
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2019**

OR

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



NATURE'S SUNSHINE PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

Utah
(State or other jurisdiction of
incorporation or organization)

87-0327982
(IRS Employer
Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	NATR	Nasdaq Capital Market

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth Company

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 28, 2019 was approximately \$82,181,096 based on the closing price of \$9.29 as quoted by Nasdaq Capital Market on June 28, 2019. For the purposes of this disclosure only, the registrant has assumed that its directors, executive officers, and the beneficial owners of 10% or more of the registrant's outstanding common stock are the affiliates of the registrant.

The number of shares of Common Stock, no par value, outstanding on February 27, 2020 is 19,473,100 shares.

EXPLANATORY NOTES

Portions of the registrant’s Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant’s year ended December 31, 2019, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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

For the Year Ended December 31, 2019

Table of Contents

Part I.

Item 1.	Business	4
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	22
Item 2.	Properties	22
Item 3.	Legal Proceedings	22
Item 4.	Mine Safety Disclosures	22

Part II.

Item 5.	Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	23
Item 6.	Selected Financial Data	25
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	38
Item 8.	Financial Statements and Supplementary Data	42
Item 9.	Change in and Disagreements with Accountants on Accounting and Financial Disclosure	76
Item 9A.	Controls and Procedures	76
Item 9B.	Other Information	78

Part III.

Item 10.	Directors, Executive Officers and Corporate Governance	78
Item 11.	Executive Compensation	78
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	78
Item 13.	Certain Relationships and Related Transactions and Director Independence	78
Item 14.	Principal Accounting Fees and Services	78

Part IV.

Item 15.	Exhibits and Financial Statement Schedules	79
--------------------------	--	--------------------

Signatures	82
----------------------------	--------------------

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated herein by reference in this report may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies. All statements (other than statements of historical fact) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as “believe,” “hope,” “may,” “anticipate,” “should,” “intend,” “plan,” “will,” “expect,” “estimate,” “project,” “positioned,” “strategy” and similar expressions, and are based on assumptions and assessments made in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. For example, information appearing under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” includes forward-looking statements. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are more fully described in this report, including the risks set forth under “Risk Factors” in Item 1A, but include the following:

- laws and regulations regarding direct selling may prohibit or restrict our ability to sell our products in some markets or require us to make changes to our business model in some markets;
- extensive government regulations to which the Company's products, business practices and manufacturing activities are subject;
- legal challenges to the Company's direct selling program or to the classification of its independent distributors;
- impact of anti-bribery laws, including the U.S. Foreign Corrupt Practices Act;
- the Company’s ability to attract and retain independent distributors;
- the loss of one or more key independent distributors who have a significant sales network;
- the Company’s 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;
- cybersecurity threats and exposure to data loss;
- the storage, processing, and use of data, some of which contain personal information, are subject to complex and evolving privacy and data protection laws and regulations;
- reliance on information technology infrastructure;
- the effect of fluctuating foreign exchange rates;
- liabilities and obligations arising from improper activity by the Company’s independent distributors;
- failure of the Company’s independent distributors to comply with advertising laws;
- changes to the Company’s independent distributor compensation plans;
- geopolitical issues and conflicts;
- we may be adversely affected by the recent coronavirus outbreak;
- negative consequences resulting from difficult economic conditions, including the availability of liquidity or the willingness of the Company’s customers to purchase products;
- risks associated with the manufacturing of the Company's products;
- uncertainties relating to the application of transfer pricing, duties, value-added taxes, and other tax regulations, and changes thereto;
- changes in tax laws, treaties or regulations, or their interpretation;
- actions on trade relations by the U.S. and foreign governments;
- product liability claims;
- the sufficiency of trademarks and other intellectual property rights; and
- our cannabidiol (CBD) product line is subject to varying, rapidly changing laws, regulations, and rules.

All forward-looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in or incorporated by reference into this report. Except as is required by law, we expressly disclaims any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report. Throughout this report, we refer to Nature’s Sunshine Products, Inc., together with our subsidiaries, as “we,” “us,” “our,” “our Company” or “the Company.”

PART 1

Item 1. Business

The Company

We are a natural health and wellness company primarily engaged in the manufacturing and direct selling of nutritional and personal care products. We are a Utah corporation formed in 1976 with our principal place of business in Lehi, Utah, and sell our products to a sales force of independent distributors who use the products themselves or resells them to consumers.

Business Segments

We have four business segments (Asia, Europe, North America, and Latin America and Other) based primarily upon the geographic region where each segment operates, as well as the internal organization of our officers and their responsibilities. Each of the geographic segments operate under the Nature's Sunshine Products and Synergy® WorldWide brands. The Latin America and Other segment includes our wholesale business in which we sell products to various locally-managed entities independent of the Company that we have granted distribution rights for the relevant market.

Prior to 2019, our operating segments were based on brand, customer base, geographical operations with three operating business segments under the Nature's Sunshine Products brand (NSP Americas; NSP Russia, Central and Eastern Europe; and NSP China), and one operating business segment under the Synergy® WorldWide brand.

During the second quarter of 2019, we realigned into geographic focused operating business segments across brands to further align regional strategies and drive synergies in product, organizational and go-to-market strategies in local markets. Our internal reporting structure was reorganized to support the new reporting segments and the chief operating decision maker now reviews the operating results of the four segments utilizing a geographic focused format. The presentation of the comparative information has been recast to conform to the 2019 presentation.

Product Categories

Our line of over 700 products includes several different product classifications, such as immune, cardiovascular, digestive, personal care, weight management and other general health products. We purchase herbs and other raw materials in bulk, and after rigorous quality control testing, we formulate, encapsulate, tablet or concentrate them, label and package them for shipment. Most of our products are manufactured at our facility in Spanish Fork, Utah. Contract manufacturers produce some of our products in accordance with our specifications and standards. We have implemented stringent quality control procedures to verify that our contract manufacturers have complied with our specifications and standards.

Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of general health, immune, cardiovascular, digestive, personal care and weight management products for the years ended December 31, 2019 and 2018, by business segment. This table should be read in conjunction with the information presented in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," which discusses the factors impacting revenue trends and the costs associated with generating the aggregate revenue presented (in thousands).

[Table of Contents](#)

Year Ended December 31,	2019		2018	
Asia				
General health	\$ 37,795	27.3 %	\$ 32,519	23.4 %
Immune	940	0.7	3,086	2.2
Cardiovascular	44,541	32.2	49,210	35.4
Digestive	24,434	17.6	24,015	17.3
Personal care	13,753	9.9	10,286	7.4
Weight management	17,073	12.3	19,915	14.3
Total Asia	138,536	100.0	139,031	100.0
Europe				
General health	\$ 22,469	35.9 %	\$ 20,932	37.2 %
Immune	5,130	8.2	3,775	6.7
Cardiovascular	10,672	17.1	11,307	20.1
Digestive	14,456	23.1	12,478	22.2
Personal care	7,463	11.9	5,253	9.3
Weight management	2,333	3.7	2,569	4.6
Total Europe	62,523	100.0	56,314	100.0
North America				
General health	\$ 59,847	43.3 %	\$ 62,519	43.3 %
Immune	15,341	11.1	16,202	11.2
Cardiovascular	18,750	13.6	19,518	13.5
Digestive	33,077	23.9	33,925	23.5
Personal care	6,170	4.5	5,751	4.0
Weight management	4,978	3.6	6,349	4.4
Total North America	138,163	100.0	144,264	100.0
Latin America and Other				
General health	\$ 6,919	30.1 %	\$ 7,584	30.1 %
Immune	2,453	10.7	2,565	10.2
Cardiovascular	1,446	6.3	1,427	5.7
Digestive	10,258	44.6	11,360	45.1
Personal care	1,056	4.6	1,214	4.8
Weight management	861	3.7	1,051	4.2
Total Latin America and Other	22,993	100.0	25,201	100.0
Consolidated:				
General health	\$ 127,030	35.1 %	\$ 123,554	33.9 %
Immune	23,864	6.6	25,628	7.0
Cardiovascular	75,409	20.8	81,462	22.3
Digestive	82,225	22.7	81,778	22.4
Personal care	28,442	7.9	22,504	6.2
Weight management	25,245	7.0	29,884	8.2
Total Consolidated	\$ 362,215	100.0	\$ 364,810	100.0

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

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

Distribution and Marketing

We distribute our products to consumers through an independent sales force comprised of independent distributors, known as Managers and Distributors. Our independent distributors market our products to customers through direct selling techniques and sponsor other independent distributors who also market our products to customers. We seek to motivate and provide incentives to our independent distributors by offering high quality products and providing independent distributors with product support, training seminars, sales conventions, travel programs and financial incentives.

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

As of December 31, 2019, we had approximately 242,700 "active independent Distributors and customers" (as defined below). A person who joins our independent sales force begins as an independent Distributor. Many independent Distributors sell our products on a part-time basis to friends or associates or use the products themselves. An independent Distributor may earn Manager status by attaining certain product sales levels. As of December 31, 2019, we had approximately 13,200 "active independent Managers" (as defined below) worldwide. In many of our markets, our independent Managers and Distributors are primarily retailers of our products, including practitioners, proprietors of retail stores and other health and wellness specialists.

In the United States, we generally sell our products on a cash or credit card basis. From time to time, our U.S. operations extend short-term credit associated with product promotions. For certain of our international operations, we use independent distribution centers and offer credit terms that are generally consistent with industry standards within each respective country.

We pay sales commissions, or "volume incentives" to our independent Managers and Distributors based upon their own product sales and the product sales of their sales organization. As an exception, in NSP China, we do not pay volume incentives; rather, we pay independent service fees, which are included in selling, general and administrative expense. These volume incentives are recorded as an expense in the year earned. The amounts of volume incentives that we expensed during the years ended December 31, 2019 and 2018, are set forth in our Consolidated Financial Statements in Item 8 of this report. In addition to the opportunity to receive volume incentives, independent Managers who attain certain levels of monthly product

sales are eligible for additional incentive programs including automobile allowances, sales convention privileges and travel awards.

Distributor Information

Our revenue is highly dependent upon the number and productivity of our 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 our different business segments. Within Synergy WorldWide, the sales qualifications required for active independent Managers and Distributors varies by market according to local economic factors. As sales grow in markets with higher qualification values, and decline in those with lower qualification values, the resultant mix change influences the active counts for independent Managers and Distributors. As a result, from time-to-time, changes in overall active counts for independent Managers and Distributors may not be indicative of actual sales trends for the segment.

In China, we do not sell our 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 December 31,

	2019		2018	
	Distributors & Customers	Managers	Distributors & Customers	Managers
Asia	91,300	3,000	83,200	3,000
Europe	187,200	4,800	164,800	4,000
North America	162,200	4,300	164,400	4,500
Latin America and Other	67,200	1,100	62,900	1,100
Total	507,900	13,200	475,300	12,600

“Total Managers” includes independent Managers under our various compensation plans that have achieved and maintained specified and personal groups sale volumes as of the dates 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 our 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 dates indicated. This includes independent Manager, Distributor and customer accounts that may have become inactive since such respective dates.

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

Active Distributors and Customers by Segment as of December 31,

	2019		2018	
	Distributors & Customers	Managers	Distributors & Customers	Managers
Asia	40,300	3,000	38,600	3,000
Europe	99,700	4,800	83,800	4,000
North America	73,600	4,300	75,700	4,500
Latin America and Other	29,100	1,100	26,800	1,100
Total	242,700	13,200	224,900	12,600

“Active Distributors and customers” includes our 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 dates indicated.

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

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

	2019		2018	
	Distributors & Customers	Managers	Distributors & Customers	Managers
Asia	64,400	2,500	58,100	2,800
Europe	77,500	1,300	58,400	900
North America	66,600	1,800	59,900	1,500
Latin America and Other	33,400	500	24,700	500
Total	241,900	6,100	201,100	5,700

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

“New Distributors and Customers” include our 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 dates indicated.

Source and Availability of Raw Materials

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

Trademarks and Trade Names

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

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

Seasonality

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

Inventories

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

Dependence upon Distributors

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

Backlog

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

Competition

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

Research and Development

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

Compliance with Environmental Laws and Regulations

The nature of our business has not required any material capital expenditures to comply with federal, state or local provisions enacted or adopted regulating the discharge of materials into the environment. No material capital expenditures to meet such provisions are anticipated. Such regulatory provisions did not have a material effect upon our results of operations or competitive position in 2019.

Regulation

General

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

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

Products

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

FDA regulations relating specifically to foods and dietary supplements for human use are set forth in Title 21 of the Code of Federal Regulations. These regulations include basic labeling requirements for both foods and dietary supplements. In May 2016, the FDA announced new labeling requirements to reflect recently available scientific information. The new label requirements are intended to make it easier for consumers to make informed choices. As of December 31, 2019, we were in compliance with the new labeling requirements. Additionally, FDA regulations require us to meet relevant good manufacturing practice regulations relating to, among other things, the preparation, packaging and storage of our food and dietary supplements.

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

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

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

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

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

Direct Selling

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

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

Transfer Pricing

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

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

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

Other Regulations

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

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

Compliance

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

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

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

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

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

Employees

We employed 834 individuals as of December 31, 2019. We believe that our relations with our employees are satisfactory.

Available Information

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

Item 1A. Risk Factors

You should carefully consider the following risks in evaluating us and our business. The risks described below are the risks that we currently believe are material to our business. However, additional risks not presently known to us, or risks that

we currently believe are not material, may also impair our business operations. You should also refer to the other information set forth in this report, including the information set forth in “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as in our consolidated financial statements and the related notes. Our business prospects, financial condition or results of operations could be adversely affected by any of the following risks. If we are adversely affected by such risks, the market price of our common stock could decline.

Laws and regulations regarding direct selling may prohibit or restrict our ability to sell our products in some markets or require us to make changes to our business model in some markets.

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

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

In 2016, the FTC entered into a settlement with a multi-level marketing company, requiring the company to modify its business model, including basing sales compensation and qualification only on sales to retail and preferred customers and on purchases by a distributor for personal consumption within allowable limits. Although this settlement does not represent judicial precedent or a new FTC rule, the FTC has indicated that the industry should look at this settlement, and the principles underlying its specific measures, for guidance. If the requirements in this settlement lead to new industry standards or new rules, our business could be impacted and we may need to amend our global sales compensation plan. With a majority of our revenue in the United States coming from sales to retail customers, preferred customers, and distributors who have never sponsored other distributors, we believe that we can demonstrate consumer demand for our products, but we continue to monitor developments to assess whether we should make any changes to our business or global sales compensation plan. If we are required to make changes or if the FTC seeks to enforce similar measures in the industry, either through rulemaking or an enforcement action against our company, our business could be harmed.

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

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

Ingredient identification requirements, which require us to confirm the levels, identity and potency of ingredients listed on our product labels within a narrow range, are particularly burdensome and difficult for us with respect to our product formulations, which contain many different ingredients. Compliance with these regulations has increased and may further increase the cost of manufacturing our products. Our results of operations and financial condition could be materially adversely affected if a regulatory authority makes a determination that we are not in compliance with ingredient identification

requirements. A finding of noncompliance may result in administrative warnings, penalties or actions impacting our ability to continue selling certain products. Failure to comply with ingredient identification requirements could also lead to private class action lawsuits which would be costly, disruptive and could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

We may be unable to attract and retain independent distributors.

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

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

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

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

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

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

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

On August 25, 2014, we completed a transaction with Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharma"), which created a joint venture owned 80 percent by us and 20 percent by a wholly-owned subsidiary of Fosun

Pharma. Effective operation of the joint venture depends on good relations between us and Fosun Pharma, active synergies between the two companies and positive legal and regulatory recognition of the joint venture. Any disruption in relations, inability to work efficiently or disadvantageous treatment of the joint venture by the Chinese or other authorities could have a material adverse effect on our results of operations and financial condition.

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

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

If our business practices or policies or the actions of our sales force are deemed to be in violation of applicable local regulations regarding foreigners, then we could be sanctioned and/or required to change our business model, which could significantly harm our business.

Our sales force is required to comply with work authorization and other local legal requirements prior to working in a market. Some markets, including China, also prohibit or restrict participation of foreigners in direct selling activities. We have implemented policies that are designed to comply with these regulations and inform our sales force regarding the types of activities that are not permitted. However, we cannot assure that actions of our sales force will not violate local laws or regulations or our policies. If our business practices or policies or the actions of our sales force are deemed to be in violation of applicable regulations as they may be interpreted or enforced, then we could be sanctioned and/or required to change our business model, which could result in adverse publicity and significantly harm our business.

Cybersecurity risks and the failure to maintain the integrity of data could expose us to data loss, litigation and liability, which could adversely affect our results of operations and financial condition.

We collect and retain large volumes of data from employees and independent distributors, including credit card numbers and other personally identifiable information, for business purposes, including transactional and promotional purposes. Our various information technology systems enter, process, summarize and report such data. The integrity and protection of this data is critical to our business. We are subject to significant security and privacy regulations, as well as requirements imposed by the credit card industry.

Similarly, a failure to adhere to the payment card industry’s data security standards could cause us to incur penalties from payment card associations, termination of our ability to accept credit or debit card payments, litigation and adverse publicity, any of which could have a material adverse effect on our business and financial condition.

Maintaining compliance with these evolving regulations and requirements could be difficult and may increase costs. In addition, a penetrated or compromised data system or the intentional, inadvertent or negligent release or disclosure of data could result in theft, loss or fraudulent or unlawful use of company, employee, distributor or guest data which could adversely affect our reputation, disrupt our operations, or result in remedial and other costs, fines or lawsuits, which could have a material adverse effect on our results of operations and financial condition. Although we take measures to protect the security, integrity and confidentiality of our data systems, we experience cyber attacks of varying degrees and types on a regular basis. Our infrastructure may be vulnerable to these attacks, and in some cases it could take time to discover them. Our security measures may also be breached due to employee error or malfeasance, system errors or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information to gain access to our data or our users’ or customers’ data. Any such breach or unauthorized access could result in the unauthorized disclosure, misuse or loss of sensitive information and lead to significant legal and financial exposure, regulatory inquiries or investigations, loss of confidence by our sales force, disruption of our operations and damage to our reputation. These risks are heightened as we work with third-party partners and as our sales force uses social media, as the partners and social media platforms could be vulnerable to the same types of breaches.

The storage, processing, and use of data, some of which contain personal information, are subject to complex and evolving privacy and data protection laws and regulations that could adversely affect our results of operation and financial condition.

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

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

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

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

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

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

In 2019, we recognized approximately 64.7 percent of our net sales in markets outside the United States, the majority of which were recognized in each market’s respective local currency. We purchase inventory from companies in foreign markets and in the United States, primarily in U.S. dollars. In preparing our financial statements, we translate net sales and expenses in foreign countries from their local currencies into U.S. dollars using average exchange rates. Because a majority of our sales are in foreign countries, exchange rate fluctuations may have a significant effect on net sales and earnings. Our reported earnings have in the past been, and are likely to continue to be, significantly affected by fluctuations in currency exchange rates, with net sales and earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar.

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

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

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

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

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

We modify components of our compensation plans from time to time to keep them competitive and attractive to existing and potential independent distributors, to address changing market dynamics, to provide incentives to our independent distributors that we believe will help grow our business, to conform to local regulations and to address other business related considerations. It is difficult to predict how such changes will be viewed by our independent distributors and whether such changes will achieve their desired results. Such changes could result in unintended or unforeseen negative economic and non-economic consequences to our business, such as higher than anticipated costs or difficulty in attracting and retaining independent distributors, either of which could have a material adverse effect on our results of operations and financial condition.

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

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

Our results of operations and financial condition for fiscal 2020 may be adversely affected by the recent coronavirus outbreak.

In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China. The outbreak was initially concentrated in China, although numerous cases continue to be confirmed in other countries. Our results of operations could be adversely affected to the extent that coronavirus or any other epidemic harms the global economy, and particularly Asia. We may also experience impacts to certain of our customers and/or suppliers as a result of a health epidemic or other outbreak occurring in one or more of our markets. Further, our operations have and may further experience disruptions, such as temporary closure of our offices and/or those of our customers or suppliers and suspension of services, which may materially and adversely affect our business, financial condition and results of operations. The duration of the business disruption and related financial impact cannot be reasonably estimated at this time but may materially affect our Asia segment and consolidated results for the first quarter and fiscal year 2020. The extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.

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

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

Our manufacturing activity is subject to certain risks.

We manufacture a significant portion of the products sold at our manufacturing facility located in Spanish Fork, Utah. As a result, we are dependent upon the uninterrupted and efficient operation of our manufacturing facility in Spanish Fork and our distribution facilities throughout the country. Our manufacturing facilities and distribution facilities are subject to the risk of catastrophic loss due to, among other things, earthquake, fire, flood, terrorism or other natural or man-made disasters, as well as occurrence of significant equipment failures. If any of these facilities were to experience a catastrophic loss, it would be expected to disrupt our operations and could have a material adverse effect on our results of operations and financial condition.

As the primary manufacturer of our own products, we are subject to FDA regulations on GMPs, which require us to maintain good manufacturing processes, including ingredient identification, manufacturing controls and record keeping. Compliance with these regulations has increased and may further increase our cost of manufacturing products. Our results of operations and financial condition could be materially adversely affected if regulatory authorities make determinations that we are not in compliance with FDA regulations on GMPs. A finding of noncompliance may result in administrative warnings, penalties or actions impacting our ability to continue selling certain products, which could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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

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

In 2018 and 2019, there has been increasing rhetoric, in some cases coupled with legislative or executive action, from several U.S. and foreign leaders regarding the institution or future institution of tariffs against foreign imports of certain materials. U.S. and foreign leaders have also indicated an intent to renegotiate, modify or terminate international trade agreements or policies with foreign countries. It remains unclear what U.S. or foreign governments will or will not do with respect to tariffs, international trade agreements and policies. A trade war or other governmental action related to tariffs, international trade agreements or policies has the potential to adversely impact our business and/or the U.S. and global economy or certain sectors thereof and, thus, could have a material adverse effect on our results of operations and financial condition. Some tariffs, changes to international trade agreements and policy changes have been announced and are subject to a number of uncertainties as they are implemented, including future adjustments and changes in the countries excluded from such tariffs. While ultimate reaction of other countries, including individuals in each of these countries, and the impact of these tariffs or other actions on the United States, China, the global economy and our business, financial condition and results of operations, cannot be predicted at this time, the impact could be adverse.

Product liability claims could adversely affect our business.

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

Our business is subject to intellectual property risks.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

In 2018, we relocated our corporate offices and Synergy offices to a facility located in Lehi, Utah, that consists of approximately 61,000 square feet. This facility is leased from an unaffiliated third party through a lease agreement which expires in 2029.

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

We lease properties used primarily as distribution warehouses located in Georgia, Ohio, Texas and Utah, as well as offices and/or distribution warehouses in many of the countries in which we conduct business. See Note 19 - Leases for additional disclosure of leased properties.

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

Item 3. Legal Proceedings

We are party to various legal proceedings. Management cannot predict the ultimate outcome of these proceedings, individually or in the aggregate, or their resulting effect on our business, financial position, results of operations or cash flows. 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. We maintain product liability, general liability and excess liability insurance coverage. However, no assurances can be given that such insurance will continue to be available at an acceptable cost to us, that such coverage will be sufficient to cover one or more large claims, or that the insurers will not successfully disclaim coverage as to a pending or future claim. During the fourth quarter of 2019, we made payments of \$2.0 million related to the settlement of litigation.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market and Share Prices

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

The approximate number of our shareholders, of record as of February 27, 2020, was 1,372. This number of holders of record does not represent the actual number of beneficial owners of our common shares because shares are frequently held in “street name” by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

Recent Sales of Unregistered Securities

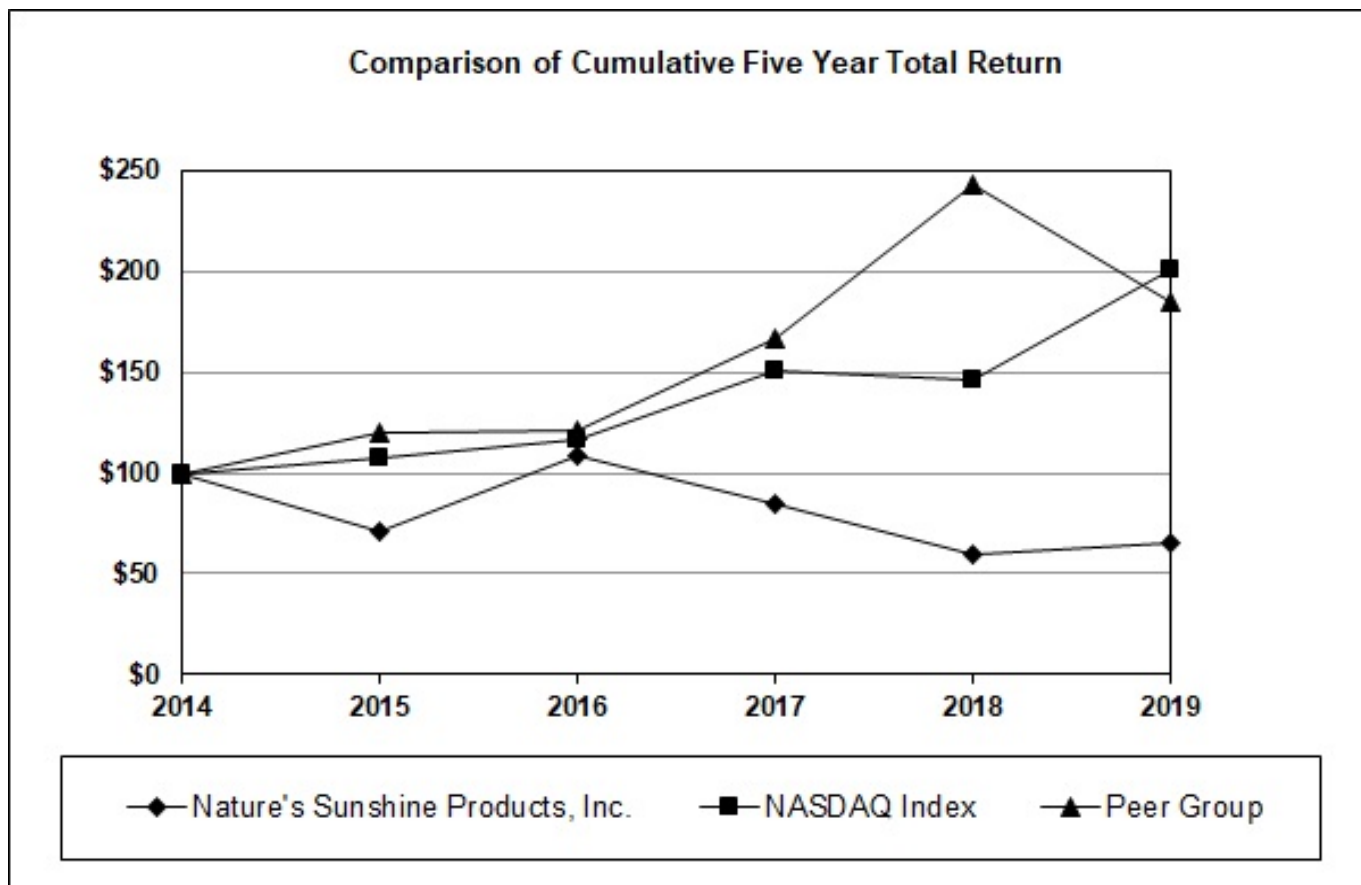
None.

Dividends

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

Performance Graph

The graph below depicts our common stock as an index, assuming \$100.00 was invested on December 31, 2014, along with the composite prices of companies listed on the NASDAQ Stock Market and a selection of our peer group. Standard & Poor’s Investment Services provided this information. The comparisons in the graph are required by regulations of the SEC, and are not intended to forecast or be indicative of the possible future performance of our common stock. The publicly-traded companies that comprise this peer group include Herbalife International, Ltd., LifeVantage Corporation, NuSkin Enterprises, Inc. and USANA Health Sciences, Inc. We consider these companies to be representative of our peer group as they have similar product lines and distribution techniques.



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

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Nature’s Sunshine Products, Inc.	\$ 100.00	\$ 70.53	\$ 108.45	\$ 84.34	\$ 59.51	\$ 65.21
NASDAQ Index	100.00	106.96	116.45	150.96	146.67	200.49
Peer Group	100.00	120.24	121.14	167.13	243.10	184.72

Item 6. Selected Financial Data

The selected financial data presented below is summarized from our results of consolidated operations for each of the years in the five-year period ended December 31, 2019, as well as selected consolidated balance sheet data as of December 31, 2019, 2018, 2017, 2016, and 2015.

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

Consolidated Statement of Operations Data

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Net sales	\$ 362,215	\$ 364,810	\$ 342,029	\$ 341,159	\$ 324,705
Cost of sales	(93,940)	(95,691)	(91,037)	(90,937)	(85,345)
Gross profit	268,275	269,119	250,992	250,222	239,360
Operating expenses:					
Volume incentives	123,410	125,337	119,970	119,910	117,786
Selling, general and administrative	128,740	138,431	129,635	120,273	107,702
Operating income	16,125	5,351	1,387	10,039	13,872
Other income (expense), net	(483)	(2,151)	1,835	(773)	(592)
Income before income taxes	15,642	3,200	3,222	9,266	13,280
Provision for income taxes	8,713	4,402	17,039	8,591	1,740
Net income (loss) from continuing operations	6,929	(1,202)	(13,817)	675	11,540
Income from discontinued operations	—	—	—	—	2,116
Net income (loss)	6,929	(1,202)	(13,817)	675	13,656
Income (loss) attributable to noncontrolling interests	164	(348)	(875)	(1,464)	(1,031)
Net income (loss) attributable to common shareholders	\$ 6,765	\$ (854)	\$ (12,942)	\$ 2,139	\$ 14,687

Consolidated Balance Sheet Data

	December 31,				
	2019	2018	2017	2016	2015
Cash and cash equivalents	\$ 53,629	\$ 50,638	\$ 42,910	\$ 32,284	\$ 41,420
Working capital	54,758	40,138	48,852	31,466	48,382
Inventories	46,666	42,048	44,047	47,597	38,495
Property, plant and equipment, net	59,512	64,061	69,106	73,272	68,728
Total assets	213,068	193,016	195,195	205,570	200,520
Long-term liabilities	25,685	5,761	21,806	10,137	11,119
Total shareholders' equity	129,436	120,568	119,732	132,398	136,265

Summary Cash Flow Information

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Operating activities	\$ 8,545	\$ 21,833	\$ 10,524	\$ 3,417	\$ 10,162
Investing activities	(5,102)	211	(3,204)	(11,532)	(18,592)
Financing activities	(63)	(12,192)	1,573	(286)	(7,578)

Common Share Summary

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Cash dividends per share	\$ —	\$ —	\$ 0.10	\$ 0.40	\$ 0.40
Basic and diluted earnings per share:					
Basic weighted-average number of shares	19,314	19,123	18,882	18,731	18,656
Diluted weighted-average number of shares	19,663	19,123	18,882	19,056	19,177
Basic earnings (loss) per share attributable to common shareholders:					
Net income (loss) from continuing operations	\$ 0.35	\$ (0.04)	\$ (0.69)	\$ 0.11	\$ 0.67
Income from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ 0.11
Net income (loss) attributable to common shareholders	\$ 0.35	\$ (0.04)	\$ (0.69)	\$ 0.11	\$ 0.79
Diluted earnings (loss) per share attributable to common shareholders:					
Net income (loss) from continuing operations	\$ 0.34	\$ (0.04)	\$ (0.69)	\$ 0.11	\$ 0.66
Income from discontinued operations	\$ —	\$ —	\$ —	\$ 0.11	\$ 0.11
Net income (loss) attributable to common shareholders	\$ 0.34	\$ (0.04)	\$ (0.69)	\$ 0.11	\$ 0.77

Other Information

	December 31,				
	2019	2018	2017	2016	2015
Square footage of property in use	637,034	725,616	690,716	689,945	703,696
Number of employees	834	905	911	972	901

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

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

OVERVIEW

Our Business, Industry and Target Market

We are a natural health and wellness company primarily engaged in the manufacture and sale of nutritional and personal care products. We are a Utah corporation with our principal place of business in Lehi, Utah, and sell our products to a sales force of independent distributors who use the products themselves or resell them to consumers.

Our independent distributors market and sell our products to customers and sponsor other independent distributors who also market our products to customers. Our sales are highly dependent upon the number and productivity of our independent distributors. Growth in sales volume generally requires an increase in the productivity of our independent distributors and/or growth in the total number of independent distributors. We seek to motivate and provide incentives to our independent distributors by offering high quality products and providing independent distributors with product support, training seminars, sales conventions, travel programs and financial incentives.

In 2019, we experienced a decrease in our consolidated net sales of 0.7 percent (or an increase of 1.2 percent in local currencies) compared to 2018. Asia net sales decreased approximately 0.4 percent (or an increase of 3.3 percent in local currencies) compared to 2018. Europe net sales increased approximately 11.0 percent (or 13.4 percent in local currencies) compared to 2018. North America net sales decreased approximately 4.2 percent (or 4.1 percent in local currencies) compared

to 2018. Latin America and Other net sales decreased approximately 8.8 percent (or 7.3 percent in local currencies) compared to 2018.

In absolute terms, selling, general and administrative expenses decreased \$9.7 million during 2019, and as a percentage of net sales were 35.5 percent and 37.9 percent for 2019 and 2018, respectively.

We distribute our products to consumers through an independent sales force comprised of independent Managers and Distributors, many of whom also consume our products. Typically a person who joins our 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 13,200 and 12,600 and active independent Distributors and customers were approximately 242,700 and 224,900 at December 31, 2019 and 2018, respectively.

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

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with U.S. GAAP and form the basis for the following discussion and analysis on critical accounting policies and estimates. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates and those differences could have a material effect on our financial position and results of operations. We have discussed the development, selection and disclosure of these estimates with the Board of Directors and our Audit Committee.

A summary of our significant accounting policies is provided in Note 1 of the Notes to Consolidated Financial Statements in Item 8 of this report. We believe the critical accounting policies and estimates described below reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements. The impact and any associated risks on our business that are related to these policies are also discussed throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" where such policies affect reported and expected financial results.

Revenue Recognition

Our revenue recognition practices are discussed in Note 2, "Revenue Recognition," to our Consolidated Financial Statements in Item 8, Part 2 of this report.

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 our evaluation of the financial condition of the customer. This allowance is adjusted periodically as information about specific accounts becomes available.

Inventories

Inventories are adjusted to lower of cost and net realizable value, using the first-in, first-out method. The components of inventory cost include raw materials, labor and overhead. To estimate any necessary adjustments, various assumptions are made in regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning and market conditions. If future demand and market conditions are less favorable than our assumptions, additional inventory adjustments could be required.

Self-Insurance Liabilities

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

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

Incentive Trip Accrual

We accrue expenses associated with our direct sales program, which rewards independent Managers and Distributors with paid attendance for incentive trips, including our conventions and meetings. Expenses associated with incentive trips are accrued over qualification periods as the trips are earned. We specifically analyze incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could generate liabilities in amounts greater or less than the amounts recorded. We accrued incentive trip costs of approximately \$5.5 million and \$6.5 million at December 31, 2019 and 2018, respectively, which are included in accrued liabilities in the consolidated balance sheets.

Contingencies

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

Income Taxes

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

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we develop assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income, and are consistent with the plans and estimates that we are using to manage the underlying businesses. Valuation allowances are recorded as reserves against net deferred tax assets when it is determined that net deferred tax assets are not likely to be realized in the foreseeable future. As of December 31, 2019 and 2018, we had recorded valuation allowances of \$21.4 million and \$20.3 million, respectively, as offsets to deferred tax assets.

At December 31, 2019, foreign subsidiaries had unused operating loss carryovers for tax purposes of approximately \$7.1 million. The net operating losses will expire at various dates from 2020 through 2029, with the exception of those in some foreign jurisdictions where there is no expiration. As of December 31, 2019, we had approximately \$14.6 million of foreign tax and withholding credits. Of the \$14.6 million credits, \$14.3 million are foreign tax credits, most of which expire in 2024 and all of which are fully offset by valuation allowances.

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

Share-Based Compensation

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

PRESENTATION

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

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

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

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

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

RESULTS OF OPERATIONS

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

	Year Ended December 31,	
	2019	2018
Net sales	100.0 %	100.0 %
Cost of sales	(25.9)	(26.2)
Gross profit	74.1	73.8
Operating expenses:		
Volume incentives	34.1	34.4
Selling, general and administrative	35.5	37.9
Operating income	4.5	1.5
Other income (expense):		
Interest and other income, net	0.1	—
Interest expense	—	(0.1)
Foreign exchange gains (losses), net	(0.2)	(0.5)
	(0.1)	(0.6)
Income before provision for income taxes	4.4	0.9
Provision for income taxes	2.4	1.2
Net income (loss)	2.0 %	(0.3)%

Net Sales

International operations have provided, and are expected to continue to provide, a significant portion of our total net sales. As a result, total net sales will continue to be affected by fluctuations in the U.S. dollar against foreign currencies. In order to provide a framework for assessing how our underlying businesses performed, excluding the effect of foreign currency fluctuations, in addition to comparing the percent change in net sales from one period to another in U.S. dollars, we present net sales excluding the impact of foreign exchange fluctuations. We compare the percentage change in net sales from one period to another period by excluding the effects of foreign currency exchange as shown below. Net sales excluding the impact of foreign exchange fluctuations is not a U.S. GAAP financial measure and removes from net sales in U.S. dollars the impact of changes in exchange rates between the U.S. dollar and the functional currencies of our foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. We believe presenting the impact of foreign currency fluctuations is useful to investors because it allows a more meaningful comparison of net sales of our foreign operations from period to period. However, net sales excluding the impact of foreign currency fluctuations should not be considered in isolation or as an alternative to net sales in U.S. dollar measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP. Throughout the last five years, foreign currency exchange rates have fluctuated significantly. See Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*.

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

Net Sales

The following table summarizes the changes in net sales by operating segment with a reconciliation to net sales, excluding the impact of currency fluctuations, for the years ended December 31, 2019 and 2018 (dollar amounts in thousands).

	Net Sales by Operating Segment				
	2019	2018	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency
Asia	\$ 138,536	\$ 139,031	(0.4)%	\$ (5,043)	3.3 %
Europe	62,523	56,314	11.0 %	(1,353)	13.4 %
North America	138,163	144,264	(4.2)%	(249)	(4.1)%
Latin America and Other	22,993	25,201	(8.8)%	(362)	(7.3)%
	<u>\$ 362,215</u>	<u>\$ 364,810</u>	<u>(0.7)%</u>	<u>\$ (7,007)</u>	<u>1.2 %</u>

Consolidated net sales for the year ended December 31, 2019, were \$362.2 million compared to \$364.8 million in 2018, or a decrease of approximately 0.7 percent. The decrease was related to declines in the Asia, North America, and Latin America and Other markets. Declines in these markets were partially offset by product sales growth in the Europe market. Excluding the unfavorable impact of foreign currency exchange rate fluctuations, consolidated net sales for the year ended December 31, 2019 would have increased by 1.2 percent from 2018.

Asia

Net sales related to Asia for the year ended December 31, 2019, were \$138.5 million compared to \$139.0 million for 2018, a decrease of 0.4 percent. The decline for the Asia business is further discussed in the South Korea, Japan and China commentary below. In local currency, net sales increased by 3.3 percent compared to 2018. Fluctuations in foreign exchange rates had a \$5.0 million unfavorable impact on net sales for the year ended December 31, 2019. Active independent Managers within Asia totaled approximately 3,000 at December 31, 2019 and 2018. Active independent Distributors and customers within Asia totaled approximately 40,300 and 38,600 at December 31, 2019 and 2018, respectively.

We anticipate that the outbreak of the coronavirus, associated government meeting, travel and other restrictions and people's hesitance to go into public areas in response to this outbreak, will have a significant adverse effect on our business in China as well as our other Asia markets. The duration of the business disruption and related financial impact cannot be reasonably estimated at this time, but may materially affect our Asia segment and consolidated results for the first quarter and fiscal year 2020.

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

In our South Korea market, net sales decreased approximately \$1.7 million, or 2.3 percent, for the year ended December 31, 2019, compared to 2018. Fluctuations in foreign exchange rates had a \$4.2 million unfavorable impact on net sales for the year ended December 31, 2019. In local currency, net sales increased 3.5 percent compared to 2018. The increase in local currency net sales was the result of improved distributor involvement.

In our Japan market, net sales increased approximately \$1.1 million, or 4.7 percent, for the year ended December 31, 2019, compared to 2018. Fluctuations in foreign exchange rates had a \$0.3 million favorable impact on net sales for the year ended December 31, 2019. In local currency, net sales increased 3.4 percent for the year ended December 31, 2019, compared to 2018. We attribute the growth in net sales primarily to the introduction of new products and the implementation of programs intended to stimulate activity which had a positive impact on market sales volume in the year ended December 31, 2019.

In our China market, net sales decreased approximately \$0.5 million, or 1.8 percent, for the year ended December 31, 2019, compared to 2018. Fluctuations in foreign exchange rates had a \$1.2 million unfavorable impact on net sales for the year ended December 31, 2019. In local currency, net sales increased 2.4 percent for the year ended December 31, 2019, compared to 2018. Although growth has been impacted by current market conditions, China has shown local currency growth primarily due to initiatives designed to increase independent service providers' engagement levels and gain market share in the year ended December 31, 2019.

Europe

Net sales related to Europe were \$62.5 million for the year ended December 31, 2019, compared to \$56.3 million for 2018, an increase of 11.0 percent. The functional currency for many of these markets is the US Dollar which reduces the effect from foreign currency fluctuations. Fluctuations in foreign exchange rates had a \$1.4 million unfavorable impact on net sales for the year ended December 31, 2019. Net sales increased primarily as a result of the relative stabilization of Russian ruble against the U.S. dollar and product promotions that have improved distributor engagement. Active independent Managers within Europe totaled approximately 4,800 and 4,000 as of December 31, 2019 and 2018, respectively. Active independent Distributors and customers within Europe totaled approximately 99,700 and 83,800 as of December 31, 2019 and 2018, respectively.

North America

Net sales related to North America for the year ended December 31, 2019, were \$138.2 million, compared to \$144.3 million for 2018, a decrease of 4.2 percent. Fluctuations in foreign exchange rates had a \$0.2 million unfavorable impact on net sales for the year ended December 31, 2019. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales in North America decreased by 4.1 percent from 2018. The declines for the North America business are further discussed in United States commentary below. Active independent Managers within North America totaled approximately 4,300 and 4,500 at December 31, 2019 and 2018, respectively. Active independent Distributors and customers within North America totaled approximately 73,600 and 75,700 at December 31, 2019 and 2018, respectively.

Notable activity in the following markets contributed to the results of North America:

In the United States, net sales decreased \$5.7 million, or 4.3 percent, for the year ended December 31, 2019, compared to 2018. The decline in the market is mainly due to a decrease in Distributor recruiting and retention. We continue to work with leaders in the U.S. to improve recruiting and retention results.

Latin America and Other

Net sales related to Latin America and Other markets for the year ended December 31, 2019, were \$23.0 million, compared to \$25.2 million for 2018, a decrease of 8.8 percent. Fluctuations in foreign exchange rates had a \$0.4 million unfavorable impact on net sales for the year ended December 31, 2019. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales in Latin America and Other decreased by 7.3 percent from 2018. The decline in the market is mainly due to decreases in Distributor retention and average purchase size. Active independent Managers within Latin America and Other totaled approximately 1,100 at December 31, 2019 and 2018. Active independent Distributors and customers within Latin America and Other totaled approximately 29,100 and 26,800 at December 31, 2019 and 2018, respectively.

Further information related to our Asia, Europe, North America, and Latin America and Other business segments is set forth in Note 15 of the Notes to Consolidated Financial Statements in Item 8 of this report.

Cost of Sales

Cost of sales as a percent of net sales decreased to 25.9 percent in 2019, compared to 26.2 percent in 2018. The decrease in cost of sales percentage is driven by favorable changes in market mix and decreases in inventory write-offs.

Volume Incentives

Volume incentives as a percent of net sales decreased to 34.1 percent in 2019, compared to 34.4 percent in 2018. These payments are designed to provide incentives for reaching higher sales levels. Volume incentives vary slightly, on a percentage basis, by product due to pricing policies and commission plans in place in the various operations. We do not pay volume incentives in China, instead we pay independent service fees, which are included in selling, general and administrative expenses. Volume incentives as a percentage of net sales can fluctuate based on promotional activity and mix of sales by market. The decrease in volume incentives as a percent of net sales for the year ended December 31, 2019 is primarily due to changes in market mix.

Selling, General and Administrative Expenses

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

Selling, general and administrative expenses decreased by \$9.7 million to \$128.7 million for the year ended December 31, 2019. Selling, general and administrative expenses were 35.5 percent and 37.9 percent of net sales for the years ended December 31, 2019 and 2018, respectively. The decrease in selling, general and administrative expenses was primarily related to a reduction of headcount in the U.S. and Latin America, as well as other cost reductions.

The net decrease in selling, general and administrative expenses during 2019, compared to 2018, was primarily related to:

- \$2.4 million of transition costs related to the retirement of our Chief Executive Officer in 2018;
- \$2.0 million decrease in independent service fees paid to independent service providers in China as a result of changes made to programs in the market;
- \$9.5 million decrease in employee salaries and benefits primarily related to a reduction of headcount in the U.S., Asia and Latin America, as well as other cost reductions;

Offset by:

- \$4.0 million gains on the sale of two real estate properties in 2018.

Other Loss, Net

Other loss, net, for the years ended December 31, 2019 and 2018, were losses of \$0.5 million and \$2.2 million, respectively. Other loss, for the year ended December 31, 2019 primarily consisted of foreign exchange losses as a result of net changes in foreign currencies.

Income Taxes

Our effective income tax rate was 55.7 percent for 2019, compared to 137.6 percent for 2018. The decrease in the effective rate from 2018 to 2019 is mostly attributable to the increase in income which causes items such as credits and withholding taxes to have a lesser impact on the effective rate. The effective rate for 2019 differed from the federal statutory rate of 21.0 percent primarily due to the following:

- Adjustments relating to the U.S. tax impact of foreign operations increased the effective tax rate by 12.3 percent in 2019. Included were adjustments relating to the Global Intangible Low-taxed Income (GILTI), foreign withholding taxes, adjustments for foreign tax credits, and foreign rate differentials.
- Reduction of liabilities for unrecognized tax benefits related to the lapse of applicable statute of limitations decreased the tax rate by 3.3 percent in 2019.
- Cumulative unfavorable adjustments related to foreign operations increased the tax rate by 4.4 percent in 2019. These adjustments relate to foreign items that are treated differently for tax purposes than they are for financial reporting purposes.
- Adjustments to valuation allowances increased the effective rate by 10.3 percent in 2019. Included was the effect of increasing the valuation allowance on foreign tax credits generated during the current year and the impact of current year foreign losses in foreign affiliates that currently do not provide tax benefit, offset in part by decreasing

the valuation allowance on net operating loss related deferred tax assets relating to foreign affiliates that are showing improved operating results.

Adjustments relating to the U.S. impact of foreign operations increased the effective tax rate by 12.3 and 102.5 percentage points in 2019 and 2018, respectively. The components of this calculation were:

Components of U.S. tax impact of foreign operations	2019	2018
Foreign tax credits	(6.3)%	(17.6)%
Foreign tax rate differentials	3.6	37.3
Foreign withholding taxes	3.9	27.7
Transfer pricing adjustment	4.6	12.1
Impact of GILTI	6.5	43.0
Total	12.3 %	102.5 %

From 2018 to 2019, the rate changes in components of the U.S. tax impact of foreign operations were significant. The primary reason was the increase in income which causes items such as credits and withholding taxes to have a lesser impact on the effective rate.

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

Year Ended December 31, 2018, as Compared to the Year Ended December 31, 2017

For a discussion regarding our financial condition and results of operations for fiscal 2018 compared to fiscal 2017, see Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 8, 2019.

SUMMARY OF QUARTERLY OPERATIONS — UNAUDITED

The following tables present our unaudited summary of quarterly operations during 2019 and 2018 for each of three month periods ended March 31, June 30, September 30, and December 31 (amounts in thousands).

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

	For the Quarter Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Net sales	\$ 87,342	\$ 91,266	\$ 88,828	\$ 97,374
Cost of sales	(22,713)	(24,278)	(23,161)	(25,539)
Gross profit	64,629	66,988	65,667	71,835
Volume incentives	31,362	31,492	30,511	31,972
Selling, general and administrative	32,386	33,310	31,643	41,092
Operating income (loss)	881	2,186	3,513	(1,229)
Other income (expense), net	740	(1,807)	(353)	(731)
Income (loss) before income taxes	1,621	379	3,160	(1,960)
Provision for income taxes	1,288	441	1,821	852
Net income (loss)	333	(62)	1,339	(2,812)
Net income (loss) attributable to noncontrolling interests	(165)	(129)	(158)	104
Net income (loss) attributable to common shareholders	\$ 498	\$ 67	\$ 1,497	\$ (2,916)
Basic and diluted net income (loss) per common share:				
Basic earnings (loss) per share attributable to common shareholders:	\$ 0.03	\$ —	\$ 0.08	\$ (0.15)
Diluted earnings (loss) per share attributable to common shareholders:	\$ 0.03	\$ —	\$ 0.08	\$ (0.15)

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

LIQUIDITY AND CAPITAL RESOURCES

Our principal use of cash is to pay for operating expenses and costs, including volume incentives, inventory and raw material purchases, capital assets and funding of international expansion. As of December 31, 2019, working capital was \$54.8 million, compared to \$40.1 million as of December 31, 2018. At December 31, 2019, we had \$53.6 million in cash and cash equivalents, of which \$34.3 million was held in our foreign markets and may be subject to various withholding taxes and other restrictions related to repatriations.

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

	Year Ended December 31,	
	2019	2018
Operating activities	\$ 8,545	\$ 21,833
Investing activities	(5,102)	211
Financing activities	(63)	(12,192)

Operating Activities

For the year ended December 31, 2019, operating activities provided cash in the amount of \$8.5 million compared to \$21.8 million in 2018. Operating cash flows decreased due to the timing of payments for accrued liabilities, accounts payables, inventories, income taxes payable and accrued volume incentives and service fees. Those increases were partially offset by timing of changes in prepaid expenses and liability related to unrecognized tax positions.

Investing Activities

Cash paid for capital expenditures related to the purchase of equipment, computer systems and software for the years ended December 31, 2019 and 2018, were \$5.1 million and \$4.8 million, respectively.

During the year ended December 31, 2018, we had proceeds of \$5.0 million for the sale of two real estate properties.

Financing Activities

For the year ended December 31, 2019, financing activities used \$0.1 million in cash, compared to \$12.2 million in cash used for the same period in 2018. For the year ended December 31, 2019, we had \$0 net borrowings due to improvements in our overall cash position compared to the same period in 2018. During the year ended December 31, 2018, we made principal payments of \$13.2 million.

On July 11, 2017, we entered into a revolving credit agreement with Bank of America, N.A., with a borrowing limit of \$25.0 million that matures on July 11, 2020 (the “Bank of America Credit Agreement”). We pay interest on any borrowings under the Bank of America Credit Agreement at LIBOR plus 1.25 percent (3.05 percent as of December 31, 2019), an annual commitment fee of 0.2 percent on the unused portion of the commitment. We are required to settle our net borrowings under the Bank of America Credit Agreement only upon maturity, and, as a result, have classified our outstanding borrowings as non-current on our consolidated balance sheet. At December 31, 2019, there was no outstanding balance under the Bank of America Credit Agreement.

The Credit Agreement contains customary financial covenants, including financial covenants relating to our 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 our 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 December 31, 2019, we were in compliance with the debt covenants set forth in the Bank of America Credit Agreement.

Our joint venture in China borrowed \$0 and \$4.0 million from the Company, during the years ended December 31, 2019 and 2018, respectively. Our joint venture in China borrowed \$0 and \$1.0 million from our joint venture partner, during the years ended December 31, 2019 and 2018, respectively. The note between the joint venture and the Company eliminates in consolidation.

We believe that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund our normal operating needs, including capital expenditures, on both a short- and long-term basis. However, among other things, a prolonged economic downturn, a decrease in demand for our products, an unfavorable settlement of our unrecognized tax positions or non-income tax contingencies could adversely affect our long-term liquidity.

CONTRACTUAL OBLIGATIONS

The following table summarizes information about contractual obligations as of December 31, 2019 (*in thousands*):

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Operating lease obligations	\$ 29,348	\$ 5,928	\$ 8,605	\$ 5,966	\$ 8,849
Self-insurance reserves (1)	463	463	—	—	—
Other long-term liabilities reflected on the balance sheet (2)	—	—	—	—	—
Unrecognized tax benefits (3)	—	—	—	—	—
Revolving credit facility (4)	—	—	—	—	—
Total	\$ 29,811	\$ 6,391	\$ 8,605	\$ 5,966	\$ 8,849

(1) At December 31, 2019, there were \$0.8 million of liabilities. We retain a significant portion of the risks associated with certain employee medical benefits and product liability insurance. Recorded liabilities for self-insured risks are calculated using actuarial methods and are not discounted. Amounts for self-insurance obligations are included in accrued liabilities and long-term other liabilities on the consolidated balance sheet.

During 2017, we secured product liability coverage to cover possible claims, and still maintain accruals for periods prior to obtaining coverage. Prior to this, we accrued an amount that we believe is sufficient to cover probable and reasonably estimable liabilities related to product liability claims based on our history of such claims. However,

there can be no assurance that these estimates will prove to be sufficient, nor can there be any assurance that the ultimate outcome of any litigation for product liability will not have a material negative impact on our business prospects, financial position, results of operations or cash flows. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with the product liability obligations, we are unable to estimate the years in which cash settlement may occur.

- (2) At December 31, 2019, there were \$1.2 million of liabilities. We provide a nonqualified deferred compensation plan for our officers and certain key employees. Under this plan, participants may defer up to 100 percent of their annual salary and bonus (less the participant's share of employment taxes). The deferrals become an obligation owed to the participant by us under the plan. Upon separation of the participant from the service with us, the obligation owed to the participant under the plan will be paid as a lump sum or over a period of either three or five years. As we cannot easily determine when our officers and key employees will separate from us, we are unable to estimate the years in which cash settlement may occur.
- (3) At December 31, 2019, there were \$1.5 million of liabilities. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with these liabilities, if any, we are unable to estimate the years in which cash settlement may occur with the respective tax authorities.
- (4) We entered into a revolving credit agreement with Bank of Americas, N.A., that permits us to borrow up to \$25.0 million through July 11, 2020, bearing interest at LIBOR plus 1.25 percent. We must pay an annual commitment fee of 0.2 percent on the unused portion of the commitment. At December 31, 2019, we had \$25.0 million available under this facility. At December 31, 2019, there was no outstanding balance under the Bank of America Credit Agreement.

We have entered into long-term agreements with third-parties in the ordinary course of business, in which we have agreed to pay a percentage of net sales in certain regions in which we operate, or royalties on certain products. In 2019 and 2018, the aggregate amounts of these payments were \$10,000 and \$46,000, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Risk

During the year ended December 31, 2019, approximately 64.7 percent of our net sales and approximately 60.3 percent of our operating expenses were realized outside of the United States. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency of each international subsidiary is generally the functional currency. We conduct business in multiple currencies with exchange rates that are not on a one-to-one relationship with the U.S. dollar. All revenues and expenses are translated at average exchange rates for the periods reported. Therefore, our operating results will be positively or negatively affected by a weakening or strengthening of the U.S. dollar in relation to another fluctuating currency. Given the uncertainty and diversity of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations or financial condition, but we have provided consolidated sensitivity analyses below of functional currency/reporting currency exchange rate risks. Changes in various currency exchange rates affect the relative prices at which we sell our products. We regularly monitor our foreign currency risks and periodically take measures to reduce the risk of foreign exchange rate fluctuations on our operating results. We do not use derivative instruments for hedging, trading or speculating on foreign exchange rate fluctuations. Additional discussion of the impact on the effect of currency fluctuations has been included in Management's Discussion and Analysis included in Part II, Item 7 of this report.

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

Exchange rate sensitivity for the year ended December 31, 2019 (dollar amounts in thousands)

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Net sales	\$ 362,215	\$ (16,654)	(4.6)%	\$ (23,894)	(6.6)%	\$ (36,638)	(10.1)%
Cost and expenses:							
Cost of sales	93,940	(4,963)	(5.3)%	(7,120)	(7.6)%	(10,918)	(11.6)%
Volume incentives	123,410	(5,976)	(4.8)%	(8,575)	(6.9)%	(13,148)	(10.7)%
Selling, general and administrative	128,740	(4,001)	(3.1)%	(5,740)	(4.5)%	(8,802)	(6.8)%
Operating income	\$ 16,125	\$ (1,714)	(10.6)%	\$ (2,459)	(15.2)%	\$ (3,770)	(23.4)%

Certain of our operations, including Russia and Ukraine, are served by a U.S. branch through third-party entities, for which all business is conducted in U.S. dollars. Although changes in exchange rates between the U.S. dollar and the Russian ruble or the Ukrainian hryvnia do not result in currency fluctuations within our financial statements, a weakening or strengthening of the U.S. dollar in relation to these other currencies can significantly affect the prices of our products and the purchasing power of our independent Managers, Distributors and customers within these markets.

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

Exchange Rate Sensitivity of financial assets and liabilities as of December 31, 2019 (dollar amounts in thousands)

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(Loss) (\$)	(Loss) (%)	(Loss) (\$)	(Loss) (%)	(Loss) (\$)	(Loss) (%)
Financial Assets Included in Current Assets Subject to Exchange Rate Risk							
Cash and cash equivalents	\$ 53,629	\$ (3,060)	(5.7)%	\$ (4,393)	(8.2)%	\$ (6,739)	(12.6)%
Accounts receivable, net	7,319	(374)	(5.1)%	(537)	(7.3)%	(823)	(11.2)%
Financial Liabilities Included in Current Liabilities Subject to Exchange Rate Risk							
Accounts payable	4,406	(97)	(2.2)%	(139)	(3.2)%	(214)	(4.9)%
Net Financial Assets Subject to Exchange Rate Risk	\$ 56,542	\$ (3,337)	(5.9)%	\$ (4,791)	(8.5)%	\$ (7,348)	(13.0)%

The following table sets forth the local currencies other than the U.S. dollar in which our assets that are subject to exchange rate risk were denominated as of December 31, 2019, and exceeded \$1 million upon translation into U.S. dollars. None of our liabilities that are denominated in a local currency other than the U.S. dollar and that are subject to exchange rate risk exceeded \$1 million upon translation into U.S. dollars. We use the spot exchange rate for translating balance sheet items

from local currencies into our reporting currency. The respective spot exchange rate for each such local currency meeting the foregoing thresholds is provided in the table as well.

Translation of Cash Amounts Denominated in Local Currency as of December 31, 2019 (dollar amounts in thousands)

	<u>Translated into U.S. Dollars</u>	<u>At Spot Exchange Rate per One U.S. Dollar</u>
Cash and Cash Equivalents		
China (Yuan Renminbi)	\$ 8,143	7.0
Japan (Yen)	4,719	109.1
South Korea (Won)	4,547	1,157.2
Europe (Euro)	2,806	0.9
Poland (Zloty)	2,222	3.8
Canada (Dollar)	1,753	1.3
Malaysia (Ringgit)	1,373	4.1
Indonesia (Rupiah)	1,360	13,921.2
Hong Kong (Dollar)	1,359	7.8
Thailand (Baht)	1,342	30.0
Singapore (Dollar)	1,337	1.3
Other	2,755	Varies
Total foreign denominated cash and cash equivalents	33,716	
U.S. dollars held by foreign subsidiaries	598	
Total cash and cash equivalents held by foreign subsidiaries	<u>\$ 34,314</u>	

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

Year ended December 31,	2019	2018
Canada (Dollar)	1.3	1.4
China (Yuan Renminbi)	7.0	6.9
European Markets (Euro)	0.9	0.9
Japan (Yen)	109.1	110.3
South Korea (Won)	1,157.2	1,116.3
Mexico (Peso)	18.9	19.7

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

The functional currency in highly inflationary economies is the U.S. dollar, and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The re-measurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three-year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation and other pertinent economic factors. During the years ended December 31, 2019 and 2018, we did not operate in any countries considered to be highly inflationary.

Interest Rate Risk

On December 31, 2019, we did not have any available for sale investments.

On December 31, 2019, we had no outstanding balance on our revolving credit line.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	43
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2019 AND 2018	44
CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018	45
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018	46
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018	47
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018	48
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	50

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Nature's Sunshine Products, Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Notes 1 and 19 to the financial statements, the Company changed its method of accounting for leases due to the adoption of Accounting Standards Codification Topic 842, *Leases*, effective January 1, 2019.

Basis for Opinion

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

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

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
March 11, 2020

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

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

As of December 31,	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 53,629	\$ 50,638
Accounts receivable, net of allowance for doubtful accounts of \$407 and \$460, respectively	7,319	7,751
Inventories	46,666	42,048
Prepaid expenses and other	5,091	6,388
Total current assets	112,705	106,825
Property, plant and equipment, net	59,512	64,061
Operating lease right-of-use assets	23,951	—
Restricted investment securities - trading	1,150	1,308
Intangible assets, net	567	618
Deferred income tax assets	4,899	9,056
Other assets	10,284	11,148
	<u>\$ 213,068</u>	<u>\$ 193,016</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,406	\$ 5,219
Accrued volume incentives and service fees	18,893	20,562
Accrued liabilities	25,531	34,801
Deferred revenue	1,266	1,197
Related party note	1,518	1,530
Income taxes payable	1,392	3,378
Current portion of operating lease liabilities	4,941	—
Total current liabilities	57,947	66,687
Liability related to unrecognized tax benefits	1,499	2,192
Long-term portion of operating lease liabilities	20,213	—
Deferred compensation payable	1,150	1,308
Long-term deferred income tax liabilities	1,655	1,556
Other liabilities	1,168	705
Total liabilities	83,632	72,448
Shareholders' equity:		
Common stock, no par value; 50,000 shares authorized, 19,410 and 19,204 shares issued and outstanding as of December 31, 2019, and 2018, respectively	135,741	133,684
Retained earnings (accumulated deficit)	4,693	(2,072)
Noncontrolling interests	227	63
Accumulated other comprehensive loss	(11,225)	(11,107)
Total shareholders' equity	129,436	120,568
	<u>\$ 213,068</u>	<u>\$ 193,016</u>

See accompanying notes to consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

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

Year Ended December 31,	2019	2018
Net sales	\$ 362,215	\$ 364,810
Cost of sales	(93,940)	(95,691)
Gross profit	268,275	269,119
Operating expenses:		
Volume incentives	123,410	125,337
Selling, general and administrative	128,740	138,431
Operating income	16,125	5,351
Other income (expense):		
Interest and other income (expense), net	262	(67)
Interest expense	(43)	(387)
Foreign exchange losses, net	(702)	(1,697)
	(483)	(2,151)
Income from operations before provision for income taxes	15,642	3,200
Provision for income taxes	8,713	4,402
Net income (loss)	6,929	(1,202)
Net income (loss) attributable to noncontrolling interests	164	(348)
Net income (loss) attributable to common shareholders	\$ 6,765	\$ (854)
Basic and diluted net income (loss) per common share		
Basic earnings (loss) per share attributable to common shareholders	\$ 0.35	\$ (0.04)
Diluted earnings (loss) per share attributable to common shareholders	\$ 0.34	\$ (0.04)
Weighted-average basic common shares outstanding	19,314	19,123
Weighted-average diluted common shares outstanding	19,663	19,123

See accompanying notes to consolidated financial statements.

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

Year Ended December 31,	2019	2018
Net income (loss)	\$ 6,929	\$ (1,202)
Foreign currency translation gain (loss) (net of tax)	477	(973)
Net unrealized losses on investment securities (net of tax)	—	(2)
Write-off of cumulative translation adjustments	(595)	—
Total comprehensive income (loss)	6,811	(2,177)
Net income (loss) attributable to noncontrolling interests	164	(348)
Total comprehensive income (loss) attributable to common shareholders	\$ 6,647	\$ (1,829)

See accompanying notes to consolidated financial statements.

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in thousands, except per share data)

	Common Stock		Retained Earnings (Accumulated deficit)	Noncontrolling Interests	Accumulated Other Comprehensive Loss	Total
	Shares	Value				
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	—	2,170	—	—	—	2,170
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	285	(11)	—	—	—	(11)
Net loss	—	—	(854)	(348)	—	(1,202)
Other comprehensive loss	—	—	—	—	(975)	(975)
Balance at December 31, 2018	19,204	133,684	(2,072)	63	(11,107)	120,568
Share-based compensation expense	—	2,120	—	—	—	2,120
Shares issued from the exercise of stock options and vesting of restricted stock units, net of shares exchanged for withholding tax	206	(63)	—	—	—	(63)
Net income	—	—	6,765	164	—	6,929
Other comprehensive loss	—	—	—	—	(118)	(118)
Balance at December 31, 2019	19,410	\$ 135,741	\$ 4,693	\$ 227	\$ (11,225)	\$ 129,436

See accompanying notes to consolidated financial statements.

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

Year Ended December 31,	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 6,929	\$ (1,202)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for doubtful accounts	10	818
Depreciation and amortization	10,599	9,806
Noncash lease expense	5,394	—
Share-based compensation expense	2,120	2,170
Loss (gain) on sale of property and equipment	43	(3,990)
Deferred income taxes	4,279	(18)
Purchase of trading investment securities	(83)	(165)
Proceeds from sale of trading investment securities	464	775
Realized and unrealized losses (gains) on investments	(224)	87
Foreign exchange losses	107	1,697
Loss on write-off of cumulative translation adjustment	595	—
Changes in assets and liabilities:		
Accounts receivable	375	189
Inventories	(4,870)	1,066
Prepaid expenses and other	1,229	(821)
Other assets	475	814
Accounts payable	(960)	1,035
Accrued volume incentives and service fees	(1,564)	1,762
Accrued liabilities	(8,593)	10,045
Deferred revenue	69	(357)
Lease liabilities	(5,039)	—
Income taxes payable	(1,960)	1,297
Liability related to unrecognized tax positions	(693)	(2,501)
Deferred compensation payable	(157)	(674)
Net cash provided by operating activities	<u>8,545</u>	<u>21,833</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(5,104)	(4,834)
Proceeds from sale of property, plant and equipment	2	5,045
Net cash provided by (used in) investing activities	<u>(5,102)</u>	<u>211</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	2,064	68,322
Principal payments of revolving credit facility	(2,064)	(81,503)
Proceeds from borrowings from related party	—	1,000
Proceeds from exercise of stock options	257	664
Tax benefit from exercise of stock options	(320)	(675)
Net cash used in financing activities	<u>(63)</u>	<u>(12,192)</u>
Effect of exchange rates on cash and cash equivalents	<u>(389)</u>	<u>(2,124)</u>
Net increase in cash and cash equivalents	2,991	7,728
Cash and cash equivalents at beginning of the year	50,638	42,910
Cash and cash equivalents at end of the year	<u>\$ 53,629</u>	<u>\$ 50,638</u>

[Table of Contents](#)

Year Ended December 31,	2019	2018
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	\$ 6,861	\$ 3,535
Cash paid for interest	64	397
Supplemental disclosure of noncash investing, and financing activities:		
Purchases of property, plant and equipment included in accounts payable and accrued liabilities	194	32
Additions to asset retirement obligations and related assets	\$ 649	\$ —

See accompanying notes to consolidated financial statements.

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

NOTE 1: NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and transactions of the Company and our subsidiaries. At December 31, 2019 and 2018, substantially all of our subsidiaries were wholly owned. Intercompany balances and transactions have been eliminated in consolidation. We consolidate the joint ventures in Hong Kong and China in our consolidated financial statements, with another party's interest presented as a noncontrolling interest. Additionally, we operate a limited number of markets in jurisdictions where local laws require the formation of a partnership with an entity domiciled in that market. These partners have no rights to participate in the sharing of revenues, profits, losses or distribution of assets upon liquidation of these partnerships.

Use of Estimates

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

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consist principally of receivables from credit card companies, arising from the sale of products to our independent Distributors, and receivables from independent Distributors in foreign markets. Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. However, due to the geographic dispersion of credit card and Distributor receivables, the collection risk is not considered to be significant. Substantially all of the receivables from credit card companies were current as of December 31, 2019 and 2018. We maintain an allowance for potential credit losses that is based primarily on the aging category, historical trends and management's evaluation of the financial condition of account holder. This reserve is adjusted periodically as information about specific accounts becomes available.

Restricted Investment Securities

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

Fair Value of Financial Instruments

Our financial instruments, consisting primarily of cash and cash equivalents, accounts receivable, investments, and accounts payable, approximate fair value due to their short-term nature. During the years ended December 31, 2019, and 2018, we did not have any write-offs related to the remeasurement of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

Inventories

Inventories are adjusted to lower of cost and net realizable value, using the first-in, first-out method. The components of inventory cost include raw materials, labor and overhead. To estimate any necessary adjustments, various assumptions are made in regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning and market conditions. If future demand and market conditions are less favorable than management's assumptions, additional inventory adjustments could be required.

Property, Plant and Equipment

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

Intangible Assets

Intangible assets consist of purchased product formulations and product registrations. Such intangible assets are amortized using the straight-line method over the estimated economic lives of the assets of 9 to 15 years. Intangible assets, net of accumulated amortization, totaled \$0.6 million at December 31, 2019, and 2018.

Other Assets

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

Impairment of Long-Lived Assets

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

Incentive Trip Accrual

We accrue for expenses associated with our direct sales program, which rewards independent Managers and Distributors with paid attendance for incentive trips, including our conventions and meetings. Expenses associated with incentive trips are accrued over qualification periods as they are earned. We specifically analyze incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could generate liabilities more or less than the amounts recorded. We have accrued convention and meeting costs of \$5.5 million and \$6.5 million at December 31, 2019, and 2018, respectively, which are included in accrued liabilities in the consolidated balance sheets.

Foreign Currency Translation

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

The functional currency in highly inflationary economies is the U.S. dollar and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The remeasurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three-year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation, and other pertinent economic factors. During the years ended December 31, 2019 and 2018, we did not operate in any countries considered to be highly inflationary.

Revenue Recognition

Net sales include sales of products and shipping and handling charges, net of estimates for product returns and any related sales incentives or rebates based upon historical information and current trends. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with revenue recognized upon shipment, the point in time in which the customer obtains control of the products. Revenue recognition is discussed in further detail in Note 2.

Advertising Costs

Advertising costs are expensed as incurred and classified in selling, general and administrative expenses. Advertising expense incurred for the years ended December 31, 2019 and 2018, totaled approximately \$1.8 million and \$1.9 million, respectively.

Research and Development

All research and development costs are expensed as incurred and classified in selling, general and administrative expense. Total research and development expenses were approximately \$2.1 million and \$2.8 million in 2019 and 2018, respectively.

Contingencies

We are involved in certain legal proceedings. When a loss is considered probable in connection with litigation or non-income tax contingencies and when such loss can be reasonably estimated, we record our best estimate within a range related to the contingency. If there is no best estimate, we record the minimum of the range. As additional information becomes available, we assess the liability related to the contingency and revise the estimates. Revisions in estimates of the liabilities could materially affect our results of operations in the period of adjustment. Our contingencies are discussed in further detail in Note 14.

Income Taxes

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

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

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

Net Income (Loss) Per Common 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.

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

	2019	2018
Net income (loss) attributable to common shareholders:		
Net income (loss)	<u>\$ 6,765</u>	<u>\$ (854)</u>
Basic weighted-average shares outstanding	19,314	19,123
Basic earnings (loss) per share attributable to common shareholders:		
Net income (loss)	<u>\$ 0.35</u>	<u>\$ (0.04)</u>
Diluted Shares Outstanding:		
Basic weighted-average shares outstanding	19,314	19,123
Stock-based awards	349	—
Diluted weighted-average shares outstanding	<u>19,663</u>	<u>19,123</u>
Diluted earnings (loss) per share attributable to common shareholders:		
Net income (loss)	<u>\$ 0.34</u>	<u>\$ (0.04)</u>
Potentially dilutive shares excluded from diluted-per-share amounts:		
Share-based awards	439	— (1)
Potentially anti-dilutive shares excluded from diluted-per-share amounts:		
Share-based awards	214	2,172 (1)

(1) As a result of the net loss for the year ended December 31, 2018, 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 for the year ended December 31, 2018 include 1,114 outstanding options to purchase shares of common stock and 1,058 restricted stock units.

For the year ended December 31, 2019, potentially dilutive shares excluded from diluted-per-share amounts include performance-based restricted stock units ("RSU"), for which certain metrics have not been achieved. Potentially anti-dilutive shares excluded from diluted-per-share amounts include both non-qualified stock options and unearned performance-based options to purchase shares of common stock with exercise prices greater than the weighted-average share price during the period and shares that would be anti-dilutive to the computation of diluted net income per share for each of the years presented.

Share-Based Compensation

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

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

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

Comprehensive Income (Loss)

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

Chief Executive Officer Related Transition Costs

During the second quarter of 2018, we announced the retirement of our Chief Executive Officer. As a result, we recorded \$2.4 million of transition-related expenses during the year ended December 31, 2018. As of December 31, 2019, accrued transition costs were \$0.2 million.

Recent Accounting Pronouncements

We adopted the requirements of Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842): Accounting for Leases effective January 1, 2019. This update requires that lessees recognize right-of-use assets and lease liabilities that are measured at the present value of the future lease payments at lease commencement date. See Note 19 - Leases for additional disclosure of the adoption of Topic 842.

In February 2018, the Financial Accounting Standards Board ("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 is effective for annual periods beginning after December 15, 2018 with early adoption permitted. We did not elect to reclassify the income tax effects from comprehensive income to retained earnings for the stranded tax effects resulting from the Tax Cuts and Jobs Act. Our policy for releasing the income tax effects from accumulated other comprehensive income is when the corresponding pretax accumulated other comprehensive income items are reclassified to earnings. The adoption of ASU 2018-02 did not have a material effect on our results of operations, consolidated financial statements and footnote disclosures.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure requirements on fair value measurements in Topic 820 based on the consideration of costs and benefits to promote the appropriate exercise and discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU is not expected to have a significant impact on our Consolidated Financial Statements.

NOTE 2: REVENUE RECOGNITION

Adoption of ASU Topic 606

On January 1, 2018, we 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.

We 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. There was no impact to revenues and operating income as a result of applying Topic 606 for the year ended December 31, 2019, compared to an increase of \$0.2 million and \$47,000, respectively, for 2018.

Revenue Recognition

Net sales include sales of products and shipping and handling charges, net of estimates for product returns and any related sales incentives or rebates based upon historical information and current trends. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with revenue recognized at shipping point, the point in time the customer obtains control of the products. The majority of our

contracts have a single performance obligation and are short term in nature. Contracts with multiple performance obligations are insignificant. Amounts received for unshipped merchandise are recorded as deferred revenue.

A reserve for product returns is recorded based upon historical experience. We allow independent 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 our markets, the requirements to return product are more restrictive. Sales returns for the years 2019 and 2018, were \$1.9 million and \$1.7 million, respectively.

Amounts billed to customers for shipping and handling are reported as a component of net sales. Shipping and handling revenues of approximately \$6.2 million and \$7.1 million were reported as net sales for the years ended December 31, 2019 and 2018, respectively.

Volume incentives, and other sales incentives or rebates, are a significant part of our direct sales marketing program, and represent commission payments made to independent 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.

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

Contract Liabilities - Customer Loyalty Programs

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

The following table presents changes in these contract liability balances for the years ended December 31, 2018 2019 (U.S. dollars in thousands):

Outstanding at December 31, 2017	\$	1,126
Increase (decrease) attributed to:		
Customer loyalty net deferrals		4,333
Customer loyalty redemptions		(4,380)
Outstanding at December 31, 2018		1,079
Increase (decrease) attributed to:		
Customer loyalty net deferrals		4,969
Customer loyalty redemptions		(5,093)
Outstanding at December 31, 2019	\$	955

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

Disaggregation of Revenue

Our products are grouped into six principal categories: general health, immune, cardiovascular, digestive, personal care and weight management. We have four business segments that are based primarily upon the geographic region where each segment operates. Each of the geographic segments operate under the Nature's Sunshine Products and Synergy® WorldWide brands. See Note 15, Segment Information, for further information on our reportable segments and our presentation of disaggregated revenue by reportable segment and product category.

Practical Expedients and Exemptions

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

We generally expense volume incentives when incurred because the amortization period would have been one year or less.

All of our contracts with customers have a duration of less than one year. The value of any unsatisfied performance obligations is insignificant.

NOTE 3: RESTRUCTURING RELATED EXPENSES

In 2018, we continued to execute our strategy to reduce costs and improve efficiencies. During the year ended December 31, 2018, we incurred \$1.5 million of non-recurring expenses that are recorded primarily in selling, general and administrative expense consisting of severance and buy-outs of lease commitments. Of the restructuring expenses incurred during the year ended December 31, 2018, \$0.3 million of severance and rent expenses remained payable at year-end.

In 2019, we continued to execute our strategy to reduce costs and improve efficiencies. During the year ended December 31, 2019, we incurred \$2.4 million of non-recurring expenses that are recorded primarily in selling, general and administrative expense consisting of severance. Of the restructuring expenses incurred during the year ended December 31, 2019, \$0.4 million of severance remained payable at year-end.

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

The following table summarizes the 2018, and 2019 restructuring activity:

	Total
Liability balance at December 31, 2017	\$ 750
Increase in liability	1,523
Reduction in liability (payments)	(2,008)
Liability balance at December 31, 2018	265
Increase in liability	2,375
Reduction in liability (payments)	(2,257)
Liability balance at December 31, 2019	\$ 383

NOTE 4: INVENTORIES

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

As of December 31,	2019	2018
Raw materials	\$ 13,329	\$ 10,410
Work in process	1,426	1,524
Finished goods	31,911	30,114
Total inventory	\$ 46,666	\$ 42,048

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

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

As of December 31,	2019	2018
Land and improvements	\$ 448	\$ 518
Buildings and improvements	32,374	32,925
Machinery and equipment	28,533	25,691
Furniture and fixtures	18,162	20,245
Computer software and hardware	52,837	52,400
	132,354	131,779
Accumulated depreciation and amortization	(72,842)	(67,718)
Total property, plant and equipment	\$ 59,512	\$ 64,061

Depreciation expense was \$10.5 million and \$9.8 million for the years ended December 31, 2019 and 2018, respectively.

Capitalized interest was \$0 for the years ended December 31, 2019 and 2018.

In June of 2018, we sold a 29,300 square foot building in Mexico City, Mexico for \$2.6 million. We previously utilized the building for offices as well as warehouse space and have 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 year ended December 31, 2018.

In August of 2018, we sold an eight-acre property in Provo, Utah for \$2.7 million. We originally acquired the property with the intent to erect a building for the corporate headquarters and later decided to move the headquarters elsewhere. As the fair value of the property exceeded the carrying value, a net gain of \$1.7 million was recognized during the year ended December 31, 2018.

NOTE 6: INTANGIBLE ASSETS

At December 31, 2019, and 2018, intangibles for product formulations and registrations had a gross carrying amount of \$1.7 million, and \$1.9 million, accumulated amortization of \$1.2 million, and \$1.3 million, and a net amount of \$0.6 million, and \$0.6 million, respectively. The estimated useful lives of the product formulations range from 9 to 15 years.

Amortization expense for intangible assets for the years ended December 31, 2019 and 2018 was \$0.1 million and \$0.1 million, respectively. Estimated amortization expense for the five succeeding years and thereafter is as follows (dollar amounts in thousands):

Year Ending December 31,	
2020	\$ 130
2021	161
2022	91
2023	74
2024	74
Thereafter	37
Total	\$ 567

NOTE 7: INVESTMENT SECURITIES

Our trading securities portfolio totaled \$1.2 million and \$1.3 million at December 31, 2019 and 2018, respectively, and generated a gain of \$0.2 million and a loss of \$0.1 million, for the years ended December 31, 2019 and 2018, respectively.

NOTE 8: ACCRUED LIABILITIES

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

As of December 31,	2019	2018
Salaries and employee benefits	\$ 11,265	\$ 15,927
Sales, use and property tax (See Note 14)	2,830	3,594
Convention and meeting costs	5,501	6,540
Other	5,935	8,740
Total	\$ 25,531	\$ 34,801

NOTE 9: REVOLVING CREDIT FACILITY

On July 11, 2017, we entered into a revolving credit agreement with Bank of America, N.A., with a borrowing limit of \$25.0 million, that matures on July 11, 2020 (the “Credit Agreement”). We pay interest on any borrowings under the Credit Agreement at LIBOR plus 1.25 percent (3.05 percent as of December 31, 2019), and an annual commitment fee of 0.2 percent on the unused portion of the commitment. We are required to settle our net borrowings under the Credit Agreement only upon maturity. At December 31, 2019, there is no outstanding balance under the Credit Agreement.

The Credit Agreement contains customary financial covenants, including financial covenants relating to our 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, mergers, consolidations and transfers of assets except as permitted in the Credit Agreement. The Credit Agreement is collateralized by our manufacturing facility, accounts receivable balance, inventory balance and other assets. We were in compliance with the debt covenants set forth in the Credit Agreement as of December 31, 2019.

NOTE 10: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Available-For-Sale Securities	Write-off of cumulative translation adjustments	Total Accumulated Other Comprehensive Loss
Balance as of December 31, 2017	\$ (10,134)	\$ 2	\$ —	\$ (10,132)
Activity, net of tax	(973)	(2)	—	(975)
Balance as of December 31, 2018	(11,107)	—	—	(11,107)
Activity, net of tax	477	—	(595)	(118)
Balance as of December 31, 2019	\$ (10,630)	—	\$ (595)	\$ (11,225)

NOTE 11: INCOME TAXES

Our financial statements are based on enacted law and related guidance received as of December 31, 2019. The U.S. Treasury has recently issued final regulations providing additional guidance on various provisions of the Tax Cuts and Jobs Act and it is expected that additional regulations and guidance will be forthcoming. We will continue to evaluate the impact, if any, of new regulations and guidance and will recognize any resulting impact in the period such guidance is received.

As a result of the Tax Cuts and Jobs Act, distributions of profits from foreign affiliates are not expected to result in material incremental U.S. tax impacts in the future. However, due to tax treaties between the U.S. and many of the jurisdictions in which we operate, some profit distributions may be subject to withholding taxes. Furthermore, provisions of the Tax Cuts and Jobs Act such as GILTI (global intangible low-taxed income), FDII (foreign-derived intangible income), deduction limitations on interest expense and executive compensation, as well as other tax reform changes may continue to impact our future taxes.

We have elected the period cost method (costs are treated as a current period expense when incurred) under U.S. GAAP as it relates to GILTI income inclusions in U.S. taxable income. Each reporting period we analyze our indefinite reinvestment assertions with respect to undistributed foreign earnings. As of December 31, 2019, we continue to assert that we do not intend to reinvest undistributed foreign earnings indefinitely in our foreign subsidiaries.

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

Year Ended December 31,	2019	2018
Domestic	\$ 1,770	\$ (10,069)
Foreign	13,872	13,269
Total	\$ 15,642	\$ 3,200

Components of the provision (benefit) for income taxes for each of the two years in the period ended December 31, 2019 are as follows (dollar amounts in thousands):

Year Ended December 31,	2019	2018
Current:		
Federal	\$ (476)	\$ (1,823)
State	94	(70)
Foreign	4,816	6,371
Subtotal	<u>4,434</u>	<u>4,478</u>
Deferred:		
Federal	3,044	605
State	475	296
Foreign	760	(977)
Subtotal	<u>4,279</u>	<u>(76)</u>
Total provision for income taxes	<u>\$ 8,713</u>	<u>\$ 4,402</u>

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

Year Ended December 31,	2019	2018
Statutory U.S. federal income tax rate	21.0 %	21.0 %
State income taxes, net of U.S. federal income tax benefit	2.9	5.5
U.S. tax impact of foreign operations	12.3	102.5
Valuation allowance change	10.3	(13.9)
Unrecognized tax benefits	(3.3)	(58.7)
Permanent foreign items	4.4	28.6
Withholding tax on royalties	4.2	20.0
Stock compensation	7.1	12.7
Tax return to provision differences	(3.7)	11.7
Elimination of provision on intercompany transactions	(0.6)	4.4
Other	1.1	3.8
Effective income tax rate	<u>55.7 %</u>	<u>137.6 %</u>

Pretax earnings of a foreign subsidiary or affiliate are subject to U.S. taxation when effectively repatriated.

Adjustments relating to the U.S. impact of foreign operations increased the effective tax rate by 12.3 percentage points in 2019 and increased the effective tax rate by 102.5 percentage points in 2018. The components of this calculation were:

Components of U.S. tax impact of foreign operations	2019	2018
Foreign tax credits	(6.3)%	(17.6)%
Foreign tax rate differentials	3.6	37.3
Foreign withholding taxes	3.9	27.7
Transfer pricing adjustment	4.6	12.1
Impact of GILTI	6.5	43.0
Total	<u>12.3 %</u>	<u>102.5 %</u>

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

As of December 31,	2019	2018
Inventory	\$ 1,013	\$ 1,252
Accrued liabilities	2,511	4,130
Operating lease liabilities	3,639	—
Deferred compensation	273	307
Equity-based compensation	1,127	2,359
Intangibles assets	161	151
Bad debts	92	114
Net operating losses	7,139	7,730
Foreign tax and withholding credits	14,640	13,300
Health insurance accruals	97	145
Other deferred tax assets	2,178	2,438
Valuation allowance	(21,388)	(20,256)
Total deferred tax assets	<u>11,482</u>	<u>11,670</u>
Other deferred tax liabilities	(1,755)	(2,009)
Accelerated depreciation	(3,168)	(2,161)
Right of use assets	(3,315)	—
Total deferred tax liabilities	<u>(8,238)</u>	<u>(4,170)</u>
Total deferred taxes, net	<u>\$ 3,244</u>	<u>\$ 7,500</u>

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

As of December 31,	2019	2018
Net deferred tax assets	\$ 4,899	\$ 9,056
Net deferred tax liabilities	(1,655)	(1,556)
Total deferred taxes, net	<u>\$ 3,244</u>	<u>\$ 7,500</u>

We have provided a valuation allowance of \$21.4 million and \$20.3 million as of December 31, 2019 and 2018, respectively, for certain deferred tax assets, including foreign net operating losses, for which we cannot conclude it is more likely than not that they will be realized. We reviewed our tax positions and increased the valuation allowance by approximately \$1.1 million in 2019 primarily due to a domestic increase of \$1.3 million and a foreign decrease of \$0.2 million. For financial reporting purposes, the increase in valuation allowances increases income tax expenses in the year recorded. At December 31, 2019, we had approximately \$14.6 million of foreign tax and withholding credits. Of the \$14.6 million credits, \$14.3 million are foreign tax credits, most of which expire in 2024 and all of which are fully offset by a valuation allowance.

At December 31, 2019, foreign subsidiaries had unused operating loss carryovers for tax purposes of approximately \$7.1 million. The net operating losses will expire at various dates from 2020 through 2029, with the exception of those in some foreign jurisdictions where there is no expiration. The foreign net operating losses have a full valuation allowance recorded against them.

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

Our U.S. federal income tax returns for 2016 through 2018 are open to examination for federal tax purposes. We have several foreign tax jurisdictions that have open tax years from 2014 through 2018.

The total outstanding balance for liabilities related to unrecognized tax benefits at December 31, 2019 and 2018 was \$1.5 million and \$2.2 million, respectively, all of which would favorably impact the effective tax rate if recognized. Included in these amounts is approximately \$0.1 million and \$0.2 million, respectively, of combined interest and penalties. We decreased

interest and penalties approximately \$33,000 and \$0.2 million for the years ended December 31, 2019 and 2018, respectively. We account for interest expense and penalties for unrecognized tax benefits as part of our income tax provision.

During the years ended December 31, 2019 and 2018, we added approximately \$0.2 million and \$0.2 million, respectively, to our liability for unrecognized tax benefits. Included in these amounts are approximately \$0.1 million and \$0.1 million for the years ended December 31, 2019 and 2018, respectively, related to interest and penalties. In addition, we recorded a benefit related to the lapse of applicable statute of limitations of approximately \$0.8 million and \$2.1 million for the years ended December 31, 2019 and 2018, respectively, all of which favorably impacted our effective tax rate.

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

Year Ended December 31,	2019	2018
Unrecognized tax benefits, opening balance	\$ 1,966	\$ 2,956
Settlement of liability reclassified as income tax payable	—	—
Payments on liability	(16)	—
Tax positions taken in a prior period		
Gross increases	—	—
Gross decreases	(9)	(467)
Tax positions taken in the current period		
Gross increases	132	92
Gross decreases	—	—
Lapse of applicable statute of limitations	(686)	(591)
Currency translation adjustments	(2)	(24)
Unrecognized tax benefits, ending balance	<u>\$ 1,385</u>	<u>\$ 1,966</u>

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

We believe that it is reasonably possible that unrecognized tax benefits may decrease by \$0 to \$1.3 million within the next twelve months due to the expiration of statutes of limitations in various jurisdictions.

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

NOTE 12: CAPITAL TRANSACTIONS

Dividends

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

No dividends were declared for the years ended December 31, 2019 and 2018.

Share-Based Compensation

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

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

Stock Options

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

Stock option activity for 2019 and 2018 consisted of the following (share amounts in thousands, except for per share information):

	Number of Shares	Weighted- Average Exercise Price Per Share
Options outstanding at December 31, 2017	1,390	\$ 12.20
Granted	50	8.43
Forfeited or canceled	(227)	13.87
Exercised	(99)	6.10
Options outstanding at December 31, 2018	1,114	12.23
Granted	25	8.72
Forfeited or canceled	(797)	12.87
Exercised	(52)	4.98
Options outstanding at December 31, 2019	290	\$ 11.49

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

During the year ended December 31, 2018, we granted options to purchase 50,000 shares of common stock under the 2012 Stock Incentive Plan to two members of our Board of Directors, which are composed of both time-based stock options and net sales performance-based stock options. These options were issued with a weighted-average exercise price of \$8.43 per share and a weighted-average grant date fair value of \$3.0 to \$3.5 per share. All of the options issued have an option termination date of ten years from the option grant date.

For the years ended December 31, 2019 and 2018, we issued 52,000 and 99,000 shares of common stock upon the exercise of stock options at an average exercise price of \$4.98 and \$6.10 per share, respectively. The aggregate intrinsic values of options exercised during the years ended December 31, 2019 and 2018 was \$0.2 million and \$0.2 million, respectively. For

the years ended December 31, 2019 and 2018, we recognized \$0.1 million and \$0.1 million of tax benefits from the exercise of stock options during the period, respectively.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the years ended December 31, 2019 and 2018:

	2019	2018
Weighted-average grant date fair value of grants	\$ 3.44	\$3.0 to \$3.5
Expected life (in years)	5.0	5.0
Risk-free interest rate	1.5 %	2.8 %
Expected volatility	43.2 %	38.2 %
Dividend yield	— %	— %

Share-based compensation expense from time-based stock options for the years ended December 31, 2019 and 2018, was \$0.1 million and \$0.2 million, respectively. As of December 31, 2019 and 2018, the unrecognized share-based compensation cost related to grants described above was \$0, respectively. As of December 31, 2019, there are no unvested options.

The following table summarizes information about options outstanding and exercisable at December 31, 2019 (share amounts in thousands, except per share information):

Range of Option Prices Per Share	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price Per Share	Options Exercisable	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price Per Share
\$2.35 to \$9.99	76	6.2	\$ 7.83	76	6.2	\$ 7.83
\$10.00 to \$13.99	189	3.9	12.32	189	3.9	12.32
\$14.00 to \$17.70	25	3.7	16.33	25	3.7	16.33
	<u>290</u>			<u>290</u>		

At December 31, 2019, the aggregate intrinsic value of outstanding and exercisable options to purchase 290,000 shares of common stock was \$0.1 million. At December 31, 2018, the aggregate intrinsic value of outstanding and exercisable options to purchase 1,114,000 shares of common stock was \$0.2 million.

Restricted Stock Units

Our outstanding restricted stock units ("RSUs"), include time-based RSUs, which vest over differing periods ranging from 12 months up to 36 months from the RSU grant date, as well as performance-based RSUs, which vest upon achieving targets relating to growth, earnings-per-share, and/or stock price levels. RSUs granted to members of the Board of Directors contain a restriction period in which the shares are not issued until two years after vesting. At December 31, 2019 and 2018, there were 95,000 and 80,000 vested RSUs, respectively, granted to members of the Board of Directors that had a restriction period.

Restricted stock unit activity for the years ended December 31, 2019 and 2018 is as follows: (share amounts in thousands, except per share information):

	Number of Shares	Weighted-Average Grant Date Fair Value
Units outstanding at December 31, 2017	728	\$ 11.56
Granted	692	7.63
Issued	(257)	11.78
Forfeited	(105)	12.17
Units outstanding at December 31, 2018	1,058	8.87
Granted	333	7.23
Issued	(179)	10.21
Forfeited	(391)	9.88
Units outstanding at December 31, 2019	821	\$ 7.43

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

During the year ended December 31, 2018, we granted 692,000 RSUs of common stock under the 2012 Incentive Plan to our board, executive officers and other employees, which are composed of both time-based RSUs and net sales and earnings per share performance-based RSUs. The time-based RSUs were granted with a weighted-average grant date fair value of \$10.05 per share and vest in 12 monthly installments over a one year period from the grant date or in annual installments over a three year period from the grant date. The net sales and EBITDA performance-based RSUs were granted with a weighted-average grant date fair value of \$11.20 per share and vest upon achieving net sales and EBITDA targets over a three year period from the grant date. The share-price performance-based RSUs were granted with a weighted-average grant date fair value of \$4.73 per share and vest upon achieving share-price targets over a three year period from the grant date.

Except for share-price performance-based RSUs, RSUs are valued at the market value on the date of grant, which is the grant date share price discounted for expected dividend payments during the vesting period. For RSUs with post-vesting restrictions, a Finnerty Model was utilized to calculate a valuation discount from the market value of common shares reflecting the restriction embedded in the RSUs preventing the sale of the underlying shares over a certain period of time. Using assumptions previously determined for the application of the option pricing model at the valuation date, the Finnerty Model discount for lack of marketability is approximately 13.4 percent for a common share.

Share-price performance-based RSUs were estimated using the Monte Carlo simulation model. The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved. Our assumptions include a performance period of three years, expected volatility of 50 percent, and a range of risk free rates between 2.1 percent and 2.9 percent.

Share-based compensation expense from RSUs for the period ended December 31, 2019 and 2018 was approximately \$2.0 million and \$1.9 million, respectively. As of December 31, 2019, and 2018, the unrecognized share-based compensation expense related to the grants described above was \$1.1 million and \$1.8 million, respectively. As of December 31, 2019, the remaining compensation expense is expected to be recognized over the weighted-average period of approximately 0.8 years.

Share-based compensation expense related to performance-based RSUs for the years ended December 31, 2019 and 2018, was approximately \$0.6 million and \$0.1 million, respectively. Should we attain all of the metrics related to the performance-based RSU grant, we would recognize up to \$2.0 million of potential share-based compensation expense. We currently expect to recognize an additional \$0.8 million of that potential share-based compensation expense.

The number of shares issued upon vesting or exercise for restricted stock units granted, pursuant to our share-based compensation plans, is net of shares withheld to cover the minimum statutory withholding requirements that we pay on behalf of our employees, which was 36,000 and 60,000 shares for the years ended December 31, 2019 and 2018, respectively.

Although shares withheld are not issued, they are treated as common share repurchases for accounting purposes, as they reduce the number of shares that would have been issued upon vesting.

NOTE 13: EMPLOYEE BENEFIT PLANS

Deferred Compensation Plans

We sponsor a qualified deferred compensation plan which qualifies under Section 401(k) of the Internal Revenue Code. During 2019, we made matching contributions of 70.0 percent of employee contributions up to a maximum of 5.0 percent of the employee's compensation. Our contributions to the plan vest after a period of three years. During 2019 and 2018, we contributed to the plan approximately \$1.0 million.

We provide a nonqualified deferred compensation plan for our officers and certain key employees. Under this plan, participants may defer up to 100 percent of their annual salary and bonus. Although participants direct the investment of these funds, they are classified as trading securities and are included in long-term investment securities on the consolidated balance sheets because they remain our assets until they are actually paid out to the participants. We have established a trust to finance obligations under the plan. At the end of each year and at other times provided under the plan, we adjust our obligation to a participant by the investment return or loss on the funds selected by the participant under rules established in the plan. Upon separation of employment of the participant with the Company, the obligation owed to the participant under the plan will be paid as a lump sum or over a period of either three or five years (and will continue to be adjusted by the applicable investment return or loss during the period of pay-out). We had deferred compensation plan assets of approximately \$1.2 million and \$1.3 million as of December 31, 2019, and 2018, respectively. The change in the liability associated with the deferred compensation plan is recorded in the deferred compensation payable.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Contractual Obligations

We have entered into long-term agreements with third-parties in the ordinary course of business, in which we have agreed to pay a percentage of net sales in certain regions in which we operate, or royalties on certain products. In 2019 and 2018, the aggregate amounts of these payments were \$10,000 and \$46,000, respectively.

Legal Proceedings

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

Non-Income Tax Contingencies

We have reserved for certain state sales and use tax and foreign non-income tax contingencies based on the likelihood of an obligation in accordance with accounting guidance for probable loss contingencies. Loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. We provide provisions for potential payments of tax to various tax authorities for contingencies related to non-income tax matters, including value-added taxes and sales tax. We provide provisions for U.S. state sales taxes in each of the states where we have nexus. As of December 31, 2019 and 2018, accrued liabilities include \$0.4 million and \$0.3 million related to non-income tax contingencies, respectively. While we believe that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of these matters cannot presently be determined. We believe future payments related to these matters could range from \$0 to approximately \$3.4 million.

Other Litigation

We are party to various other legal proceedings in the United States and several foreign jurisdictions related to value-added tax assessments and other civil litigation. We have accrued \$0.4 million related to the estimated outcome of these proceedings as of December 31, 2019. In addition, we are party to other litigation where there is a reasonable possibility that a loss may be incurred, either the losses are not considered to be probable or we cannot at this time estimate the loss, if any; therefore, no provision for losses has been provided. We believe future payments related to these matters could range from \$0 to approximately \$0.4 million. During the year ended December 31, 2019, we made payments of \$2.0 million related to the settlement of such litigation.

Self-Insurance Liabilities

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

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

We review our self-insurance accruals on a quarterly basis and determine, based upon a review of our recent claims history and other factors, which portions of our self-insurance accruals should be considered short-term and long-term. We have accrued \$0.8 million and \$1.1 million for product liability and employee medical claims at December 31, 2019 and 2018, respectively, of which \$0.5 million and \$0.7 million was classified as short-term. Such amounts are included in accrued liabilities and other long-term liabilities on our consolidated balance sheets.

Government Regulations

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

NOTE 15: OPERATING BUSINESS SEGMENT AND INTERNATIONAL OPERATION INFORMATION

We have four business segments (Asia, Europe, North America, and Latin America and Other) based primarily upon the geographic region where each segment operates, as well as the internal organization of our officers and their responsibilities. Each of the geographic segments operate under the Nature's Sunshine Products and Synergy® WorldWide brands. The Latin America and Other segment includes our wholesale business in which we sell products to various locally-managed entities, independent of the Company, that we have granted distribution rights for the relevant market.

Historically, our operating segments were based on brand, customer base, geographical operations with three operating business segments under the Nature's Sunshine Products brand (NSP Americas; NSP Russia, Central and Eastern Europe; and NSP China), and one operating business segment under the Synergy® WorldWide brand.

During the second quarter of 2019, we realigned into geographic focused operating business segments across brands to further align regional strategies and drive synergies in product, organizational and go-to-market strategies in local markets. Our internal reporting structure was reorganized to support the new reporting segments and the chief operating decision maker now

[Table of Contents](#)

reviews the operating results of the four segments utilizing a geographic focused format. The presentation of the comparative information has been recast to conform to the 2019 presentation.

Reportable business segment information for the years ended December 31, 2019 and 2018 is as follows (dollar amounts in thousands):

Year Ended December 31,	2019	2018
Net sales:		
Asia	\$ 138,536	\$ 139,031
Europe	62,523	56,314
North America	138,163	144,264
Latin America and Other	22,993	25,201
Total net sales	362,215	364,810
Contribution margin (1):		
Asia	65,871	67,733
Europe	19,954	17,845
North America	49,327	48,448
Latin America and Other	9,713	9,756
Total contribution margin	144,865	143,782
Selling, general and administrative (2)	128,740	138,431
Operating income	16,125	5,351
Other income (loss), net	(483)	(2,151)
Income before provision for income taxes	\$ 15,642	\$ 3,200

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

(2) Service fees in China totaled \$9.4 million and \$11.5 million for the years ended December 31, 2019 and 2018, respectively. These service fees are included in our selling, general and administrative expenses.

Year Ended December 31,	2019	2018
Capital expenditures:		
Asia	\$ 3,262	\$ 1,557
Europe	27	85
North America	2,605	3,143
Latin America and Other	21	18
Total capital expenditures	\$ 5,915	\$ 4,803
Depreciation and amortization:		
Asia	\$ 1,544	\$ 799
Europe	75	107
North America	8,855	8,718
Latin America and Other	125	182
Total depreciation and amortization	\$ 10,599	\$ 9,806

[Table of Contents](#)

As of December 31,	2019	2018
Assets:		
Asia	\$ 65,959	\$ 59,983
Europe	15,187	16,414
North America	124,337	109,091
Latin America and Other	7,585	7,528
Total assets	<u>\$ 213,068</u>	<u>\$ 193,016</u>

From an individual country perspective, only the United States and South Korea comprise approximately 10 percent or more of consolidated net sales for the years ended December 31, 2019 and 2018 as follows (dollar amounts in thousands):

Year Ended December 31,	2019	2018
Net sales:		
United States	\$ 128,019	\$ 133,677
South Korea	70,556	72,207
Other	163,640	158,926
Total net sales	<u>\$ 362,215</u>	<u>\$ 364,810</u>

[Table of Contents](#)

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

Year Ended December 31,	2019	2018
Asia:		
General health	\$ 37,795	\$ 32,519
Immunity	940	3,086
Cardiovascular	44,541	49,210
Digestive	24,434	24,015
Personal care	13,753	10,286
Weight management	17,073	19,915
	<u>138,536</u>	<u>139,031</u>
Europe:		
General health	\$ 22,469	\$ 20,932
Immunity	5,130	3,775
Cardiovascular	10,672	11,307
Digestive	14,456	12,478
Personal care	7,463	5,253
Weight management	2,333	2,569
	<u>62,523</u>	<u>56,314</u>
North America:		
General health	\$ 59,847	\$ 62,519
Immunity	15,341	16,202
Cardiovascular	18,750	19,518
Digestive	33,077	33,925
Personal care	6,170	5,751
Weight management	4,978	6,349
	<u>138,163</u>	<u>144,264</u>
Latin America and Other:		
General health	\$ 6,919	\$ 7,584
Immunity	2,453	2,565
Cardiovascular	1,446	1,427
Digestive	10,258	11,360
Personal care	1,056	1,214
Weight management	861	1,051
	<u>22,993</u>	<u>25,201</u>
Total net sales	<u><u>\$ 362,215</u></u>	<u><u>\$ 364,810</u></u>

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

As of December 31	2019	2018
Property, plant and equipment		
United States	\$ 54,470	\$ 60,606
Other	5,042	3,455
Total property, plant and equipment	<u><u>\$ 59,512</u></u>	<u><u>\$ 64,061</u></u>

NOTE 16: RELATED PARTY TRANSACTIONS

Our joint venture in China borrowed \$0 and \$4.0 million from the Company, during the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018 our joint venture in China held a note payable to the Company of \$6.1 million. Our joint venture in China borrowed \$0 and \$1.0 million from our joint venture partner, during the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018 our joint venture in China held a note payable to

our joint venture partner of \$1.5 million. These notes are payable in one year and bear interest of 3.0 percent. The note between the joint venture and the Company eliminates in consolidation.

NOTE 17: FAIR VALUE

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

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

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

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

The following table presents our hierarchy for assets measured at fair value on a recurring basis as of December 31, 2018 (dollar amounts in thousands):

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
Restricted investment securities - trading	\$ 1,308	\$ —	\$ —	\$ 1,308
Total assets measured at fair value on a recurring basis	\$ 1,308	\$ —	\$ —	\$ 1,308

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

For the years ended December 31, 2019 and 2018, there were no fair value measurements using significant other observable inputs (Level 2) or significant unobservable inputs (Level 3).

During the years ended December 31, 2019 and 2018, we did not have any re-measurements of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

NOTE 18: SUMMARY OF QUARTERLY OPERATIONS — UNAUDITED

The following tables presents our unaudited summary of quarterly operations during 2019 and 2018 for each of three month periods ended March 31, June 30, September 30, and December 31 (dollar amounts in thousands, except per share information).

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

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

	For the Quarter Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Net sales	\$ 87,342	\$ 91,266	\$ 88,828	\$ 97,374
Cost of sales	(22,713)	(24,278)	(23,161)	(25,539)
Gross profit	64,629	66,988	65,667	71,835
Volume incentives	31,362	31,492	30,511	31,972
Selling, general and administrative	32,386	33,310	31,643	41,092
Operating income (loss)	881	2,186	3,513	(1,229)
Other income (expense), net	740	(1,807)	(353)	(731)
Income (loss) before income taxes	1,621	379	3,160	(1,960)
Provision for income taxes	1,288	441	1,821	852
Net income (loss)	333	(62)	1,339	(2,812)
Net income (loss) attributable to noncontrolling interests	(165)	(129)	(158)	104
Net income (loss) attributable to common shareholders	\$ 498	\$ 67	\$ 1,497	\$ (2,916)
Basic and diluted net income (loss) per common share:				
Basic earnings (loss) per share attributable to common shareholders:	\$ 0.03	\$ —	\$ 0.08	\$ (0.15)
Diluted earnings (loss) per share attributable to common shareholders:	\$ 0.03	\$ —	\$ 0.08	\$ (0.15)

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

NOTE 19: LEASES

Adoption of ASU Topic 842

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

Adoption of the new standard resulted in recording of additional net operating lease right-of-use assets and lease liabilities of approximately \$23.1 million and \$24.0 million, respectively, as of January 1, 2019. The difference between the operating lease right-of-use assets and lease liabilities reflects deferred rent balances at the time of adoption. The standard did not materially impact consolidated net earnings and cash flows.

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

Operating lease right-of-use assets and lease liabilities are as follows (dollar amounts in thousands):

	December 31, 2019	January 1, 2019
Assets:		
Operating lease right-of-use assets	\$ 23,951	\$ 23,143
Liabilities:		
Current	4,941	4,426
Long-term	20,213	19,566
Total operating lease liabilities	<u>\$ 25,154</u>	<u>\$ 23,992</u>

Operating lease costs were approximately \$6.7 million for the year ended December 31, 2019. Short-term lease costs were approximately \$0.2 million for the year ended December 31, 2019. Operating lease costs were offset by sublease income of \$0.1 million for the year ended December 31, 2019, respectively. During the year ended December 31, 2018, the Company recognized lease expense of \$8.5 million in selling, general, and administrative expenses within the Company's consolidated statements of operations pursuant to FASB ASC Topic 840, *Leases*. Short-term lease costs represent our costs with respect to leases with a duration of 12 months or less and are not reflected on our Consolidated Balance Sheets.

Supplemental cash flow information related to operating leases for the year ended December 31, 2019 was as follows:

- Payments of \$6.1 million against amounts included in the measurement of lease liabilities.
- Lease assets obtained in exchange for lease liabilities totaled \$29.9 million, offset by cancellation of leases that resulted in the reduction of lease assets obtained in exchange for leases liabilities which totaled \$0.5 million.

The weighted-average remaining lease term for operating leases was 7.0 years. The weighted-average discount rate for operating leases was 4.21 percent as of December 31, 2019.

There were no material operating leases that we have entered into and that were yet to commence as of December 31, 2019.

The approximate aggregate commitments under non-cancelable operating leases in effect at December 31, 2019 were as follows (dollar amounts in thousands):

2020	\$ 5,928
2021	5,055
2022	3,550
2023	3,053
2024	2,913
Thereafter	8,849
Total lease payments	<u>\$ 29,348</u>
Less: Imputed interest (1)	4,194
Present value of lease liabilities	<u>\$ 25,154</u>

(1) Calculated using our corporate borrowing rate based on the term of each lease ranging from 4.09 percent to 4.29 percent.

As of December 31, 2018, future minimum rental commitments for non-cancelable operating leases were as follows (dollar amounts in thousands):

2019	\$	5,646
2020		4,692
2021		3,864
2022		2,367
2023		2,162
Thereafter		10,296
Total	\$	<u>29,027</u>

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

NOTE 20: SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China. The outbreak was initially concentrated in China, although numerous cases continue to be confirmed in other countries. Our results of operations could be adversely affected to the extent that coronavirus or any other epidemic harms the global economy, and particularly Asia. We may also experience impacts to certain of our customers and/or suppliers as a result of a health epidemic or other outbreak occurring in one or more of our markets. Further, our operations have and may further experience disruptions, such as temporary closure of our offices and/or those of our customers or suppliers and suspension of services, which may materially and adversely affect our business, financial condition and results of operations. The duration of the business disruption and related financial impact cannot be reasonably estimated at this time but may materially affect our Asia segment and consolidated results for the first quarter and fiscal year 2020.

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

None.

Item 9A. Controls and Procedures

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

Overview

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

The following discussion sets forth a summary of management’s evaluation of our disclosure controls and procedures as of December 31, 2019. In addition, this item provides a discussion of management’s evaluation of internal control over financial reporting.

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

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of our Annual Report as of December 31, 2019, management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2019. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2019.

Management’s Report on Internal Control over Financial Reporting

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in “*Internal Control—Integrated Framework (2013)*” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management’s assessment under this framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2019. Our internal control over financial reporting as of December 31, 2019 has been assessed by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that occurred during the fourth quarter ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Nature's Sunshine Products, Inc. and subsidiaries (the "Company") as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated March 11, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of a new accounting standard.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
March 11, 2020

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2019.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2019.

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table contains information regarding our equity compensation plans as of December 31, 2019:

Plan category	Number of securities to be issued upon exercise or vesting of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	1,111,180 (2)	\$ 4.98 (3)	1,342,505 (4)

- (1) Consists of two plans: The Nature’s Sunshine Products, Inc. 2012 Stock Incentive Plan (the “2012 Incentive Plan”), and the Nature’s Sunshine Products, Inc. 2009 Stock Incentive Plan (the “2009 Incentive Plan”). The 2012 Incentive Plan was approved by our shareholders on August 1, 2012. An amendment to the 2012 Incentive Plan was approved by our shareholders on January 14, 2015, to increase the number of shares available for issuance under the 2012 Incentive Plan by 1,500,000. The 2009 Incentive Plan was approved by our shareholders on November 6, 2009. The terms of these plans are summarized in Note 12, “Capital Transactions”, in the Notes to Consolidated Financial Statements in Item 8, Part 2 of this report.
- (2) Consists of 290,094 stock options and 821,086 restricted stock units.
- (3) Excludes the impact of restricted stock units, which are exercised for no consideration.
- (4) Represents the number of shares available for future issuance under the 2012 Incentive Plan and the 2009 Incentive Plan.

Other information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2019.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2019.

Item 14. Principal Accounting Fees and Services.

The information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our year ended December 31, 2019.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) List of Financial Statements

The following are filed as part of this report:

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets as of December 31, 2019 and 2018

Consolidated statements of operations for the years ended December 31, 2019 and 2018

Consolidated statements of comprehensive income (loss) for the years ended December 31, 2019 and 2018

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2019 and 2018

Consolidated statements of cash flows for the years ended December 31, 2019 and 2018

Notes to consolidated financial statements

(a)(2) List of Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts.

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

(a)(3) List of Exhibits

Exhibit Index as seen below

LIST OF EXHIBITS

Item No.	Exhibit
3.1(1)	Amended and Restated Articles of Incorporation.
3.2(2)	Amended and Restated Bylaws.
10.1(3)*	Tax Deferred Retirement Plan, Restated January 1, 2012.
10.2(4)*	Supplemental Elective Deferral Plan, as Amended effective as of January 1, 2008.
10.3(5)	2009 Stock Incentive Plan.
10.4(5)*	Form of Award Agreement (2009 Stock Incentive Plan).
10.5(6)*	Employment Agreement, dated January 1, 2015, by and between the Company and Gregory L. Probert.
10.6(7)*	Stock Option Agreement, dated June 16, 2011, by and between the Company and Gregory L. Probert.
10.7(8)	2012 Stock Incentive Plan and Amendment No. 1 to 2012 Stock Incentive Plan.
10.8(8)*	Form of Award Agreement (2012 Stock Incentive Plan).
10.9(9)*	Employment Agreement, dated October 31, 2016, by and between the Company and Joseph W. Baty.
10.10(10) *	Employment Agreement, dated December 21, 2007, by and between the Company and Bryant J. Yates.
10.11 (11)*	Consulting Service Agreement, dated September 25, 2018, between the Company and Gregory L. Probert.
10.12 (12)*	Letter Agreement, dated September 25, 2018, between the Company and Gregory L. Probert.
10.13 (13)*	Executive Agreement, dated September 14, 2018, between the Company and Terrence Moorehead.
10.14 (14)*	Amendment to Executive Agreement, dated October 19, 2018, between the Company and Terrence Moorehead.
21(15)	List of Subsidiaries of Registrant.
23.1(15)	Consent of Independent Registered Public Accounting Firm.
31.1(15)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2(15)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(15)	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.
32.2(15)	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

[Table of Contents](#)

- (1) Previously filed as Exhibit 3.1 to the Annual Report on Form 10-K filed on March 16, 2018, and is incorporated herein by reference.
- (2) Previously filed as Exhibit 3.2 to the Annual Report on Form 10-K filed on March 16, 2018, and is incorporated herein by reference.
- (3) Previously filed as Exhibit 10.1 to the Annual Report on Form 10-K filed on March 13, 2015, and is incorporated herein by reference.
- (4) Previously filed as Exhibit 10.2 to the Annual Report on Form 10-K filed on March 14, 2016, and is incorporated herein by reference.
- (5) Previously filed as Appendix C to the Registrant's Proxy Statement filed on October 19, 2009, and is incorporated herein by reference.
- (6) Previously filed as Exhibit 10.1 to the Current report on Form 8-K filed on February 19, 2015, and is incorporated herein by reference.
- (7) Previously filed as Exhibit 10.2 to the Current report on Form 8-K filed on June 22, 2011, and is incorporated herein by reference.
- (8) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed on January 15, 2015, and is incorporated herein by reference.
- (9) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed on November 3, 2016, and is incorporated herein by reference.
- (10) Previously filed as Exhibit 10.14 to the Annual Report on Form 10-K filed on March 16, 2018, and is incorporated herein by reference.
- (11) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed on September 26, 2018, and is incorporated herein by reference.
- (12) Previously filed as Exhibit 10.2 to the Current Report on Form 8-K filed on September 26, 2018, and is incorporated herein by reference.
- (13) Previously filed as Exhibit 10.3 to the Current Report on Form 8-K filed on September 26, 2018, and is incorporated herein by reference.
- (14) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed on October 24, 2018, and is incorporated herein by reference.
- (15) Filed herewith.
- * Management contract or compensatory plan.

Item 15. Form 10-K Summary.

None.

SIGNATURES

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

Nature's Sunshine Products, Inc.Date: **March 11, 2020**By: /s/ Terrence O. Moorehead

Terrence O. Moorehead,
Chief Executive Officer (Principal Executive Officer)

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Terrence O. Moorehead</u> Terrence O. Moorehead	Chief Executive Officer (Principal Executive Officer)	March 11, 2020
<u>/s/ J. Christopher Teets</u> J. Christopher Teets	Chairman of the Board	March 11, 2020
<u>/s/ Joseph W. Baty</u> Joseph W. Baty	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 11, 2020
<u>/s/ Robert B. Mercer</u> Robert B. Mercer	Director	March 11, 2020
<u>/s/ Richard D. Moss</u> Richard D. Moss	Director	March 11, 2020
<u>/s/ Mary Beth Springer</u> Mary Beth Springer	Director	March 11, 2020
<u>/s/ Robert D. Straus</u> Robert D. Straus	Director	March 11, 2020
<u>/s/ Jeffrey D. Watkins</u> Jeffrey D. Watkins	Director	March 11, 2020
<u>/s/ Lily Zou</u> Lily Zou	Director	March 11, 2020

NATURE'S SUNSHINE PRODUCTS, INC.
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in thousands)

Description	Balance at Beginning of Year	Provisions	Amounts Written Off	Amounts Recovered	Effect of Currency Translation	Balance at End of Year
Year Ended December 31, 2019						
Allowance for doubtful accounts receivable	\$ 460	\$ 10	\$ (63)	\$ —	\$ —	\$ 407
Allowance for sales returns	329	1,843	(1,872)	—	(2)	298
Tax valuation allowance	20,256	1,591	(107)	(372)	20	21,388
Year Ended December 31, 2018						
Allowance for doubtful accounts receivable	\$ 395	\$ 818	\$ (754)	\$ —	\$ 1	\$ 460
Allowance for sales returns	270	1,787	(1,717)	—	(11)	329
Tax valuation allowance	24,024	270	(1,818)	(2,210)	(10)	20,256