

NATURES SUNSHINE PRODUCTS INC
Form 10-K
March 14, 2016

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

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2015

OR

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____.

Commission file number 001-34483

NATURE'S SUNSHINE PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

Utah

87-0327982

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

2500 West Executive Parkway, Suite 100
Lehi, Utah 84043

(Address of principal executive offices and zip code)

(801) 341-7900

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, no par value.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2015 was approximately \$258,266,000 based on the closing price of \$13.75 as quoted by Nasdaq Capital Market on June 30, 2015.

The number of shares of Common Stock, no par value, outstanding on February 19, 2016 is 18,712,499 shares.

EXPLANATORY NOTES

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year ended December 31, 2015, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

managing rapid growth in China; and
the slowing of the Chinese economy and/or the devaluation of the Chinese Renminbi.

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

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PART 1

Item 1. Business

The Company

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

Business Segments

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

The Company markets its products in Australia, Austria, Belarus, Canada, Colombia, Costa Rica, the Czech Republic, Denmark, the Dominican Republic, Ecuador, El Salvador, Finland, Germany, Guatemala, Honduras, Hong Kong, Iceland, Indonesia, Ireland, Italy, Japan, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Moldova, Mongolia, the Netherlands, New Zealand, Nicaragua, Norway, Panama, the Philippines, Poland, Russia, Singapore, Slovenia, South Korea, Spain, Sweden, Taiwan, Thailand, Ukraine, the United Kingdom, and the United States. The Company markets its products through a wholesale model to Argentina, Australia, Chile, Israel, New Zealand, Norway, Peru and the United Kingdom.

Product Categories

The Company's line of over 700 products includes several different product classifications, such as immune, cardiovascular, digestive, personal care, weight management and other general health products. It purchases herbs and other raw materials in bulk and, after rigorous quality control testing, it formulates, encapsulates, tablets or concentrates them, labels and packages them for shipment. Most of its products are manufactured at its facility in Spanish Fork, Utah. Contract manufacturers produce some of the Company's products in accordance with its exacting specifications and standards. The Company has implemented stringent quality control procedures to verify that its contract manufacturers have complied with its specifications and standards.

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Presented below are the U.S. dollar amounts and associated revenue percentages from the sale of general health, immune, cardiovascular, digestive, personal care and weight management products for the years ended December 31, 2015, 2014, and 2013, by business segment. This table should be read in conjunction with the information presented in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," which discusses the factors impacting revenue trends and the costs associated with generating the aggregate revenue presented (in thousands).

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Year Ended December 31,	2015		2014		2013				
NSP Americas:									
General health	\$80,315	44.8	%	\$78,218	42.9	%	\$80,379	42.2	%
Immune	22,042	12.3		23,549	12.9		23,374	12.3	
Cardiovascular	12,331	6.9		12,566	6.9		13,018	6.8	
Digestive	49,239	27.5		53,133	29.1		55,936	29.3	
Personal care	3,575	2.0		4,000	2.2		5,162	2.7	
Weight management	11,649	6.5		10,929	6.0		12,815	6.7	
Total NSP Americas	179,151	100.0		182,395	100.0		190,684	100.0	
NSP Russia, Central and Eastern Europe:									
General health	\$11,433	41.7	%	\$18,841	37.5	%	\$22,690	36.2	%
Immune	3,328	12.1		6,512	13.0				