

NATURES SUNSHINE PRODUCTS INC

Form 10-Q

May 11, 2015

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

**x** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2015**

**OR**

**o** **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from            to            .**

**Commission File Number: 001-34483**

## NATURE'S SUNSHINE PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

**Utah**

(State or other jurisdiction of  
incorporation or organization)

**87-0327982**

(IRS Employer  
Identification No.)

**2500 West Executive Parkway, Suite 100**

**Lehi, Utah 84043**

(Address of principal executive offices and zip code)

**(801) 341-7900**

(Registrant's telephone number including area code)

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

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

Smaller reporting company ☐

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

The number of shares of Common Stock, no par value, outstanding on April 24, 2015, was 18,710,392 shares.

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Table of Contents

NATURE'S SUNSHINE PRODUCTS, INC.

FORM 10-Q

For the Quarter Ended March 31, 2015

Table of Contents

<b><u>Part I. Financial Information</u></b>		4
Item 1.	<u>Financial Statements (Unaudited)</u>	4
	<u>Condensed Consolidated Balance Sheets</u>	4
	<u>Condensed Consolidated Statements of Operations</u>	5
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	6
	<u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u>	6
	<u>Condensed Consolidated Statements of Cash Flows</u>	7
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	35
Item 4.	<u>Controls and Procedures</u>	37
<b><u>Part II. Other Information</u></b>		38
Item 1.	<u>Legal Proceedings</u>	38
Item 1A.	<u>Risk Factors</u>	38
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 3.	<u>Defaults Upon Senior Securities</u>	38
Item 4.	<u>Mine Safety Disclosures</u>	38
Item 5.	<u>Other Information</u>	38
Item 6.	<u>Exhibits</u>	39

Table of Contents

**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, positioned, strategy and similar expressions, and are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. For example, information appearing under Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are more fully described in this report, including the risks set forth under Risk Factors in Item 1A, but include the following:

- any negative consequences resulting from the economy, including the availability of liquidity to us, our independent Distributors and our suppliers or the willingness of our customers to purchase products;
- our relationship with, and our ability to influence the actions of, our independent Distributors, and other third parties with whom we do business;
- improper activity by our employees or independent Distributors;
- negative publicity related to our products, ingredients, and the nutritional supplement industry or direct selling organization;
- changing consumer preferences and demands;
- our reliance upon, or the loss or departure of any member of, our senior management team which could negatively impact our Distributor relations and operating results;
- increased state and federal regulatory scrutiny of the dietary supplement industry;
- the competitive nature of our business and the nutritional supplement industry;
- regulatory matters governing our products, ingredients, the nutritional supplement industry, our direct selling program, or the direct selling market in which we operate;
- legal challenges to our direct selling program or to the classification of our independent Distributors;
- risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third party importers, governmental sanctions, ongoing Ukraine and Russia political conflict, pricing and currency devaluation risks, especially in countries such as Ukraine, Russia and Belarus;
- uncertainties relating to the application of transfer pricing, duties, value-added taxes, and other tax regulations, and changes thereto;
- our dependence on increased penetration of existing markets;

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- our reliance on our information technology infrastructure;
- the sufficiency of trademarks and other intellectual property rights;
- changes in tax laws, treaties or regulations, or their interpretation;
- taxation relating to our independent Distributors;
- product liability claims;
- share price volatility related to, among other things, speculative trading; and
- the full implementation of our joint venture for operations in China with Fosun Industrial Co., Ltd., as well as the legal complexities, unique regulatory environment and challenges of doing business in China generally.

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 disclaim 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 its subsidiaries, as we, us, our Company or the Company.

[Table of Contents](#)**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

## NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 50,065	\$ 58,699
Accounts receivable, net of allowance for doubtful accounts of \$812 and \$849, respectively	8,086	6,732
Investments available for sale	2,569	2,546
Inventories	41,928	40,438
Deferred income tax assets	4,901	4,950
Prepaid expenses and other	9,653	7,884
Total current assets	117,202	121,249
Property, plant and equipment, net	56,939	51,343
Investment securities - trading	1,118	1,038
Intangible assets, net	667	704
Deferred income tax assets	14,509	14,495
Other assets	7,862	7,970
	\$ 198,297	\$ 196,799
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 8,297	\$ 5,237
Accrued volume incentives	18,142	16,867
Accrued liabilities	22,336	28,957
Deferred revenue	4,256	4,717
Income taxes payable	1,908	2,131
Revolving credit facility payable	348	
Total current liabilities	55,287	57,909
Liability related to unrecognized tax benefits	6,776	6,598
Deferred compensation payable	1,118	1,038
Other liabilities	2,334	2,297
Total liabilities	65,515	67,842
Commitments and contingencies		

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## Shareholders' equity:

Common stock, no par value, 50,000 shares authorized, 18,709 and 18,662 shares issued and outstanding as of March 31, 2015, and December 31, 2014, respectively	125,663	125,489
Retained earnings	14,693	10,891
Noncontrolling interests	3,629	3,781
Accumulated other comprehensive loss	(11,203)	(11,204)
Total shareholders' equity	132,782	128,957
	\$ 198,297	\$ 196,799

See accompanying notes to condensed consolidated financial statements.



Table of Contents

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

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share information)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net sales revenue	\$ 83,878	\$ 93,467
Cost of sales	(21,881)	(22,581)
Gross profit	61,997	70,886
Operating expenses:		
Volume incentives	30,337	34,893
Selling, general and administrative	26,330	29,152
Operating income	5,330	6,841
Other income (loss), net	(318)	(262)
Income before provision (benefit) for income taxes	5,012	6,579
Provision (benefit) for income taxes	809	(3,657)
Net income from continuing operations	4,203	10,236
Income (loss) from discontinued operations	1,312	(571)
Net income	5,515	9,665
Net loss attributable to noncontrolling interests	(152)	
Net income attributable to common shareholders	\$ 5,667	\$ 9,665
Basic and diluted net income per common share attributable to common shareholders		
Basic:		
Net income from continuing operations	\$ 0.23	\$ 0.63
Income (loss) from discontinued operations	\$ 0.07	\$ (0.03)
Net income attributable to common shareholders	\$ 0.30	\$ 0.60
Diluted:		
Net income from continuing operations	\$ 0.22	\$ 0.61
Income (loss) from discontinued operations	\$ 0.07	\$ (0.03)
Net income attributable to common shareholders	\$ 0.30	\$ 0.58
Weighted average basic common shares outstanding	18,621	16,179
Weighted average diluted common shares outstanding	19,192	16,618
Dividends declared per common share	\$ 0.10	\$ 0.10

See accompanying notes to condensed consolidated financial statements.

[Table of Contents](#)

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

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

		Three Months Ended March 31,	
	2015	2014	
Net income	\$ 5,515	\$ 9,665	
Foreign currency translation gain (loss) (net of tax)	(21)	178	
Net unrealized gains on investment securities (net of tax)	22	3	
Total comprehensive income	\$ 5,516	\$ 9,846	

See accompanying notes to condensed consolidated financial statements.

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

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in thousands)

(Unaudited)

	Common Stock Shares	Value	Retained Earnings	Noncontrolling Interests	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2015	18,662	\$ 125,489	\$ 10,891	\$ 3,781	\$ (11,204)	\$ 128,957
Share-based compensation expense		1,339				1,339
Proceeds from the exercise of stock options, and issuance of restricted stock units	249	1,640				1,640
Tax benefit from exercise of stock options		52				52
Repurchase of common stock	(202)	(2,857)				(2,857)
Cash dividends (0.10 per share)			(1,865)			(1,865)
Net income			5,667	(152)		5,515
Other comprehensive income					1	1
Balance at March 31, 2015	18,709	\$ 125,663	\$ 14,693	\$ 3,629	\$ (11,203)	\$ 132,782

See accompanying notes to condensed consolidated financial statements.



Table of Contents

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

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 5,515	\$ 9,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	30	39
Depreciation and amortization	996	1,237
Share-based compensation expense	1,339	1,094
Tax benefit from the exercise of stock options	(52)	
(Gain) loss on sale of property and equipment	(1,312)	13
Deferred income taxes	50	(3,823)
Amortization of bond discount		1
Purchase of trading investment securities	(112)	(67)
Proceeds from sale of trading investment securities	55	49
Realized and unrealized gains on investments	(46)	(15)
Foreign exchange losses	351	980
Changes in assets and liabilities:		
Accounts receivable	(1,411)	(1,170)
Inventories	(1,989)	707
Prepaid expenses and other current assets	(1,837)	(2,011)
Other assets	74	(390)
Accounts payable	3,010	(274)
Accrued volume incentives	1,539	1,513
Accrued liabilities	(6,707)	(6,156)
Deferred revenue	(461)	58
Income taxes payable	(268)	(940)
Liability related to unrecognized tax benefits	230	(53)
Deferred compensation payable	80	33
Net cash provided (used) by operating activities	(926)	490
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(6,019)	(4,614)
Proceeds from sale of property, plant and equipment	1,312	
Purchase of investments available for sale	(15)	(6)
Proceeds from investments available for sale		33
Net cash used in investing activities	(4,722)	(4,587)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments of cash dividends	(1,865)	
Borrowings on revolving credit facility	348	
Principal payments of long-term debt and revolving credit facility		(847)
Proceeds from the exercise of stock options	1,640	
Tax benefit from stock option exercise	52	
Repurchase of common stock	(2,857)	
Net cash used in financing activities	(2,682)	(847)
Effect of exchange rates on cash and cash equivalents	(304)	(836)

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Net decrease in cash and cash equivalents	(8,634)	(5,780)
Cash and cash equivalents at the beginning of the period	58,699	77,247
Cash and cash equivalents at the end of the period	\$ 50,065	\$ 71,467
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ 2,608	\$ 2,236
Cash paid for interest	25	30

See accompanying notes to condensed consolidated financial statements.

Table of Contents

NATURE S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share information)

*(Unaudited)*

**(1) Basis of Presentation**

Nature s Sunshine Products, Inc., together with its subsidiaries (hereinafter referred to collectively as the Company ), is a natural health and wellness company primarily engaged in the manufacturing and direct selling of nutritional and personal care products. The Company is a Utah corporation with its principal place of business in Lehi, Utah, and sells its products to a sales force of independent Managers and Distributors who use the products themselves or resell them to other independent Distributors or consumers. The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of each of the Company s major product groups are subject to regulation by one or more governmental agencies.

The Company markets its products in Australia, Austria, Belarus, Canada, Colombia, Costa Rica, the Czech Republic, Denmark, the Dominican Republic, Ecuador, El Salvador, Finland, Germany, Guatemala, Honduras, Hong Kong, Iceland, Indonesia, Ireland, Italy, Japan, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Moldova, Mongolia, the Netherlands, New Zealand, Nicaragua, Norway, Panama, the Philippines, Poland, Russia, Singapore, Slovenia, South Korea, Spain, Sweden, Taiwan, Thailand, Ukraine, the United Kingdom, the United States and Vietnam. The Company also exports its products to Argentina, Australia, Chile, Israel, New Zealand, Norway, Peru and the United Kingdom. The Company has announced it will discontinue operations in Vietnam, which were approximately 0.3 percent and 0.4 percent of consolidated net sales during the three month periods ended March 31, 2015 and 2014, respectively.

**Principles of Consolidation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals), considered necessary for a fair presentation of the Company s financial information as of March 31, 2015, and for the three-month periods ended March 31, 2015 and 2014. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year ending December 31, 2015.

It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014.

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

Since June 30, 2012, Belarus has been designated as a highly inflationary economy. The U.S. dollar is the Company's functional currency for this market. As a result, there were no resulting gains or losses from a re-measurement of the financial statements using official rates of the Company's Belarusian subsidiary. However, as a result of the weakening of the Belarusian ruble, the purchasing power of the Company's independent Distributors in this market has diminished. During the three months ended March 31, 2015 and 2014, the Company's Belarusian subsidiary's net sales revenue represented approximately 2.1 percent and 2.5 percent of consolidated net sales revenue, respectively.

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (Topic 606). This update requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. As such, this update affects an entity that either enters into contracts with customers or transfers goods and services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This update will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606. The amendments in this update are effective for interim and annual periods

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## Table of Contents

beginning after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements and footnote disclosures.

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

In January 2015, the FASB issued ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which eliminates the concept of an extraordinary item from GAAP. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, this ASU will still retain the presentation and disclosure guidance for items that are unusual in nature and occur infrequently. This ASU is effective for annual periods ending after December 15, 2015, and interim periods thereafter. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this ASU is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In February 2015, the FASB issued ASU No. 2015-02, Consolidations (Topic 810): Amendments to the Consolidation Analysis. This update makes amendments to the current consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. Under this analysis, limited partnerships and other similar entities will be considered a variable interest entity unless the limited partners hold substantive kick-out rights or participating rights. This update is effective for interim and annual periods beginning after December 15, 2015. The Company is currently evaluating both methods of adoption, as well as the effect this ASU will have on its consolidated financial statements and footnote disclosures.

## (2) **Discontinued operations**

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

The following table summarizes the operating results of the Company's discontinued operations:

	March 31, 2015	March 31, 2014
Net sales revenue	\$	\$ 2,286



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Income (loss) before income tax provision	\$	1,312	\$	(522)
Income tax provision				49
Income (loss) from discontinued operations	\$	1,312	\$	(571)

During the three months ended March 31, 2015, the Company received \$1,312 in net proceeds from the sales of its fixed assets in Venezuela, which is included in the results from discontinued operations. The income (loss) from discontinued operations did not have a material impact on the Company's operating cash flows during the three months ended March 31, 2014.

### (3) Inventories

The composition of inventories is as follows:

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Raw materials	\$ 12,298	\$ 11,206
Work in progress	743	534
Finished goods	28,887	28,698
Total inventory	\$ 41,928	\$ 40,438

Table of Contents**(4) Intangible Assets**

At March 31, 2015, and December 31, 2014, intangibles for product formulations had a gross carrying amount of \$1,763 and \$1,763, accumulated amortization of \$1,096 and \$1,059, and a net amount of \$667 and \$704, respectively. The estimated useful lives of the product formulations range from 9 to 15 years.

Amortization expense for intangible assets for the three months ended March 31, 2015, and 2014, was \$37 and \$37, respectively.

**(5) Investments**

The amortized cost and estimated fair values of available-for-sale securities by balance sheet classification are as follows:

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
As of March 31, 2015							
Municipal obligations	\$	100	\$		\$		\$ 100
U.S. government securities funds		1,791				(8)	1,783
Equity securities		227		472		(13)	686
Total short-term investment securities	\$	2,118	\$	472	\$	(21)	\$ 2,569

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

The municipal obligations held at a fair value of \$100 at March 31, 2015, all mature in less than one year.

During the three-month periods ended March 31, 2015, and 2014, the proceeds from the sales of available-for-sale securities were \$0 and \$33, respectively.

The Company's trading securities portfolio totaled \$1,118 at March 31, 2015, and \$1,038 at December 31, 2014, and generated gains of \$23 and \$15 for the three months ended March 31, 2015, and 2014.

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As of March 31, 2015, and December 31, 2014, the Company had unrealized losses of \$8 and \$15, respectively, in its U.S. government securities funds. These losses are due to the interest rate sensitivity of the municipal obligations and the performance of the overall stock market for the equity securities.

### **(6) Long-Term Debt and Revolving Credit Facility**

The Company's revolving credit agreement with Wells Fargo Bank, N.A., permits the Company to borrow up to \$25,000 through September 1, 2016, bearing interest at LIBOR plus 1.25 percent (1.50 percent as of March 31, 2015, and December 31, 2014). The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. Currently, the revolving credit agreement matures on September 1, 2016. At March 31, 2015, and December 31, 2014, the outstanding balance under the revolving credit agreement was \$348 and \$0, respectively.

The revolving credit agreement contains restrictions on liquidity, leverage, minimum net income and consecutive quarterly net losses. In addition, the agreement restricts capital expenditures, lease expenditures, other indebtedness, liens on assets, guaranties, loans and advances, and the merger, consolidation and the transfer of assets except in the ordinary course of business. The Company remains in compliance with these debt covenants as of March 31, 2015.

### **(7) Net Income Per Share**

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

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## Table of Contents

Following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
<b>Net income:</b>		
Net income from continued operations	\$ 4,203	\$ 10,236
Income (loss) from discontinued operations	\$ 1,312	\$ (571)
Net income attributable to common shareholders	\$ 5,667	\$ 9,665
<b>Basic weighted average shares outstanding</b>		
	18,621	16,179
<b>Basic net income per common share:</b>		
Net income from continued operations	\$ 0.23	\$ 0.63
Income (loss) from discontinued operations	\$ 0.07	\$ (0.03)
Net income attributable to common shareholders	\$ 0.30	\$ 0.60
<b>Diluted shares outstanding</b>		
Basic weighted average shares outstanding	18,621	16,179
Stock options	571	439
Diluted weighted average shares outstanding	19,192	16,618
<b>Diluted net income per common share:</b>		
Net income from continued operations	\$ 0.22	\$ 0.61
Income (loss) from discontinued operations	\$ 0.07	\$ (0.03)
Net income attributable to common shareholders	\$ 0.30	\$ 0.58
<b>Potentially dilutive shares excluded from diluted per share amounts:</b>		
Stock options	399	134
<b>Potentially anti-dilutive shares excluded from diluted per share amounts:</b>		
Stock options	733	210

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

## (8) Capital Transactions

### Dividends

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

On February 25, 2015, the Company announced a cash dividend of \$0.10 per common share in an aggregate amount of \$1,865 that was paid on March 23, 2015, to shareholders of record on March 12, 2015.

### **Share Repurchase Program**

In December 2014, the Company completed share repurchases under its previously announced \$10 million share repurchase program. In November 2014, the Board of Directors authorized a \$20 million share repurchase program beginning January 1, 2015. Such purchases may be made in the open market, through block trades, in privately negotiated transactions or otherwise. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors.

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### Table of Contents

and the program may be discontinued or suspended at any time. At March 31, 2015, the remaining balance available for repurchases under the program was \$17,143.

The following is a summary of the Company's repurchases of common shares during the three months ended March 31, 2015:

Period		Number of Shares		Average Price Paid per Share		Program Balance Used for Repurchases
January 1	March 31, 2015	202	\$	14.08	\$	2,857

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

### **Share-Based Compensation**

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

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

### *Stock Options*

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

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

Stock option activity for the period ended March 31, 2015, is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at December 31, 2014	2,037	\$ 11.69
Granted	310	14.27
Forfeited or cancelled	(49)	15.75
Exercised	(227)	7.63
Options outstanding at March 31, 2015	2,071	12.43

During the three-month period ended March 31, 2015, the Company issued time-based stock options to purchase 310 shares of common stock under the 2012 Stock Incentive Plan to the Company's Board of Directors and executive officers. These options were issued with a weighted-average exercise price of \$14.27 per share and a weighted-average grant date fair value of \$4.92 per share. All of the options issued have an option termination date of ten years from the option grant date.

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### Table of Contents

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 three-month period ended March 31, 2015:

	2015
Expected life (in years)	5.0 to 6.0
Risk-free interest rate	1.5
Expected volatility	46.3 to 52.3
Dividend yield	2.8

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

Share-based compensation expense from time-based stock options for the three-month periods ended March 31, 2015, and 2014, was approximately \$580 and \$897, respectively; the related tax benefit was approximately \$229 and \$354, respectively. As of March 31, 2015, and December 31, 2014, the unrecognized share-based compensation expense related to the grants described above was \$2,589 and \$2,018, respectively. As of March 31, 2015, the remaining compensation cost is expected to be recognized over the weighted-average period of approximately 1.9 years.

The Company has not recognized any share-based compensation expense related to the net sales revenue performance-based stock options for the three-month periods ended March 31, 2015 and 2014. Should the Company attain all of the net sales revenue metrics related to the net sales revenue performance-based stock option grants, the Company would recognize up to \$800 of potential share-based compensation expense.

At March 31, 2015, the aggregate intrinsic value of outstanding stock options to purchase 2,071 shares of common stock, exercisable stock options to purchase 1,119 shares of common stock and stock options to purchase 780 shares of common stock that are expected to vest was \$2,638, \$2,167 and \$448, respectively. At December 31, 2014, the aggregate intrinsic value of outstanding options to purchase 2,037 shares of common stock, the exercisable options to purchase 1,069 shares of common stock, and options to purchase 794 shares of common stock expected to vest was \$6,801, \$4,928 and \$1,779, respectively.

### *Restricted Stock Units*

The Company's outstanding restricted stock units (RSUs) include time-based RSUs, which vest over differing periods ranging from 12 months up to 48 months from the RSU grant date; performance-based RSUs, which vest upon achieving both cumulative annual net sales growth targets over a rolling one-year period and RSUs which vest upon achieving operating income and earnings per share targets over a rolling one-year period. RSUs given to the Board of Directors contain a restriction period in which the shares are not issued until two years after vesting. At March 31, 2015, and December 31, 2014, there were 32 and 32 vested RSUs given to the Board of Directors that had a restriction period.



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Restricted stock unit activity for the period ended March 31, 2015 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Units outstanding at December 31, 2014	180	\$ 15.09
Granted	569	12.85
Issued	(30)	13.63
Forfeited or cancelled	(5)	12.93
Units outstanding at March 31, 2015	714	12.69

During the three-month period ended March 31, 2015, the Company granted 569 restricted stock units (RSUs) of common stock under the 2012 Incentive Plan to the Company's executive officers and other employees, which are composed of both time-based RSUs and net sales and operating income and earnings per share performance-based RSUs. The time-based RSUs were issued with a weighted-average grant date fair value of \$13.49 per share and vest in annual installments over a three year period from the grant date. The net sales and operating income and earnings per share performance-based RSUs were issued with a weighted-average grant date fair value of \$12.13 per share and vest in annual installments over a three year period from the grant date.

RSUs are valued at the market value on the date of grant, which is the grant date share price discounted for expected dividend payments during the vesting period. For RSUs with post-vesting restrictions, a Finnerty Model was utilized to calculate a valuation

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## Table of Contents

discount from the market value of common shares reflecting the restriction embedded in the RSUs preventing the sale of the underlying shares over a certain period of time. The Finnerty Model proposes to estimate a discount for lack of marketability such as transfer restrictions by using an option pricing theory. This model has gained recognition through its ability to address the magnitude of the discount by considering the volatility of a company's stock price and the length of restriction. The concept underpinning the Finnerty Model is that restricted stock cannot be sold over a certain period of time. Using assumptions previously determined for the application of the option pricing model at the valuation date, the Finnerty Model discount for lack of marketability is approximately 17.5 percent for a common share.

Share-based compensation expense from RSUs for the three-month periods ended March 31, 2015, and 2014, was approximately \$756 and \$197, respectively; the related tax benefit was approximately \$299 and \$78, respectively. As of March 31, 2015, and December 31, 2014, the unrecognized share-based compensation expense related to the grants described above was \$3,942 and \$849, respectively. As of March 31, 2015, the remaining compensation expense is expected to be recognized over the weighted average period of approximately 2.2 years.

The Company has not recognized any share-based compensation expense related to the net sales revenue and EPS performance-based RSUs for the three-month periods ended March 31, 2015 and 2014. Should the Company attain all of the net sales revenue metrics related to the net sales revenue performance-based stock option grants, the Company would recognize up to \$3,600 of 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 the minimum statutory withholding requirements that the Company pays on behalf of its employees, which was eight shares for the three-month period ended March 31, 2015. Although shares withheld are not issued, they are treated as common share repurchases for accounting purposes, as they reduce the number of shares that would have been issued upon vesting. These shares do not count against the authorized capacity under the repurchase program described above.

## *Stock Appreciation Rights*

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

Stock appreciation right activity for the period ended March 31, 2015 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Units outstanding at December 31, 2014	30	\$ 5.47
Granted		
Forfeited or cancelled	(10)	5.86
Exercised		

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Units outstanding at March 31, 2015	20	5.27
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Expected SAR lives and volatilities are based on historical data of the Company. The risk-free interest rate is calculated as the average U.S. Treasury bill rate that corresponds with the option life. The dividend yield is based on the Company's historical and expected amount of dividend payouts, at the time of grant. On August 29, 2013, and September 19, 2014, the Company paid special non-recurring cash dividends of \$1.50 per common share. The Company has excluded these special non-recurring cash dividends from the dividend yield used in the Black-Scholes SAR-pricing model calculations as it is not representative of future dividends to be declared by the Company.

Share-based compensation expense from SARs for the three-month period ended March 31, 2015, was approximately \$3; and the related tax benefit was approximately \$1. As of March 31, 2015, and December 31, 2014, the unrecognized share-based compensation expense related to the grants described above was \$71 and \$150, respectively. As of March 31, 2015, the remaining compensation expense is expected to be recognized over the weighted average period of approximately 2.2 years.

Table of Contents**(9) Segment Information**

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

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

In the fourth quarter of 2014, the Company created the China and New Markets segment. The Company moved the reporting of its export business, in which the Company sells our products to a locally managed entity independent of the Company that has distribution rights for the market, from the NSP Americas segment to the China and New Markets segment during the year ended December 31, 2014, as well as the results of its NSP Peru & United Kingdom markets, which were converted to export markets during the prior year.

Reportable business segment information is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net sales revenue:		
NSP Americas	\$ 46,510	\$ 46,366
NSP Russia, Central and Eastern Europe	7,443	15,037
Synergy WorldWide	28,768	30,043
China and New Markets	1,157	2,021
Total net sales revenue	83,878	93,467
Contribution margin (1):		
NSP Americas	19,520	19,071
NSP Russia, Central and Eastern Europe	2,596	5,396
Synergy WorldWide	9,048	10,653
China and New Markets	496	873
Total contribution margin	31,660	35,993

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Selling, general and administrative	26,330	29,152
Operating income	5,330	6,841
Other income (expense), net	(318)	(262)
Income from continuing operations before provision for income taxes	\$ 5,012	\$ 6,579

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

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## Table of Contents

From an individual country perspective, only the United States and South Korea comprise 10 percent or more of consolidated net sales revenue for the three-month periods ended March 31, 2015 and 2014, as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net sales revenue:		
United States	\$ 38,522	\$ 37,615
South Korea	12,080	12,371
Other	33,276	43,481
	\$ 83,878	\$ 93,467

Revenue generated by each of the Company's product lines is set forth below:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
NSP Americas:		
General health	\$ 20,032	\$ 19,366
Immune	6,217	5,959
Cardiovascular	3,101	3,354
Digestive	13,365	13,693
Personal care	970	1,021
Weight management	2,825	2,973
	46,510	46,366
NSP Russia, Eastern and Central Europe:		
General health	\$ 2,879	\$ 5,545
Immune	913	1,968
Cardiovascular	453	938
Digestive	1,970	3,947
Personal care	882	1,868
Weight management	346	771
	7,443	15,037
Synergy WorldWide:		
General health	\$ 10,137	\$ 10,753
Immune	233	211
Cardiovascular	8,881	10,444
Digestive	4,594	5,017
Personal care	1,612	1,736
Weight management	3,311	1,882
	28,768	30,043
China and New Markets:		
General health	\$ 531	\$ 800
Immune	158	282
Cardiovascular	81	136
Digestive	290	550
Personal care	27	31
Weight management	70	222
	1,157	2,021
	\$ 83,878	\$ 93,467



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## Table of Contents

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

	March 31, 2015	December 31, 2014
Property, plant and equipment:		
United States	\$ 53,856	\$ 48,013
Other	3,083	3,330
Total property, plant and equipment	\$ 56,939	\$ 51,343

## (10) Income Taxes

For the three months ended March 31, 2015 and 2014, the Company's provision (benefit) for income taxes, as a percentage of income before income taxes was 16.1 percent and (55.6) percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended March 31, 2015, was primarily attributed to the partial utilization of foreign tax credit benefits related to intercompany dividends paid by foreign subsidiaries to the U.S. corporation in prior years.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended March 31, 2014 was primarily attributed to foreign tax credits arising from intercompany dividends of \$21,500 paid by foreign subsidiaries to the U.S. corporation. This discrete first quarter item resulted in an income tax benefit of \$6,720 for the three months ended March 31, 2014.

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

The Company's U.S. federal income tax returns for 2009 through 2013 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions that have open tax years from 2007 through 2014.

As of March 31, 2015, the Company had accrued \$6,776 related to unrecognized tax positions compared with \$6,598 as of December 31, 2014. This net increase was primarily attributed to increases in transfer pricing contingencies.

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, adjusted for discrete tax items in the period in which they occur. Although the Company believes its tax estimates are reasonable, the Company can make no assurance that the final tax outcome of these matters will not be different from that which it has reflected in its historical income tax provisions and accruals. Such differences could have a material impact on the Company's income tax provision and operating results in the period in which the



Company makes such determination.

**(11) Commitments and Contingencies**

**Legal Proceedings**

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

**Non-Income Tax Contingencies**

The Company has reserved for certain state sales and use tax and foreign non-income tax contingencies based on the likelihood of an obligation in accordance with accounting guidance for probable loss contingencies. Loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. The Company provides provisions for potential payments of tax to various tax authorities for contingencies related to non-income tax matters, including value-added taxes and sales tax. The Company provides provisions for U.S. state sales taxes in each of

Table of Contents

the states where the Company has nexus. As of March 31, 2015, and December 31, 2014, accrued liabilities include \$2,228 and \$2,760, respectively, related to non-income tax contingencies. While management believes that the assumptions and estimates used to determine this liability are reasonable, the ultimate outcome of those matters cannot presently be determined. The Company is not able at this time to predict the ultimate outcomes of those matters or to estimate the effect of the ultimate outcomes, if greater than the amounts accrued, would have on the financial condition, results of operations or cash flows of the Company.

**Other Litigation**

The Company is party to various other legal proceedings in several foreign jurisdictions related to value-added tax assessments and other civil litigation. While there is a reasonable possibility that a loss may be incurred, either the losses are not considered to be probable or the Company cannot at this time estimate the loss, if any; therefore, no provision for losses has been provided. The Company believes future payments related to these matters could range from \$0 to approximately \$500.

**(12) Fair Value Measurements**

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

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

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

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

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

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Investments available-for-sale				

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Municipal obligations	\$		\$	100	\$		\$	100
U.S. government security funds		1,783						1,783
Equity securities		686						686
Trading investment securities		1,118						1,118
Total assets measured at fair value on a recurring basis	\$	3,587	\$	100	\$		\$	3,687

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

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

*Investments available-for-sale* The majority of the Company's investment portfolio consist of various securities such as state and municipal obligations, U.S. government security funds, short-term deposits and various equity securities. The Level 1 securities

Table of Contents

are valued using quoted prices for identical assets in active markets including equity securities and U.S. government treasuries. The Level 2 securities include investments in state and municipal obligations whereby all significant inputs are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset.

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

For the three months ended March 31, 2015, and for the year ended December 31, 2014, there were no fair value measurements using the significant unobservable inputs (Level 3).

The carrying amounts reflected on the consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable and the revolving credit facility payable approximate fair value due to their short-term nature. During the three months ended March 31, 2015 and 2014, the Company did not have any re-measurements of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

Table of Contents

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

The following Management's Discussion and Analysis should be read in conjunction with the unaudited consolidated financial statements and notes thereto included in this report, as well as the consolidated financial statements, the notes thereto, and management's discussion and analysis included in our Annual Report on Form 10-K for the year ended December 31, 2014, and our Reports on Form 8-K filed since the date of such Form 10-K.

Throughout this report, we refer to Nature's Sunshine Products, Inc., together with its subsidiaries, as we, us, our, Company or the Company.

**OVERVIEW**

Nature's Sunshine Products, Inc., together with its subsidiaries, is a natural health and wellness company primarily engaged in the manufacturing and direct selling of nutritional and personal care products. The Company is a Utah corporation with its principal place of business in Lehi, Utah, and sells its products to a sales force of independent Managers and Distributors who use the products themselves or resell them to other independent Distributors or customers. 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.

The Company has four business segments that are divided based on the different characteristics of their Distributor bases, selling and Distributor compensation plans and product formulations, as well as the internal organization of our officers and their responsibilities and business operations. Two business segments operate under the Nature's Sunshine Products brand (NSP Americas and NSP Russia, Central and Eastern Europe), and one operates under the Synergy WorldWide brand. The Company's fourth business segment, China and New Markets, is deploying a multi-brand, multi-channel go-to-market strategy that offers select Nature's Sunshine branded products through retail locations across China as well as ecommerce, and select Synergy branded products through a direct selling model. The time to market will be dependent upon regulatory processes including product registration and permit approvals. The China and New Markets segment also includes the Company's export sales business, in which the Company sells its products to various locally managed entities independent of the Company that have distribution rights for the relevant market. All of the net sales revenue to date in the China and New Markets segment is through the Company's export business to foreign markets outside of China detailed below. The export business was previously part of NSP Americas.

We market our products in Australia, Austria, Belarus, Canada, Colombia, Costa Rica, the Czech Republic, Denmark, the Dominican Republic, Ecuador, El Salvador, Finland, Germany, Guatemala, Honduras, Hong Kong, Iceland, Indonesia, Ireland, Italy, Japan, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Moldova, Mongolia, the Netherlands, New Zealand, Nicaragua, Norway, Panama, the Philippines, Poland, Russia, Singapore, Slovenia, South Korea, Spain, Sweden, Taiwan, Thailand, Ukraine, the United Kingdom, the United States and Vietnam. We export our products to Argentina, Australia, Chile, Israel, New Zealand, Norway, Peru and the United Kingdom. The Company has announced it will discontinue operations in Vietnam, which were approximately 0.3 percent and 0.4 percent of consolidated net sales during the three month periods ended March 31, 2015 and 2014, respectively.

In the first quarter of 2015, we experienced a decrease in our consolidated net sales of 10.3 percent (or 6.6 percent in local currencies). NSP Russia, Central and Eastern Europe net sales decreased approximately 50.5 percent compared to the same period in 2014. Synergy WorldWide

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net sales decreased approximately 4.2 percent compared to the same period in 2014 (but increased 3.6 percent in local currencies). NSP Americas net sales increased approximately 0.3 percent compared to the same period in 2014 (or 2.4 percent in local currencies). China and New Markets net sales decreased approximately 42.8 percent compared to the same period in 2014. The markets that experienced reported net sales growth were primarily from our NSP United States market in our NSP Americas segment and Synergy Indonesia market in our Synergy WorldWide during the first quarter of 2015. Excluding the NSP Russia, Central and Eastern Europe segment, net sales would have decreased by approximately 2.5 percent (but increased 1.7 percent in local currencies). In addition to the declines in NSP Russia, Central and Eastern Europe, the strengthening of the U.S. dollar versus the currencies of our European, Latin American and Asian markets (beginning late last year) has resulted in an approximate 3.7 percent or \$3.4 million reduction of our net sales this quarter.

The Company expects that sales in NSP Russia, Central and Eastern Europe will continue to be affected by political unrest in Ukraine and Russia, sanctions against Russia and the significant impact of currency devaluation. We do not expect this decline in net sales to reverse in the near term as currency devaluations have continued into 2015. We remain strongly supportive and engaged with our independent Distributors in the region, and are supporting their activity with additional promotions and training. However, at this time, the Company expects that sales in its NSP Russia, Central and Eastern Europe segment will be significantly affected by the political unrest in Ukraine and Russia, sanctions in Russia and the impact of currency devaluation. We are continuing to evaluate various options to keep our distributor base engaged. Nevertheless, our strong partnership with our local partner in the region should provide a solid foundation to reignite growth once the situation stabilizes.

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### Table of Contents

Over the same period, selling, general and administrative costs as a percentage of net sales revenue for 2015, increased to 31.4 percent from 31.2 percent in 2014 as a result of the decrease in net sales from NSP Russia, Central & Eastern Europe, and the impact of foreign currency devaluation versus the U.S. dollar in our other markets. In absolute terms, selling, general and administrative expenses decreased \$2.8 million.

We distribute our products to consumers through an independent sales force comprised of Managers and Distributors, some of whom also consume our products. Typically a person who joins our independent sales force begins as a Distributor. A Distributor may earn Manager status by committing more time and effort to selling our products, recruiting productive independent Distributors and attaining certain product sales levels. On a worldwide basis, active Managers were approximately 14,700 and 16,700, and active Distributors and customers were approximately 277,000 and 328,300, at March 31, 2015 and 2014, respectively, primarily due to declines in our NSP Russia, Central and Eastern Europe segment as a result of the conditions noted above, as well as the conversion of the NSP Peru and United Kingdom markets to export markets.

Net sales revenue represents net sales including shipping and handling revenues offset by volume rebates given to independent Managers, Distributors and customers. Volume rebates as a percentage of retail sales may vary by country depending upon regulatory restrictions that limit or otherwise restrict rebates. 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 our 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 and for recruiting additional independent Distributors. Volume incentives vary slightly, on a percentage basis, by product due to our pricing policies and commission plans in place in our various operations.

Selling, general and administrative expenses represent our operating expenses, components of which include labor and benefits, sales events, professional fees, travel and entertainment, Distributor marketing, occupancy costs, communication costs, bank fees, depreciation and amortization, and other miscellaneous operating expenses.

In April 2015, the Company announced its plan to streamline its operations and refocus its activities on profitable growth opportunities. The planned streamlining is expected to reduce costs, improve efficiencies and renew focus on larger and more profitable Company markets. As part of the plan, the Company will cease operations in Vietnam and will eliminate approximately 100 to 130 positions worldwide through both severance and attrition. The Company anticipates it will incur approximately \$3.9 million of one-time expenses, the vast majority in the second quarter of 2015. As a result of this action, the Company expects to realize annualized savings of approximately \$10 million to \$15 million from lower operating and employment costs. Net sales in Vietnam were approximately 0.3 and 0.4 percent of consolidated net sales for the three months ended March 31, 2015 and 2014, respectively.

Most of our sales to independent Distributors outside the United States are made in the respective local currencies. In preparing our financial statements, we translate revenues into U.S. dollars using average exchange rates. Additionally, the majority of our purchases from our suppliers

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generally are made in U.S. dollars. Consequently, a strengthening of the U.S. dollar versus a foreign currency can have a negative impact on our reported sales and contribution margins and can generate transaction losses on intercompany transactions.



Table of Contents**RESULTS OF OPERATIONS**

The following table summarizes our unaudited consolidated operating results from continuing operations in U.S. dollars and as a percentage of net sales revenue for the three months ended March 31, 2015 and 2014 (dollar amounts in thousands).

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014		Change	
	Total dollars	Percent of net sales	Total dollars	Percent of net sales	Total dollars	Percentage
Net sales revenue	\$ 83,878	100.0%	\$ 93,467	100.0%	\$ (9,589)	(10.3)%
Cost of sales	(21,881)	(26.1)	(22,581)	(24.2)	(700)	(3.1)
	61,997	73.9	70,886	75.8	(8,889)	(12.5)
Volume incentives	30,337	36.2	34,893	37.3	(4,556)	(13.1)
SG&A expenses	26,330	31.4	29,152	31.2	(2,822)	(9.7)
Operating income	5,330	6.4	6,841	7.3	(1,511)	(22.1)
Other income (loss), net	(318)	(0.4)	(262)	(0.3)	(56)	(21.4)
Income from continuing operations before income taxes	5,012	6.0	6,579	7.0	(1,567)	(23.8)
Provision (benefit) for income taxes	809	1.0	(3,657)	(3.9)	4,466	122.1
Net income from continuing operations	\$ 4,203	5.0%	\$ 10,236	11.0%	\$ (6,033)	(58.9)%

*Net Sales Revenue*

Our 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 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. Net sales in local currency removes from net sales in U.S. dollars the impact of changes in exchange rates between the U.S. dollar and the functional currencies of 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 3. *Quantitative and Qualitative Disclosures about Market Risk*.

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## Table of Contents

The following table summarizes the changes in our net sales revenue by operating segment with a reconciliation to net sales revenue excluding the impact of currency fluctuations for the three months ended March 31, 2015 and 2014 (dollar amounts in thousands);

Net Sales Revenue by Operating Segment					
	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency
NSP Americas:					
NSP North America	\$ 38,174	\$ 36,914	3.4%	\$ (370)	4.4%
NSP Latin America	8,336	9,452	(11.8)	(602)	(5.4)
	46,510	46,366	0.3	(972)	2.4
NSP Russia, Central and Eastern Europe	7,443	15,037	(50.5)	(105)	(49.8)
Synergy WorldWide:					
Synergy Asia Pacific	18,698	18,595	0.6	(904)	5.4
Synergy Europe	6,728	7,488	(10.1)	(1,442)	9.1
Synergy North America	3,342	3,960	(15.6)	( )	(15.6)
	28,768	30,043	(4.2)	(2,346)	3.6
China and New Markets	1,157	2,021	(42.8)		(42.8)
	\$ 83,878	\$ 93,467	(10.3)%	\$ (3,423)	(6.6)%

Consolidated net sales revenue for the three months ended March 31, 2015, was \$83.9 million compared to \$93.5 million for the same period in 2014, or a decrease of approximately 10.3 percent. The decline was principally related to a \$7.6 million decline in net sales revenue in our NSP Russia, Central and Eastern Europe segment, as well as a \$3.4 million unfavorable impact in foreign currency exchange rate fluctuations in the three months ended March 31, 2015, partially offset by a \$1.3 million increase in sales in NSP North America. Excluding the unfavorable impact of foreign currency exchange rate fluctuations, our consolidated net sales revenue would have decreased by 6.6 percent from 2014.

## NSP Americas

Net sales revenue related to NSP Americas for the three months ended March 31, 2015, was \$46.5 million, compared to \$46.4 million for the same period in 2014, or an increase of 0.3 percent. In local currency, net sales increased 2.4 percent, compared to the same period in 2014. Fluctuations in foreign exchange rates had a \$1.0 million unfavorable impact on net sales for the three months ended March 31, 2015. Active Managers within NSP Americas totaled approximately 7,700 at March 31, 2015 and 2014, respectively. Active Distributors and customers within NSP Americas totaled approximately 141,200 and 145,600 at March 31, 2015 and 2014, respectively. Although segment net sales revenue increased, the number of independent Managers, Distributors and customers decreased primarily due to lower recruiting in our Latin American markets. Independent Managers were flat, and active independent Distributors and customers were down 3.0 percent, compared to the prior year. The active independent Managers category includes independent Managers under our various compensation plans that have achieved and maintained certain product sales levels. As such, all independent Managers are considered to be active independent Managers. The active independent Distributors and customers category includes our independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous three months.

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

In the United States, net sales revenues increased approximately \$1.5 million, or 4.5 percent, for the three months ended March 31, 2015, compared to the same period in 2014. Growth this quarter marked our third consecutive quarter of growth, as we continued to see our new sales programs gain traction. We have seen increased adoption of both the IN.FORM sales method, which is focused on weight management, and our retail sales tools. In addition, last year, we re-launched our Silver immune product line, improving the formula to provide even greater efficacy, as well as rebranding our packaging, which has generated an increase in net sales.

In Latin America, net sales revenues decreased approximately \$1.1 million, or 11.8 percent, for the three months ended March 31, 2015, compared to the same period in 2014. In local currency, net sales decreased 5.4 percent compared to the same period

Table of Contents

in 2014. Currency devaluation had a \$0.6 million unfavorable impact on net sales for the three months ended March 31, 2015. In NSP Latin America, we faced continued headwinds due to changing regulations for product registration. To address this, we are taking steps to transition our sales motion to adopt the IN.FORM business method, and at the same time, ensuring that our resources are aligned with this initiative.

NSP Russia, Central and Eastern Europe

Net sales revenue related to NSP Russia, Central and Eastern Europe markets (primarily Russia, the Ukraine, and Belarus) for the three months ended March 31, 2015, was \$7.4 million, compared to \$15.0 million for the same period in 2014, a decrease of 50.5 percent. Active independent Managers within NSP Russia, Central and Eastern Europe totaled approximately 3,400 and 5,200 at March 31, 2015 and 2014, respectively. Active independent Distributors and customers within NSP Russia, Central and Eastern Europe totaled approximately 78,300 and 125,200 at March 31, 2015 and 2014, respectively. Net sales and the number of independent Managers, Distributors and customers buying and distributing our products decreased primarily as a result of the current political uncertainty in Ukraine and across the region, and the market decline in the value of the Ukrainian hryvnia and Russian ruble against the U.S. dollar. Although changes in exchange rates between the U.S. dollar and Ukrainian hryvnia do not result in currency fluctuations within our financial statements, the Company's products in Ukraine and Russia are priced in local currencies pegged to current U.S. dollar exchange rates and therefore become more expensive when the local currency declines in value. We remain strongly supportive and engaged with our independent Distributors in the region, and are supporting their activity with additional promotions and training. However, at this time, the Company expects that sales in its NSP Russia, Central and Eastern Europe segment will continue to be significantly affected by the political unrest in Ukraine and Russia, sanctions in Russia and the impact of currency devaluation. We are continuing to evaluate various options to keep our distributor base engaged. Our strong partnership with our local partner should provide a solid foundation to reignite growth once the situation stabilizes.

Synergy WorldWide

Synergy WorldWide reported net sales revenue for the three months ended March 31, 2015, of \$28.8 million, compared to \$30.0 million for the same period in 2014, a decrease of 4.2 percent. This decline was primarily related to the adverse impact of fluctuations in foreign exchange rates, which had a \$2.3 million unfavorable impact on net sales for the three months ended March 31, 2015. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales in Synergy WorldWide would have increased by 3.6 percent from 2014. Active independent Managers within Synergy WorldWide totaled approximately 3,600 and 3,700 at March 31, 2015 and 2014, respectively. Active independent Distributors and customers within Synergy WorldWide totaled approximately 57,500 and 52,900 at March 31, 2015 and 2014, respectively. Synergy WorldWide's business model is operating under a traditional direct selling approach. Synergy WorldWide reported a growth of net sales revenue in local currencies due to improvements in Europe and Japan, partially offset by lower net sales in North America.

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

In South Korea, net sales revenue decreased \$0.3 million, or 2.4 percent, for the three months ended March 31, 2015, compared to the same period in 2014. This decline was primarily related to the adverse impact of fluctuations in foreign exchange rates, which had a \$0.4 million unfavorable impact on net sales for the three months ended March 31, 2015. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales increased 0.5 percent for the three months ended March 31, 2015, compared to the same period in 2014. Our rate of growth has slowed compared to prior periods due to new internet advertising restrictions on sites that were used successfully to promote net sales growth in 2014. To address this, we are taking steps to improve current programs and launch new programs to provide our distributors affected by these internet advertising restrictions additional tools to grow their business.

In Japan, net sales revenues decreased approximately \$0.1 million, or 5.0 percent, for the three months ended March 31, 2015, compared to the same period in 2014. This decline was primarily related to the adverse impact of fluctuations in foreign exchange rates, which had a \$0.4 million unfavorable impact on net sales for the three months ended March 31, 2015. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales increased 10.1 percent for the three months ended March 31, 2015, compared to the same period in 2014. We continue to see the growth of new products and implemented programs to stimulate activity, which had a positive impact on sales volume in this market in the first quarter of 2015.

In Europe, net sales revenues decreased approximately \$0.8 million, or 10.1 percent, for the three months ended March 31, 2015, compared to the same period in 2014. This decline was primarily related to the adverse impact of fluctuations in foreign exchange rates, which had a \$1.4 million unfavorable impact on net sales the three months ended March 31, 2015. Excluding the impact of fluctuations in foreign exchange rates, local currency net sales increased 9.1 percent for the three months ended March 31, 2015, compared to the same period in 2014. The growth in local currencies has been driven by the investment in additional sales resources last year, including several new regional sales managers, and the launch of our weight management product plan.

Table of Contents

In North America, net sales revenues decreased approximately \$0.6 million, or 15.6 percent, for the three months ended March 31, 2015, compared to the same period in 2014. The decline in sales is primarily driven by lower Distributor recruiting. Growth initiatives have been developed and implemented to more effectively support recruiting and Distributor training and motivation.

China and New Markets

China and New Markets reported export related net sales revenue for the three months ended March 31, 2015, of \$1.2 million, compared to \$2.0 million for the same period in 2014, a decrease of 42.8 percent. The decrease in net sales is primarily related to the conversion of NSP Peru and United Kingdom to export markets in the prior year.

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

With the discontinuance of our NSP Peru and United Kingdom markets in 2014, we no longer have any NSP affiliates in the Asia Pacific and Europe regions. Active Managers and Distributors for these markets as of March 31, 2014 was 100 and 4,600, respectively.

Further information related to NSP Americas, NSP Russia, Central and Eastern Europe, Synergy WorldWide, and China and New Markets business segments is set forth in Note 9 to the Unaudited Condensed Consolidated Financial Statements in Part 1, Item 1 of this report.

*Cost of Sales*

Cost of sales as a percent of net sales revenue increased to 26.1 percent for the three months ended March 31, 2015, compared to 24.2 percent for the same period in 2014. The increase in the cost of sale percentage is primarily due to the strengthening of the U.S. dollar against the local currencies in many of our foreign markets, which has made our product more expensive in those markets, as well as unfavorable net changes of approximately \$0.6 million in inventory reserves year-over-year. The change in inventory reserves was due to a release of reserves in the prior year due to sales growth in many regions offset partially by increases in reserves for products in our NSP Russia, Central & Eastern Europe market this year.

*Volume Incentives*

Volume incentives as a percent of net sales revenue decreased to 36.2 percent for the three months ended March 31, 2015, compared to 37.3 percent in 2014. The decrease was primarily due to net sales growth in the U.S. which pays lower sales commission rates and declines in our NSP Russia, Central and Eastern Europe market, which pay higher sales commission rates than our global commission rate average.

*Selling, General and Administrative*

Selling, general and administrative expenses decreased by approximately \$2.8 million to \$26.3 million for the three months ended March 31, 2015. Selling, general and administrative expenses were 31.4 percent of net sales revenue for the three months ended March 31, 2015, compared to 31.2 percent for the same period in 2014, respectively. The decrease in selling, general and administrative expenses for the three months ended March 31, 2015, was primarily related to reduced management service costs of \$1.1 million in NSP Russia, Central and Eastern Europe due to lower net sales, reduced U.S. healthcare and other benefit costs of \$1.0 million, and \$0.6 million of non-recurring costs in 2014 related to our former NSP Peru & United Kingdom markets, offset by \$0.8 million of increased investment in China.

*Other Income (Expense), Net*

Other income (expense) net, for the three months ended March 31, 2015 remained flat at \$0.3 million as compared to the three months ended March 31, 2014.

*Income Taxes*

For the three months ended March 31, 2015 and 2014, the Company's provision (benefit) for income taxes, as a percentage of income before income taxes was 16.1 percent and (55.6) percent, respectively, compared with a U.S. federal statutory rate of 35.0 percent.

Table of Contents

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended March 31, 2015, was primarily attributed to the partial utilization of discrete foreign tax credit benefits related to intercompany dividends paid by foreign subsidiaries to the U.S. corporation in prior years.

The difference between the effective tax rate and the U.S. federal statutory tax rate for the three months ended March 31, 2014 was primarily attributed to foreign tax credits arising from intercompany dividends of 21.5 million paid by foreign subsidiaries to the U.S. corporation. This discrete first quarter item resulted in an income tax benefit of \$6.7 million for the three months ended March 31, 2014.

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

The Company's U.S. federal income tax returns for 2009 through 2013 are open to examination for federal tax purposes. The Company has several foreign tax jurisdictions that have open tax years from 2007 through 2014.

As of March 31, 2015, the Company had accrued \$6.8 million related to unrecognized tax positions compared with \$6.6 million as of December 31, 2014. This net increase was primarily attributed to increases in transfer pricing contingencies.

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, adjusted for discrete tax items in the period in which they occur. Although the Company believes its tax estimates are reasonable, the Company can make no assurance that the final tax outcome of these matters will not be different from that which it has reflected in its historical income tax provisions and accruals. Such differences could have a material impact on the Company's income tax provision and operating results in the period in which the Company makes such determination.

**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 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.



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## Table of Contents

Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of general health, immune, cardiovascular, digestive, personal care and weight management products for the three months ended March 31, 2015 and 2014, by business segment.

		Three Months Ended March 31,				
		2015		2014		
NSP Americas:						
General health	\$	20,032	43.0%	\$	19,366	41.8%
Immune		6,217	13.4		5,959	12.9
Cardiovascular		3,101	6.7		3,354	7.2
Digestive		13,365	28.7		13,693	29.5
Personal care		970	2.1		1,021	2.2
Weight management		2,825	6.1		2,973	6.4
Total NSP Americas		46,510	100.0%		46,366	100.0%
NSP Russia, Central and Eastern Europe:						
General health	\$	2,879	38.7%	\$	5,545	36.9%
Immune		913	12.3		1,968	13.1
Cardiovascular		453	6.1		938	6.2
Digestive		1,970	26.5		3,947	26.3
Personal care		882	11.8		1,868	12.4
Weight management		346	4.6		771	5.1
Total NSP Russia, Central and Eastern Europe		7,443	100.0%		15,037	100.0%
Synergy WorldWide:						
General health	\$	10,137	35.2%	\$	10,753	35.8%
Immune		233	0.8		211	0.7
Cardiovascular		8,881	30.9		10,444	34.8
Digestive		4,594	16.0		5,017	16.7
Personal care		1,612	5.6		1,736	5.8
Weight management		3,311	11.5		1,882	6.2
Total Synergy WorldWide		28,768	100.0%		30,043	100.0%
China and New Markets:						
General health	\$	531	45.9%	\$	800	39.6%
Immune		158	13.7		282	14.0
Cardiovascular		81	7.0		136	6.7
Digestive		290	25.1		550	27.2
Personal care		27	2.3		31	1.5
Weight management		70	6.0		222	11.0
Total China and New Markets		1,157	100.0%		2,021	100.0%
Consolidated:						
General health	\$	33,579	40.0%	\$	36,464	39.0%
Immune		7,521	9.0		8,420	9.0
Cardiovascular		12,516	14.9		14,872	15.9
Digestive		20,219	24.1		23,207	24.8
Personal care		3,491	4.2		4,656	5.0
Weight management		6,552	7.8		5,848	6.3
Total Consolidated	\$	83,878	100.0%	\$	93,467	100.0%

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## Table of Contents

The following table summarizes our product lines by category:

Category	Description	Selected Representative Products
<b>General health</b>	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, essential oils, joint health, mood, sexual health, sleep, sports and energy, and vision.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets:</i> Adrenal Support, CurcuminBP, Everflex®, Ionic Minerals, Mind-Max, Nutri-Calm®, Perfect Eyes®, Skeletal Strength®, Super Supplemental Vitamin and Mineral, Super Trio, Tai-Go®, Tei-Fu®, Vitamin B-Complex, Vitamin D3</p> <p><i>Synergy WorldWide:</i></p> <p>Core Greens®, Mistica®, Noni Plus, NutriBurst, Spirulina Vegi-Cap</p>
<b>Immune</b>	We distribute immune products. The immune line has been designed to offer products that support and strengthen the human immune system.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets:</i> ALJ®, Elderberry D3fense, HistaBlock®, Immune Stimulator, Silver Shield, VS-C®</p> <p><i>Synergy WorldWide:</i></p> <p>BodyGuard, Colostrum</p>
<b>Cardiovascular</b>	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.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets:</i> Blood, Pressurex, Co-Q10, Flax Seed Oil, Mega-Chel®, Red Yeast Rice, Super Omega-3 EPA</p> <p><i>Synergy WorldWide:</i></p> <p>E-9, ProArgi-9 Plus®</p>
<b>Digestive</b>	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.	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets:</i> Bifidophilus Flora Force®, CleanStart®, Food Enzymes, LBS II®, Liquid Chlorophyll, Milk Thistle, Proactazyme®, Probiotic Eleven®</p> <p><i>Synergy WorldWide:</i></p> <p>Detox Plus, Liquid Chlorophyll</p>
<b>Personal care</b>	We distribute a variety of personal care products for external use, including oils and lotions, aloe vera gel, herbal shampoo,	<p><i>NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets:</i> EverFlex® Cream, HSN-W®, Pau-D Arco Lotion, Pro-G Yam® Cream, Tei-Fu® Lotion, Vari-Gone®</p>

herbal skin treatment, toothpaste and skin cleanser.

*Synergy WorldWide:*

Bright Renewal Serum, Hydrating Toner, 5 in 1

Shampoo, Repair Complex

**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.

*NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Fat Grabbers®, Garcinia Combination, Love and Peas, MetaboMax, Nature's Harvest, Nutri-Burn®, SmartMeal, Stixated, Ultra Therm*

*Synergy WorldWide:*

Double Burn, SLMSmart

Table of Contents

**Distribution and Marketing**

Our independent Managers and Distributors market our products to customers through direct selling techniques, as well as sponsoring other independent Managers and Distributors. We seek to motivate and provide incentives to our independent Managers and Distributors by offering high quality products and providing our independent Managers and Distributors with product support, training seminars, sales conventions, travel programs and financial incentives.

Our 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 with 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 March 31, 2015, we had approximately 277,000 active independent Distributors and customers (as defined below) worldwide who purchase our products directly from the Company. In addition, our products can be purchased directly from our independent Distributors. A person who joins our independent sales force begins as an independent Distributor. An individual can become an independent Distributor by signing up under the sponsorship of someone who is already an independent Distributor or by signing up through the Company, where they will then be randomly assigned an independent Distributor as a sponsor. 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 committing more time and effort to selling our products, recruiting productive independent Distributors and attaining certain product sales levels. Independent managers resell our products to independent Distributors within their sales group or directly to customers, or use the products themselves. As of March 31, 2015, we had approximately 14,700 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 Managers and Distributors based upon the amount of their sales group product purchases. These volume incentives are recorded as an expense in the year earned. The amounts of volume incentives that we expensed during the quarters ended March 31, 2015, and 2014, are set forth in our Consolidated Financial Statements in Item 1 of this report. In addition to the opportunity to receive volume incentives, Managers who attain certain levels of monthly product sales are eligible for additional incentive programs including automobile allowances, sales convention privileges and travel awards.

*Distributor Information*

Our revenue is highly dependent upon the number and productivity of our independent Managers, Distributors and customers. Growth in sales volume requires an increase in the productivity and/or growth in the total number of independent Managers, Distributors and customers.

Within the Company, we have 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 our NSP Americas and NSP Russia, Central and Eastern Europe segments, the declines in active independent Managers and Distributors have resulted in declines in sales revenues. Within Synergy WorldWide, the sales qualifications required for active independent Managers and Distributors varies by market according to local economic factors. As sales grow in markets with higher qualification values, and decline in those with lower qualification values, the resultant mix change influences the active independent Manager and Distributor counts. As a result, from time-to-time, changes in overall active independent Manager and Distributor counts may not be indicative of actual sales trends for the segment. There are no Managers, Distributors, and customers in the China and New Markets segment as the export business accounts for all of the segment's sales to date.

# Table of Contents

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 March 31,

	2015		2014	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	293,100	7,700	309,200	7,700
NSP Russia, Central and Eastern Europe	210,600	3,400	259,300	5,200
Synergy WorldWide	124,200	3,600	116,400	3,700
China and New Markets			9,800	100
	627,900	14,700	694,700	16,700

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

Total Distributors and customers includes 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 date indicated. This includes independent Manager, Distributor and customer accounts that may have become inactive since such respective dates.

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

## Active Distributors and Customers by Segment as of March 31,

	2015		2014	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	141,200	7,700	145,600	7,700
NSP Russia, Central and Eastern Europe	78,300	3,400	125,200	5,200
Synergy WorldWide	57,500	3,600	52,900	3,700
China and New Markets			4,600	100
	277,000	14,700	328,300	16,700

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 date indicated.

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

## New Managers, Distributors and Customers by Segment for the Quarter Ended March 31,

	2015		2014	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	33,600	800	34,800	800
NSP Russia, Central and Eastern Europe	12,100	200	22,400	400
Synergy WorldWide	19,300	600	17,000	600
China and New Markets				
	65,000	1,600	74,200	1,800

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 date indicated.

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

	2015		2014	
	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	130,600	3,100	136,400	3,200
NSP Russia, Central and Eastern Europe	56,200	1,000	88,700	1,600
Synergy WorldWide	75,800	2,100	70,300	2,100
China and New Markets			5,900	100
	262,600	6,200	301,300	7,000

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

Our principal use of cash is to pay for operating expenses, including volume incentives, inventory and raw material purchases, capital assets and funding of international expansion. As of March 31, 2015, working capital was \$61.9 million, compared to \$63.3 million as of December 31, 2014. At March 31, 2015, we had \$50.1 million in cash and cash equivalents, of which \$44.7 million was held in our foreign markets and may be subject to various withholding taxes and other restrictions related to repatriation, and \$2.7 million in unrestricted short-term investments, which were available to be used along with our normal cash flows from operations to fund any unanticipated shortfalls in future cash flows.

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

56



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Operating activities	\$	(926)	\$	490
Investing activities		(4,722)		(4,587)
Financing activities		(2,682)		(847)

### Operating Activities

For the three months ended March 31, 2015, operating activities used cash in the amount of \$0.9 million, and provided \$0.5 million for the same period in 2014. Operating cash flows decreased due to the decrease in net income and the timing of payments and receipts for accounts receivable, inventories, accrued liabilities and deferred revenue, and were partially offset by the timing of payments and receipts for other assets, accounts payable, income taxes payable and liabilities related to unrecognized tax benefits.

### Investing Activities

Capital expenditures related to the purchase of equipment, computer systems and software for the three months ended March 31, 2015, and 2014, were \$6.0 million and \$4.6 million, respectively. In 2013, the Company began to significantly reinvest in its information technology systems. Included within this plan is an Oracle ERP implementation program to provide the Company with a single integrated software solution that will integrate the Company's business process on a worldwide basis. The Company anticipates completion of this project by early 2017.

Table of Contents

Financing Activities

During the three months ended March 31, 2015 and 2014, we used cash to pay dividends in an aggregate amount of \$1.9 and \$0 million, respectively.

In December 2014, the Company completed share repurchases under its previously announced \$10 million share repurchase program. In November 2014, the Board of Directors authorized a \$20 million share repurchase program beginning January 1, 2015. Such purchases may be made in the open market, through block trades, in privately negotiated transactions or otherwise. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors and the program may be discontinued or suspended at any time. The Company will fund future dividends and the share repurchase program through available cash on hand, future cash flows from operations and borrowings under its revolving credit facility. During the three months ended March 31, 2015, the Company repurchased 0.2 million shares of its common stock under the share repurchase program for \$2.9 million. At March 31, 2015, the remaining balance available for repurchases under the program was \$17.1 million.

The Company has a revolving credit agreement with Wells Fargo Bank, N.A. with a borrowing limit of \$25.0 million that matures September 1, 2016. The Company pays interest at LIBOR plus 1.25 percent on any borrowings on the agreement (1.50 percent as of March 31, 2015). The Company must pay an annual commitment fee of 0.25 percent on the unused portion of the commitment. The Company retains ample capital capacity to continue making long-term investments in its sales, marketing, science and product development initiatives and overall operations, as well as pursue strategic opportunities as they may arise. As of March 31, 2014, the Company had a balance of \$0.3 million under the revolving credit agreement.

The revolving credit agreement contains restrictions on liquidity, leveraging, minimum net income and consecutive quarterly net losses. In addition, the agreement restricts capital expenditures, lease expenditures, other indebtedness, liens on assets, guaranties, loans and advances, and the merger, consolidation and the transfer of assets except in the ordinary course of business. As of March 31, 2015, the Company was in compliance with these debt covenants.

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP and form the basis for the following discussion and analysis on critical accounting policies and estimates. The preparation of these financial statements requires 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

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those differences could have a material effect on our financial position and results of operations. Management has discussed the development, selection and disclosure of these estimates with the Board of Directors and its Audit Committee.

A summary of our significant accounting policies is provided in Note 1 of the Notes to Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2014. We believe the critical accounting policies and estimates described below reflect our more significant estimates and assumptions used in the preparation of our 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*

Net sales revenue and related volume incentive expenses are recorded when persuasive evidence of an arrangement exists, collectability is reasonably assured, the amount is fixed and determinable, and title and risk of loss have passed. The amount of the volume incentive is determined based upon the amount of qualifying purchases in a given month. It is necessary for the Company to make estimates about the timing of when merchandise has been delivered. These estimates are based upon the Company's historical experience related to time in transit, timing of when shipments occurred and shipping volumes. Amounts received for undelivered merchandise are recorded as deferred revenue.

Table of Contents

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

A reserve for product returns is recorded based upon historical experience. The Company allows independent Managers or Distributors to return the unused portion of products within ninety days of purchase if they are not satisfied with the product. In some of the Company's markets, the requirements to return product are more restrictive.

*Accounts Receivable Allowances*

Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. This estimated allowance is based primarily on the aging category, historical trends and management's evaluation of the financial condition of the customer. This reserve is adjusted periodically as information about specific accounts becomes available.

*Investments*

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

For available-for-sale debt securities with unrealized losses, the Company performs an analysis to assess whether it intends to sell or whether it would be more likely than not required to sell the security before the expected recovery of the amortized cost basis. Where the Company intends to sell a security, or may be required to do so, the security's decline in fair value is deemed to be other-than-temporary, and the full amount of the unrealized loss is recorded within earnings as an impairment loss.

For all other debt securities that experience a decline in fair value that is determined to be other-than-temporary and not related to credit loss, the Company records a loss, net of any tax, in accumulated other comprehensive income (loss). The credit loss is recorded within earnings as an impairment loss when sold. Management judgment is involved in evaluating whether a decline in an investment's fair value is other-than-temporary.

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

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

#### *Inventories*

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

#### *Self-Insurance Liabilities*

Similar to other manufacturers and distributors of products that are ingested, the Company faces an inherent risk of exposure to product liability claims in the event that, among other things, the use of its products results in injury. The Company carries insurance in the types and amounts it considers reasonably adequate to cover the risks associated with its business. The Company has a wholly-owned captive insurance company to provide it with product liability insurance coverage. The Company has accrued an amount that it

Table of Contents

believes is sufficient to cover probable and reasonably estimable liabilities related to product liability claims based on the Company's history of such claims. However, there can be no assurance that these estimates will prove to be sufficient, nor can there be any assurance that the ultimate outcome of any litigation for product liability will not have a material negative impact on the Company's business prospects, financial position, results of operations or cash flows.

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

*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 Company 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.

*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. We use an estimate of future undiscounted net cash flows of the related assets or groups of assets over their remaining lives in measuring whether the assets are recoverable. An impairment loss is calculated by determining the difference between the carrying values and the fair values of these assets. Due to the continual currency devaluation of the Venezuelan bolivar, as of September 30, 2014, the Company incurred a \$2.9 million impairment charge to write down the value of its fixed assets in Venezuela to \$0, which is included in the results from discontinued operations. During the three months ended March 31, 2015, the Company received \$1.3 million in net proceeds from the sales of its fixed assets in Venezuela, which is included in the results from discontinued operations.

*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 with a range, we record our best estimate within the 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 potential liability related to the contingency and revise the estimates. Revision in estimates of the potential liabilities could materially affect our results of operations in the period of adjustment. Our contingencies are discussed in further detail in Note 11, "Commitments and Contingencies", to the Notes of our Condensed Consolidated Financial Statements, of Item 1, Part 1 of this report.

*Income Taxes*

Our income tax expense, deferred tax assets and liabilities and contingent reserves reflect management's 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 the Company's consolidated income tax expense.

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

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

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

Table of Contents

*Share-Based Compensation*

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

**Item 3      *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We conduct business in several countries and intend to continue to grow our international operations. Net sales revenue, operating income and net income are affected by fluctuations in currency exchange rates, interest rates and other uncertainties inherent in doing business and selling product in more than one currency. In addition, 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 three months ended March 31, 2015, approximately 54.1 percent of our net sales revenue and approximately 52.8 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 our management's discussion and analysis included in Part I, Item 2 of this report.

The following table sets forth a composite sensitivity analysis of our net sales revenue, 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. We note that our individual net sales revenue, cost and expense components and our 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 three months ended March 31, 2015 (dollar amounts in thousands)



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With Strengthening of U.S. Dollar by:									
10%			15%			25%			
		(\$)	(%)		(\$)	(%)		(\$)	
Net sales revenue	\$	83,878	(3,128)	(3.7)%	\$	(4,488)	(5.4)%	\$	(6,882)
									(8.2)%
Cost and expenses									
Cost of sales		21,881	(979)	(4.5)		(1,390)	(6.4)		(2,113)
									(9.7)
Volume incentives		30,337	(1,234)	4.1		(1,753)	(5.8)		(2,666)
									(8.8)
Selling, general and administrative		26,330	(759)	(2.9)		(1,089)	(4.1)		(1,670)
									(6.3)
Operating income	\$	5,330	(156)	(2.9)%	\$	(256)	(4.8)%	\$	(433)
									(8.1)%

Certain of our operations, including Russia and Ukraine, are served by a U.S. subsidiary through third-party entities, for which all business is conducted in U.S. dollars. Although changes in exchange rates between the U.S. dollar and the Russian ruble or the Ukrainian hryvnia do not result in currency fluctuations within 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. As a result of the current tension between Russia and

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## Table of Contents

Ukraine and resultant sanctions, the Russian ruble and the Ukrainian hryvnia have weakened significantly against the U.S. dollar, impacting net sales in this market. Should the conflict continue to escalate, exchanges rates for Russian ruble, as well as the Ukrainian hryvnia could weaken further against the U.S. dollar, further impacting net sales in these markets.

The following table sets forth a composite sensitivity analysis of our 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 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 the Balance Sheet financial instruments as of March 31, 2015, (dollar amounts in thousands).

		With Strengthening of U.S. Dollar by:					
		10%		15%		25%	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
<b>Financial Instruments</b>							
<b>Included in Current</b>							
<b>Assets Subject to</b>							
<b>Exchange Rate Risk</b>							
Cash and cash equivalents	\$ 50,065	\$ (1,562)	(3.1)%	\$ (2,194)	(4.4)%	\$ (3,306)	(6.6)%
Accounts receivable, net	8,086	(206)	(2.5)	(295)	(3.6)	(452)	(5.6)
<b>Financial Instruments</b>							
<b>Included in Current</b>							
<b>Liabilities Subject to</b>							
<b>Exchange Rate Risk</b>							
Accounts payable	8,297	(75)	(0.9)	(108)	(1.3)	(166)	(2.0)
<b>Net Financial Instruments</b>							
<b>Subject to Exchange Rate</b>							
<b>Risk</b>							
	\$ 49,854	\$ (1,693)	(3.4)%	\$ (2,381)	(4.8)%	\$ (3,592)	(7.2)%

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 March 31, 2015, 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 Balance Sheet Amounts Denominated in Local Currency as of March 31, 2015, (dollar amounts in thousands).

Translated into U.S. Dollars	At Spot Exchange Rate per One U.S. Dollar as of March 31, 2015
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Cash and cash equivalents			
South Korea (Won)	\$	3,295	1,107.8
European Markets (Euro)		2,945	0.9
Japan (Yen)		2,232	119.6
Canada (Dollar)		1,403	1.3
Indonesia (Rupiah)		1,207	13,123.4
Other		6,110	Varies
Total foreign denominated cash and cash equivalents		17,192	
U.S. dollars held by foreign subsidiaries		27,469	
Total cash and cash equivalents held by foreign subsidiaries	\$	44,661	

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

Table of Contents

during any of the two periods presented. We use the annual average exchange rate for translating items from the statement of operations from local currencies into our reporting currency.

Three months ended March 31,	2015	2014
Canada (Dollar)	1.2	1.1
European Markets (Euro)	0.9	0.7
Japan (Yen)	119.2	102.8
South Korea (Won)	1,102.6	1,071.3
Mexico (Peso)	15.0	13.2

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

The functional currency in highly inflationary economies is the U.S. dollar and transactions denominated in the local currency are re-measured as if the functional currency were the U.S. dollar. The re-measurement of local currencies into U.S. dollars creates translation adjustments, which are included in the consolidated statements of operations. A country is considered to have a highly inflationary economy if it has a cumulative inflation rate of approximately 100 percent or more over a three-year period as well as other qualitative factors including historical inflation rate trends (increasing and decreasing), the capital intensiveness of the operation and other pertinent economic factors. During the three months ended March 31, 2015, Belarus was considered to be highly inflationary. During the three-month periods ended March 31, 2015, and 2014, the Company's Belarusian subsidiary's net sales revenue represented approximately 2.1 percent and 2.5 percent, of consolidated net sales revenue, respectively. With the exception of Belarus, there were no other countries considered to have a highly inflationary economy during the three-month periods ended March 31, 2015, and 2014.

**Interest Rate Risk**

The primary objectives of our investment activities are to preserve principal while maximizing yields without significantly increasing risk. These objectives are accomplished by purchasing investment grade securities. On March 31, 2015, we had investments of \$3.7 million of which \$0.1 million were municipal obligations, which carry an average fixed interest rate of 5.0 percent and mature over a one-year period. A hypothetical 1.0 percent change in interest rates would not have had a material effect on our liquidity, financial position or results of operations.

**Item 4. CONTROLS AND PROCEDURES****Disclosure Controls and Procedures**

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Our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are designed to provide reasonable assurance that the information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in rules and forms adopted by the SEC, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Our 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 March 31, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2015, at the reasonable assurance level.

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

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

[Table of Contents](#)**PART II OTHER INFORMATION****Item 1.           LEGAL PROCEEDINGS**

Please refer to Note 11 to the Unaudited Condensed Consolidated Financial Statements in Part 1, Item 1 of this report, as well as our recent SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2014, for information regarding the status of certain legal proceedings that have been previously reported.

**Item 1A.       RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the risks discussed under the heading *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business or our consolidated financial statements, results of operations, and cash flows. Additional risks not currently known to us, or risks that we currently believe are not material, may also impair our business operations. There have been no material changes to our risk factors since the filing of our Annual Report on Form 10-K for the year ended December 31, 2014.

**Item 2.           UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Issuer Purchases of Equity Securities*

In December 2014, the Company completed share repurchases under its previously announced \$10 million share repurchase program. In November 2014, the Board of Directors authorized a \$20 million share repurchase program beginning January 1, 2015. Such purchases may be made in the open market, through block trades, in privately negotiated transactions or otherwise. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors and the program may be discontinued or suspended at any time. At March 31, 2015, the remaining balance available for repurchases under the program was \$17.1 million.

The following is a summary of the Company's repurchases of common shares during the three months ended March 31, 2015:

Period	Number of Shares		Average Price Paid per Share		Program Balance Used for Repurchases
January 2015	100	\$	14.57	\$	1.5 million
February 2015	70	\$	14.08	\$	1.0 million
March 2015	32	\$	12.61	\$	0.4 million
Total	202	\$	14.08	\$	2.9 million

All shares purchased during the three month period ended March 31, 2015, were purchased as part of the Company's announced share repurchase plan.

**Item 3.**            ***DEFAULTS UPON SENIOR SECURITIES***

None.

**Item 4.**            ***MINE SAFETY DISCLOSURES***

Not applicable.

**Item 5.**            ***OTHER INFORMATION***

None.

Table of Contents

**Item 6. EXHIBITS**

a) Index to Exhibits

Item No.	Exhibit
3.1(1)	Amended and Restated Articles of Incorporation
3.2(2)	Third Amended and Restated Bylaws
31.1(3)	Certification of Chief Executive Officer under SEC Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934
31.2(3)	Certificate of Chief Financial Officer under SEC Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934
32.1(3)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2(3)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
99.1(3)	Compliance Committee Charter
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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- (1) Previously filed with the SEC on May 19, 2013, as an exhibit to Form 8-K and is incorporated herein by reference.
- (2) Previously filed with the SEC on August 29, 2014, as an exhibit to Form 8-K and is incorporated herein by reference.
- (3) Filed currently herewith.



Table of Contents

**SIGNATURES**

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

NATURE S SUNSHINE PRODUCTS, INC.

Date: May 11, 2015

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

Date: May 11, 2015

/s/ Stephen M. Bunker  
Stephen M. Bunker, Executive Vice President, Chief Financial Officer  
and Treasurer