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

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**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 **June 30, 2018**

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.)

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

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

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and an "emerging growth company" in Rule 12b-2 of the Exchange Act (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 July 27, 2018, was 19,130,009 shares.

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

For the Quarter Ended June 30, 2018

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated herein by reference in this report may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to the Company's objectives, plans and strategies. All statements (other than statements of historical fact) that address activities, events or developments that the Company intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as “believe,” “hope,” “may,” “anticipate,” “should,” “intend,” “plan,” “will,” “expect,” “estimate,” “project,” “positioned,” “strategy” and similar expressions, and are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. For example, information appearing under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” includes forward-looking statements. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties 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, 2017, 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;
- extensive government regulations to which the Company's products, business practices and manufacturing activities are subject;
- legal challenges to the Company's direct selling program or to the classification of its independent distributors;
- effect of complex legal and regulatory requirements, particularly in China and South Korea;
- impact of anti-bribery laws, including the U.S. Foreign Corrupt Practices Act;
- its ability to attract and retain independent distributors;
- the loss of one or more key independent distributors who have a significant sales network;
- the full implementation of its joint venture for operations in China with Fosun Industrial Co., Ltd.;
- registration of products for sale in foreign markets, or difficulty or increased cost of importing products into foreign markets;
- cyber security threats and exposure to data loss;
- reliance on information technology infrastructure;
- the effect of fluctuating foreign exchange rates;
- liabilities and obligations arising from improper activity by its independent distributors;
- failures of the Company's independent distributors to comply with advertising laws;
- changes to its independent distributor compensation plans;
- geopolitical issues and conflicts;
- negative consequences resulting from difficult economic conditions, including the availability of liquidity or the willingness of its customers to purchase products;
- risks associated with the manufacturing of the Company's products;
- uncertainties relating to the application of transfer pricing, duties, value-added taxes, and other tax regulations, and changes thereto;
- changes in tax laws, treaties or regulations, or their interpretation, including the impact of the Tax Cuts and Jobs Act;
- availability and integrity of raw materials;
- the competitive nature of its business and the nutritional supplement industry;
- negative publicity related to its products, ingredients, or direct selling organization and the nutritional supplement industry;
- product liability claims;
- the sufficiency of trademarks and other intellectual property rights;
- reliance on third-parties to distribute its products and provide support services to independent distributors; and
- actions on trade relations by the U.S and foreign governments.

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)

	June 30, 2018	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 46,898	\$ 42,910
Accounts receivable, net of allowance for doubtful accounts of \$631 and \$395, respectively	8,158	8,888
Assets held for sale	998	998
Inventories	41,281	44,047
Prepaid expenses and other	7,061	5,666
Total current assets	<u>104,396</u>	<u>102,509</u>
Property, plant and equipment, net	66,480	69,106
Investment securities - trading	1,545	1,980
Intangible assets, net	663	709
Deferred income tax assets	8,997	8,283
Other assets	12,382	12,608
Total assets	<u>\$ 194,463</u>	<u>\$ 195,195</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,224	\$ 4,215
Accrued volume incentives and service fees	19,145	18,774
Accrued liabilities	29,818	24,980
Deferred revenue	1,553	3,348
Income taxes payable	2,071	1,834
Related party note payable	1,025	506
Total current liabilities	<u>57,836</u>	<u>53,657</u>
Liability related to unrecognized tax benefits	4,761	4,633
Long-term debt and revolving credit facility	7,210	13,181
Deferred compensation payable	1,545	1,980
Long-term deferred income tax liabilities	714	770
Other liabilities	737	1,242
Total liabilities	<u>72,803</u>	<u>75,463</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, 50,000 shares authorized, 19,130 and 18,919 shares issued and outstanding, respectively	132,594	131,525
Accumulated deficit	(653)	(2,072)
Noncontrolling interests	117	411
Accumulated other comprehensive loss	(10,398)	(10,132)
Total shareholders' equity	<u>121,660</u>	<u>119,732</u>
Total liabilities and shareholders' equity	<u>\$ 194,463</u>	<u>\$ 195,195</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,	
	2018	2017
Net sales	\$ 91,266	\$ 81,344
Cost of sales	24,278	21,197
Gross profit	66,988	60,147
Operating expenses:		
Volume incentives	31,492	28,288
Selling, general and administrative	33,310	31,836
Operating income	2,186	23
Other income (loss), net	(1,807)	441
Income before provision for income taxes	379	464
Provision for income taxes	441	884
Net loss	(62)	(420)
Net loss attributable to noncontrolling interests	(129)	(233)
Net income (loss) attributable to common shareholders	\$ 67	\$ (187)
Basic and diluted net income (loss) per common share:		
Basic earnings (loss) per share attributable to common shareholders	\$ —	\$ (0.01)
Diluted earnings (loss) per share attributable to common shareholders	\$ —	\$ (0.01)
Weighted average basic common shares outstanding	19,105	18,876
Weighted average diluted common shares outstanding	19,402	18,876
Dividends declared per common share	\$ —	\$ —

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	2017
Net sales	\$ 178,608	\$ 164,442
Cost of sales	46,991	42,925
Gross profit	131,617	121,517
Operating expenses:		
Volume incentives	62,854	57,271
Selling, general and administrative	65,696	62,172
Operating income	3,067	2,074
Other income (loss), net	(1,067)	1,716
Income before provision for income taxes	2,000	3,790
Provision for income taxes	1,729	2,347
Net income	271	1,443
Net loss attributable to noncontrolling interests	(294)	(530)
Net income attributable to common shareholders	\$ 565	\$ 1,973
Basic and diluted net income per common share:		
Basic earnings per share attributable to common shareholders	\$ 0.03	\$ 0.10
Diluted earnings per share attributable to common shareholders	\$ 0.03	\$ 0.10
Weighted average basic common shares outstanding	19,058	18,861
Weighted average diluted common shares outstanding	19,408	19,251
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 COMPREHENSIVE INCOME  
(Amounts in thousands)  
(Unaudited)

	Three Months Ended June 30,	
	2018	2017
Net loss	\$ (62)	\$ (420)
Foreign currency translation loss, net of tax	(53)	(552)
Net unrealized gains on investment securities (net of tax)	—	15
Total comprehensive loss	<u>\$ (115)</u>	<u>\$ (957)</u>
	Six Months Ended June 30,	
	2018	2017
Net income	\$ 271	\$ 1,443
Foreign currency translation gain (loss) (net of tax)	(266)	360
Net unrealized gains on investment securities (net of tax)	—	15
Total comprehensive income	<u>\$ 5</u>	<u>\$ 1,818</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		Accumulated Deficit	Noncontrolling Interests	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2017 (as reported)	18,919	\$ 131,525	\$ (2,072)	\$ 411	\$ (10,132)	\$ 119,732
Cumulative effect of change in accounting principle	—	—	854	—	—	854
Balance at January 1, 2018 (as adjusted)	18,919	131,525	(1,218)	411	(10,132)	120,586
Share-based compensation expense	—	1,124	—	—	—	1,124
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	211	(55)	—	—	—	(55)
Net income (loss)	—	—	565	(294)	—	271
Other comprehensive loss	—	—	—	—	(266)	(266)
Balance at June 30, 2018	<u>19,130</u>	<u>\$ 132,594</u>	<u>\$ (653)</u>	<u>\$ 117</u>	<u>\$ (10,398)</u>	<u>\$ 121,660</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)

	Six Months Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 271	\$ 1,443
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for (recovery of) doubtful accounts	255	(22)
Depreciation and amortization	5,012	3,585
Share-based compensation expense	1,124	1,762
Gain on sale of property and equipment	(2,267)	(10)
Deferred income taxes	(744)	263
Purchase of trading investment securities	(96)	(367)
Proceeds from sale of trading investment securities	566	73
Realized and unrealized gains on investments	(11)	(79)
Foreign exchange (gains) losses	834	(1,882)
Changes in assets and liabilities:		
Accounts receivable	369	(1,429)
Inventories	2,317	(2,359)
Prepaid expenses and other current assets	(1,471)	(1,221)
Other assets	(164)	358
Accounts payable	(28)	109
Accrued volume incentives and service fees	673	1,082
Accrued liabilities	4,762	(3,542)
Deferred revenue	(1,795)	1,586
Income taxes payable	197	(636)
Liability related to unrecognized tax benefits	68	207
Deferred compensation payable	(435)	395
Net cash provided by (used in) operating activities	<u>9,437</u>	<u>(684)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(2,671)	(3,134)
Proceeds from sale of property, plant and equipment	2,558	522
Proceeds from sale/maturities of investments available for sale	—	1,776
Net cash used in investing activities	<u>(113)</u>	<u>(836)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments of cash dividends	—	(1,886)
Principal payments of new revolving credit facility	(33,483)	—
Borrowings on new revolving credit facility	27,512	—
Net borrowings on previous revolving credit facility	—	2,035
Proceeds from related party borrowing	500	—
Net proceeds from the exercise of stock options	410	104
Payment of withholding taxes related to the vesting of restricted stock units	(465)	(512)
Net cash used in financing activities	<u>(5,526)</u>	<u>(259)</u>
Effect of exchange rates on cash and cash equivalents	190	1,316
Net increase (decrease) in cash and cash equivalents	<u>3,988</u>	<u>(463)</u>
Cash and cash equivalents at the beginning of the period	42,910	32,284
Cash and cash equivalents at the end of the period	<u>\$ 46,898</u>	<u>\$ 31,821</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes, net of refunds	\$ 2,272	\$ 2,418
Cash paid for interest	160	108

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 June 30, 2018, and for the three and six-month periods ended June 30, 2018 and 2017. 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, 2018.

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, 2017.

**Noncontrolling Interests**

Noncontrolling interests decreased as a result of the net loss attributable to the noncontrolling interests by \$0.3 million and \$0.5 million during the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, and December 31, 2017, noncontrolling interests were \$0.1 million and \$0.4 million, respectively.

**Restructuring Related Accruals and Expenses**

Accrued severance and rent costs were \$0.4 million and \$0.8 million as of June 30, 2018 and December 31, 2017, respectively. The Company did not record any additional restructuring related expenses during the three and six months ended June 30, 2018 and 2017, respectively.

**Chief Executive Officer Related Transition Costs**

During the second quarter of 2018, the Company announced the pending retirement of its Chief Executive Officer. As a result, the Company recorded \$1.5 million of transition related expenses during the three- and six-month periods ended June 30, 2018. As of June 30, 2018, accrued transition costs were \$1.4 million.

**Recent Accounting Pronouncements**

The Company adopted the requirements of revenue recognition from Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("Topic 606") effective January 1, 2018 under the modified retrospective approach. The cumulative effect of adopting Topic 606 on January 1, 2018 was a decrease to accumulated deficit of \$0.9 million (net of tax). See Note 13 - Revenue Recognition for additional disclosure of the adoption of Topic 606.

In January 2016, the Financial Accounting Standards Board ("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 did not 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 will impact the classification of expenses on the statement of operations, primarily the classification between rent expense and interest expense, but is not expected to have a material impact on the Company's net results of operations; however, it is also 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. The adoption of ASU 2017-09 did not have a material effect on the Company's results of operations, consolidated financial statements and footnote disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Effects from Accumulated Other Comprehensive Income. This update allows a reclassification of stranded tax effects, resulting from the Tax Cuts and Jobs Act 2017, from accumulated other comprehensive income to retained earnings. This ASU will be effective for annual periods beginning after December 15, 2018 with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

## (2) Inventories

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

	June 30, 2018	December 31, 2017
Raw materials	\$ 10,384	\$ 9,522
Work in progress	1,960	2,153
Finished goods	28,937	32,372
Total inventories	<u>\$ 41,281</u>	<u>\$ 44,047</u>

## (3) Property, Plant and Equipment

As of June 30, 2018 and December 31, 2017, the Company presented 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 during 2018. As the fair value of the property exceeds the carrying value, no loss was recognized during the three and six months ended June 30, 2018 and 2017, respectively.

In June of 2018, the Company sold a 29,300 square foot building in Mexico City, Mexico for \$2.6 million. The Company previously utilized the building for offices as well as warehouse space and has since relocated to a more advantageous location. As the fair value of the property exceeded the carrying value, a net gain of \$2.3 million was recognized during the three and six months ended June 30, 2018.

**(4) Investment Securities - Trading**

The Company's trading securities portfolio totaled \$1.5 million at June 30, 2018, and \$2.0 million at December 31, 2017, and generated gains of \$34,000 and \$51,000 for the three months ended June 30, 2018 and 2017, respectively, and \$34,000 and \$102,000 for the six months ended June 30, 2018 and 2017, respectively.

**(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 "Credit Agreement"). The Company pays interest on any borrowings under the Credit Agreement at LIBOR plus 1.25 percent (3.34 percent and 2.82 percent as of June 30, 2018 and December 31, 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 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 June 30, 2018. At June 30, 2018, the outstanding balance under the Credit Agreement was \$7.2 million.

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

**(6) Net Income (Loss) Per Share**

Basic net income (loss) per common share ("Basic EPS"), is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) 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 (loss) per common share.

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Following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for the three and six months ended June 30, 2018 and 2017 (dollar and share amounts in thousands, except for per share information):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Net income (loss) attributable to common shareholders</b>	\$ 67	\$ (187)	\$ 565	\$ 1,973
<b>Basic weighted average shares outstanding</b>	19,105	18,876	19,058	18,861
<b>Basic earnings (loss) per share attributable to common shareholders</b>	\$ —	\$ (0.01)	\$ 0.03	\$ 0.10
<b>Diluted shares outstanding:</b>				
Basic weighted-average shares outstanding	19,105	18,876	19,058	18,861
Stock-based awards	297	—	350	390
Diluted weighted-average shares outstanding	19,402	18,876	19,408	19,251
<b>Diluted earnings (loss) per share attributable to common shareholders</b>	\$ —	\$ (0.01)	\$ 0.03	\$ 0.10
<b>Dilutive shares excluded from diluted-per-share amounts:</b>				
Stock options	330	— (1)	330	371
<b>Anti-dilutive shares excluded from diluted-per-share amounts:</b>				
Stock options	1,160	2,444 (1)	1,160	1,363

(1) As a result of the net loss for the three months ended June 30, 2017, no potentially dilutive securities are included in the calculation of diluted earnings (loss) per share because such effect would be anti-dilutive. Potentially dilutive securities include 1,540 outstanding options to purchase shares of common stock and 904 restricted stock units.

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

**(7) Capital Transactions**

**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

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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 48 months from the option grant date, and performance-based stock options, which have already vested upon achieving operating income margins of six, eight and ten percent as reported in four of five consecutive quarters over the term of the options.

Stock option activity for the six-month period ended June 30, 2018, is as follows (amounts in thousands, except per share information):

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at December 31, 2017	1,390	\$ 12.20
Granted	25	9.05
Forfeited or canceled	(78)	16.31
Exercised	(69)	5.11
Options outstanding at June 30, 2018	1,268	12.27

During the six months ended June 30, 2018, the Company granted options to purchase 25,000 share 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 \$9.05 per share and a grant date fair value of \$3.64 per share, with an expected life of five years, risk-free interest rate of 2.8 percent, and expected volatility of 38.8 percent.

Share-based compensation expense from time-based stock options for the three-month periods ended June 30, 2018 and 2017, was approximately \$0.1 million and \$0.3 million, respectively. Share-based compensation expense from time-based stock options for the six-month periods ended June 30, 2018 and 2017, was approximately \$0.1 million and \$0.4 million, respectively. As of June 30, 2018 there was no unrecognized share-based compensation expense related to the grants described above as all outstanding options were vested. As of December 31, 2017, the unrecognized share-based compensation expense related to the grants described above was \$13,000.

At June 30, 2018, the aggregate intrinsic value of outstanding and vested stock options to purchase 1,268,000 shares of common stock was \$0.3 million. At December 31, 2017, the aggregate intrinsic value of outstanding options to purchase 1,390,000 shares of common stock, the exercisable options to purchase 1,293,000 shares of common stock, and options to purchase 92,000 shares of common stock expected to vest was \$0.9 million, \$0.9 million and \$0.0 million, respectively.

For the six-month periods ended June 30, 2018 and 2017, the Company issued 69,000 and 9,000 shares of common stock upon the exercise of stock options at an average exercise price of \$5.11 and \$11.98 per share, respectively. The aggregate intrinsic values of options exercised during the six-month periods ended June 30, 2018 and 2017, was \$0.4 million and \$7,000, respectively. For the six-month periods ended June 30, 2018 and 2017, the Company recognized \$0.1 million and \$0.0 million of tax benefits from the exercise of stock options, respectively.

As of June 30, 2018 and December 31, 2017, the Company did not have any unvested performance-based stock options outstanding.

#### 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 56,000 and 96,000 vested RSUs as of June 30, 2018, and December 31, 2017, 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 six-month period ended June 30, 2018, 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, 2017	728	\$ 11.56
Granted	237	11.02
Forfeited	(29)	11.61
Issued	(182)	11.75
Restricted Stock Units outstanding at June 30, 2018	754	11.34

During the six-month period ended June 30, 2018, the Company granted 237,000 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 adjusted EBITDA performance-based RSUs. The time-based RSUs were issued with a weighted-average grant date fair value of \$10.93 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 adjusted EBITDA earnings-per-share performance-based RSUs were issued with a weighted-average grant date fair value of \$11.20 per share and vest upon achieving targets over a three-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. For RSUs with post-vesting restrictions, a Finnerty Model was utilized to calculate a valuation discount from the market value of common shares reflecting the restriction embedded in the RSUs preventing the sale of the underlying shares over a certain period of time. The Finnerty Model proposes to estimate a discount for lack of marketability such as transfer restrictions by using an option pricing theory. The concept underpinning the Finnerty Model is that restricted stock cannot be sold over a certain period of time. Using assumptions previously determined for the application of the option pricing model at the valuation date, the Finnerty Model discount for lack of marketability is approximately 11.9 percent for a common share.

Share-based compensation expense for RSUs for the three-month periods ended June 30, 2018 and 2017, was approximately \$0.5 million and \$0.7 million, respectively. Share-based compensation expense from RSUs for the six-month periods ended June 30, 2018 and 2017, was approximately \$1.0 million and \$1.3 million, respectively. As of June 30, 2018, and December 31, 2017, the unrecognized share-based compensation expense related to the grants described above, excluding incentive awards discussed below, was \$1.9 million and \$2.0 million, respectively. The remaining compensation expense is expected to be recognized over the weighted average period of approximately 1.3 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 six-month periods ended June 30, 2018 and 2017. 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 \$4.0 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 40,000 shares for the six-month period ended June 30, 2018. 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 NSP China), and one business segment operates under the Synergy® WorldWide brand. Net sales for each segment have been reduced by intercompany sales as they are not included in

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the measure of segment profit or loss reviewed by the chief executive officer. The Company evaluates performance based on contribution margin (loss) by segment before consideration of certain inter-segment transfers and expenses.

In the fourth quarter of 2017, the Company moved the reporting of its wholesale business, in which the Company sells its products to a locally managed entity independent of the Company that has distribution rights for the market, from the NSP China segment to the NSP Russia, Central and Eastern Europe segment. The net sales and contribution margin for the three and six months ended June 30, 2017 were recast to reflect that change.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Net sales:</b>				
NSP Americas	\$ 38,386	\$ 39,421	\$ 80,257	\$ 84,066
NSP Russia, Central and Eastern Europe	9,407	7,160	18,958	15,606
Synergy WorldWide	36,719	30,363	68,537	57,676
NSP China	6,754	4,400	10,856	7,094
Total net sales	91,266	81,344	178,608	164,442
<b>Contribution margin (1):</b>				
NSP Americas	15,189	16,495	32,524	35,690
NSP Russia, Central and Eastern Europe	3,135	2,508	6,339	5,432
Synergy WorldWide	11,755	9,410	21,263	17,609
NSP China	5,417	3,446	8,637	5,515
Total contribution margin	35,496	31,859	68,763	64,246
Selling, general and administrative expenses (2)	33,310	31,836	65,696	62,172
Operating income	2,186	23	3,067	2,074
Other income (loss), net	(1,807)	441	(1,067)	1,716
Income before provision for income taxes	\$ 379	\$ 464	\$ 2,000	\$ 3,790

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

(2) Service fees in the NSP China 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 \$2.5 million and \$4.0 million for the three and six-month periods ended June 30, 2018, respectively, compared to \$1.7 million and \$2.6 million for the three and six-month periods ended June 30, 2017. These service fees are included in the Company's selling, general and administrative expenses.

From an individual country perspective, the United States and South Korea comprise 10 percent or more of consolidated net sales for the three and six-month periods ended June 30, 2018 and 2017, as follows (dollar amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Net sales:</b>				
United States	\$ 32,913	\$ 33,805	\$ 68,140	\$ 71,540
South Korea	19,608	12,486	34,192	23,832
Other	38,745	35,053	76,276	69,070
	\$ 91,266	\$ 81,344	\$ 178,608	\$ 164,442

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>NSP Americas:</b>				
General health	\$ 17,058	\$ 18,181	\$ 34,800	\$ 38,047
Immune	3,845	3,169	9,389	8,242
Cardiovascular	2,874	2,820	5,974	6,136
Digestive	11,242	11,660	22,954	23,808
Personal care	1,510	1,487	3,335	3,373
Weight management	1,857	2,104	3,805	4,460
	<u>38,386</u>	<u>39,421</u>	<u>80,257</u>	<u>84,066</u>
<b>NSP Russia, Eastern and Central Europe:</b>				
General health	\$ 4,120	\$ 3,203	\$ 8,251	\$ 7,146
Immune	893	674	1,922	1,536
Cardiovascular	672	512	1,367	1,107
Digestive	2,510	2,150	4,941	4,238
Personal care	902	442	1,862	1,084
Weight management	310	179	615	495
	<u>9,407</u>	<u>7,160</u>	<u>18,958</u>	<u>15,606</u>
<b>Synergy WorldWide:</b>				
General health	\$ 10,562	\$ 7,624	\$ 19,203	\$ 14,311
Immune	140	117	289	238
Cardiovascular	15,383	12,603	28,713	23,706
Digestive	4,037	4,154	7,862	7,619
Personal care	2,308	1,926	4,448	3,993
Weight management	4,289	3,939	8,022	7,809
	<u>36,719</u>	<u>30,363</u>	<u>68,537</u>	<u>57,676</u>
<b>NSP China:</b>				
General health	\$ 795	\$ 824	\$ 1,138	\$ 1,318
Immune	10	84	156	131
Cardiovascular	1,848	940	2,409	1,457
Digestive	2,868	1,692	5,324	3,124
Personal care	1,007	27	1,260	69
Weight management	226	833	569	995
	<u>6,754</u>	<u>4,400</u>	<u>10,856</u>	<u>7,094</u>
	<u>\$ 91,266</u>	<u>\$ 81,344</u>	<u>\$ 178,608</u>	<u>\$ 164,442</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):

	June 30, 2018	December 31, 2017
<b>Property, plant and equipment:</b>		
United States	\$ 63,721	\$ 65,928
Other	2,759	3,178
Total property, plant and equipment	<u>\$ 66,480</u>	<u>\$ 69,106</u>

**(9) Income Taxes**

For the three months ended June 30, 2018 and 2017, the Company's provision for income taxes, as a percentage of income before income taxes was 16.4 percent and 19.5 percent, respectively, compared with a U.S. federal statutory rate of 21.0 percent and 35.0 percent. For the six months ended June 30, 2018 and 2017, the Company's provision for income taxes, as a percentage of income before income taxes was 86.5 percent and 61.9 percent, respectively, compared with a U.S. federal statutory rate of 21.0 percent and 35.0 percent.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three and six months ended June 30, 2018, was primarily attributed to current year foreign losses, largely related to China, that presently do not provide future tax benefit, as well as net unfavorable foreign tax related items.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three and six months ended June 30, 2017, was primarily attributed to current year foreign losses, largely related to China, that presently do not provide future tax benefit, partially offset by foreign tax credit benefits.

In December 2017, the Tax Cuts and Jobs Act (Tax Reform Act) was signed into law. The provisions of the Tax Reform Act and related guidance provided by Staff Accounting Bulletin No. 118 allow for adjustments throughout 2018 to account for the impacts of the 2017 tax law changes. As of June 30, 2018, no additional adjustments related to these items have been made; however, adjustments may be necessary in future periods due to the significant complexity of the Tax Reform Act and anticipated additional regulatory guidance or technical corrections that may be forthcoming as well as actions the Company may take as a result of tax reform.

Because of the complexity of the new Global Intangible Low-taxed Income (GILTI) rules and the Foreign Derived Intangible Income (FDII) rules, the Company is continuing to evaluate these provisions of the Tax Reform Act and the application of ASC 740. The Company is also continuing to gather additional information and expect to complete its accounting within one year of enactment.

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 2017.

As of June 30, 2018, the Company had accrued \$4.8 million related to unrecognized tax positions, compared with \$4.6 million as of December 31, 2017. This net increase was primarily attributed to transfer pricing contingencies.

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. At June 30, 2018 and December 31, 2017, accrued liabilities were \$0.2 million and \$0.4 million, respectively, related to non-income tax contingencies. While management believes that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of those matters cannot presently be determined. The Company believes future payments related to these matters could range from \$0 to approximately \$3.4 million.

#### Other Litigation

The Company is a party to various other legal proceedings in the United States and several foreign jurisdictions related to value-added tax assessments and other civil litigation. As of June 30, 2018 and December 31, 2017, accrued liabilities were \$1.4 million and \$1.5 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 \$1.9 million.

#### (11) Related Party Transactions

During the three and six months ended June 30, 2018, NSP China borrowed \$0 and \$2.0 million from the Company and \$0 and \$0.5 million from the Company's joint venture partner, respectively. These notes are payable in one year and bear interest of 3.0 percent. As of June 30, 2018 and December 31, 2017, outstanding borrowings by NSP China from the Company were \$4.1 million and \$2.0 million, respectively. As of June 30, 2018 and December 31, 2017, outstanding borrowings by NSP China from the Company's joint venture partner were \$1.0 million and \$0.5 million, respectively. The notes between NSP China and the Company eliminate in consolidation.

#### (12) 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 June 30, 2018 (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	
Investment securities - trading	\$ 1,545	\$ —	\$ —	\$ 1,545
Total assets measured at fair value on a recurring basis	\$ 1,545	\$ —	\$ —	\$ 1,545

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The following table presents the Company's hierarchy for its assets, measured at fair value on a recurring basis, as of December 31, 2017 (dollar amounts in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
	<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>	<u>Significant Unobservable Inputs</u>	<u>Total</u>
Investment securities - trading	\$ 1,980	\$ —	\$ —	\$ 1,980
Total assets measured at fair value on a recurring basis	\$ 1,980	\$ —	\$ —	\$ 1,980

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

For the six months ended June 30, 2018, and for the year ended December 31, 2017, there were no fair value measurements using significant other observable inputs (Level 2) or significant unobservable inputs (Level 3).

The carrying amounts reflected on the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to their short-term nature. The carrying amount reflected on the condensed consolidated balance sheets for the revolving credit facility approximates fair value due to it being variable-rate debt. During the six months ended June 30, 2018 and 2017, the Company did not have any re-measurements of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

### **(13) Revenue Recognition**

#### **Adoption of ASU Topic 606**

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605.

The Company recorded a net reduction to opening accumulated deficit of \$0.9 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to deferred revenue on shipments that had not been delivered being recognized upon shipment and deferrals for annual membership fees that are no longer deferred. The impact to revenues and operating income as a result of applying Topic 606 was a decrease of \$0.5 million and \$0.2 million, respectively, for the six months ended June 30, 2018.

#### **Revenue Recognition**

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

A reserve for product returns is recorded based upon historical experience and current trends. 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.

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.

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

#### **Contract Liabilities - Customer Loyalty Programs**

The Company records contract liabilities for loyalty point program in deferred revenue. These programs are accounted for as a reduction in the transaction price and are generally recognized as points are redeemed for additional products.

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The following table presents changes in these contract liability balances for the six-month period ended June 30, 2018 (U.S. dollars in thousands):

	June 30, 2018
Outstanding at December 31, 2017	\$ 1,126
Increase (decrease) attributed to:	
Customer loyalty net deferrals	2,692
Customer loyalty redemptions	(2,392)
Outstanding at June 30, 2018	\$ 1,426

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

### Disaggregation of Revenue

The Company's products are grouped into six principal categories: general health, immune, cardiovascular, digestive, personal care and weight management. 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. Three business segments operate under the Nature's Sunshine Products brand and one business segment operates under the Synergy® WorldWide brand. See Note 8, Segment Information, for further information on the Company's reportable segments and the Company's presentation of disaggregated revenue by reportable segment and product category.

### Practical Expedients and Exemptions

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

The Company generally expenses volume incentives when incurred because the amortization period would have been one year or less.

All of the Company's contracts with customers have a duration of less than one year, the value of any unsatisfied performance obligations is insignificant.

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

The following Management's Discussion and Analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in this report, as well as the consolidated financial statements, the notes thereto, and management's discussion and analysis included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, 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 NSP China), and one business segment operates under the Synergy® WorldWide brand.

In the fourth quarter of 2017, the Company moved the reporting of its wholesale business, in which the Company sells its products to a locally managed entity independent of the Company that has distribution rights for the market, from the NSP China segment to NSP Russia, Central and Eastern Europe segment. The net sales and contribution margin for the three and six months ended June 30, 2017 were recast to reflect that change.

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 second quarter of 2018, the Company experienced an increase in its consolidated net sales of 12.2 percent (or 9.6 percent in local currencies) compared to the same period in 2017. NSP China net sales increased approximately 53.5 percent compared to the same period in 2017. NSP Russia, Central and Eastern Europe net sales increased approximately 31.4 percent compared to the same period in 2017. Synergy WorldWide net sales increased approximately 20.9 percent compared to the same period in 2017 (or 15.9 percent in local currencies). NSP Americas net sales decreased approximately 2.6 percent compared to the same period in 2017 (or 2.8 percent in local currencies). The weakening of the U.S. dollar versus the local currencies, primarily in the Company's Asian and European markets, resulted in an approximate 2.6 percent, or \$2.1 million, increase of its net sales during the quarter.

Although selling, general and administrative expenses during the three months ended June 30, 2018 increased \$1.5 million compared to the same period in 2017, selling, general and administrative expenses as a percentage of net sales decreased to 36.5 percent from 39.1 percent in 2017. The increase in dollars was primarily the result of transition expense related to the announced retirement of the Company's Chief Executive Officer, the recognition of employee related benefits, and increased service fees in China, partially offset by the sale of an office building in one of the Company's foreign markets.

The Company distributes its products to consumers through an independent sales force comprised of independent Managers and Distributors, many of whom also consume the Company's products. Typically a person who joins the Company's independent sales force begins as a Distributor. An independent Distributor may earn Manager status by attaining certain product sales levels. On a worldwide basis, active independent Managers were approximately 13,100 and 13,200 and active independent Distributors and customers were approximately 217,200 and 214,500 at June 30, 2018 and 2017, respectively.

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

## 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 June 30, 2018 and 2017 (dollar amounts in thousands):

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017		Change	
	Total dollars	Percent of net sales	Total dollars	Percent of net sales	Total dollars	Percentage
Net sales	\$ 91,266	100.0 %	\$ 81,344	100.0 %	\$ 9,922	12.2 %
Cost of sales	24,278	26.6	21,197	26.1	3,081	14.5
	66,988	73.4	60,147	73.9	6,841	11.4
Volume incentives	31,492	34.5	28,288	34.8	3,204	11.3
SG&A expenses	33,310	36.5	31,836	39.1	1,474	4.6
Operating income	2,186	2.4	23	—	2,163	9,404.3
Other income (loss), net	(1,807)	(2.0)	441	0.5	(2,248)	(509.8)
Income before income taxes	379	0.4	464	0.6	(85)	(18.3)
Provision for income taxes	441	0.5	884	1.1	(443)	(50.1)
Net loss	\$ (62)	(0.1)%	\$ (420)	(0.5)%	\$ 358	85.2 %

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 six months ended June 30, 2018 and 2017 (dollar amounts in thousands):

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017		Change	
	Total dollars	Percent of net sales	Total dollars	Percent of net sales	Total dollars	Percentage
Net sales	\$ 178,608	100.0 %	\$ 164,442	100.0%	\$ 14,166	8.6 %
Cost of sales	46,991	26.3	42,925	26.1	4,066	9.5
	131,617	73.7	121,517	73.9	10,100	8.3
Volume incentives	62,854	35.2	57,271	34.8	5,583	9.7
SG&A expenses	65,696	36.8	62,172	37.8	3,524	5.7
Operating income	3,067	1.7	2,074	1.3	993	47.9
Other income (loss), net	(1,067)	(0.6)	1,716	1.0	(2,783)	(162.2)
Income before income taxes	2,000	1.1	3,790	2.3	(1,790)	(47.2)
Provision for income taxes	1,729	1.0	2,347	1.4	(618)	(26.3)
Net income	\$ 271	0.2 %	\$ 1,443	0.9%	\$ (1,172)	(81.2)%

#### 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 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*.

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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 June 30, 2018 and 2017 (dollar amounts in thousands):

Net Sales by Operating Segment						
	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency	
NSP Americas:						
NSP North America	\$ 32,919	\$ 33,190	(0.8)%	\$ 112	(1.2)%	
NSP Latin America	5,467	6,231	(12.3)	(54)	(11.4)	
	38,386	39,421	(2.6)	58	(2.8)	
NSP Russia, Central and Eastern Europe	9,407	7,160	31.4	82	30.2	
Synergy WorldWide:						
Synergy Asia Pacific	28,966	21,271	36.2	1,139	30.8	
Synergy Europe	5,107	6,097	(16.2)	397	(22.7)	
Synergy North America	2,646	2,995	(11.7)	—	(11.7)	
	36,719	30,363	20.9	1,536	15.9	
NSP China	6,754	4,400	53.5	435	43.6	
	<u>\$ 91,266</u>	<u>\$ 81,344</u>	12.2 %	<u>\$ 2,111</u>	9.6 %	

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 their months ended June 30, 2018 and 2017 (dollar amounts in thousands):

Net Sales by Operating Segment						
	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency	
NSP Americas:						
NSP North America	\$ 68,523	\$ 71,236	(3.8)%	\$ 237	(4.1)%	
NSP Latin America	11,734	12,830	(8.5)	42	(8.9)	
	80,257	84,066	(4.5)	279	(4.9)	
NSP Russia, Central and Eastern Europe	18,958	15,606	21.5	318	19.4	
Synergy WorldWide:						
Synergy Asia Pacific	52,674	40,052	31.5	2,700	24.8	
Synergy Europe	10,763	12,022	(10.5)	1,146	(20.0)	
Synergy North America	5,100	5,602	(9.0)	—	(9.0)	
	68,537	57,676	18.8	3,846	12.2	
NSP China	10,856	7,094	53.0	698	43.2	
	<u>\$ 178,608</u>	<u>\$ 164,442</u>	8.6 %	<u>\$ 5,141</u>	5.5 %	

Consolidated net sales for the three and six months ended June 30, 2018, were \$91.3 million and \$178.6 million, respectively, compared to \$81.3 million and \$164.4 million for the same periods in 2017, which represents increases of 12.2 percent and 8.6 percent, respectively. Net sales in the Company's NSP Americas segment decreased \$1.0 million and \$3.8 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. Net sales in the Company's Synergy WorldWide segment increased \$6.4 million and \$10.9 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. Net sales in the Company's NSP China segment increased \$2.4 million and \$3.8 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. The Company's NSP Russia, Central and Eastern Europe segment net sales increased \$2.2 million and \$3.4 million for the three

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and six months ended June 30, 2018, respectively, from the same periods in 2017. Net sales for the three and six months ended June 30, 2018, were favorably impacted by \$2.1 million and \$5.1 million of foreign currency exchange rate fluctuations, respectively. Excluding the impacts of foreign currency exchange rate fluctuations, consolidated net sales increased by 9.6 percent and 5.5 percent, respectively, from the same periods in 2017.

### NSP Americas

Net sales from the Company's NSP Americas segment for the three months ended June 30, 2018 and 2017, were \$38.4 million and \$39.4 million, respectively, or a decrease of 2.6 percent. Net sales from the Company's NSP Americas segment for the six months ended June 30, 2018 and 2017, were \$80.3 million and \$84.1 million, respectively, or a decrease of 4.5 percent. The declines for the NSP Americas business are further discussed in United States and Latin America commentary below. Active Managers within NSP Americas totaled approximately 5,800 and 6,400 at June 30, 2018 and 2017, respectively. Active Distributors and customers within NSP Americas totaled approximately 101,700 and 105,500 at June 30, 2018 and 2017, respectively. The Company's exit from Costa Rica and Nicaragua, as well as, issues surrounding the Company's implementation of Oracle resulted in a significant decrease in the Company's independent Managers, Distributors and customers. Independent Managers were down 9.4 percent, and active independent Distributors and customers were down 3.6 percent compared to the prior year.

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

In the United States, net sales decreased approximately \$0.5 million and \$2.9 million, or 1.8 percent and 4.4 percent, for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. Net sales for the three months ended declined primarily due to the shift of U.S. national convention and related promotions to the second half of 2018. Net sales for the six months were also impacted by the timing change in the U.S. convention previously noted. In addition, the six-month period was unfavorably impacted from 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.

In Latin America, net sales decreased approximately \$0.8 million and \$1.1 million, or 12.3 percent and 8.5 percent, for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. In local currency, net sales for the three and six months ended June 30, 2018, decreased 11.4 percent and 8.9 percent, respectively, compared to the same periods in 2017. Currency devaluation had a \$0.1 million unfavorable and \$42,000 favorable impact on net sales for the three and six months ended June 30, 2018, respectively. The decline in net sales is primarily due to continued challenges from changing regulations for product registration that affect the Company's ability to sell some of its products in Latin America, as well as the impact of exiting Costa Rica and Nicaragua markets during the fourth quarter of 2017. Additionally, the six-month period was unfavorably impacted by 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.

### NSP Russia, Central and Eastern Europe

Net sales related to NSP Russia, Central and Eastern Europe markets (primarily Russia, the Ukraine, Poland, and Belarus), for the three and six months ended June 30, 2018, were \$9.4 million and \$19.0 million, respectively, compared to \$7.2 million and \$15.6 million for the same periods in 2017, or an increase of 31.4 percent and 21.5 percent, respectively. Active independent Managers within the Company's NSP Russia, Central and Eastern Europe segment totaled approximately 3,100 and 2,700 at June 30, 2018 and 2017, respectively. Active independent Distributors and customers within NSP Russia, Central and Eastern Europe totaled approximately 65,500 and 60,000 at June 30, 2018 and 2017, respectively. Net sales increased primarily as a result of the relative stabilization of the 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 six months ended June 30, 2018, of \$36.7 million and \$68.5 million, respectively, compared to \$30.4 million and \$57.7 million for the same periods in 2017, or an increase of 20.9 percent and 18.8 percent, respectively. The increase was primarily due to increases in the Company's Korean and Japanese markets, and the favorable fluctuations in foreign exchange rates, which had a \$1.5 million and \$3.8 million favorable impact on net sales for the three and six months ended June 30, 2018, respectively. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales in Synergy WorldWide would have increased 15.9 percent and 12.2 percent for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. Active independent Managers within the Company's Synergy WorldWide segment totaled approximately 4,200 and 4,100 at June 30,

2018 and 2017, respectively. Active independent Distributors and customers within the Company's Synergy WorldWide segment totaled approximately 50,000 and 49,000 at June 30, 2018 and 2017, respectively.

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

In South Korea, net sales increased \$7.1 million and \$10.4 million, or an increase of 57.0 percent and 43.5 percent, for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. In local currency, net sales for the three and six months ended June 30, 2018, increased 49.8 percent and 35.1 percent, respectively, compared to the same periods in 2017. The increase in local currency net sales was the result of an increased focus on core products for the market as well as an easing of geopolitical tension and an improvement in economic conditions that unfavorably impacted the prior year.

In Japan, net sales increased \$0.3 million and \$1.6 million, or 6.4 percent and 17.2 percent, for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. In local currency, net sales for the three and six months ended June 30, 2018, increased 4.1 percent and 13.3 percent, respectively, compared to the same periods in 2017. The Company attributes the increase in net sales in Japan primarily to the introduction of new products and the implementation of programs intended to stimulate activity, including the adoption of Korea's distributor recognition program last year, which continued to drive sales improvements in the second quarter of 2018.

In Europe, net sales decreased \$1.0 million and \$1.3 million, or 16.2 percent and 10.5 percent, for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. In local currency, net sales for the three and six months ended June 30, 2018, decreased 22.7 percent and 20.0 percent, respectively, compared to the same periods in 2017. The decrease in local currency net sales is primarily due to market saturation in certain European countries and a reduction in sales activity in the market's Scandinavian countries.

In North America, net sales decreased approximately \$0.3 million and \$0.5 million, or 11.7 percent and 9.0 percent, for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. The decline in sales is primarily driven by lower Distributor recruiting. Growth initiatives have been developed and implemented to more effectively support recruiting and Distributor training and motivation.

#### NSP China

NSP China had net sales for the three and six months ended June 30, 2018, of \$6.8 million and \$10.9 million, respectively, compared to \$4.4 million and \$7.1 million for the same periods in 2017, or increases of 53.5 percent and 53.0 percent, respectively. Net sales were positively impacted by the Company receiving its direct selling license in May 2017, which allows the Company to expand its business scope to include direct selling activities within China. NSP China continues to show growth primarily due to initiatives designed to increase distributor engagement levels and gain market share.

Further information related to NSP Americas, NSP Russia, Central and Eastern Europe, Synergy WorldWide, and NSP China 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 26.6 percent and 26.3 percent for the three and six months ended June 30, 2018, compared to 26.1 percent and 26.1 percent for the same periods in 2017. The increase in cost of sales percentage is driven by unfavorable changes in market mix, provisions for inventory obsolescence and recognition of employee related benefits.

#### *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 34.5 percent and 35.2 percent for the three and six months ended June 30, 2018, respectively, compared to 34.8 percent and 34.8 percent for the same periods in 2017. The change in volume incentives as a percentage of net sales is due primarily to increased rates in certain markets resulting from increased promotional activity during the period. The Company has also noted an increase in sales in markets where volume incentives are a higher percentage of net sales. Volume incentives as a percentage of net sales can fluctuate based on promotional activity and mix of sales by market.

*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 \$1.5 million and \$3.5 million, respectively, to \$33.3 million and \$65.7 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. Selling, general and administrative expenses were 36.5 percent and 36.8 percent of net sales for the three and six months ended June 30, 2018, respectively, compared to 39.1 percent and 37.8 percent for the same periods in 2017. The increase in selling, general and administrative expenses for the three and six months ended June 30, 2018, as compared to the same periods in 2017, was primarily related to:

- \$1.5 million of transition costs related to the announced retirement of the Company's Chief Executive Officer for the three and six months ended June 30, 2018;
- \$0.8 million and \$1.4 million of increased independent service fees in China for the three and six months ended June 30, 2018, respectively;
- \$0.0 million and \$1.2 million of increased depreciation related to the Oracle ERP implementation project incurred for the three and six months ended June 30, 2018, respectively;
- \$1.9 million and \$1.6 million due to the timing of accrued employee benefits, respectively;
- \$0.6 million reduction of reserves for product liability for the three and six months ended June 30, 2017, respectively.

Offset by:

- \$2.3 million gain on the sale of an office building in one of the Company's foreign markets for the three and six months ended June 30, 2018, respectively.

*Other Income (Loss), Net*

Other income (loss) net, for the three and six months ended June 30, 2018, were losses of \$1.8 million and \$1.1 million, respectively, compared to gains of \$0.4 million and \$1.7 million during the same periods in 2017, respectively. Other income (loss) for the three and six months ended June 30, 2018 primarily consisted of foreign exchange losses. The change in other income (loss) was primarily due to increases in foreign exchange losses as a result of changes in foreign currencies.

*Income Taxes*

For the three months ended June 30, 2018 and 2017, the Company's provision for income taxes, as a percentage of income before income taxes was 16.4 percent and 190.5 percent, respectively, compared with a U.S. federal statutory rate of 21.0 percent and 35.0 percent. For the six months ended June 30, 2018 and 2017, the Company's provision for income taxes, as a percentage of income before income taxes was 86.5 percent and 61.9 percent, respectively, compared with a U.S. federal statutory rate of 21.0 percent and 35.0 percent.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three and six months ended June 30, 2018, was primarily attributed to current year foreign losses, largely related to China, that presently do not provide future tax benefit, as well as net unfavorable foreign items.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three and six months ended June 30, 2017, was primarily attributed to current year foreign losses, largely related to China, that presently do not provide future tax benefit, partially offset by foreign tax credit benefits.

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 2011 through 2017.

As of June 30, 2018, the Company had accrued \$4.8 million related to unrecognized tax positions, compared with \$4.6 million as of December 31, 2017. This net increase was primarily attributed to changes in contingencies related to international tax.

**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 comply 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 six months ended June 30, 2018 and 2017, by business segment.

Three Months Ended June 30,	2018		2017	
<b>NSP Americas:</b>				
General health	\$ 17,058	44.4 %	\$ 18,181	46.1 %
Immune	3,845	10.0	3,169	8.0
Cardiovascular	2,874	7.5	2,820	7.2
Digestive	11,242	29.3	11,660	29.6
Personal care	1,510	3.9	1,487	3.8
Weight management	1,857	4.8	2,104	5.3
Total NSP Americas	<u>38,386</u>	<u>100.0</u>	<u>39,421</u>	<u>100.0</u>
<b>NSP Russia, Central and Eastern Europe:</b>				
General health	\$ 4,120	43.8 %	\$ 3,203	44.7 %
Immune	893	9.5	674	9.4
Cardiovascular	672	7.1	512	7.2
Digestive	2,510	26.7	2,150	30.0
Personal care	902	9.6	442	6.2
Weight management	310	3.3	179	2.5
Total NSP Russia, Central and Eastern Europe	<u>9,407</u>	<u>100.0</u>	<u>7,160</u>	<u>100.0</u>
<b>Synergy WorldWide:</b>				
General health	\$ 10,562	28.8 %	\$ 7,624	25.1 %
Immune	140	0.4	117	0.4
Cardiovascular	15,383	41.9	12,603	41.5
Digestive	4,037	11.0	4,154	13.7
Personal care	2,308	6.3	1,926	6.3
Weight management	4,289	11.7	3,939	13.0
Total Synergy WorldWide	<u>36,719</u>	<u>100.0</u>	<u>30,363</u>	<u>100.0</u>
<b>NSP China:</b>				
General health	\$ 795	11.8 %	\$ 824	18.7 %
Immune	10	0.1	84	1.9
Cardiovascular	1,848	27.4	940	21.4
Digestive	2,868	42.5	1,692	38.5
Personal care	1,007	14.9	27	0.6
Weight management	226	3.3	833	18.9
Total NSP China	<u>6,754</u>	<u>100.0</u>	<u>4,400</u>	<u>100.0</u>
<b>Consolidated:</b>				
General health	\$ 32,535	35.6 %	\$ 29,832	36.7 %
Immune	4,888	5.4	4,044	5.0
Cardiovascular	20,777	22.8	16,875	20.7
Digestive	20,657	22.6	19,656	24.2
Personal care	5,727	6.3	3,882	4.8
Weight management	6,682	7.3	7,055	8.7
Total Consolidated	<u>\$ 91,266</u>	<u>100.0 %</u>	<u>\$ 81,344</u>	<u>100.0 %</u>

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Six Months Ended June 30,	2018		2017	
<b>NSP Americas:</b>				
General health	\$ 34,800	43.4 %	\$ 38,047	45.3 %
Immune	9,389	11.7	8,242	9.8
Cardiovascular	5,974	7.4	6,136	7.3
Digestive	22,954	28.6	23,808	28.3
Personal care	3,335	4.2	3,373	4.0
Weight management	3,805	4.7	4,460	5.3
Total NSP Americas	80,257	100.0	84,066	100.0
<b>NSP Russia, Central and Eastern Europe:</b>				
General health	\$ 8,251	43.5 %	\$ 7,146	45.8 %
Immune	1,922	10.1	1,536	9.8
Cardiovascular	1,367	7.2	1,107	7.1
Digestive	4,941	26.1	4,238	27.2
Personal care	1,862	9.8	1,084	6.9
Weight management	615	3.2	495	3.2
Total NSP Russia, Central and Eastern Europe	18,958	100.0	15,606	100.0
<b>Synergy WorldWide:</b>				
General health	\$ 19,203	28.0 %	\$ 14,311	24.8 %
Immune	289	0.4	238	0.4
Cardiovascular	28,713	41.9	23,706	41.1
Digestive	7,862	11.5	7,619	13.2
Personal care	4,448	6.5	3,993	6.9
Weight management	8,022	11.7	7,809	13.5
Total Synergy WorldWide	68,537	100.0	57,676	100.0
<b>NSP China:</b>				
General health	\$ 1,138	10.5 %	\$ 1,318	18.6 %
Immune	156	1.4	131	1.8
Cardiovascular	2,409	22.2	1,457	20.5
Digestive	5,324	49.0	3,124	44.0
Personal care	1,260	11.6	69	1.0
Weight management	569	5.2	995	14.0
Total NSP China	10,856	100.0	7,094	100.0
<b>Consolidated:</b>				
General health	\$ 63,392	35.5 %	\$ 60,822	37.0 %
Immune	11,756	6.6	10,147	6.2
Cardiovascular	38,463	21.5	32,406	19.7
Digestive	41,081	23.0	38,789	23.6
Personal care	10,905	6.1	8,519	5.2
Weight management	13,011	7.3	13,759	8.4
Total Consolidated	\$ 178,608	100.0 %	\$ 164,442	100.0 %

## **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 June 30, 2018, the Company had approximately 217,200 "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 June 30, 2018, the Company had approximately 13,100 "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 NSP China 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 expended during the quarters ended June 30, 2018 and 2017, 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. Such expenses are accounted for as selling, general and administrative expenses.

### *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 June 30,**

	2018		2017	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	225,000	5,800	253,300	6,400
NSP Russia, Central and Eastern Europe	143,400	3,100	138,700	2,700
Synergy WorldWide	129,600	4,200	111,100	4,100
	<u>498,000</u>	<u>13,100</u>	<u>503,100</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 June 30,**

	2018		2017	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	101,700	5,800	105,500	6,400
NSP Russia, Central and Eastern Europe	65,500	3,100	60,000	2,700
Synergy WorldWide	50,000	4,200	49,000	4,100
	<u>217,200</u>	<u>13,100</u>	<u>214,500</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 June 30,**

	2018		2017	
	New Distributors & Customers	New Managers	New Distributors & Customers	New Managers
NSP Americas	19,700	700	19,200	500
NSP Russia, Central and Eastern Europe	13,000	200	11,100	200
Synergy WorldWide	17,500	1,100	15,900	600
	<u>50,200</u>	<u>2,000</u>	<u>46,200</u>	<u>1,300</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 June 30,**

	2018		2017	
	New Distributors & Customers	New Managers	New Distributors & Customers	New Managers
NSP Americas	78,600	2,000	103,100	2,400
NSP Russia, Central and Eastern Europe	40,100	800	46,800	600
Synergy WorldWide	69,500	3,400	63,000	3,000
	188,200	6,200	212,900	6,000

“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 June 30, 2018, working capital was \$46.6 million, compared to \$48.9 million as of December 31, 2017. At June 30, 2018, the Company had \$46.9 million in cash, of which \$15.7 million was held in the U.S. and \$31.2 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):

	Six Months Ended June 30,	
	2018	2017
Operating activities	\$ 9,437	\$ (684)
Investing activities	(113)	(836)
Financing activities	(5,526)	(259)

Operating Activities

For the six months ended June 30, 2018, operating activities provided cash in the amount of \$9.4 million, compared to using \$0.7 million in the same period in 2017. Operating cash flows increased primarily due to the timing of payments for inventory, accrued liabilities, income taxes payable and receipts in accounts receivable, partially offset by the timing of payments for accrued volume incentives and service fees, other assets, deferred compensation payable and changes in deferred revenue.

Investing Activities

For the six months ended June 30, 2018, investing activities used \$0.1 million, compared to \$0.8 million for the same period in 2017. Capital expenditures related to the purchase of equipment, computer systems and software for the six months ended June 30, 2018 and 2017, were \$2.7 million and \$3.1 million, respectively. During the six months ended June 30, 2018, the Company had proceeds of \$2.6 million relating to the sale of an office building in one of its foreign markets.

*Financing Activities*

For the six months ended June 30, 2018, financing activities used \$5.5 million in cash, compared to \$0.3 million in cash for the same period in 2017. During the six months ended June 30, 2017, the Company used cash to pay dividends in the aggregate amount of \$1.9 million. The increase in cash paid for financing activities during 2018 was the result of paying down the outstanding balance under the credit facility partially offset by a decrease that was the result of Board of Directors' first-quarter of 2017 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 "Credit Agreement"). The Company pays interest on any borrowings under the Credit Agreement at LIBOR plus 1.25 percent (3.34 percent and 2.82 percent as of June 30, 2018 and December 31, 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 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 June 30, 2018. At June 30, 2018, the outstanding balance under the Credit Agreement was \$7.2 million.

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

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 of demand for the Company's products, an unfavorable settlement of its unrecognized tax positions or non-income tax contingencies could adversely affect the Company's long-term liquidity.

**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, 2017. 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.

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### *Revenue Recognition*

The Company's revenue recognition practices are discussed in Note 13, "Revenue Recognition," to its Condensed Consolidated Financial Statements in Item 1, Part 1 of this report.

### *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 within 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, the Company assesses the potential liability related to the contingency and revises the estimates. Revision in estimates of the potential liabilities could materially affect the Company's results of operations in the

period of adjustment. The Company's contingencies are discussed in further detail in Note 9, "Commitments and Contingencies", to 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 six months ended June 30, 2018, approximately 61.8 percent of the Company's net sales and approximately 56.5 percent of its operating expenses were realized outside of the United States. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency of each international subsidiary is generally the functional currency. 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 June 30, 2018 (dollar amounts in thousands) is as follows:

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Net sales	\$ 91,266	\$ (4,331)	(4.7)%	\$ (6,215)	(6.8)%	\$ (9,530)	(10.4)%
<b>Cost and expenses</b>							
Cost of sales	24,278	(1,225)	(5.0)	(1,757)	(7.2)	(2,695)	(11.1)
Volume incentives	31,492	(1,665)	(5.3)	(2,388)	(7.6)	(3,663)	(11.6)
Selling, general and administrative	33,310	(769)	(2.3)	(1,105)	(3.3)	(1,693)	(5.1)
Operating income	\$ 2,186	\$ (672)	(30.7)%	\$ (965)	(44.1)%	\$ (1,479)	(67.7)%

Exchange rate sensitivity for the six months ended June 30, 2018 (dollar amounts in thousands) is as follows:

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Net sales	\$ 178,608	\$ (8,097)	(4.5)%	\$ (11,618)	(6.5)%	\$ (17,814)	(10.0)%
<b>Cost and expenses</b>							
Cost of sales	46,991	(2,372)	(5.0)	(3,403)	(7.2)	(5,218)	(11.1)
Volume incentives	62,854	(3,162)	(5.0)	(4,537)	(7.2)	(6,957)	(11.1)
Selling, general and administrative	65,696	(1,746)	(2.7)	(2,506)	(3.8)	(3,842)	(5.8)
Operating income	\$ 3,067	\$ (817)	(26.6)%	\$ (1,172)	(38.2)%	\$ (1,797)	(58.6)%

Certain of the Company's operations, including its operations in 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.

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 June 30, 2018 (dollar amounts in thousands) is as follows:

	With Strengthening of U.S. Dollar by:						
	10%		15%		25%		
	(\$)	(%)	(\$)	(%)	(\$)	(%)	
<b>Financial Instruments Included in Current Assets Subject to Exchange Rate Risk</b>							
Cash and cash equivalents	\$ 46,898	\$ (3,222)	(6.9)%	\$ (4,622)	(9.9)%	\$ (7,087)	(15.1)%
Accounts receivable, net	8,158	(387)	(4.7)	(555)	(6.8)	(850)	(10.4)
<b>Financial Instruments Included in Current Liabilities Subject to Exchange Rate Risk</b>							
Accounts payable	4,224	(82)	(1.9)	(118)	(2.8)	(181)	(4.3)
<b>Net Financial Instruments Subject to Exchange Rate Risk</b>							
	\$ 50,832	\$ (3,527)	(6.9)%	\$ (5,059)	(10.0)%	\$ (7,756)	(15.3)%

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 June 30, 2018, 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 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 June 30, 2018 (dollar amounts in thousands) is as follows:

	Translated into U.S. Dollars	At Spot Exchange Rate per One U.S. Dollar as of June 30, 2018
Cash and cash equivalents		
South Korea (Won)	\$ 11,425	1,114.6
European Markets (Euro)	3,723	0.9
Japan (Yen)	3,039	110.7
Hong Kong (Dollar)	2,956	7.8
China (Yuan Renminbi)	2,730	6.6
Malaysia (Ringgit)	1,776	4.0
Poland (Zloty)	1,492	3.7
Canada (Dollar)	1,290	1.3
Guatemala (Quetzal)	1,015	7.5
Other	592	Varies
Total foreign denominated cash and cash equivalents	30,038	
U.S. dollars held by foreign subsidiaries	1,134	
Total cash and cash equivalents held by foreign subsidiaries	\$ 31,172	

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.

Six Months Ended June 30,	2018	2017
Canada (Dollar)	1.3	1.3
China (Yuan Renminbi)	6.4	6.6
European Markets (Euro)	0.8	0.9
Japan (Yen)	108.7	108.3
South Korea (Won)	1,075.5	1,162.6

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. As of June 30, 2018, the Company did not operate in any markets considered to have highly inflationary economies.

#### **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 June 30, 2018. 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 June 30, 2018, at the reasonable assurance level.

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

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 June 30, 2018, 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**

The following description of risk factors includes any material changes to, and, if applicable, supersedes the description of, risk factors associated with the Company's business previously disclosed in "Part I. Item 1A - Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and should be read in conjunction with the detailed discussion of risks associated with the Company's business in its recent SEC filings, including the risk factors discussed in "Part I. Item 1A - Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

In 2018, there has been increasing rhetoric, in some cases coupled with legislative or executive action, from several U.S. and foreign leaders regarding the possibility of instituting tariffs against foreign imports of certain materials. U.S. and foreign leaders have also indicated an intent to renegotiate, modify or terminate international trade agreements or policies with foreign countries. It remains unclear what U.S. or foreign governments will or will not do with respect to tariffs, international trade agreements and policies. A trade war or other governmental action related to tariffs, international trade agreements or policies has the potential to adversely impact demand for the Company's products, the Company's costs, customers, suppliers and/or the U.S. and global economy or certain sectors thereof and, thus, could have a material adverse effect on the Company's results of operations and financial condition.

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

*None*

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

- a) Index to Exhibits

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

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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: August 8, 2018

/s/ Gregory L. Probert

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

Date: August 8, 2018

/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: August 8, 2018

/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: August 8, 2018

/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 June 30, 2018 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: August 8, 2018

/s/ Gregory L. Probert

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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 June 30, 2018 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: August 8, 2018

/s/ Joseph W. Baty

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Joseph W. Baty

Executive Vice President, Chief Financial Officer and Treasurer