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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2017**

OR

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

Commission File Number: 001-34483

NATURE'S SUNSHINE®

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)

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

Indicate by check mark whether the registrant has submitted electronically 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 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 (Check one).

Large accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of shares of Common Stock, no par value, outstanding on November 2, 2017, was 18,901,898 shares.

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

For the Quarter Ended September 30, 2017

Table of Contents

Part I. Financial Information	5
Item 1. Financial Statements (Unaudited)	5
Condensed Consolidated Balance Sheets	5
Condensed Consolidated Statements of Income	6
Condensed Consolidated Statements of Comprehensive Income	8
Condensed Consolidated Statement of Changes in Stockholders' Equity	8
Condensed Consolidated Statements of Cash Flows	9
Notes to Condensed Consolidated Financial Statements	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures about Market Risk	36
Item 4. Controls and Procedures	39
Part II. Other Information	40
Item 1. Legal Proceedings	40
Item 1A. Risk Factors	40
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3. Defaults Upon Senior Securities	40
Item 4. Mine Safety Disclosures	40
Item 5. Other Information	40
Item 6. Exhibits	41

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 that could cause actual results to vary materially. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are more fully described in this report, including the risks set forth under “Risk Factors” in Item 1A, and in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, but include the following:

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

[Table of Contents](#)

- the sufficiency of trademarks and other intellectual property rights;
and
- reliance on third-parties to distribute its products and provide support services to independent distributors.

It is not possible to predict or identify all potential risks and uncertainties and the above list is not a complete list of all potential risks and uncertainties. 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, Nature's Sunshine Products, Inc., together with its subsidiaries, are referred to as "the Company."

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,692	\$ 32,284
Accounts receivable, net of allowance for doubtful accounts of \$187 and \$205, respectively	10,927	7,738
Investments available for sale	—	1,776
Assets held for sale	998	521
Inventories	49,442	47,597
Prepaid expenses and other	5,253	4,585
Total current assets	<u>114,312</u>	<u>94,501</u>
Property, plant and equipment, net	70,175	73,272
Investment securities - trading	1,907	1,391
Intangible assets, net	984	976
Deferred income tax assets	21,395	21,590
Other assets	13,436	13,840
Total assets	<u>\$ 222,209</u>	<u>\$ 205,570</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,850	\$ 5,305
Accrued volume incentives and service fees	20,930	16,264
Accrued liabilities	25,040	24,400
Deferred revenue	4,790	3,672
Current portion of revolving credit facility	—	9,919
Income taxes payable	2,552	3,475
Related party note payable	500	—
Total current liabilities	<u>58,662</u>	<u>63,035</u>
Liability related to unrecognized tax benefits	4,944	6,755
Deferred compensation payable	1,907	1,391
Revolving credit facility	19,184	—
Other liabilities	1,196	1,991
Total liabilities	<u>85,893</u>	<u>73,172</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, 50,000 shares authorized, 18,902 and 18,757 shares issued and outstanding, respectively	131,141	129,654
Retained earnings	15,286	12,718
Noncontrolling interests	661	1,286
Accumulated other comprehensive loss	(10,772)	(11,260)
Total shareholders' equity	<u>136,316</u>	<u>132,398</u>
Total liabilities and shareholders' equity	<u>\$ 222,209</u>	<u>\$ 205,570</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2017	2016
Net sales	\$ 89,301	\$ 85,441
Cost of sales	23,505	21,512
Gross profit	65,796	63,929
Operating expenses:		
Volume incentives	30,716	29,684
Selling, general and administrative	32,926	29,187
Operating income	2,154	5,058
Other income, net	193	20
Income before provision for income taxes	2,347	5,078
Provision for income taxes	(1)	1,136
Net income	2,348	3,942
Net loss attributable to noncontrolling interests	(95)	(213)
Net income attributable to common shareholders	\$ 2,443	\$ 4,155
Basic and diluted net income per common share:		
Basic earnings per share attributable to common shareholders	\$ 0.13	\$ 0.22
Diluted earnings per share attributable to common shareholders	\$ 0.13	\$ 0.22
Weighted average basic common shares outstanding	18,897	18,751
Weighted average diluted common shares outstanding	19,286	19,255
Dividends declared per common share	\$ —	\$ 0.10

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	2016
Net sales	\$ 253,743	\$ 257,209
Cost of sales	66,430	66,610
Gross profit	187,313	190,599
Operating expenses:		
Volume incentives	87,987	90,352
Selling, general and administrative	95,098	88,821
Operating income	4,228	11,426
Other income, net	1,909	957
Income before provision for income taxes	6,137	12,383
Provision for income taxes	2,346	4,286
Net income	3,791	8,097
Net loss attributable to noncontrolling interests	(625)	(695)
Net income attributable to common shareholders	\$ 4,416	\$ 8,792
Basic and diluted net income per common share:		
Basic earnings per share attributable to common shareholders	\$ 0.23	\$ 0.47
Diluted earnings per share attributable to common shareholders	\$ 0.23	\$ 0.46
Weighted average basic common shares outstanding	18,873	18,723
Weighted average diluted common shares outstanding	19,265	18,995
Dividends declared per common share	\$ 0.10	\$ 0.30

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2017	2016
Net income	\$ 2,348	\$ 3,942
Foreign currency translation gain, net of tax	113	833
Net unrealized losses on investment securities (net of tax)	—	(3)
Total comprehensive income	<u>\$ 2,461</u>	<u>\$ 4,772</u>

	Nine Months Ended September 30,	
	2017	2016
Net income	\$ 3,791	\$ 8,097
Foreign currency translation gain (net of tax)	473	1,296
Net unrealized gains on investment securities (net of tax)	15	12
Total comprehensive income	<u>\$ 4,279</u>	<u>\$ 9,405</u>

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Retained Earnings	Noncontrolling Interests	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at January 1, 2017	18,757	\$ 129,654	\$ 12,718	\$ 1,286	\$ (11,260)	\$ 132,398
Share-based compensation expense	—	1,904	—	—	—	1,904
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	145	(417)	—	—	—	(417)
Cash dividends (\$0.10 per share)	—	—	(1,848)	—	—	(1,848)
Net income	—	—	4,416	(625)	—	3,791
Other comprehensive income	—	—	—	—	488	488
Balance at September 30, 2017	<u>18,902</u>	<u>\$ 131,141</u>	<u>\$ 15,286</u>	<u>\$ 661</u>	<u>\$ (10,772)</u>	<u>\$ 136,316</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,791	\$ 8,097
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	(22)	270
Depreciation and amortization	6,036	3,610
Share-based compensation expense	1,904	2,412
Loss on sale of property and equipment	—	145
Deferred income taxes	245	311
Purchase of trading investment securities	(450)	(340)
Proceeds from sale of trading investment securities	102	84
Realized and unrealized gains on investments	(145)	(96)
Foreign exchange gains	(2,089)	(501)
Changes in assets and liabilities:		
Accounts receivable	(3,115)	409
Inventories	(616)	(9,875)
Prepaid expenses and other current assets	(573)	102
Other assets	799	(771)
Accounts payable	(422)	328
Accrued volume incentives and service fees	4,240	2,721
Accrued liabilities	(621)	301
Deferred revenue	1,118	(847)
Income taxes payable	(847)	111
Liability related to unrecognized tax benefits	(1,815)	(1,744)
Deferred compensation payable	516	335
Net cash provided by operating activities	<u>8,036</u>	<u>5,062</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(3,889)	(7,929)
Proceeds from sale of property, plant and equipment	522	—
Proceeds from sale/maturities of investments available for sale	1,776	—
Net cash used in investing activities	<u>(1,591)</u>	<u>(7,929)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of cash dividends	(1,848)	(5,632)
Proceeds from new revolving credit facility	19,184	—
Net borrowings on original revolving credit facility	(9,996)	6,311
Proceeds from related party borrowing	500	—
Net proceeds from the exercise of stock options	104	128
Payment of withholding taxes related to the vesting of restricted stock units	(521)	(169)
Net cash provided by financing activities	<u>7,423</u>	<u>638</u>
Effect of exchange rates on cash and cash equivalents	1,540	1,252
Net increase (decrease) in cash and cash equivalents	15,408	(977)
Cash and cash equivalents at the beginning of the period	32,284	41,420
Cash and cash equivalents at the end of the period	<u>\$ 47,692</u>	<u>\$ 40,443</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ 3,874	\$ 4,704
Cash paid for interest	215	187

See accompanying notes to condensed consolidated financial statements.

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

(1) Basis of Presentation

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 sells its products to a sales force of independent distributors who use the products themselves or resell them to consumers.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions are eliminated in consolidation. The Company consolidates the joint ventures in Hong Kong and China in its consolidated financial statements, with another party's interest presented as noncontrolling interest. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals), considered necessary for a fair presentation of the Company's financial information as of September 30, 2017, and for the three and nine-month periods ended September 30, 2017 and 2016. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2017.

It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Noncontrolling Interests

Noncontrolling interests decreased as a result of the net loss attributable to the noncontrolling interests by \$0.6 million and \$0.7 million during the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, and December 31, 2016, noncontrolling interests were \$0.7 million and \$1.3 million, respectively.

Classification of Ukraine as a Highly Inflationary Economy and Devaluation of Its Currency

As of June 2017, Ukraine has been designated as a highly inflationary economy, which, in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"), requires that the Company's functional currency for this market be the U.S. dollar. However, because the Company's operations in Ukraine are served by a U.S. subsidiary through third-party entities, for which all business is conducted in U.S. dollars, the U.S. dollar has historically been the functional currency for the Company in 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 Ukrainian subsidiary. However, as a result of the weakening of the Ukraine Hryvnia, the purchasing power of the Company's independent Distributors in this market has diminished. During the three months ended September 30, 2017 and 2016, the Company's Ukrainian subsidiary's net sales represented approximately 2.3 percent and 2.3 percent of consolidated net sales, respectively. During the nine months ended September 30, 2017 and 2016, the Company's Ukrainian subsidiary's net sales represented approximately 2.3 percent and 2.2 percent of consolidated net sales, respectively.

Recent Accounting Pronouncements

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

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

The Company is concluding the assessment phase of implementing Topic 606. The Company has evaluated each of the five steps in Topic 606, which are as follows: 1) Identify the contract with the customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations; and 5) Recognize revenue when (or as) performance obligations are satisfied. The Company expects to identify similar performance obligations under Topic 606, as compared with deliverables and separate units of account previously identified. As a result, the adoption of Topic 606 is not expected to have a material impact on the Company's results of operations and consolidated financial statements. However, disclosure requirements under the new guidance in Topic 606 have been significantly expanded in comparison to the disclosure requirements under the current guidance.

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

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 non-current. This update was adopted during the first quarter of 2017 and applied on the retrospective basis. Other than the netting of current deferred tax assets of \$5.6 million, which increased long-term deferred tax assets from \$16.0 million to \$21.6 million as of December 31, 2016, the adoption of this ASU did not have a material impact on the Company's results of operations and consolidated financial statements.

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

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

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This update amends the scope of modification accounting surrounding share-based payment arrangements as issued in ASU 2016-09 by providing guidance on the various types of changes which would trigger modification accounting for share-based payment awards. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. While the Company does not expect the adoption of ASU 2017-09 to have a material effect on its business, the Company is still evaluating any potential impact that adoption of ASU 2017-09 may have on its results of operations, consolidated financial statements and footnote disclosures.

(2) Inventories

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

	September 30, 2017	December 31, 2016
Raw materials	\$ 10,994	\$ 14,995
Work in progress	758	694
Finished goods	37,690	31,908
Total inventory	<u>\$ 49,442</u>	<u>\$ 47,597</u>

(3) Property, Plant and Equipment

As of September 30, 2017, the Company reclassified an eight-acre property in Provo, Utah, as an asset held for sale. The Company originally acquired the property with the intent to erect a building for the corporate headquarters. As there is no intention to move the corporate headquarters to this location, Company management decided to sell the property. The property is currently under contract to sell. The Company anticipates the sale of the property to be completed by December 31, 2017, with a possible three-month extension at the option of the buyer. As the fair value of the property exceeds the carrying value, no loss was recognized during the three months ended September 30, 2017.

(4) Investments

As of September 30, 2017, the Company had no investments available for sale. Proceeds from the sale of available-for-sale investments were \$1.8 million during the nine-month period ended September 30, 2017.

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

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

There were no proceeds from the sale of investments during the nine-months ended September 30, 2016.

The Company's trading securities portfolio totaled \$1.9 million at September 30, 2017, and \$1.4 million at December 31, 2016, and generated gains of \$66,000 and \$43,000 for the three months ended September 30, 2017 and 2016, respectively, and \$168,000 and \$78,000 for the nine months ended September 30, 2017 and 2016, respectively.

As of September 30, 2017, and December 31, 2016, the Company had an unrealized loss of \$0 and \$23,000, respectively, in its U.S. government securities funds. There were no securities that were in a loss position for more than 12 months.

(5) Revolving Credit Facility

On July 11, 2017, the Company entered into a revolving credit agreement with Bank of America, N.A., with a borrowing limit of \$25.0 million, that matures on July 11, 2020 (the "Bank of America Credit Agreement"). In connection with the closing of the Bank of America Credit Agreement, the Company terminated its revolving credit agreement with Wells Fargo Bank, N.A. (the "Wells Fargo Credit Agreement") and satisfied in full the outstanding balance thereof through borrowings on the Bank of America Credit Agreement. The Company pays interest on any borrowings under the Bank of America Credit Agreement at LIBOR plus 1.25 percent (2.49 percent as of September 30, 2017), and an annual commitment fee of 0.2 percent on the unused portion of the commitment. The Company is required to settle its net borrowings under the Bank of America Credit Agreement only upon maturity, and as a result, has classified its outstanding borrowings as non-current on its condensed consolidated balance sheet as of September 30, 2017. At September 30, 2017, the outstanding balance under the Bank of America Credit Agreement was \$19.2 million.

The Bank of America Credit Agreement contains customary financial covenants, including financial covenants relating to the Company's solvency, leverage, and minimum EBITDA. In addition, the Bank of America Credit Agreement restricts certain capital expenditures, lease expenditures, other indebtedness, liens on assets, guarantees, loans and advances, dividends, and merger, consolidation and the transfer of assets except as permitted in the Bank of America Credit Agreement. The Bank of America Credit Agreement is collateralized by the Company's manufacturing facility, accounts receivable balance, inventory balance and other assets. The Company was in compliance with the debt covenants set forth in the Bank of America Credit Agreement as of September 30, 2017.

Prior to the termination of the Wells Fargo Credit Agreement, the Company paid interest at LIBOR plus 1.25 percent (2.13 percent at December 31, 2016), and an annual commitment fee of 0.25 percent on the unused portion of the commitment. At December 31, 2016, the outstanding balance under the Wells Fargo Credit Agreement was \$9.9 million.

The Company's joint venture in China borrowed \$0.5 million during the three months ended September 30, 2017, from the Company's joint venture partner. This note is payable in one year and bears interest of 3.0 percent.

(6) Net Income Per Share

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

Following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for the three and nine months ended September 30, 2017 and 2016 (dollar and share amounts in thousands, except for per share information):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income attributable to common shareholders	\$ 2,443	\$ 4,155	\$ 4,416	\$ 8,792
Basic weighted average shares outstanding	18,897	18,751	18,873	18,723
Basic earnings loss per share attributable to common shareholders	\$ 0.13	\$ 0.22	\$ 0.23	\$ 0.47
Diluted shares outstanding				
Basic weighted-average shares outstanding	18,897	18,751	18,873	18,723
Stock-based awards	389	504	392	272
Diluted weighted-average shares outstanding	19,286	19,255	19,265	18,995
Diluted earnings per share attributable to common shareholders	\$ 0.13	\$ 0.22	\$ 0.23	\$ 0.46
Dilutive shares excluded from diluted-per-share amounts:				
Stock options	294	240	294	240
Anti-dilutive shares excluded from diluted-per-share amounts:				
Stock options	1,309	663	1,309	1,440

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 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.

(7) Capital Transactions

Dividends

On March 7, 2017, the Company announced a cash dividend of \$0.10 per common share in the aggregate of \$1.8 million, which was paid on April 3, 2017, to shareholders of record as of March 22, 2017.

On May 10, 2017, the Company announced that its Board of Directors elected to suspend the payment of quarterly dividends. The Company's Board of Directors will periodically evaluate the Company's dividend policy in the future. 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 the Company's Board of Directors.

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 September 30, 2017, the remaining balance available for repurchases under the program was \$13.4 million. There were no repurchases of common shares under the share repurchase program by the Company during the three and nine month periods ended September 30, 2017 and 2016.

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 Incentive Plan. In 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 of time ranging from the date of issuance to up to 8 months from the option grant date, and performance-based stock options, which have already vested upon achieving operating income margins of six, eight and ten percent as reported in four of five consecutive quarters over the term of the options.

Stock option activity for the nine-month period ended September 30, 2017, is as follows (amounts in thousands, except per share information):

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at December 31, 2016	1,524	\$ 12.41
Granted	25	13.50
Forfeited or canceled	(54)	14.27
Exercised	(9)	11.98
Options outstanding at September 30, 2017	1,486	12.27

During the nine months ended September 30, 2017, the Company issued options to purchase 25,000 shares of common stock under the 2012 Stock Incentive Plan to a new member of the Company's Board of Directors. These options were issued with an exercise price of \$13.50 per share and a grant date fair value of \$4.94 per share, with expected life of five years, risk-free interest rate of 1.8 percent, and expected volatility of 39.8 percent.

During the nine months ended September 30, 2017, the Company modified vested options to purchase 31,000 shares of common stock for one individual (included in options outstanding above) to extend the expiration date for approximately one year. It is expected the options will terminate by June 30, 2018. This was a modification of the terms of an equity award, and accordingly, the Company treated this as an exchange of the original award for a new award. The Company recorded incremental compensation expense of approximately \$0.1 million for the nine months ended September 30, 2017, which was included in selling, general and administrative expense on the accompanying statements of income.

Share-based compensation expense from time-based stock options for the three-month periods ended September 30, 2017 and 2016, was approximately \$(0.2) million as a result of cancellations and \$0.2 million, respectively. Share-based compensation expense from time-based stock options for the nine-month periods ended September 30, 2017 and 2016, was approximately \$0.2 million and \$0.6 million, respectively. As of September 30, 2017 and December 31, 2016, the unrecognized share-based compensation expense related to the grants described above was \$0.1 million and \$0.3 million, respectively. As of September 30, 2017, the remaining compensation cost is expected to be recognized over the weighted-average period of approximately 0.4 years.

At September 30, 2017, the aggregate intrinsic value of outstanding stock options to purchase 1,486,000 shares of common stock, exercisable stock options to purchase 1,385,000 shares of common stock and stock options to purchase 102,000 shares of common stock that are expected to vest was \$0.9 million, \$0.9 million and \$0, respectively. At December 31, 2016, the aggregate intrinsic value of outstanding options to purchase 1,524,000 shares of common stock, the exercisable options to purchase 1,201,000 shares of common stock, and options to purchase 306,000 shares of common stock expected to vest was \$4.2 million, \$3.7 million and \$0.4 million, respectively.

For the nine-month periods ended September 30, 2017 and 2016, the Company issued 9,000 and 32,000 shares of common stock upon the exercise of stock options at an average exercise price of \$11.98 and \$3.99 per share, respectively. The aggregate intrinsic values of options exercised during the nine-month periods ended September 30, 2017 and 2016, was \$7,000 and \$0.2 million, respectively. For the nine-month period ended September 30, 2017 and 2016, the Company recognized \$0 and \$0.1 million of tax benefits from the exercise of stock options during the period, respectively.

Restricted Stock Units

The Company's outstanding restricted stock units ("RSUs"), include time-based RSUs, which vest over differing periods of time ranging from 2 months to up to 48 months from the RSU grant date, as well as performance-based RSUs, which vest either upon achieving cumulative annual net sales growth targets over a rolling one-year period or upon achieving earnings-per-share targets over a rolling one-year period. RSUs granted to members of the Company's Board of Directors are not issued until the expiration of a two-year restriction period following vesting. There were 78,000 and 69,000 vested RSUs as of September 30, 2017, and December 31, 2016, respectively, that have been granted to members of the Company's Board of Directors but remain subject to the two-year restriction period.

RSU activity for the nine-month period ended September 30, 2017, is as follows (amounts in thousands, except per share information):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted Stock Units outstanding at December 31, 2016	838	\$ 11.39
Granted	263	12.62
Forfeited	(142)	12.07
Issued	(175)	12.24
Restricted Stock Units outstanding at September 30, 2017	784	11.60

During the nine-month period ended September 30, 2017, the Company granted 263,000 RSUs under the 2012 Incentive Plan to the Company's Board of Directors, executive officers and other employees, which were comprised of both time-based RSUs and net sales and operating income and earnings-per-share performance-based RSUs. The time-based RSUs were issued with a weighted-average grant date fair value of \$12.22 per share and vest in annual installments over a three-year period from the grant date or according to the restrictions for the Board of Directors noted above. The net sales and operating income and earnings-per-share performance-based RSUs were issued with a weighted-average grant date fair value of \$13.35 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.

RSUs are valued at market value on the date of grant, which is the grant date share price discounted for expected dividend payments during the vesting period.

Share-based compensation expense for RSUs for the three-month periods ended September 30, 2017 and 2016, was approximately \$0.3 million and \$0.6 million, respectively. Share-based compensation expense from RSUs for the nine-month periods ended September 30, 2017 and 2016, was approximately \$1.7 million and \$1.8 million, respectively. As of September 30, 2017, and December 31, 2016, the unrecognized share-based compensation expense related to the grants described above, excluding incentive awards discussed below, was \$2.2 million and \$2.0 million, respectively. The remaining compensation expense is expected to be recognized over the weighted average period of approximately 1.1 years.

The Company has not recognized any share-based compensation expense related to the net sales and earnings-per-share performance-based RSUs for the nine-month periods ended September 30, 2017 and 2016. Should the Company attain all of the net sales metrics related to the net sales performance-based stock option grants, the Company would recognize up to \$3.3 million of potential share-based compensation expense.

The number of shares issued upon vesting of RSUs granted pursuant to the Company's share-based compensation plans is net of the minimum statutory withholding requirements that the Company pays on behalf of its employees, which was 39,000 shares for the nine-month period ended September 30, 2017. 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.

(8) Segment Information

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

The Company's four business segments are divided based on the different characteristics of their distributor and customer bases, 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), and one business segment operates under the Synergy® WorldWide brand.

[Table of Contents](#)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net sales:				
NSP Americas	\$ 41,301	\$ 43,260	\$ 125,367	\$ 133,168
NSP Russia, Central and Eastern Europe	7,129	6,421	21,398	19,042
Synergy WorldWide	34,470	31,331	92,146	94,192
China and New Markets	6,401	4,429	14,832	10,807
Total net sales	89,301	85,441	253,743	257,209
Contribution margin (1):				
NSP Americas	17,764	19,057	53,454	57,077
NSP Russia, Central and Eastern Europe	2,335	2,231	7,090	6,477
Synergy WorldWide	10,160	9,556	27,769	28,740
China and New Markets	4,821	3,401	11,013	7,953
Total contribution margin	35,080	34,245	99,326	100,247
Selling, general and administrative expenses (2)	32,926	29,187	95,098	88,821
Operating income	2,154	5,058	4,228	11,426
Other income, net	193	20	1,909	957
Income before provision for income taxes	\$ 2,347	\$ 5,078	\$ 6,137	\$ 12,383

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

(2) Service fees in the China and New Markets segment related to sales in China, occurring after the Company's receipt of its direct selling license and pre-opening product sales through Hong Kong, totaled \$2.1 million and \$4.7 million for the three and nine-month periods ended September 30, 2017, respectively, compared to \$1.5 million and \$3.4 million for the three and nine-month periods ended September 30, 2016. These service fees are included in the Company's selling, general and administrative expenses.

From an individual country perspective, only the United States and South Korea comprise 10 percent or more of consolidated net sales for the three and nine-month periods ended September 30, 2017 and 2016, as follows (dollar amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net sales:				
United States	\$ 35,124	\$ 36,473	\$ 106,664	\$ 112,366
South Korea	14,371	14,083	38,203	42,754
Other	39,806	34,885	108,876	102,089
	\$ 89,301	\$ 85,441	\$ 253,743	\$ 257,209

[Table of Contents](#)

Net Sales generated by each of the Company's product lines is set forth below (dollar amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NSP Americas:				
General health	\$ 18,211	\$ 19,063	\$ 56,258	\$ 58,914
Immune	4,938	4,599	13,180	13,913
Cardiovascular	3,434	3,193	9,570	9,723
Digestive	11,084	11,684	34,892	36,608
Personal care	2,114	1,925	5,487	5,708
Weight management	1,520	2,796	5,980	8,302
	<u>41,301</u>	<u>43,260</u>	<u>125,367</u>	<u>133,168</u>
NSP Russia, Eastern and Central Europe:				
General health	\$ 3,192	\$ 2,732	\$ 9,691	\$ 7,956
Immune	789	650	2,190	2,047
Cardiovascular	542	538	1,553	1,508
Digestive	1,983	1,741	5,890	5,269
Personal care	443	517	1,475	1,619
Weight management	180	243	599	643
	<u>7,129</u>	<u>6,421</u>	<u>21,398</u>	<u>19,042</u>
Synergy WorldWide:				
General health	\$ 9,268	\$ 8,711	\$ 23,579	\$ 27,045
Immune	119	205	357	455
Cardiovascular	14,369	13,188	38,075	39,386
Digestive	4,428	3,383	12,047	9,312
Personal care	1,891	1,838	5,884	5,725
Weight management	4,395	4,006	12,204	12,269
	<u>34,470</u>	<u>31,331</u>	<u>92,146</u>	<u>94,192</u>
China and New Markets:				
General health	\$ 1,409	\$ 575	\$ 3,374	\$ 2,583
Immune	251	206	517	553
Cardiovascular	961	948	2,514	2,471
Digestive	2,559	2,118	6,014	3,640
Personal care	144	189	265	650
Weight management	1,077	393	2,148	910
	<u>6,401</u>	<u>4,429</u>	<u>14,832</u>	<u>10,807</u>
	<u>\$ 89,301</u>	<u>\$ 85,441</u>	<u>\$ 253,743</u>	<u>\$ 257,209</u>

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

	September 30, 2017	December 31, 2016
Property, plant and equipment:		
United States	\$ 67,454	\$ 70,770
Other	2,721	2,502
Total property, plant and equipment	<u>\$ 70,175</u>	<u>\$ 73,272</u>

(9) Income Taxes

For the three months ended September 30, 2017 and 2016, the Company's provision for income taxes, as a percentage of income before income taxes was 0.0 percent and 22.4 percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent. For the nine months ended September 30, 2017 and 2016, the Company's provision for income taxes, as a percentage of income before income taxes was 38.2 percent and 34.6 percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended September 30, 2017, was primarily attributed to decrease in the tax liability associated with uncertain tax positions, partially offset by current year losses, primarily related to China, that presently do not provide future tax benefit.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the nine months ended September 30, 2017, was primarily attributed to current year foreign losses, primarily related to China, that presently do not provide a future tax benefit, partially offset by foreign tax credit benefits as well as a decrease in tax liabilities associated with uncertain tax positions.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three and nine months ended September 30, 2016, was attributed to foreign tax credit benefits and a decrease in tax liabilities associated with uncertain tax positions, partially offset by the impact of losses during the period that will not provide a tax benefit.

Changes to the effective rate due to dividends received from foreign subsidiaries and the impact of foreign tax credits are expected to be recurring. Depending on various factors, changes from the foregoing items may be favorable or unfavorable in a particular period.

The Company's U.S. federal income tax returns for 2014 through 2016 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions that have open tax years from 2010 through 2016.

As of September 30, 2017, the Company had accrued \$4.9 million related to unrecognized tax positions, compared with \$6.8 million as of December 31, 2016. This net decrease was primarily attributed to changes in contingencies related to international tax.

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, adjusted for discrete tax items in the period in which they occur. Although the Company believes its tax 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.

(10) Commitments and Contingencies

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.

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. September 30, 2017 and December 31, 2016, accrued liabilities were \$0.3 million related to non-income tax contingencies. While management believes that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of those matters cannot presently be determined. The Company believes future payments related to these matters could range from \$0 to approximately \$4.0 million.

Other Litigation

The Company is a party to various other legal proceedings in several foreign jurisdictions related to value-added tax assessments and other civil litigation. As of each of September 30, 2017, and December 31, 2016, accrued liabilities were \$1.0 million and \$0.8 million, respectively, related to the estimated outcome of these proceedings. In addition, the Company is a party to other litigation where there is a reasonable possibility that a loss may be incurred, either the losses are not considered to be probable or the Company cannot at this time estimate the loss, if any; therefore, no provision for losses has been provided. The Company believes future payments related to these matters could range from \$0 to approximately \$0.5 million.

(11) Fair Value Measurements

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

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

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

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

The following table presents the Company's hierarchy for its assets, measured at fair value on a recurring basis, as of September 30, 2017 (dollar amounts in thousands):

Level 1	Level 2	Level 3
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	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
Trading Investment securities	\$ 1,907	\$ —	\$ —	\$ 1,907
Total assets measured at fair value on a recurring basis	\$ 1,907	\$ —	\$ —	\$ 1,907

[Table of Contents](#)

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

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

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

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

For the nine months ended September 30, 2017, and for the year ended December 31, 2016, there were no fair value measurements using significant other observable inputs (Level 2) or significant unobservable inputs (Level 3).

The carrying amounts reflected on the condensed consolidated balance sheet for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to their short-term nature. The carrying amount reflected on the condensed consolidated balance sheet for the revolving credit facility approximates fair value due to it being variable-rate debt. During the nine months ended September 30, 2017 and 2016, the Company did not have any re-measurements of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

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

The following Management's Discussion and Analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in this report, as well as the consolidated financial statements, the notes thereto, and management's discussion and analysis included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, and its other reports filed since the date of such Form 10-K.

OVERVIEW

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 has four business segments that are divided based on the different characteristics of their distributor and customer bases, 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), and one business segment operates under the Synergy® WorldWide brand.

The Company's independent distributors market and sell the Company's products to customers and sponsor other independent distributors who also market the Company's products to customers. The Company's revenue is highly dependent upon the number and productivity of its independent distributors. Growth in sales volume requires an increase in the productivity of the Company's independent distributors and/or growth in the total number of its 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.

In the third quarter of 2017, the Company experienced an increase in its consolidated net sales of 4.5 percent (or 4.3 percent in local currencies) compared to the same period in 2016. NSP China and New Markets net sales increased approximately 44.5 percent compared to the same period in 2016. NSP Russia, Central and Eastern Europe net sales increased approximately 11.0 percent compared to the same period in 2016. Synergy WorldWide net sales increased approximately 10.0 percent compared to the same period in 2016 (or 10.7 percent in local currencies). NSP Americas net sales decreased approximately 4.5 percent compared to the same period in 2016 (or 5.2 percent in local currencies). The strengthening of the U.S. dollar versus the local currencies, primarily in the Company's Asian markets, resulted in an approximate 0.2 percent, or \$0.2 million, decrease of its net sales during the quarter.

The Company made a significant investment in its information systems of approximately \$48.0 million as of September 30, 2017, and began the initial implementation of the Oracle ERP system on April 2, 2017, for the Company's NSP Americas segment as well as other corporate operations. The implementation of the Oracle ERP system negatively impacted net sales and profitability during the second and third quarters of 2017, primarily by causing wait times for calls into the Company's call center to be longer than usual and by causing difficulties within the Company's on-line product ordering system, which led to customer attrition. The Company continues to address these and other issues. The Company anticipates the implementation of the Oracle ERP system may continue to negatively impact net sales and profitability going forward.

RESULTS OF OPERATIONS

The following table summarizes the Company's unaudited consolidated operating results from continuing operations in U.S. dollars and as a percentage of net sales for the three months ended September 30, 2017 and 2016 (dollar amounts in thousands):

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016		Change	
	Total dollars	Percent of net sales	Total dollars	Percent of net sales	Total dollars	Percentage
Net sales	\$ 89,301	100.0 %	\$ 85,441	100.0%	\$ 3,860	4.5 %
Cost of sales	23,505	26.3	21,512	25.2	1,993	9.3
	65,796	73.7	63,929	74.8	1,867	2.9
Volume incentives	30,716	34.4	29,684	34.7	1,032	3.5
SG&A expenses	32,926	36.9	29,187	34.2	3,739	12.8
Operating income	2,154	2.4	5,058	5.9	(2,904)	(57.4)
Other income, net	193	0.2	20	—	173	865.0
Income before income taxes	2,347	2.6	5,078	5.9	(2,731)	(53.8)
Provision for (benefit from) income taxes	(1)	—	1,136	1.3	(1,137)	(100.1)
Net income	\$ 2,348	2.6 %	\$ 3,942	4.6%	\$ (1,594)	(40.4)%

The following table summarizes the Company's unaudited consolidated operating results from continuing operations in U.S. dollars and as a percentage of net sales for the nine months ended September 30, 2017 and 2016 (dollar amounts in thousands):

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016		Change	
	Total dollars	Percent of net sales	Total dollars	Percent of net sales	Total dollars	Percentage
Net sales	\$ 253,743	100.0%	\$ 257,209	100.0%	\$ (3,466)	(1.3)%
Cost of sales	66,430	26.2	66,610	25.9	(180)	(0.3)
	187,313	73.8	190,599	74.1	(3,286)	(1.7)
Volume incentives	87,987	34.7	90,352	35.1	(2,365)	(2.6)
SG&A expenses	95,098	37.5	88,821	34.5	6,277	7.1
Operating income	4,228	1.7	11,426	4.4	(7,198)	(63.0)
Other income, net	1,909	0.8	957	0.4	952	99.5
Income before income taxes	6,137	2.4	12,383	4.8	(6,246)	(50.4)
Provision for income taxes	2,346	0.9	4,286	1.7	(1,940)	(45.3)
Net income	\$ 3,791	1.5%	\$ 8,097	3.1%	\$ (4,306)	(53.2)%

Net Sales

The Company's international operations have provided, and are expected to continue to provide, a significant portion of its total net sales. As a result, total net sales will continue to be affected by fluctuations in the U.S. dollar against foreign currencies. In order to provide a framework for assessing how its underlying businesses performed excluding the effect of foreign currency fluctuations, in addition to comparing the percent change in net sales from one period to another in U.S. dollars, the Company 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

[Table of Contents](#)

excluding the impact of foreign currency fluctuations should not be considered in isolation or as an alternative to net sales in U.S. dollar measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP. Throughout the last five years, foreign currency exchange rates have fluctuated significantly. See Item 3. *Quantitative and Qualitative Disclosures about Market Risk*.

The following table summarizes the changes in net sales by operating segment with a reconciliation to net sales excluding the impact of currency fluctuations for the three months ended September 30, 2017 and 2016 (dollar amounts in thousands):

Net Sales by Operating Segment					
	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency
NSP Americas:					
NSP North America	\$ 34,896	\$ 36,479	(4.3)%	\$ 105	(4.6)%
NSP Latin America	6,405	6,781	(5.5)	176	(8.1)
	41,301	43,260	(4.5)	281	(5.2)
NSP Russia, Central and Eastern Europe	7,129	6,421	11.0	79	9.8
Synergy WorldWide:					
Synergy Asia Pacific	25,829	22,637	14.1	(538)	16.5
Synergy Europe	5,924	6,107	(3.0)	328	(8.4)
Synergy North America	2,717	2,587	5.0	—	5.0
	34,470	31,331	10.0	(210)	10.7
China and New Markets	6,401	4,429	44.5	—	44.5
	\$ 89,301	\$ 85,441	4.5 %	\$ 150	4.3 %

The following table summarizes the changes in net sales by operating segment with a reconciliation to net sales excluding the impact of currency fluctuations for the nine months ended September 30, 2017 and 2016 (dollar amounts in thousands):

Net Sales by Operating Segment					
	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency
NSP Americas:					
NSP North America	\$ 106,132	\$ 112,224	(5.4)%	\$ 83	(5.5)%
NSP Latin America	19,235	20,944	(8.2)	54	(8.4)
	125,367	133,168	(5.9)	137	(6.0)
NSP Russia, Central and Eastern Europe	21,398	19,042	12.4	61	12.1
Synergy WorldWide:					
Synergy Asia Pacific	65,881	66,850	(1.4)	272	(1.9)
Synergy Europe	17,946	19,101	(6.0)	(52)	(5.8)
Synergy North America	8,319	8,241	0.9	—	0.9
	92,146	94,192	(2.2)	220	(2.4)
China and New Markets	14,832	10,807	37.2	—	37.2
	\$ 253,743	\$ 257,209	(1.3)%	\$ 418	(1.5)%

Consolidated net sales for the three and nine months ended September 30, 2017, were \$89.3 million and \$253.7 million, respectively, compared to \$85.4 million and \$257.2 million for the same periods in 2016, which represents an increase of 4.5

percent and a decrease of 1.3 percent, respectively. The decrease in net sales for the nine months ended September 30, 2017 was principally related to decreases in the Company's NSP Americas and Synergy WorldWide segments. Net sales in the Company's NSP Americas segment decreased \$2.0 million and \$7.8 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. Net sales in the Company's Synergy WorldWide segment increased \$3.1 million and decreased \$2.0 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. Net sales in the Company's China and New Markets segment increased \$2.0 million and \$4.0 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The Company's NSP Russia, Central and Eastern Europe segment net sales increased \$0.7 million and \$2.4 million for the three and nine months ended September 30, 2017, respectively. Net sales for the three and nine months ended September 30, 2017, were favorably impacted by \$0.2 million and \$0.4 million of foreign currency exchange rate fluctuations, respectively. Excluding the impacts of foreign currency exchange rate fluctuations, consolidated net sales increased by 4.3 percent and decreased 1.5 percent, respectively, from the same periods in 2016.

The Company made a significant investment in its information systems of approximately \$48.0 million as of September 30, 2017, and began the initial implementation of the Oracle ERP system on April 2, 2017, for the Company's NSP Americas segment as well as other corporate operations. The implementation of the Oracle ERP system negatively impacted net sales and profitability during the second and third quarters of 2017, primarily by causing wait times for calls into the Company's call center to be longer than usual and by causing difficulties within the Company's on-line product ordering system during the second quarter of 2017. The Company continues to address these and other issues. It anticipates the implementation of the Oracle ERP system may continue to negatively impact net sales and profitability going forward.

NSP Americas

Net sales from the Company's NSP Americas segment for the three and nine months ended September 30, 2017, were \$41.3 million and \$125.4 million, respectively, compared to \$43.3 million and \$133.2 million for the same periods in 2016, or decreases of 4.5 percent and 5.9 percent, respectively. Net sales declined primarily due to interruptions in customer service associated with the implementation of the Oracle ERP system, which began in the Company's NSP America's segment at the beginning of the second quarter of 2017. The implementation of the Oracle ERP system caused wait times for calls into the Company's call center to be longer than usual and caused difficulties within the Company's on-line product ordering system. The Company continues to address these and other issues relating to the implementation of the Oracle ERP system. The Company anticipates that the implementation of the Oracle ERP system may continue to negatively impact net sales and profitability going forward. In local currency, net sales decreased 5.2 percent and 6.0 percent, compared to the same three and nine month periods in 2016, respectively. Fluctuations in foreign exchange rates had \$0.3 million and \$0.1 million favorable impacts on net sales for the three and nine months ended September 30, 2017, respectively. Active Managers within NSP Americas totaled approximately 5,900 and 6,500 at September 30, 2017 and 2016, respectively. Active Distributors and customers within NSP Americas totaled approximately 107,300 and 125,900 at September 30, 2017 and 2016, respectively. The issues associated with the implementation of the Oracle ERP system continued to negatively impact the Company's ability to attract new Distributors and customers, and retain existing Distributors and customers, which was a significant cause for the decrease in the number of independent Managers, Distributors and customers. Independent Managers and active independent Distributors and customers were down 14.5 percent, compared to the same period in 2016. 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 Distributors and customers category includes 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 decreased approximately \$1.5 million and \$5.8 million, or 4.3 percent and 5.6 percent, for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The decrease was primarily due to the issues associated with the implementation of the Oracle ERP system in the Company's NSP Americas segment at the beginning the second quarter of 2017, which continued to have a negative impact on the Company's net sales during the third quarter of 2017.

In Latin America, net sales decreased approximately \$0.4 million and \$1.7 million, or 5.5 percent and 8.2 percent, for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. In local currency, net sales for the three and nine months ended September 30, 2017, decreased 8.1 percent and 8.4 percent, respectively, compared to the same periods in 2016. Currency devaluation had a \$0.2 million and \$0.1 million favorable impact on net sales for the three and nine months ended September 30, 2017, respectively. The decrease in net sales was primarily due to the issues associated with the implementation of the Oracle ERP system in the Company's NSP Americas segment at the beginning of the second

quarter of 2017, which impacted net sales in the second and third quarters of 2017. Net sales in Latin America continues to be negatively impacted by changing regulations for product registration that affect the Company's ability to sell some of its products in certain countries in Latin America. To address this, the Company continues to emphasize the IN.FORM business model, which includes products the Company anticipates will be acceptable for registration under the changing product registration requirements in Latin America, and, at the same time, ensuring its resources are aligned with this initiative.

NSP Russia, Central and Eastern Europe

Net sales in the Company's NSP Russia, Central and Eastern Europe segment for the three and nine months ended September 30, 2017, were \$7.1 million and \$21.4 million, respectively, compared to \$6.4 million and \$19.0 million for the same periods in 2016, or an increase of 11.0 percent and 12.4 percent, respectively. Active independent Managers within the Company's NSP Russia, Central and Eastern Europe segment totaled approximately 2,900 and 2,600 at September 30, 2017 and 2016, respectively. Active independent Distributors and customers within NSP Russia, Central and Eastern Europe totaled approximately 61,000 and 60,600 at September 30, 2017 and 2016, respectively. Net sales increased primarily as a result of the relative stabilization of Russian ruble against the U.S. dollar and product promotions that have improved distributor engagement.

Synergy WorldWide

The Company's Synergy WorldWide segment reported net sales for the three and nine months ended September 30, 2017, of \$34.5 million and \$92.1 million, respectively, compared to \$31.3 million and \$94.2 million for the same periods in 2016, or an increase of 10.0 percent and a decrease of 2.2 percent, respectively. The increase in net sales for the three months ended September 30, 2017, was primary due to the increases in Synergy Japan and Synergy Korea which have refocused on building up their manager ranks and emphasizing core products. The decrease in net sales for the nine months ended September 30, 2017, was primarily due to decline in sales in the segment's Asia Pacific and Europe region, offset by growth in North America. The three and nine months ended September 30, 2017, were impacted by an unfavorable \$0.2 million and a favorable \$0.2 million in foreign currency exchange rate fluctuations, respectively. In local currency, net sales increased 10.7 percent and decreased 2.4 percent for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. Active independent Managers within the Company's Synergy WorldWide segment totaled approximately 4,600 and 4,100 at September 30, 2017 and 2016, respectively. Active independent Distributors and customers within the Company's Synergy WorldWide segment totaled approximately 45,100 and 55,600 at September 30, 2017 and 2016, respectively. The Company's Synergy WorldWide segment operates under a traditional direct selling method.

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

In South Korea, net sales increased \$0.3 million and decreased \$4.6 million, or an increase of 2.0 percent and a decrease of 10.6 percent, for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. In local currency, net sales for the three and nine months ended September 30, 2017, increased 2.5 percent and decreased 12.5 percent, respectively, compared to the same periods in 2016. The increase in local currency net sales for the three months ending September 30, 2017, was primarily the result of an increased focus on core products for the market. The decrease in local currency net sales for the nine months ended September 30, 2017 was primarily due to a reduction in distributor engagement as well as recent geopolitical tension and economic conditions in the region. These conditions may continue for the foreseeable future and may, therefore, continue to negatively impact the Company's future financial results.

In Japan, net sales increased \$3.8 million and \$5.4 million, or 100.7 percent and 47.8 percent, for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. In local currency, net sales for the three and nine months ended September 30, 2017, increased 113.4 percent and 52.7 percent, respectively, compared to the same periods in 2016. The increase in local currency net sales is primarily tied to strong traction of the new sales program launched in 2016, which has been successful in encouraging distributor engagement.

In Europe, net sales decreased \$0.2 million and \$1.2 million, or 3.0 percent and 6.0 percent, for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. In local currency, net sales for the three and nine months ended September 30, 2017, decreased 8.4 percent and 5.8 percent, respectively, compared to the same periods in 2016. The decrease in local currency net sales is primarily due to market saturation and a reduction in sales activity in the market's Scandinavian countries.

In North America, net sales increased approximately \$0.1 million and \$0.1 million, or an increase of 5.0 percent and 0.9 percent, for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016.

China and New Markets

China and New Markets had net sales for the three and nine months ended September 30, 2017, of \$6.4 million and \$14.8 million, respectively, compared to \$4.4 million and \$10.8 million for the same periods in 2016, or increases of 44.5 percent and 37.2 percent, respectively. The increase in net sales is largely the result of the Company receiving its direct selling license in China during the three months ended June 30, 2017, which allows the Company to expand its business scope to include direct selling activities within China.

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 8 to the Unaudited Condensed Consolidated Financial Statements in Part 1, Item 1 of this report.

Cost of Sales

Cost of sales as a percent of net sales was 26.3 percent and 26.2 percent for the three- and nine-month periods ended September 30, 2017, compared 25.2 percent and 25.9 percent for the same periods in 2016. The change in the cost of sale percentage for the three month period is primarily due to the change in segment market mix resulting from net sales increases in markets with lower margins.

Volume Incentives

Volume incentives are a significant part of the Company's direct sales marketing program, and represent commission payments to independent distributors. These payments are designed to provide incentives for reaching higher sales levels. Volume incentives vary slightly, on a percentage basis, by product due to pricing policies and commission plans in place in the various operations. The Company does not pay volume incentives in China, instead the Company pays independent service fees, which are included in selling, general and administrative expenses.

Volume incentives as a percent of net sales was 34.4 percent and 34.7 percent for the three and nine months ended September 30, 2017, respectively, compared to 34.7 percent and 35.1 percent for the same periods in 2016. The change in volume incentives as a percent of net sales for the nine month period is primarily due to change in segment market mix such as the sales growth in China and New Markets related to sales in China, occurring after the Company's receipt of its direct selling license, and pre-opening product sales through Hong Kong, for which no volume incentives are paid.

Selling, General and Administrative

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

Selling, general and administrative expenses increased by approximately \$3.7 million and \$6.3 million, respectively, to \$32.9 million and \$95.1 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. Selling, general and administrative expenses were 36.9 percent and 37.5 percent of net sales for the three and nine months ended September 30, 2017, respectively, compared to 34.2 percent and 34.5 percent for the same periods in 2016. The increase in selling, general and administrative expenses for the three and nine months ended September 30, 2017, as compared to the same periods in 2016, was primarily related to:

- \$1.2 million and \$2.4 million of increased depreciation related to the Oracle ERP implementation project incurred for the three and nine months ended September 30, 2017, respectively;
- \$0.6 million and \$2.3 million of increased investment in China during the three and nine months ended September 30, 2017, respectively;
- and
- \$0.6 million and \$1.3 million of increased independent service fees in China for the three and nine months ended September 30, 2017, respectively.

Offset by:

- \$0.1 million and \$0.8 million reduction of reserves for product liability for the three and nine months ended September 30, 2017, respectively.

Other Income (Expense), Net

Other income (expense) net, for the three and nine months ended September 30, 2017, increased \$0.2 million and \$1.0 million, respectively, to \$0.2 million and \$1.9 million, compared to the same periods in 2016. Other income for the three and nine months ended September 30, 2017 primarily consisted of foreign exchange gains. The change in other income was primarily due to increases in foreign exchange gains as a result of changes in foreign currencies.

Income Taxes

For the three months ended September 30, 2017 and 2016, the Company's provision for income taxes, as a percentage of income before income taxes was 0.0 percent and 22.4 percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent. For the nine months ended September 30, 2017 and 2016, the Company's provision for income taxes, as a percentage of income before income taxes was 38.2 percent and 34.6 percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended September 30, 2017, was primarily attributed to decrease in the tax liability associated with uncertain tax positions, partially offset by current year losses, primarily related to China, that presently do not provide future tax benefit.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the nine months ended September 30, 2017, was primarily attributed to current year foreign losses, primarily related to China, that presently do not provide a future tax benefit, partially offset by foreign tax credit benefits as well as a decrease in tax liabilities associated with uncertain tax positions.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three and nine months ended September 30, 2016, was attributed to foreign tax credit benefits and a decrease in tax liabilities associated with uncertain tax positions, partially offset by the impact of losses during the period that will not provide a tax benefit.

Changes to the effective rate due to dividends received from foreign subsidiaries and the impact of foreign tax credits are expected to be recurring. Depending on various factors, changes from the foregoing items may be favorable or unfavorable in a particular period.

The Company's U.S. federal income tax returns for 2014 through 2016 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions that have open tax years from 2010 through 2016.

As of September 30, 2017, the Company had accrued \$4.9 million related to unrecognized tax positions, compared with \$6.8 million as of December 31, 2016. This net decrease was primarily attributed to changes in contingencies related to international tax.

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, adjusted for discrete tax items in the period in which they occur. Although the Company believes its tax 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.

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. The Company 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 products are manufactured at the Company's facility in Spanish Fork, Utah. Contract manufacturers produce some of its 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 three and nine months ended September 30, 2017 and 2016, by business segment.

Three Months Ended September 30,	2017		2016			
NSP Americas:						
General health	\$	18,211	44.1 %	\$	19,063	44.1 %
Immune		4,938	12.0		4,599	10.6
Cardiovascular		3,434	8.3		3,193	7.4
Digestive		11,084	26.8		11,684	27.0
Personal care		2,114	5.1		1,925	4.4
Weight management		1,520	3.7		2,796	6.5
Total NSP Americas		41,301	100.0		43,260	100.0
NSP Russia, Central and Eastern Europe:						
General health	\$	3,192	44.8 %	\$	2,732	42.5 %
Immune		789	11.1		650	10.1
Cardiovascular		542	7.6		538	8.4
Digestive		1,983	27.8		1,741	27.1
Personal care		443	6.2		517	8.1
Weight management		180	2.5		243	3.8
Total NSP Russia, Central and Eastern Europe		7,129	100.0		6,421	100.0
Synergy WorldWide:						
General health	\$	9,268	26.9 %	\$	8,711	27.8 %
Immune		119	0.3		205	0.7
Cardiovascular		14,369	41.7		13,188	42.1
Digestive		4,428	12.8		3,383	10.8
Personal care		1,891	5.5		1,838	5.9
Weight management		4,395	12.8		4,006	12.8
Total Synergy WorldWide		34,470	100.0		31,331	100.0
China and New Markets:						
General health	\$	1,409	22.0 %	\$	575	13.0 %
Immune		251	3.9		206	4.7
Cardiovascular		961	15.0		948	21.4
Digestive		2,559	40.0		2,118	47.8
Personal care		144	2.2		189	4.3
Weight management		1,077	16.8		393	8.9
Total China and New Markets		6,401	100.0		4,429	100.0
Consolidated:						
General health	\$	32,080	35.9 %	\$	31,081	36.4 %
Immune		6,097	6.8		5,660	6.6
Cardiovascular		19,306	21.6		17,867	20.9
Digestive		20,054	22.5		18,926	22.2
Personal care		4,592	5.1		4,469	5.2
Weight management		7,172	8.0		7,438	8.7
Total Consolidated	\$	89,301	100.0 %	\$	85,441	100.0 %

Nine Months Ended September 30,	2017		2016	
NSP Americas:				
General health	\$ 56,258	44.9%	\$ 58,914	44.2%
Immune	13,180	10.5	13,913	10.4
Cardiovascular	9,570	7.6	9,723	7.3
Digestive	34,892	27.8	36,608	27.5
Personal care	5,487	4.4	5,708	4.3
Weight management	5,980	4.8	8,302	6.2
Total NSP Americas	<u>125,367</u>	<u>100.0</u>	<u>133,168</u>	<u>100.0</u>
NSP Russia, Central and Eastern Europe:				
General health	\$ 9,691	45.3%	\$ 7,956	41.8%
Immune	2,190	10.2	2,047	10.7
Cardiovascular	1,553	7.3	1,508	7.9
Digestive	5,890	27.5	5,269	27.7
Personal care	1,475	6.9	1,619	8.5
Weight management	599	2.8	643	3.4
Total NSP Russia, Central and Eastern Europe	<u>21,398</u>	<u>100.0</u>	<u>19,042</u>	<u>100.0</u>
Synergy WorldWide:				
General health	\$ 23,579	25.6%	\$ 27,045	28.7%
Immune	357	0.4	455	0.5
Cardiovascular	38,075	41.3	39,386	41.8
Digestive	12,047	13.1	9,312	9.9
Personal care	5,884	6.4	5,725	6.1
Weight management	12,204	13.2	12,269	13.0
Total Synergy WorldWide	<u>92,146</u>	<u>100.0</u>	<u>94,192</u>	<u>100.0</u>
China and New Markets:				
General health	\$ 3,374	22.7%	\$ 2,583	23.9%
Immune	517	3.5	553	5.1
Cardiovascular	2,514	16.9	2,471	22.9
Digestive	6,014	40.5	3,640	33.7
Personal care	265	1.8	650	6.0
Weight management	2,148	14.5	910	8.4
Total China and New Markets	<u>14,832</u>	<u>100.0</u>	<u>10,807</u>	<u>100.0</u>
Consolidated:				
General health	\$ 92,902	36.6%	\$ 96,498	37.5%
Immune	16,244	6.4	16,968	6.6
Cardiovascular	51,712	20.4	53,088	20.6
Digestive	58,843	23.2	54,829	21.3
Personal care	13,111	5.2	13,702	5.3
Weight management	20,931	8.2	22,124	8.6
Total Consolidated	<u>\$ 253,743</u>	<u>100.0%</u>	<u>\$ 257,209</u>	<u>100.0%</u>

Distribution and Marketing

The Company's independent distributors, also known as Managers and Distributors, market its products to customers through direct selling techniques and sponsor other independent distributors who also market the Company's products to customers. 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 distributors and customers. However, in foreign markets where the Company 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 distributors.

As of September 30, 2017, the Company had approximately 213,400 "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 September 30, 2017, the Company had approximately 13,400 "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.

Other than in its China and New Markets segment, the Company pays sales commissions, or "volume incentives" to its Managers and Distributors based upon the amount of their sales group product purchases. These volume incentives are recorded as an expense in the year earned. The amounts of volume incentives that the Company expensed during the quarters ended September 30, 2017 and 2016, are set forth in the Condensed Consolidated Financial Statements in Item 1 of this report. In addition to the opportunity to receive volume incentives, Managers who attain certain levels of monthly product sales are eligible for additional incentive programs including automobile allowances, sales convention privileges and travel awards. In China, the Company sells its product through independent service providers, who the Company compensates for marketing, sales support and other services.

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 the different business segments. Within Synergy WorldWide, the sales qualifications required for active independent Managers and Distributors varies by market according to local economic factors. As sales grow in markets with higher qualification values, and decline in those with lower qualification values, the resultant mix 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.

In China, the Company does not sell its products through Managers and Distributors, but rather through independent service providers who are compensated for marketing, sales support, and other services.

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

Total Managers, Distributors and Customers by Segment as of September 30,

	2017		2016	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	244,300	5,900	275,200	6,500
NSP Russia, Central and Eastern Europe	137,900	2,900	145,000	2,600
Synergy WorldWide	102,000	4,600	126,500	4,100
	<u>484,200</u>	<u>13,400</u>	<u>546,700</u>	<u>13,200</u>

“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 Distributors and customers by segment, as of the dates indicated:

Active Distributors and Customers by Segment as of September 30,

	2017		2016	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	107,300	5,900	125,900	6,500
NSP Russia, Central and Eastern Europe	61,000	2,900	60,600	2,600
Synergy WorldWide	45,100	4,600	55,600	4,100
	<u>213,400</u>	<u>13,400</u>	<u>242,100</u>	<u>13,200</u>

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

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

New Managers, Distributors and Customers by Segment for the Three Months Ended September 30,

	2017		2016	
	New Distributors & Customers	New Managers	New Distributors & Customers	New Managers
NSP Americas	19,500	1,100	28,500	800
NSP Russia, Central and Eastern Europe	11,000	100	10,700	100
Synergy WorldWide	13,100	900	18,600	900
	<u>43,600</u>	<u>2,100</u>	<u>57,800</u>	<u>1,800</u>

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

“New Distributors and Customers” include 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 three months ended as of the date indicated.

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

New Managers, Distributors and Customers by Segment for the Twelve Months Ended September 30,

	2017		2016	
	New Distributors & Customers	New Managers	New Distributors & Customers	New Managers
NSP Americas	93,900	2,900	120,200	2,900
NSP Russia, Central and Eastern Europe	47,100	600	45,300	600
Synergy WorldWide	57,500	2,900	78,000	2,800
	198,500	6,400	243,500	6,300

“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.

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 September 30, 2017, working capital was \$55.7 million, compared to \$31.5 million as of December 31, 2016. At September 30, 2017, the Company had \$47.7 million in cash, of which, \$9.2 million was held in the U.S. and \$38.4 million was held in foreign markets and may be subject to various withholding taxes and other restrictions related to repatriation before becoming available to be used along with the normal cash flows from operations to fund any unanticipated shortfalls in future cash flows.

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

	Nine Months Ended September 30,			
	2017		2016	
Operating activities	\$	8,036	\$	5,062
Investing activities		(1,591)		(7,929)
Financing activities		7,423		638

Operating Activities

For the nine months ended September 30, 2017, operating activities provided cash in the amount of \$8.0 million, compared to \$5.1 million for the same period in 2016. Operating cash flows increased primarily due to the timing of payments for inventory, accrued volume incentives and service fees, and deferred revenue, partially offset by the timing of receipts in accounts receivable, drop in net income and the payment of income taxes.

Investing Activities

For the nine months ended September 30, 2017, investing activities used cash of \$1.6 million, compared to \$7.9 million for the same period in 2016. Capital expenditures related to the purchase of equipment, computer systems and software for the nine months ended September 30, 2017 and 2016, were \$3.9 million and \$7.9 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, that was implemented on April 2, 2017, for the Company's NSP Americas segment and for other

corporate operations. During the nine months ended September 30, 2017, the Company had proceeds of \$1.8 million relating to the sale of its available-for-sale securities and \$0.5 million related to the sale of assets previously held for sale.

Financing Activities

For the nine months ended September 30, 2017, financing activities provided \$7.4 million in cash, compared to \$0.6 million in cash for the same period in 2016. During the nine months ended September 30, 2017 and 2016, the Company used cash to pay dividends in aggregate amounts of \$1.8 million and \$5.6 million, respectively. That decrease was the result of Board of Directors' first-quarter election to suspend the payment of quarterly dividends.

On July 11, 2017, the Company entered into a revolving credit agreement with Bank of America, N.A., with a borrowing limit of \$25.0 million that matures on July 11, 2020 (the "Bank of America Credit Agreement"). In connection with the closing of the Bank of America Credit Agreement, the Company terminated its revolving credit agreement with Wells Fargo Bank, N.A. (the "Wells Fargo Credit Agreement") and satisfied in full the outstanding balance thereof through borrowings on the Bank of America Credit Agreement. The Company pays interest on any borrowings under the Bank of America Credit Agreement at LIBOR plus 1.25 percent (2.49 percent as of September 30, 2017), an annual commitment fee of 0.2 percent on the unused portion of the commitment. The Company is required to settle its net borrowings under the Bank of America Credit Agreement only upon maturity, and, as a result, has classified its outstanding borrowings as non-current on its condensed consolidated balance sheet as of September 30, 2017. At September 30, 2017, the outstanding balance under the Bank of America Credit Agreement was \$19.2 million. The Company was in compliance with the debt covenants set forth in the Bank of America Credit Agreement as of September 30, 2017.

The Bank of America Credit Agreement contains customary financial covenants, including financial covenants relating to the Company's solvency, leverage, and minimum EBITDA. In addition, the Bank of America Credit Agreement restricts certain capital expenditures, lease expenditures, other indebtedness, liens on assets, guarantees, loans and advances, dividends, and merger, consolidation and the transfer of assets except as permitted in the Bank of America Credit Agreement. The Bank of America Credit Agreement is collateralized by the Company's manufacturing facility, accounts receivable balance, inventory balance and other assets.

Prior to the termination of the Wells Fargo Credit Agreement, the Company paid interest at LIBOR plus 1.25 percent (2.13 percent at December 31, 2016), and an annual commitment fee of 0.25 percent on the unused portion of the commitment. At December 31, 2016, the outstanding balance under the Wells Fargo Credit Agreement was \$9.9 million.

The Company's joint venture in China borrowed \$0.5 million during the period ended September 30, 2017 from the Company's joint venture partner. This note is payable in one year and bears interest of 3.0 percent.

The Company believes that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund its normal operating needs; including capital expenditures. However, among other things, a prolonged economic downturn, a decrease 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.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements other than operating leases. The Company 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's unaudited 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, the Company evaluates its estimates and assumptions. It 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 the Annual Report on Form 10-K for the year ended December 31, 2016. The Company believes the critical accounting policies and estimates described below reflect the more significant estimates and assumptions used in the preparation of its consolidated financial statements. The impact and any associated risks on its business that are related to these policies are also discussed throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" where such policies affect reported and expected financial results.

Revenue Recognition

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

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

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.

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.

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

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 has secured commercial insurance for product liability related claims.

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.

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.

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.

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, it records the minimum of the range. As additional information becomes available, it assesses the potential liability related to the contingency and revises 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 9, "Commitments and Contingencies", to the Notes of its Condensed Consolidated Financial Statements, of Item 1, Part 1 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. It 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 deferred tax assets by the Company when it is determined that deferred tax assets are not likely to be realized in the foreseeable future.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on 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, over the vesting period of the stock options based on the fair value of the stock options on the date of grant.

Item 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company conducts business in several countries and intends to continue to grow its international operations. Net sales, operating income and net income are affected by fluctuations in currency exchange rates, interest rates and other uncertainties inherent in doing business and selling product in more than one currency. In addition, its 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 it 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 nine months ended September 30, 2017, approximately 58.0 percent of the Company's net sales and approximately 56.3 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. The Company 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, the Company's 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. The Company 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part I, Item 2 of this report.

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

Exchange rate sensitivity for the three months ended September 30, 2017 (dollar amounts in thousands) is as follows:

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Net sales	\$ 89,301	\$ (4,099)	(4.6)%	\$ (5,881)	(6.6)%	\$ (9,018)	(10.1)%
Cost and expenses							
Cost of sales	23,505	(1,258)	(5.4)	(1,805)	(7.7)	(2,766)	(11.8)
Volume incentives	30,716	(1,606)	(5.2)	(2,302)	(7.5)	(3,531)	(11.5)
Selling, general and administrative	32,926	(1,016)	(3.1)	(1,458)	(4.4)	(2,235)	(6.8)
Operating income	\$ 2,154	\$ (219)	(10.2)%	\$ (316)	(14.7)%	\$ (486)	(22.6)%

Exchange rate sensitivity for the nine months ended September 30, 2017 (dollar amounts in thousands) is as follows:

	With Strengthening of U.S. Dollar by:						
	10%		15%		25%		
	(\$)	(%)	(\$)	(%)	(\$)	(%)	
Net sales	\$ 253,743	\$ (10,859)	(4.3)%	\$ (15,580)	(6.1)%	\$ (23,890)	(9.4)%
Cost and expenses							
Cost of sales	66,430	(3,387)	(5.1)	(4,860)	(7.3)	(7,451)	(11.2)
Volume incentives	87,987	(4,184)	(4.8)	(6,002)	(6.8)	(9,204)	(10.5)
Selling, general and administrative	95,098	(2,961)	(3.1)	(4,249)	(4.5)	(6,515)	(6.9)
Operating income	\$ 4,228	\$ (327)	(7.7)%	\$ (469)	(11.1)%	\$ (720)	(17.0)%

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, economic pressures resulting from lower oil prices, and resultant government 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 the Russian ruble and 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 the Balance Sheet financial instruments as of September 30, 2017 (dollar amounts in thousands)

	With Strengthening of U.S. Dollar by:						
	10%		15%		25%		
	(\$)	(%)	(\$)	(%)	(\$)	(%)	
Financial Instruments Included in Current Assets Subject to Exchange Rate Risk							
Cash and cash equivalents	\$ 47,692	\$ (2,958)	(6.2)%	\$ (4,245)	(8.9)%	\$ (6,508)	(13.6)%
Accounts receivable, net	10,927	(427)	(3.9)	(612)	(5.6)	(939)	(8.6)
Financial Instruments Included in Current Liabilities Subject to Exchange Rate Risk							
Accounts payable	4,850	(133)	(2.7)	(191)	(3.9)	(294)	(6.1)
Net Financial Instruments Subject to Exchange Rate Risk	\$ 53,769	\$ (3,252)	(6.0)%	\$ (4,666)	(8.7)%	\$ (7,153)	(13.3)%

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 September 30, 2017, and exceeded \$1.0 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 \$1.0 million upon translation into U.S. dollars. The Company uses the spot exchange rate for

[Table of Contents](#)

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 September 30, 2017 (dollar amounts in thousands) is as follows:

	Translated into U.S. Dollars	At Spot Exchange Rate per One U.S. Dollar as of September 30, 2016
Cash and cash equivalents		
South Korea (Won)	\$ 8,757	1,145.6
Japan (Yen)	7,919	112.5
China (Yuan Renminbi)	4,164	6.7
European Markets (Euro)	2,233	0.8
Canada (Dollar)	1,054	1.2
Other	8,414	Varies
Total foreign denominated cash and cash equivalents	32,541	
U.S. dollars held by foreign subsidiaries	5,908	
Total cash and cash equivalents held by foreign subsidiaries	\$ 38,449	

Finally, the following table sets forth the annual weighted average of fluctuating currency exchange rates of each of the local currencies per one U.S. dollar for each of the local currencies in which annualized net sales would exceed \$10.0 million during any of the two periods presented. 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.

Nine Months Ended September 30,	2017	2016
Canada (Dollar)	1.3	1.3
China (Yuan Renminbi)	6.8	6.6
European Markets (Euro)	0.9	0.9
Japan (Yen)	111.9	108.3

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 Company's 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 three and nine months ended September 30, 2017, Ukraine was considered to be highly inflationary. During the three-month periods ended September 30, 2017 and 2016, the Company's Ukrainian subsidiary's net sales represented approximately 2.3 percent and 2.3 percent, of consolidated net sales, respectively, and during the nine-month periods ended September 30, 2017 and 2016, represented approximately 2.3 percent and 2.2 percent, of consolidated net sales, respectively. With the exception of Ukraine, there were no other countries considered to have a highly inflationary economy during the nine-month periods ended September 30, 2017 and 2016.

Item 4. CONTROLS AND PROCEDURES

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 provide reasonable assurance that the information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in rules and forms adopted by the SEC, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. 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 September 30, 2017. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that its disclosure controls and procedures were effective as of September 30, 2017, at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

In 2013, the Company began a multi-year project to upgrade its legacy ERP environment to an Oracle platform. At the beginning of the second quarter of 2017, the Company completed the migration of its NSP Americas segment and operations into Oracle. In connection with this implementation, the Company has updated the processes that constitute its internal control over financial reporting, as necessary, to accommodate related changes in its business processes.

The Company believes it has maintained appropriate internal controls during its initial implementation period and will continue to evaluate, test and monitor its internal controls over financial reporting for effectiveness.

There were no other changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risks discussed under the heading “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, which could have a material adverse effect on the Company’s business or consolidated financial statements, results of operations, and cash flows. Additional risks not currently known, or risks that are currently believed to be not material, may also impair business operations. There have been no material changes to the Company’s risk factors since the filing of its Annual Report on Form 10-K for the year ended December 31, 2016.

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

Issuer Purchases of Equity Securities

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. There were no shares repurchased by the Company during the three and nine months ended September 30, 2017. At September 30, 2017, the remaining balance available for repurchases under the program was \$13.4 million.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

- a) Index to Exhibits

Item No.	Exhibit
3.1(1)	Amended and Restated Articles of Incorporation, as amended
3.2(2)	Amended and Restated Bylaws
31.1(3)	Certification of Chief Executive Officer under SEC Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934
31.2(3)	Certificate of Chief Financial Officer under SEC Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934
32.1(3)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2(3)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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- (1) Previously filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on March 14, 2016, and incorporated herein by reference.
- (2) Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 1, 2017, and incorporated herein by reference.
- (3) Filed currently herewith.

SIGNATURES

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

Nature's Sunshine Products, Inc.

Date: November 9, 2017

/s/ Gregory L. Probert

Gregory L. Probert,

Chief Executive Officer and Chairman of the Board

Date: November 9, 2017

/s/ Joseph W. Baty

Joseph W. Baty,

Executive Vice President, Chief Financial Officer and Treasurer

CERTIFICATIONS

I, Gregory L. Probert, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nature's Sunshine Products, Inc. ("the registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2017

/s/ Gregory L. Probert

Gregory L. Probert

Chairman of the Board and Chief Executive Officer

CERTIFICATIONS

I, Joseph W. Baty, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nature's Sunshine Products, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2017

/s/ Joseph W. Baty

Joseph W. Baty

Executive Vice President, Chief Financial Officer and Treasurer

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

In connection with the Quarterly Report of Nature's Sunshine Products, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory L Probert, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18.U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: November 9, 2017

/s/ Gregory L. Probert

Gregory L. Probert

Chairman of the Board and Chief Executive Officer

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

In connection with the Quarterly Report of Nature's Sunshine Products, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Baty, Executive Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18.U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: November 9, 2017

/s/ Joseph W. Baty

Joseph W. Baty

Executive Vice President, Chief Financial Officer and Treasurer