. federal income tax benefit	2.7	0.6	1.4
U.S. tax impact of foreign operations	2.8	(73.0)	(16.2)
Valuation allowance change	(24.5)	48.8	4.3
Unrecognized tax benefits	11.2	(8.6)	7.9
Domestic manufacturing deduction	(1.3)	(2.2)	(1.3)
Nondeductible foreign expenses	(7.4)	(1.8)	1.1
Non-income tax contingencies	(2.0)	(0.9)	0.2
Other	(3.4)	(1.8)	(1.4)
Effective income tax rate	13.1 %	(3.9)%	31.0 %

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 increased the effective tax rate by 2.8 percentage points in 2015, decreased the effective tax rate by 73.0 percentage points in 2014, and decreased the effective tax rate by 16.2 percentage points in 2013. The components of this calculation were:

Components of U.S. tax impact of foreign operations	2015	2014	2013
Dividends received from foreign subsidiaries	5.4 %	59.5 %	29.4 %
Foreign tax credits	(1.1)	(121.3)	(34.3)
Foreign tax rate differentials	(1.2)	(11.0)	(10.8)
Unremitted earnings	(0.3)	(0.2)	(0.5)
Total	2.8 %	(73.0)%	(16.2)%

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

As of December 31,	2015	2014
Inventory	\$ 1,200	\$ 1,766
Accrued liabilities	4,104	5,023
Deferred compensation	387	398
Equity-based compensation	4,660	4,293
Intangibles assets	267	442
Bad debts	52	64
Net operating losses	5,364	5,824
Foreign tax and withholding credits	11,732	12,591
Non-income tax accruals	54	53
Health insurance accruals	154	230
Undistributed foreign earnings	—	474
Other deferred tax assets	2,070	1,488
Capital loss carryforward	1,047	739
Valuation allowance	(6,565)	(13,169)
Total deferred tax assets	\$ 24,526	20,216
Other deferred tax liabilities	(2,167)	(778)
Total deferred tax liabilities	(2,167)	(778)
Total deferred taxes, net	\$ 22,359	\$ 19,438

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

As of December 31,	2015	2014
Net current deferred tax assets	\$ 5,021	\$ 4,950
Net non-current deferred tax assets	17,339	14,495
Total net deferred tax assets	22,360	19,445
Net current deferred tax liabilities	(1)	(1)
Net non-current deferred tax liabilities	—	(6)
Total net deferred tax liabilities	(1)	(7)
Total deferred taxes, net	\$ 22,359	\$ 19,438

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 \$6.6 million and \$13.2 million as of December 31, 2015 and 2014, 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 decreased its valuation allowance by approximately \$6.6 million in 2015 primarily due to a domestic decrease of \$6.4 million and a foreign decrease of \$0.2 million.

At December 31, 2015, foreign subsidiaries had unused operating loss carryovers for tax purposes of approximately \$5.4 million. The net operating losses will expire at various dates from 2016 through 2025, with the exception of those in some foreign jurisdictions where there is no expiration. At December 31, 2015, the Company had approximately \$11.7 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 2012 through 2014 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, 2015 and 2014 were \$7.8 million and \$6.6 million, respectively, all of which would favorably impact the effective tax rate if recognized. Included in these amounts is approximately \$2.0 million and \$1.6 million, respectively, of combined interest and penalties. The Company increased interest and penalties approximately \$0.3 million and \$0.3 million for the years ended December 31, 2015 and 2014, respectively. 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, 2015, 2014 and 2013, the Company added approximately \$1.6 million, \$2.3 million and \$2.7 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, 2015, 2014 and 2013, 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 \$0.1 million, \$0.3 million and \$0.3 million for the years ended December 31, 2015, 2014 and 2013, respectively, all of which favorably impacted the Company's effective tax rate.



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

Year Ended December 31,	2015	2014	2013
Unrecognized tax benefits, opening balance	\$ 4,950	\$ 11,050	\$ 9,519
Settlement of liability reclassified as income tax payable	(104)	(591)	(10)
Payments on liability	—	—	—
Tax positions taken in a prior period			
Gross increases	—	—	—
Gross decreases	(47)	(6,614)	(184)
Tax positions taken in the current period			
Gross increases	1,252	1,934	2,356
Gross decreases	—	—	—
Lapse of applicable statute of limitations	(69)	(244)	(323)
Currency translation adjustments	(157)	(585)	(308)
Unrecognized tax benefits, ending balance	\$ 5,825	\$ 4,950	\$ 11,050

The Company anticipates that liabilities related to unrecognized tax benefits will increase approximately \$0.8 million to \$1.2 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 25, 2015, 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 23, 2015, to shareholders of record on March 12, 2015. On May 7, 2015, 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 2, 2015, to shareholders of record on May 22, 2015. On August 10, 2015, 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 8, 2015, to shareholders of record on August 25, 2015. On November 3, 2015, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1.9 million that was paid on November 30, 2015, to shareholders of record on November 18, 2015.

### 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, 2015, the remaining balance available for repurchases under the program was \$13.4 million.

The following is a summary of the Company's repurchases of common shares during the year ended December 31, 2015 (dollar and share amounts in thousands, except for per share information):

Period	Number of Shares	Average Price Paid per Share (includes commissions)	Program Balance Used for Repurchases
January 1 — March 31, 2015	203	\$ 14.06	\$ 2,853
April 1 — June 30, 2015	94	13.13	1,228
July 1 — September 30, 2015	162	12.64	2,045
October 1 — December 31, 2015	42	12.07	519
	<u>501</u>	<u>\$ 13.26</u>	<u>\$ 6,645</u>

To enhance the Company's ability to repurchase shares, the Company established a trading plan pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934 (the "Exchange Act"). A plan under Rule 10b5-1 allows the Company to repurchase its shares at times when it otherwise might be prevented from doing so in compliance with insider trading laws or because of a self-imposed trading blackout period. Repurchases are subject to Securities and Exchange Commission ("SEC") regulations as well as certain price, market volume and timing constraints specified in the trading plan.

### Share-Based Compensation

During the year ended December 31, 2012, the Company's shareholders adopted and approved the Nature's Sunshine Products, Inc. 2012 Stock Incentive Plan (the "2012 Incentive Plan"). The 2012 Incentive Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, performance awards, stock awards and other stock-based awards. The Compensation Committee of the Board of Directors has authority and discretion to determine the type of award as well as the amount, terms and conditions of each award under the 2012 Incentive Plan, subject to the limitations of the 2012 Incentive Plan. A total of 1,500,000 shares of 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 a stock incentive plan, which was approved by shareholders in 2009 (the "2009 Incentive Plan"). The 2009 Incentive Plan also provided for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, performance awards, stock awards and other stock-based awards. Under the 2012 Incentive Plan, any shares subject to award, or awards forfeited or reacquired by the Company issued under the 2009 Incentive Plan are available for award up to a maximum of 400,000 shares.

### Stock Options

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; performance-based stock options, which vest upon achieving cumulative annual net sales revenue growth targets over a rolling two-year period, subject to the Company maintaining at least an eight percent operating income margin during the applicable period; and performance-based stock options, which vest upon achieving annual net sales targets over a rolling one-year period.

Stock option activity for 2015, 2014, and 2013 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, 2013	1,784	\$ 11.81
Granted	832	15.85
Forfeited or canceled	(184)	13.65
Exercised	(506)	8.56
Options outstanding at December 31, 2013	1,926	12.54
Granted	258	15.38
Forfeited or canceled	(23)	13.33
Exercised	(124)	6.42
<b>Options outstanding at December 31, 2014</b>	<b>2,037</b>	<b>11.69</b>
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>

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, 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, 2015, the Company issued time-based stock options to purchase 335,000 shares of common stock under the 2012 Stock Incentive Plan to the Company's Board of Directors and executive officers. 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 issued options to purchase 258,000 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 revenue performance-based stock options. 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.

During the year ended December 31, 2013, the Company issued time-based options to purchase 832,000 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 \$15.85 per share and a weighted average grant date fair value of \$6.55 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, 2015, 2014, and 2013, the Company issued 405,000, 124,000, and 506,000 shares of common stock upon the exercise of stock options at an average exercise price of \$9.78, \$6.42, and \$8.56 per share, respectively. The aggregate intrinsic values of options exercised during the years ended December 31, 2015, 2014, and 2013 was \$1.4 million, \$1.1 million, and \$4.6 million, respectively. For the years ended December 31, 2015, 2014, and 2013, the Company recognized \$0.5 million, \$0.3 million, and \$0.7 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, 2014, and 2013:

	2015	2014	2013
Weighted average grant date fair value of grants	\$ 4.79	\$ 6.53	\$ 6.55
Expected life (in years)	5.0 to 6.0	6.0	5.0 to 6.0
Risk-free interest rate	1.5 to 1.8	1.5	0.6 to 1.5
Expected volatility	42.6 to 52.3	56.7	55.9 to 58.2
Dividend yield	2.8 to 3.6	2.6	2.1 to 2.7

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, 2015, 2014, and 2013 was \$1.6 million, \$2.9 million and \$3.2 million, respectively. As of December 31, 2015, 2014, and 2013, the unrecognized share-based compensation cost related to grants described above was \$1.1 million, \$2.0 million, and \$3.3 million, respectively. As of December 31, 2015, the remaining compensation cost is expected to be recognized over the weighted-average period of approximately 1.6 years.

The Company has not recognized any share-based compensation expense related to the net sales revenue performance-based stock options for the year ended December 31, 2015 and 2014. Should the Company attain all of the net sales revenue metrics related to the net sales revenue performance-based stock option grants, the Company would recognize up to \$0.7 million of potential share-based compensation expense.

The following table summarizes information about options outstanding and exercisable at December 31, 2015 (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	179	4.3	\$ 4.97	179	4.3	\$ 4.97
\$10.00 to \$11.99	505	7.0	11.79	249	7.1	11.73
\$12.00 to \$13.99	579	6.7	12.85	405	6.2	12.52
\$14.00 to \$17.70	420	8.7	14.95	125	4.7	15.79
	<u>1,683</u>			<u>958</u>		

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. At December 31, 2014, the aggregate intrinsic value of outstanding options to purchase 2,037,000 shares of common stock, the exercisable options to purchase 1,069,000 shares of common stock, and options to purchase 794,000 shares of common stock expected to vest was \$6.8 million, \$4.9 million, and \$1.8 million, respectively.

#### *Restricted Stock Units*

The Company's outstanding restricted stock units (RSUs) are time-based RSUs, which vest over differing periods ranging from 12 months up to 48 months from the RSU grant date. 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, 2015 and 2014, there were 60,000 and 32,000 vested RSUs given to the Board of Directors that had a restriction period.

Restricted stock unit activity for the period ended December 31, 2015, 2014, and 2013 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, 2013	18	\$ 12.07
Granted	17	12.90
Issued	(3)	12.07
Forfeited	—	—
Units outstanding at December 31, 2013	32	12.47
Granted	156	10.73
Issued	—	—
Forfeited	(8)	15.37
<b>Units outstanding at December 31, 2014</b>	<b>180</b>	<b>15.09</b>
<b>Granted</b>	<b>679</b>	<b>12.61</b>
<b>Issued</b>	<b>(30)</b>	<b>13.63</b>
<b>Forfeited</b>	<b>(85)</b>	<b>12.84</b>
<b>Units outstanding at December 31, 2015</b>	<b>744</b>	<b>12.48</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, 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, which are composed of both time-based RSUs and net sales operating income and earnings per share performance-based RSUs. The time-based RSUs were issued with a weighted-average grant date fair value of \$12.97 per share and vest in annual installments over a three year from the grant date or after a three-year cliff. The net sales and operating income and earnings per share performance-based RSUs were issued with a weighted-average grant date fair value of \$12.13 per share and vest upon achieving both (i) net sales and operating income 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 Company's board, executive officers and other employees. The RSUs were issued with a weighted average grant date fair value of \$10.73 per share and vest in annual installments over a four year period from the grant date.

During the period ended December 31, 2013, the Company granted 17,000 restricted stock units (RSUs) of common stock under the 2012 Incentive Plan to the Board of Directors. The RSUs were issued with a weighted average grant date fair value of \$12.90 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 17.5 percent for a common share.

Share-based compensation expense from RSUs for the period ended December 31, 2015, 2014, and 2013, was approximately \$2.9 million, \$1.0 million, and \$0.2 million, respectively. As of December 31, 2015, and 2014, the unrecognized

share-based compensation expense related to the grants described above was \$2.5 million and \$0.8 million, respectively. As of December 31, 2015, the remaining compensation expense is expected to be recognized over the weighted average period of approximately 1.9 years.

The Company has not recognized any share-based compensation expense related to the net sales revenue and EPS performance-based RSUs for the years ended December 31, 2015, 2014 and 2013. Should the Company attain all of the metrics related to the performance-based RSU grant, the Company would recognize up to \$2.8 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 8,000 shares for the year ended December 31, 2015. 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.

#### *Stock Appreciations Rights*

The Company's outstanding stock appreciation rights (SARs) are time-based SARs, which vest over differing periods ranging from 12 months up to 48 months from the SAR grant date. The SARs have a strike price equal to the fair market value of one share of common stock on the grant date. Subsequent to vesting, the employee has the option to exercise the SAR and will receive the intrinsic value of the SAR as income on the exercise date. SARs do not entitle a participant to receive or purchase shares and are settled in cash. SARs will not reduce the number of shares of common stock available for issuance under the Company's Stock Incentive Plans.

Stock appreciation right activity for the period ended December 31, 2015, 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, 2015	30	\$ 5.47
Granted	—	—
Forfeited or canceled	(10)	5.86
Exercised	—	—
Units outstanding at December 31, 2015	20	5.27

During the year ended December 31, 2015, the Company issued no time-based stock appreciation rights under the 2012 Stock Incentive Plan to the Company's employees.

During the year ended December 31, 2014, the Company issued 30,000 time-based stock appreciation rights under the 2012 Stock Incentive Plan to the Company's employees. These SARs were issued with a weighted-average exercise price of \$13.86 per share and a weighted-average grant date fair value of \$5.47 per share. All of the SARs issued have an option termination date of ten years from the option grant date.

Expected SAR 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 SAR-pricing model calculations as it is not representative of future dividends to be declared by the Company.

Share-based compensation expense from SARs for the period ended December 31, 2015, was approximately \$22,000. As of December 31, 2015, the unrecognized share-based compensation expense related to the grants described above was \$32,000. As of December 31, 2015, the remaining compensation expense is expected to be recognized over the weighted average period of approximately 1.8 years.

**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 2015, the Company made matching contributions of 60 percent of employee contributions up to a maximum of five percent of the employee's compensation (the match was increased from 50 percent to 60 percent of employee contributions up to a maximum of five percent beginning in 2013). The Company's contributions to the plan vest after a period of three years. During 2015, 2014, and 2013, the Company contributed to the plan approximately \$0.9 million, \$0.8 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 \$1.0 million and \$1.0 million as of December 31, 2015, and 2014, 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 \$6.3 million, \$6.2 million, and \$6.1 million in connection with operating leases during 2015, 2014, and 2013, respectively. The approximate aggregate commitments under non-cancelable operating leases in effect at December 31, 2015, were as follows (dollar amounts in thousands):

Year Ending December 31,	
2016	\$ 5,454
2017	4,318
2018	2,735
2019	415
2020	162
Thereafter	290
<b>Total</b>	<b>\$ 13,374</b>

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 2015, 2014, and 2013, the aggregate amounts of these payments were \$0.1 million, \$0.2 million, and \$1.5 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 has committed to invest an additional \$0.3 million over the course of the project and anticipates completion of this project in early 2017. The remaining amount of \$0.3 million is expected to be paid 2016. Also, as of December 31, 2015, the Company had commitments to purchase manufacturing equipment of \$2.4 million in 2016.

**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 several foreign jurisdictions related to value-added tax assessments and other civil litigation. While 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 \$0.2 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, 2015 and 2014, accrued liabilities include \$0.3 million and \$2.8 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 \$2.9 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 a wholly owned captive insurance company to provide it with product liability insurance coverage. 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 \$2.3 million and \$2.6 million for product liability and employee medical claims at December 31, 2015 and 2014, respectively, of which \$0.4 million and \$0.7 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 two 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). 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-brand, multi-channel go-to-market strategy that offers select Nature's Sunshine branded products through Fosun Pharma's retail locations across China as well as ecommerce, and select Synergy branded products through a direct selling model. The time to market will be dependent upon regulatory processes including product registration and permit approvals. Due to a change in the Chinese regulatory environment, the Company has indefinitely deferred its entry into the retail channel. The China and New Markets segment also includes Company's export sales 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 revenue to date in the China and New Markets segment is through the Company's export business to foreign markets outside of China set forth above that were previously part of NSP Americas. Net sales revenues 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 revenue 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 revenue and contribution margin of this business for the year ended December 31, 2014 were \$5.6 million and \$2.6 million, respectively. The net sales revenue and contribution margin of this business for the year ended December 31, 2013 were \$8.1 million and \$3.2 million, respectively.

Reportable business segment information for the years ended December 31, 2015, 2014, and 2013 is as follows (dollar amounts in thousands):

Year Ended December 31,	2015	2014	2013
Net sales revenue:			
NSP Americas	\$ 179,151	\$ 182,395	\$ 190,684
NSP Russia, Central and Eastern Europe	27,408	50,274	62,747
Synergy WorldWide	114,081	128,101	108,290
China and New Markets	4,065	5,597	8,105
Total net sales revenue	324,705	366,367	369,826
Contribution margin (1):			
NSP Americas	74,953	74,603	78,171
NSP Russia, Central and Eastern Europe	9,474	17,851	22,542
Synergy WorldWide	35,277	43,888	38,011
China and New Markets	1,870	2,633	3,242
Total contribution margin	121,574	138,975	141,966
Selling, general and administrative	107,702	119,927	118,383
Operating income	13,872	19,048	23,583
Other income (loss), net	(592)	(34)	1,993
Income from continuing operations before provision for income taxes	\$ 13,280	\$ 19,014	\$ 25,576

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

Year Ended December 31,	2015	2014	2013
Capital expenditures:			
NSP Americas	\$ 21,437	\$ 25,581	\$ 8,018
NSP Russia, Central and Eastern Europe	—	8	4
Synergy WorldWide	302	1,321	534
China and New Markets	487	—	—
Total capital expenditures	\$ 22,226	\$ 26,910	\$ 8,556
Depreciation and amortization:			
NSP Americas	\$ 3,603	\$ 3,438	\$ 3,568
NSP Russia, Central and Eastern Europe	26	25	27
Synergy WorldWide	885	946	871
China and New Markets	11	—	—
Total depreciation and amortization	\$ 4,525	\$ 4,409	\$ 4,466
As of December 31,	2015	2014	
Assets:			
NSP Americas	\$ 141,428	\$ 129,371	
NSP Russia, Central and Eastern Europe	5,122	6,679	
Synergy WorldWide	38,048	40,797	
China and New Markets	15,922	19,952	
Total assets	\$ 200,520	\$ 196,799	

From an individual country perspective, only the United States and South Korea comprises approximately 10 percent or more of consolidated net sales revenue for any of the years ended December 31, 2015, 2014, and 2013 as follows (dollar amounts in thousands):

Year Ended December 31,	2015	2014	2013
Net sales revenue:			
United States	\$ 147,553	\$ 148,219	\$ 152,209
South Korea	48,476	54,314	34,207
Other	128,676	163,834	183,410
Total net sales revenue	<u>\$ 324,705</u>	<u>\$ 366,367</u>	<u>\$ 369,826</u>

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

Year Ended December 31,	2015	2014	2013
NSP Americas:			
General health	\$ 80,315	\$ 78,218	\$ 80,379
Immunity	22,042	23,549	23,374
Cardiovascular	12,331	12,566	13,018
Digestive	49,239	53,133	55,936
Personal care	3,575	4,000	5,162
Weight management	11,649	10,929	12,815
	<u>179,151</u>	<u>182,395</u>	<u>190,684</u>
NSP Russia, Central and Eastern Europe:			
General health	\$ 11,433	\$ 18,841	\$ 22,690
Immunity	3,328	6,512	7,902
Cardiovascular	1,714	3,104	4,324
Digestive	7,167	13,171	15,693
Personal care	2,716	6,073	8,817
Weight management	1,050	2,573	3,321
	<u>27,408</u>	<u>50,274</u>	<u>62,747</u>
Synergy WorldWide:			
General health	\$ 43,829	\$ 46,546	\$ 36,723
Immunity	752	974	1,394
Cardiovascular	34,191	42,449	42,154
Digestive	17,746	20,839	16,897
Personal care	5,697	7,196	7,097
Weight management	11,866	10,097	4,025
	<u>114,081</u>	<u>128,101</u>	<u>108,290</u>
China and New Markets:			
General health	\$ 1,903	\$ 2,370	\$ 3,259
Immunity	525	777	1,006
Cardiovascular	292	334	461
Digestive	1,011	1,608	2,365
Personal care	93	108	126
Weight management	241	400	888
	<u>4,065</u>	<u>5,597</u>	<u>8,105</u>
Total net sales revenue	<u>\$ 324,705</u>	<u>\$ 366,367</u>	<u>\$ 369,826</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	2015	2014
Property, plant and equipment		
United States	\$ 66,044	\$ 48,013
Other	2,684	3,330
Total property, plant and equipment	\$ 68,728	\$ 51,343

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 \$48,000 and \$48,000 related to such policies is recorded in other assets as of December 31, 2015 and 2014, respectively.

Mr. Eugene Hughes, a former member of the Company's Board of Directors and a shareholder, retired as an employee of the Company effective as of December 22, 2008. Prior to his retirement, the Company and Mr. Hughes entered into a Retirement and Consulting Agreement, dated as of December 9, 2008, pursuant to which Mr. Hughes provides consulting services to the Company for an initial term of eight years following his retirement. In exchange for such consulting services, Mr. Hughes will receive an annual compensation of \$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.

#### 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, 2015 (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	\$ 1,772	\$ —	\$ —	\$ 1,772
Investment securities	1,044	—	—	1,044
Total assets measured at fair value on a recurring basis	\$ 2,816	\$ —	\$ —	\$ 2,816

The following table presents the Company's hierarchy for its asset measured at fair value on a recurring basis as of December 31, 2014:

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
Investments available-for-sale				
Municipal obligations	\$ —	\$ 101	\$ —	\$ 101
U.S. government security funds	1,776	—	—	1,776
Equity securities	669	—	—	669
Investment securities	1,038	—	—	1,038
Total assets measured at fair value on a recurring basis	<u>\$ 3,483</u>	<u>\$ 101</u>	<u>\$ —</u>	<u>\$ 3,584</u>

*Investments available-for-sale* — The majority of the Company's investment portfolio consist of various securities such as state and municipal obligations, U.S. government security funds, short-term deposits and various equity securities. The Level 1 securities are valued using quoted prices for identical assets in active markets including equity securities and U.S. government treasuries. The Level 2 securities include investments in state and municipal obligations whereby all significant inputs are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset.

*Investment securities* — The majority of 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, 2015 and 2014, there were no fair value measurements using significant unobservable inputs (Level 3).

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

The following tables presents the Company's unaudited summary of quarterly operations during 2015 and 2014 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, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Net sales revenue	\$ 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 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
Income 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

	For the Quarter Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Net sales revenue	\$ 93,467	\$ 92,831	\$ 93,406	\$ 86,663
Cost of sales	(22,581 )	(22,793 )	(22,742 )	(23,468 )
Gross profit	70,886	70,038	70,664	63,195
Volume incentives	34,893	34,270	34,918	31,727
Selling, general and administrative	29,152	29,941	30,200	30,634
Operating income	6,841	5,827	5,546	834
Other income (expense)	(262 )	(79 )	(42 )	349
Income from continuing operations before income taxes	6,579	5,748	5,504	1,183
Provision (benefit) for income taxes	(3,657 )	2,198	407	309
Net income from continuing operations	10,236	3,550	5,097	874
Loss from discontinued operations	(571 )	(316 )	(4,106 )	(4,964 )
Net income (loss)	9,665	3,234	991	(4,090 )
Net loss attributable to noncontrolling interests	—	—	(26 )	(193 )
Net income (loss) attributable to common shareholders	\$ 9,665	\$ 3,234	\$ 1,017	\$ (3,897 )
Basic and diluted net income per common share				
Basic earnings per share attributable to common shareholders:				
Net income from continuing operations	\$ 0.63	\$ 0.22	\$ 0.30	\$ 0.05
Loss from discontinued operations	\$ (0.03)	\$ (0.02)	\$ (0.24)	\$ (0.26)
Net income (loss) attributable to common shareholders	\$ 0.60	\$ 0.20	\$ 0.06	\$ (0.21)
Diluted earnings per share attributable to common shareholders:				
Net income from continuing operations	\$ 0.61	\$ 0.22	\$ 0.29	\$ 0.05
Income (loss) from discontinued operations	\$ (0.03)	\$ (0.02)	\$ (0.23)	\$ (0.25)
Net income (loss) attributable to common shareholders	\$ 0.58	\$ 0.20	\$ 0.06	\$ (0.20)
Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 1.60	\$ 0.10

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

## **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, 2015. 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, 2015, 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, 2015. 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, 2015.

### **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, 2015. The Company's internal control over financial reporting as of December 31, 2015 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, 2015, 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, 2015, 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, 2015, 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, 2015 of the Company and our report dated March 14, 2016 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 14, 2016

**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, 2015, 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, 2015.

**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, 2015.

**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, 2015.

**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, 2015.

**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, 2015 and 2014

Consolidated statements of operations for the years ended December 31, 2015, 2014, and 2013

Consolidated statements of comprehensive income for the years ended December 31, 2015, 2014, and 2013

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2015, 2014, and 2013

Consolidated statements of cash flows for the years ended December 31, 2015, 2014, and 2013

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

**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 14, 2016**

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 14, 2016
<u>/s/ Kristine F. Hughes</u> Kristine F. Hughes	Vice Chair of the Board	March 14, 2016
<u>/s/ Stephen M. Bunker</u> Stephen M. Bunker	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 14, 2016
<u>/s/ Albert R. Dowden</u> Albert R. Dowden	Director	March 14, 2016
<u>/s/ Robert B. Mercer</u> Robert B. Mercer	Director	March 14, 2016
<u>/s/ J. Christopher Teets</u> J. Christopher Teets	Director	March 14, 2016
<u>/s/ Jeffrey D. Watkins</u> Jeffrey D. Watkins	Director	March 14, 2016
<u>/s/ Mary Beth Springer</u> Mary Beth Springer	Director	March 14, 2016
<u>/s/ Li Dongjiu</u> Li Dongjiu	Director	March 14, 2016
<u>/s/ Rebecca Lee Steinfert</u> Rebecca Lee Steinfert	Director	March 14, 2016

NATURE'S SUNSHINE PRODUCTS, INC.  
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013  
*(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, 2015</b>						
Allowance for doubtful accounts receivable	\$ 849	\$ 83	\$ (714)	\$ —	\$ (28)	\$ 190
Allowance for sales returns	129	1,126	(1,155)	—	(6)	94
Allowance for obsolete inventory	2,188	885	(962)	—	(29)	2,082
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
Allowance for obsolete inventory	2,407	1,503	(1,666)	1	(57)	2,188
Tax valuation allowance	11,340	1,829	—	—	—	13,169
<b>Year Ended December 31, 2013</b>						
Allowance for doubtful accounts receivable	\$ 631	\$ 535	\$ (18)	\$ 1	\$ (62)	\$ 1,087
Allowance for sales returns	154	1,435	(1,454)	—	—	135
Allowance for obsolete inventory	2,254	1,600	(1,577)	41	89	2,407
Tax valuation allowance	8,149	3,191	—	—	—	11,340

## LIST OF EXHIBITS

Item No.	Exhibit
3.1(1)	Amended and Restated Articles of Incorporation, as amended.
3.3(2)	Third Amended and Restated By-laws.
10.1(3)*	Tax Deferred Retirement Plan, Restated January 1, 2012.
10.2(1)*	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)*	Employment Agreement, dated January 25, 2012, by and between the Company and D. Wynne Roberts.
10.11(10)*	Stock Option Agreement, dated February 6, 2012, by and between the Company and D. Wynne Roberts.
10.12(11)	2012 Stock Incentive Plan and Amendment No. 1 to 2012 Stock Incentive Plan.
10.13(11)*	Form of Award Agreement (2012 Stock Incentive Plan).
10.14(12)*	Employment Agreement, dated October 2, 2013, by and between the Company and Richard D. Strulson.
10.15(12)*	Stock Option Agreement, dated November 4, 2013, by and between the Company and Richard D. Strulson.
10.16(12)*	Employment Agreement, dated April 16, 2013, by and between the Company and Matthew L. Tripp.
10.17(12)*	Stock Option Agreement, dated May 6, 2013, by and between the Company and Matthew L. Tripp.
10.18(3)*	Employment Agreement, dated October 13, 2014, by and between the Company and Paul E. Noack.
10.19(3)*	Stock Option Agreement, dated January 15, 2015, by and between the Company and Paul E. Noack.
10.20(3)*	Employment Agreement, dated March 4, 2013, by and between the Company and Susan M. Armstrong.
10.21(3)*	Stock Option Agreement, dated February 11, 2014, by and between the Company and Susan M. Armstrong.
10.22(13)*	Separation Agreement, dated March 4, 2016, by and between the Company and Stephen M. Bunker.
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 August 29, 2014, as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
- (3) 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.
- (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 February 23, 2012, as an exhibit to the Current Report on Form 8-K and is incorporated herein by reference.
- (11) 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.
- (12) 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.
- (13) 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.
- \* 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
	For	Against	Abstain
Amendments to Articles of Incorporation to eliminate the supermajority voting requirement with respect to the removal of directors.	12,308,080	26,191	8,690
	For	Against	Abstain
Amendments to Articles of Incorporation to eliminate the supermajority voting requirement with respect to amendments to Article VI of the prior articles.	12,303,808	30,261	8,893

[Signature page follows]

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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.



**NATURE'S SUNSHINE PRODUCTS, INC.**  
**SUPPLEMENTAL ELECTIVE DEFERRAL PLAN**  
(restated January 1, 2008)

This is the Supplemental Elective Deferral Plan of Nature's Sunshine Products, Inc. as restated effective January 1, 2008. It is effective as of January 1, 2008 except as otherwise provided in this Plan.

This Plan as herein restated shall govern the benefits of any Member whose employment terminates on or after January 1, 2008 and the terms of this Plan as it existed prior to its restatement effective January 1, 2008 shall be disregarded.

This Plan is intended to comply with the provisions of Code Section 409A. For the period from January 1, 2005 through December 31, 2007, the Plan shall be administered and interpreted in accordance with a good faith interpretation of Code Section 409A and the guidance issued by the government relating thereto so as to avoid adverse tax consequences to participants in the Plan, including any transitional provisions of such guidance, notwithstanding the provisions of the Plan as it existed previous to this restatement. Subject to the foregoing sentences of this paragraph, the benefits of a Member whose employment terminates prior to January 1, 2008 shall be governed by the Plan as it existed at the time the employment terminated.

**ARTICLE I**  
**NAME**

**1.1 Name.** The Plan shall be known as the "NATURE'S SUNSHINE PRODUCTS, INC. SUPPLEMENTAL ELECTIVE DEFERRAL PLAN" and is hereinafter sometimes referred to as the "Plan".

**ARTICLE II**  
**PURPOSE**

**2.1 Purpose.** This Plan has been created for the primary purpose of providing certain selected employees and non-employee directors of the Employer with the ability to defer the receipt of income, including amounts that cannot be deferred under the Tax Deferred Retirement Plan of the Employer due to limitations in the law. The Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and shall be administered as such.

**ARTICLE III**  
**DEFINITIONS**

When used herein, the following words shall have the meanings indicated, unless the context clearly indicates otherwise:

**3.1 Account.** The words "ACCOUNT" shall mean the Deferral Account described in Section 5.2 and the Employer Contribution Account described in Section 5.3.

**3.2 Beneficiary.** The word "BENEFICIARY" shall mean the person or persons entitled to receive benefits upon the death of a Member under this Plan.

**3.3 Code.** The word "CODE" shall mean the Internal Revenue Code of 1986, as amended.

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**3.4 Commencement Date.** The words "Commencement Date" with respect to benefits payable on account of the Termination Date of the Member shall mean the Termination Date of the Member, provided, however, if the Member is a Specified Employee as of the Termination Date, then the Commencement Date shall be the date that is six months after the Termination Date.

(a) "Specified Employee" means a Member who as of the Termination Date of the Member is considered a Key Employee of the Employer or a Related Employer, any stock of which is publicly traded (whether on an established securities market or otherwise) as of the Termination Date.

(b) A Member is considered a "Key Employee" for the entire 12 month period beginning on a January 1 (this January 1 is referred to herein as the applicable effective date) if the Member meets the requirements of Code Section 416(i)(1)(A)(i), (ii), or (iii) (applying the applicable regulations thereunder but disregarding Code Section 416(i)(5)) at anytime during the 12-month period ending on the September 30 immediately preceding the applicable effective date. For example, if the Member met the applicable requirements of Code Section 416(i) listed above at anytime during the 12 month period from October 1, 2006 to September 30, 2007, then for the entire 2008 calendar year the Member will be considered a Key Employee.

(c) "Related Employer" means (i) a corporation which is a member of a controlled group of corporations (within the meaning of Section 1563(a) of the Code determined without regard to Sections 1563(a)(4) and (e)(3)(C) thereof) which includes the Employer, and (ii) any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code and regulations thereunder) with the Employer.

The words "Commencement Date" with respect to benefits payable on account of the Disability of the Member shall mean the date as of which the Plan Administrator determines that the Member has suffered a Disability. "Disability" for this purpose and for purposes of Article VII means an impairment which results in the Member being disabled within the meaning of Section 409A(a)(2)(C) of the Code as determined by the Plan Administrator.

**3.5 Compensation.** The word "COMPENSATION" with respect to employees of the Employer has the following meaning:

(a) "Compensation" shall mean the total of all amounts paid by the Employer by reason of services performed by the Member, including any bonus pay.

(b) Notwithstanding the foregoing, the Member's Compensation shall be determined without taking into account any of the following:

- (1) Contributions or payments by the Employer for or on account of the Member under any employee benefit plan, including but not limited to any qualified pension plan and any health or welfare plan;
  - (2) Compensation that is not subject to employer income tax withholding under Code Section 3402 (or any successor thereof);
  - (3) Income caused by the exercise of stock options;
  - (4) Income attributable to benefits received under any long term disability plan maintained by the Company; and
  - (5) Automobile, moving or entertainment allowances; reimbursements for medical, professional or transportation expenses; excess group term life insurance coverage or other life insurance coverage; tuition refunds; expense reimbursements and other fringe benefits including such things as physical exams, Christmas gifts and service awards.
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(c) Notwithstanding the foregoing, a Member's Compensation shall include contributions made on behalf of the Member under a salary reduction agreement to any plan of the Employer qualifying under Code Sections 125, 401(k), or 408(k), and any amounts deferred at the election of the Member pursuant to the terms of this Plan.

The word "COMPENSATION" with respect to members of the Board of Directors of the Employer who are not employees of the Employer shall mean the total amount paid for services as a member of the Board of Directors of the Employer.

**3.6 Deferral Account.** The words "DEFERRAL ACCOUNT" means the account maintained on the books of the Employer as described in Section 5.2.

**3.7 Effective Date.** The original "EFFECTIVE DATE" of this Plan was May 15, 1998. The effective date of this restatement is January 1, 2008.

**3.8 Eligible Person.** The word "Eligible Person" means any member of the Board of Directors of the Employer who is not an employee of the Employer, each employee who is an officer of the Employer, and each employee who is in an employment position that has the title of director. In addition, Eligible Person includes any other employee who is a member of a select group of management or highly compensated employee for purposes of ERISA designated as eligible by the Plan Administrator; provided, however, such employee shall be an Eligible Person only so long as so designated by the Plan Administrator which designation can be changed by the Plan Administrator at anytime in its sole discretion.

If the Plan Administrator determines that an employee who is a Member hereunder is no longer a member of a select group of management or highly compensated employees described in Section 201(2) of ERISA, such Member shall cease to be an Eligible Person hereunder and any deferral elections of the Member hereunder shall cease at the end of the year during which the determination is made.

**3.9 Employer.** The word "EMPLOYER" shall mean Nature's Sunshine Products, Inc. or any successor thereof, if its successor shall adopt this Plan.

**3.10 Employer Contribution Account.** The words "EMPLOYER CONTRIBUTION ACCOUNT" shall mean the account maintained on the books of the Employer as described in Section 5.3.

**3.11 Member.** The word "MEMBER" means a person who has become a participant in the Plan.

**3.12 Plan.** The word "PLAN" shall mean the Supplemental Elective Deferral Plan set forth in and by this document, as the same may be amended from time to time.

**3.13 Plan Administrator.** The words "Plan Administrator" shall mean the person or committee designated by the Employer to administer this Plan. In the absence of an effective designation, it shall mean the Employer.

**3.14 Plan Year.** The words "PLAN YEAR" shall mean the calendar year.

**3.15 Tax Deferred Retirement Plan.** The words "TAX DEFERRED RETIREMENT PLAN" shall mean the Nature's Sunshine Products, Inc. Tax Deferred Retirement Plan, and any successor to that Plan.

**3.16 Termination Date.** The words "TERMINATION DATE" mean the date as of which the Plan Administrator reasonably determines that no further personal services to the Employer or any Affiliate, whether as an employee or otherwise, will be provided by the Member (or reasonably determines that the anticipated level of bona fide services by the Member to be performed after such date is no more than 20 percent of the average level of services provided during the immediately preceding 36-month period (or the full period during which services were rendered if less than 36 months)). For purposes of this determination, the Member shall be treated as continuing to

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provide personal services for purposes of this Plan during the period up to six months that the Member is on military leave, sick leave or other bona fide leave of absence, or treated as continuing to provide personal service during the entire period of such leave if the Member retains the right to reemployment under applicable law or by contract at the end of such leave.

“Affiliate” means (i) a corporation which is a member of a controlled group of corporations (within the meaning of Section 1563(a) of the Code determined without regard to Sections 1563(a)(4) and (e)(3)(C) thereof) which includes the Employer, provided that the phrase “more than 50 percent” shall be substituted for the phrase “at least 80 percent” in Section 1563(a)(1) of the Code, and (ii) any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code as modified by Section 415(h) of the Code and regulations thereunder) with the Employer.

**3.16 Year of Employment.** The words “Year of Employment” from a date shall mean a period of service for the Employer of one full year from such date. Periods of service will be aggregated, whether or not such periods were completed consecutively, using a decimal date chart selected by the Plan Administrator.

**3.17 Unforeseeable Emergency.** The words “Unforeseeable Emergency” of a Member mean a severe financial hardship to the Member resulting from an illness or accident of the Member, the spouse of the Member, the beneficiary of the Member or a dependent of the Member (as defined in Code Section 152, without regard to Code Sections 152(b)(1), (b)(2) and (d)(1)(B)), loss of the Member’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Member that is determined by the Plan Administrator to be an “unforeseeable emergency” within the meaning of Code Section 409A(a)(2)(B)(ii).

## **ARTICLE IV ELIGIBILITY**

**4.1 Participation.** An Eligible Person shall be entitled to make elective deferrals in accordance with the terms of this Plan. A Member shall cease to be eligible to make further elective deferrals under this Plan as of the end of the year during which the Member ceases to be an Eligible Person.

## **ARTICLE V ACCOUNTS**

### **5.1 Deferral Election.**

(a) To the extent permitted by (b) below, each Member may elect to defer the receipt of a portion of his or her Compensation. The Plan Administrator may provide for separate elections with respect to regular salary and bonus payments. The election for a year must be made prior to the beginning of that year during which the services are performed to which the Compensation relates and it cannot be modified on or after the beginning of such year with respect to that year. An election that is made or is effective for the immediately preceding year shall remain effective for the next year (and cannot be modified on or after the beginning of that next year with respect to that next year) if it is not affirmatively cancelled or amended by the Member in writing under the applicable rules and procedures established by the Plan Administrator prior to the first day of that next year.

Notwithstanding the foregoing, a Member who first becomes a Member during a year may make an election within 30 days of the date he or she first becomes a Member which election shall apply to Compensation relating to services performed after the election is made. For purposes of determining when a Member first becomes a Member of the Plan, any other plan of the Employer that must be aggregated with this Plan for purposes of applying the requirements of Code Section 409A shall be treated as part of this Plan.

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An election shall be in writing and shall conform to the applicable rules and procedures established by the Plan Administrator.

(b) A Member who is an employee of the Employer may not elect to defer more than 75 percent of the regular salary of the Member which relates to the year to which the election relates and may not elect to defer more than 75 percent of the bonus payments which relate to the year to which the election relates.

(c) Notwithstanding the restrictions on the modification of elections of (a) above, the deferral elections of a Member who elects under Section 6.5 to receive a distribution upon an Unforeseeable Emergency shall be cancelled as of the date of the distribution under Section 6.5. The cancellation shall be applicable to all payroll periods of the year ending after the cancellation. Following a cancellation, no further elections of deferral may be made with respect to Compensation for services rendered during that year.

**5.2 Establishment and Determination of Elective Account.** The Employer shall establish an Elective Deferral Account on its books for each Member. The Deferral Account balance of a Member shall be adjusted as follows:

(a) Under rules established by the Plan Administrator, the Employer shall credit to the Deferral Account of the Member the amount specified in a proper election of the Member under Section 5.1 at the time such amount is removed from the Compensation of the Member and invested by the Employer. The Compensation actually paid to the Member for the period by the Employer shall be reduced by the amount credited to the Deferral Account under this Section 5.2(a).

(b) As of the end of each applicable period as established by the Plan Administrator (which may be daily or monthly or some other period selected from time to time by the Plan Administrator), and as of the date the benefit is payable under Article VII, the Employer shall adjust the Deferral Account of a Member under rules established by the Plan Administrator to reflect the increase or decrease that would have been incurred by the account during that applicable period if the account had been invested for the applicable period in the investments selected in advance by the Member from those made available by the Plan Administrator, or to the extent no selection has properly been made, by adjusting the account to reflect the increase or decrease that would have been incurred by the account for the applicable period if the account had been invested for the applicable period in the fixed income fund selected in its sole discretion by the Plan Administrator.

(c) The Plan Administrator shall prescribe such rules as it deems necessary or appropriate regarding the adjustments to be made to the Deferral Accounts to reflect the timing of investment elections made by the Member and the timing of amounts being credited or debited to the Deferral Accounts.

The Deferral Account balance of a Member shall be debited with the amount paid to or on behalf of the Member under this Plan related to that account.

**5.3 Establishment and Determination of Employer Contribution Account.** The Employer shall establish an Employer Contribution Account on its books for each Member. The Employer Contribution Account of a Member shall be adjusted as follows:

(a) At the end of each Plan Year (and at such other times, if any, during a Plan Year as the Employer in its discretion shall select), the Employer shall credit to the Employer Contribution Account of a Member such amount, if any, as the Employer in its sole discretion may determine, which credit for a Plan Year for a Member may be zero and which credit for a Plan Year may vary among the Members as the Employer in its sole discretion may determine (including the possibility of no credit for some Members and varying amounts for other Members).

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(b) As of the end of each applicable period as established by the Plan Administrator (which may be daily or monthly or some other period selected from time to time by the Plan Administrator), and as of the date the benefit is payable under Article VII, the Employer shall adjust the Employer Contribution Account of a Member under rules established by the Plan Administrator to reflect the increase or decrease that would have been incurred by the account for the applicable period if the account had been invested for the applicable period in the investments selected in advance by the Member from those made available by the Plan Administrator, or to the extent no selection has properly been made, by adjusting the account to reflect the increase or decrease that would have been incurred by the account for the applicable period if the account had been invested for the applicable period in the fixed income fund selected in its sole discretion by the Plan Administrator.

(c) The Plan Administrator shall prescribe such rules as it deems necessary or appropriate regarding the adjustments to be made to the Employer Contribution Account to reflect the timing of investment elections made by the Member and the timing of amounts being credited or debited to the Employer Contribution Account.

The Employer Contribution Account balance of a Member shall be debited with the amount paid to or on behalf of the Member under this Plan related to that account.

**5.4 Statement of Accounts.** The Plan Administrator shall provide to each Member within one hundred twenty (120) days after the close of each Plan Year, a statement in such form as the Plan Administrator selects setting forth the balance, if any, in the Accounts of the Member as of the last day of the Plan Year just ended.

**5.5 Accounting Device Only.** The Deferral Account and the Employer Contribution Account shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Member under this Plan. The Accounts shall not constitute or be treated as a trust fund of any kind.

## **ARTICLE VI VESTING IN EMPLOYER CONTRIBUTIONS**

**6.1 Vesting in Employer Contributions.** The Employer Contribution Account of a Member will be subject to a vesting schedule. A Member shall be vested in his or her Employer Contribution Account in accordance with the following schedule based upon Years of Employment from January 1, 2008:

<u>Years of Employment</u>	<u>Vesting Percentage</u>
Less than 1	—
1	33%
2	67%
3 or more	100%

Notwithstanding the foregoing, a Member shall be fully vested in all amounts credited to his or her Employer Contribution Account in the event of:

- (a) Death of the Member; or
- (b) Termination of the employment of the Member on account of Disability or after attainment of age 65.

The word "Disability" for purposes of this Article VI shall mean any medically determinable physical or mental impairment which is considered a "disability" under the terms of the most recent long term disability plan or policy of the Employer.

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## ARTICLE VII PAYMENT OF ACCOUNTS

**7.1 Benefit Payment.** Upon the earlier of the Disability of the Member or the Termination Date of a Member, the Member shall be entitled to: (1) a payment equal to the amount credited to his/her Elective Deferral Account as of his or her Commencement Date, and (2) a payment equal to the vested portion of his/her Employer Contribution Account as of the Commencement Date. The payment shall commence to be paid within 60 days of the Commencement Date on a date selected by the Plan Administrator in its sole discretion.

**7.2 Form of Payment.** The amount due the Member shall be paid in one of the following forms as selected by the Member in his or her initial election form or in a subsequent election that is valid in accordance with the terms of the Plan as it existed at the time the election was made:

- (a) substantially equal monthly installments over three years; or
- (b) substantially equal monthly installments over five years; or
- (c) a single lump sum payment.

In the event payment is made in installments, the Account used to measure the amount due the Member shall continue to be adjusted for interest under rules prescribed by the Plan Administrator in accordance with the provisions of Section 5.2(b) and Section 5.3(b). In the event no form of payment is properly elected, the amount due the Member shall be paid in the form of installment payments over five years. Notwithstanding the foregoing, in the event the sum of the accounts of the Member at the Commencement Date does not exceed the limit of Code Section 402(g)(1)(B), determined as of the Commencement Date, such benefits shall be paid in the form of a single lump sum payment to the Member without regard to the form of payment elected by the Member.

**7.3 Changes in Form of Payment.** Prior to January 1, 2009, a Member may change his or her election of the form of payment for a Commencement Date to another form available under Section 7.2 by submitting a written election form to the Plan Administrator; provided such election shall not be effective for a Commencement Date that is less than 12 months from the date the election form was received by the Plan Administrator unless it is received at least 30 days before the Termination Date and the Plan Administrator, in its sole discretion, approves the form of payment selected. Notwithstanding the foregoing, a Member may not change a form of election on or after January 1, 2008 with respect to payments that would otherwise be received in 2008 or to cause payments to be made in 2008.

On and after January 1, 2009, a Member may change his or her election of the form of payment to another form available under Section 7.2 by submitting a written election form to the Plan Administrator; provided

- (a) such election shall not take effect for a Commencement Date that is less than 12 months from the date the election form was received by the Plan Administrator; and
- (b) if the Commencement Date is based upon a Termination Date, then notwithstanding any other provisions of this Plan the payment or payments to which the Member is entitled shall not commence to be paid to the Member until 5 years from the date that the payment or payments would otherwise have commenced if the election to change the form of payment had not been made.

**7.4 Payment to Beneficiary.** In the event a Member dies before receiving his or her full benefit under this Plan, the Employer shall pay any remaining amount due on behalf of the Member hereunder to the Beneficiary of the Member. Such payment shall be in the form of a single cash payment. The payment shall be paid within 60 days of the date of death on such date as the Plan Administrator in its sole discretion shall select. A Member may designate a Beneficiary on the form prescribed by and delivered to the Plan Administrator. If no Beneficiary is properly designated under this Plan, then the Beneficiary shall be the person entitled under the terms of the Tax Deferred Retirement Plan to receive any death benefits payable under the Tax Deferred Retirement Plan on account

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of the death of that Member. If there is no Beneficiary after application of the foregoing provisions of this Section, then the payment shall be made to the estate of the Member. If under these rules the benefits are payable to the estate of the Member, and either the Plan Administrator cannot locate a qualified representative of the deceased Member's estate, or if administration of the estate is not otherwise required, the Plan Administrator in its discretion may make the distribution to the deceased Member's heirs at law, determined in accordance with the law of the State of the Member's domicile in effect as of the date of the Member's death.

**7.5 Distribution During Employment.** Prior to the Commencement Date, a Member may request a distribution of the amount credited to his or her Account in the event of an Unforeseeable Emergency. The Plan Administrator shall determine, in a non-discriminatory manner, whether a Member has an Unforeseeable Emergency. A distribution may be made under this Section only if such distribution does not exceed the amount required to meet the immediate financial need created by the Unforeseeable Emergency as determined by the Plan Administrator applying the provisions of the applicable regulations under Code Section 409A (taking into account the tax costs of the distribution) and is not reasonably available from other resources of the Member as determined by the Plan Administrator applying the provisions of the applicable regulations under Code Section 409A, including reimbursement or compensation from insurance, liquidation of assets to the extent the liquidation does not cause severe financial hardship, and the cancellation of deferrals under this Plan and any other plan of the Employer.

**7.6 Discretionary Distribution for Taxes.** The Plan is intended to comply with the provisions of Code Section 409A. In the event the Plan fails to meet the requirements of Code Section 409A and the regulations promulgated thereunder, the Plan Administrator may, in the Plan Administrator's sole discretion, distribute to the affected Member(s) the amount(s) such Member(s) are required to include in income as a result of such failure of the Plan to comply with Code Section 409A and such regulations. In the event of such a distribution, the affected Member(s)'s benefits hereunder shall be adjusted to reflect the value of the amount so distributed.

At the discretion of the Plan Administrator, the amount necessary to pay the: (A) Federal Insurance Contributions Act tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2) (the "FICA Amount"), and/or (B) Railroad Retirement Act tax imposed under Code Sections 3201, 3211, 3231(e)(1) and 3231(e)(8) (the "RRTA Amount) on compensation deferred under the Plan, may be distributed to the affected Member and the benefits of such Member hereunder shall be adjusted to reflect the value of the amount so distributed. Additionally, in its discretion, the Plan Administrator may provide for the distribution to the affected Member of the amount necessary to pay the income tax at source on wages imposed under Code Section 3401 or the corresponding withholding provisions of applicable state, local, or foreign tax laws as a result of the distribution of the FICA Amount or RRTA Amount, and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. In no event however, shall the total amount distributed pursuant to this paragraph to a particular Member with respect to the Member's deferrals under the Plan exceed the aggregate of the FICA Amount and the RRTA Amount with respect to such deferrals, and the income tax withholding related to such FICA Amount or RRTA Amount. The benefits of such Member hereunder shall be adjusted to reflect the value of the amount so distributed.

## **ARTICLE VIII ADMINISTRATION OF THE PLAN**

**8.1 Plan Administration.** The Plan Administrator shall have the authority to interpret the Plan and issue such administrative procedures as it deems appropriate. The Plan Administrator shall have the duty and responsibility of maintaining records, making the requisite calculations and disbursing the payments hereunder. The Plan Administrator's interpretations, determinations, regulations and calculations shall be final and binding on all persons and parties concerned.

**8.2 Claims Procedure.** The Plan Administrator shall establish reasonable procedures for the submission and review of claims with respect to benefits under the Plan. A copy of the claims procedures for the Plan shall be available from the Plan Administrator. The failure of a claimant to follow the claims procedures with

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respect to a claim, including the review procedures, shall result in the loss of the right to bring an action in court with respect to the claim.

**8.3 Amendment and Termination.** The Employer may amend or terminate the Plan at any time, provided, however, that (1) no such amendment or termination shall adversely affect the benefit to which a Member is entitled under Article VII prior to the date of such amendment or termination unless the change is necessary to keep the Plan in compliance with the applicable provisions of the law, including Code Section 409A, and (2) no such amendment or termination shall cancel or revoke an election made by the Member under Section 5.2 for the year in which the amendment or termination occurs prior to the end of that year unless to do so is determined by the Employer in good faith not to violate Code Section 409A. In the event of a termination, benefits shall be retained under the terms of the Plan until the Member reaches his or her Commencement Date under the Plan (or the earlier death of the Member); provided, however, the Employer may elect to make distribution earlier to the Member if the Employer determines in good faith that such distribution does not constitute a violation of Code Section 409A. The liabilities of this Plan relating to a Member may in the discretion of the Employer be transferred to another plan or program of the Employer, provided that the Employer determines in good faith that the transfer and the provisions of the plan or program receiving the transfer applicable to the transfer do not result in any change to the benefits being transferred that would cause such benefits to be subject to income taxation under the Code prior to distribution to the Member.

Except as otherwise expressly provided in other sections of this Plan, the payment of any benefits under the Plan may not be accelerated, including upon the amendment or termination of the Plan or a person ceasing to be an Eligible Person, except in a manner that the Employer determines in good faith does not violate Code Section 409A.

**8.4 Payments.** Subject to Section 8.9, the Employer will pay all benefits arising under this Plan. There shall be deducted from each payment any federal, state or local withholding or taxes or charges which may be required under applicable law as determined by the Employer.

**8.5 Non-assignability of Benefits.** The benefits payable hereunder or the right to receive future benefits under the Plan may not be anticipated, alienated, pledged, encumbered, or subjected to any charge or legal process, and if any attempt is made to do so, or a person eligible for any benefits becomes bankrupt, the interest under the Plan of the person affected may be terminated by the Plan Administrator which, in its sole discretion, may cause the same to be held or applied for the benefit of one or more of the dependents of such person or make any other disposition of such benefits that it deems appropriate.

**8.6 Status of Plan.** Nothing contained herein shall be construed as providing for assets to be held in trust or escrow or any other form of asset segregation for the Member or for any other person or persons to whom benefits are to be paid pursuant to the terms of this plan, the Member's only interest hereunder being the right to receive the benefits set forth herein. To the extent any person acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Employer.

**8.7 Indemnification.** To the extent permitted by law, the Employer shall indemnify each member of the Board of Directors and any other employee of the Employer to whom duties are assigned with respect to this Plan, against expenses (including any amount paid in settlement) reasonably incurred by him/her in connection with any claims against him/her by reason of his/her conduct in the performance of his/her duties under the Plan, except in relation to matters as to which he/she acted fraudulently or in bad faith in the performance of such duties. This right of indemnification shall be in addition to any other right to which the Board or other person may be entitled as a matter of law or otherwise, and shall pass to the estate of a deceased person.

**8.8 Reports and Records.** The Plan Administrator and those to whom the Plan Administrator has delegated duties under the Plan shall keep records of all their proceedings and actions and shall maintain books of account, records, and other data as shall be necessary for the proper administration of the Plan and for compliance with applicable law.

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**8.9 Finances.** The costs of the Plan shall be borne by the Employer. The rights of the Member (or of his Beneficiary) to benefits under the Plan shall be solely those of an unsecured general creditor of the Employer. Any assets acquired by or held by the Employer or set aside in a trust that may be established by the Employer shall not be deemed to be held as security for the performance of the obligations of the Employer under this Plan. Notwithstanding the foregoing, to the extent under the terms of any trust set up by an Employer payments are made by the Trustee of said Trust to the Member with respect to benefits under this Plan, such payments shall satisfy the obligations of the Employer hereunder to the extent of the payments made.

**8.10 Nonguarantee of Employment.** Nothing contained in this Plan shall be construed as a contract of employment between the Employer and any Member, or as a right of any Member to be continued in employment of the Employer, or as a limitation on the right of the Employer to discharge any of its employees, with or without cause.

**8.11 Applicable Law.** All questions pertaining to the construction, validity and effect of the Plan shall be determined in accordance with the laws of the United States and to the extent not pre-empted by such laws, by the laws of the State of Utah.

**8.12 Headings.** The headings of Sections and Articles in this Plan are for convenience purposes only and shall in no way control or be used in the interpretation of the content of the Sections or Articles or this Plan as a whole.

**8.13 Number and Gender.** Where the context requires, the singular shall include the plural and the plural shall include the singular, and any gender shall include both other genders.

Dated this 4th day of September, 2008.

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

By: /s/ Stephen M. Bunker

Name: Stephen M. Bunker

Title: Chief Financial Officer

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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 transaction.

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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 14, 2016, 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, 2015.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah

March 14, 2016

## CERTIFICATIONS

I, Gregory L. Probert, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2015 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 14, 2016

## CERTIFICATIONS

I, Stephen M. Bunker, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2015 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/ Stephen M. Bunker

Executive Vice President, Chief Financial Officer and Treasurer

March 14, 2016

**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, 2015 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 14, 2016



**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, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Bunker, 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/ Stephen M. Bunker

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Stephen M. Bunker

Executive Vice President, Chief Financial Officer and Treasurer

March 14, 2016