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

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

FORM 10-K

x 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

o 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

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

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 o No x.

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 x No o.

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 x No o

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. o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

For the Fiscal Year Ended December 31, 2015

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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,” “p “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 the 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.

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		7,902	12.6	
Cardiovascular	1,714	6.3		3,104	6.2		4,324	6.9	
Digestive	7,167	26.1		13,171	26.2		15,693	25.0	
Personal care	2,716	9.9		6,073	12.1		8,817	14.1	
Weight management	1,050	3.8		2,573	5.1		3,321	5.3	
Total NSP Russia, Central and Eastern Europe	27,408	100.0		50,274	100.0		62,747	100.0	
Synergy WorldWide:									
General health	$43,829	38.4	%	$46,546	36.3	%	$36,723	33.9	%
Immune	752	0.7		974	0.8		1,394	1.3	
Cardiovascular	34,191	30.0		42,449	33.1		42,154	38.9	
Digestive	17,746	15.6		20,839	16.3		16,897	15.6	
Personal care	5,697	5.0		7,196	5.6		7,097	6.6	
Weight management	11,866	10.4		10,097	7.9		4,025	3.7	
Total Synergy WorldWide	114,081	100.0		128,101	100.0		108,290	100.0	
China and New Markets:									
General health	$1,903	46.8	%	$2,370	42.3	%	$3,259	40.2	%
Immune	525	12.9		777	13.9		1,006	12.4	
Cardiovascular	292	7.2		334	6.0		461	5.7	
Digestive	1,011	24.9		1,608	28.7		2,365	29.2	
Personal care	93	2.3		108	1.9		126	1.6	
Weight management	241	5.9		400	7.1		888	11.0	
Total China and New Markets	4,065	100.0		5,597	100.0		8,105	100.0	
Consolidated:									
General health	$137,480	42.3	%	$145,975	39.8	%	$143,051	38.7	%
Immune	26,647	8.2		31,812	8.7		33,676	9.1	
Cardiovascular	48,528	14.9		58,453	16.0		59,957	16.2	
Digestive	75,163	23.1		88,751	24.2		90,891	24.6	
Personal care	12,081	3.7		17,377	4.7		21,202	5.7	
Weight management	24,806	7.6		23,999	6.6		21,049	5.7	
Total Consolidated	$324,705	100.0		$366,367	100.0		$369,826	100.0	

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

Category	Description	Selected Representative Products
General health	The Company distributes a wide selection of general health products. The general health line is a combination of assorted health products related to blood sugar support, bone health, cellular health, cognitive function, joint health, mood, sexual health, sleep, sports and energy, and vision.	NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Anxiouslesstm, CurcuminBP, Everflex®, Ionic Minerals, Mind-Max, Nutri-Calm®, Perfect Eyes®, Skeletal Strength®, Super Supplemental Vitamin and Mineral, Super Trio, Tai-Go®, Vitamin B-Complex, Vitamin D3 Synergy WorldWide: Core Greens®, Mistica®, Noni Plus, NutriBurst, Spirulina
Immune	The Company distributes immune products. The immune line has been designed to offer products that support and strengthen the human immune system.	NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Elderberry D3fense, HistaBlock®, Immune Stimulator, Silver Shield, VS-C® Synergy WorldWide: BodyGuard, Colostrum
Cardiovascular	The Company distributes 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.	NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: CardioxLDL, Blood Pressurex, Co-Q10, Flax Seed Oil, Mega-Chel®, Red Yeast Rice, Super Omega-3 EPA Synergy WorldWide: E-9, ProArgi-9 Plus®
Digestive	The Company distributes digestive products. The digestive line has been designed to offer products that regulate intestinal and digestive functions in support of the human digestive system.	NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: Bifidophilus Flora Force®, CleanStart®, Food Enzymes, LBS II®, Liquid Chlorophyll, Proactazyme®, Probiotic Eleven® Synergy WorldWide: Detox Plus, Liquid Chlorophyll
Personal care	The Company distributes a variety of personal care products for external use, including oils and lotions, aloe vera gel, herbal shampoo, herbal skin treatment, toothpaste and skin cleanser.	NSP Americas; NSP Russia, Central and Eastern Europe; China and New Markets: EverFlex® Cream , HSN-W®, Pau-D Arco Lotion, Pro-G Yam® Cream, Tei-Fu® Lotion, Vari-Gone®

		Synergy WorldWide: Bright Renewal Serum, Hydrating Toner, 5 in 1 Shampoo, Repair Complex
Weight management	The Company distributes 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, Nature’s Harvest, Nutri-Burn®, SmartMeal, Stixated™, Ultra Therm™ Synergy WorldWide: Double Burn, SLMSmart™

Distribution and Selling

The Company’s independent distributors, known as Managers and Distributors, market its products to customers through direct selling techniques, as well as sponsoring other independent distributors. The Company seeks to motivate and provide incentives to its independent distributors by offering high quality products and providing its independent distributors with product support, training seminars, sales conventions, travel programs and financial incentives.

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

As of December 31, 2015, the Company had approximately 264,400 "active independent Distributors and customers" (as defined below). A person who joins the Company's independent sales force begins as an independent distributor. Many independent distributors sell the Company's products on a part-time basis to friends or associates or use the products themselves. An independent distributor may earn Manager status by attaining certain product sales levels. As of December 31, 2015, the Company had approximately 12,700 "active independent Managers" (as defined below) worldwide. In many of the Company's markets, its independent Managers and Distributors are primarily retailers of the Company's products, including practitioners, proprietors of retail stores and other health and wellness specialists.

In the United States, the Company generally sells its products on a cash or credit card basis. From time to time, the Company's U.S. operations extend short-term credit associated with product promotions. For certain of its international operations, the Company uses independent distribution centers and offers credit terms that are generally consistent with industry standards within each respective country.

The Company pays sales commissions, or "volume incentives" to its independent Managers and Distributors based upon their own product sales and the product sales of their sales organization. These volume incentives are recorded as an expense in the year earned. The amounts of volume incentives that the Company expensed during the years ended December 31, 2015, 2014, and 2013, are set forth in the Company's Consolidated Financial Statements in Item 8 of this report. In addition to the opportunity to receive volume incentives, independent Managers who attain certain levels of monthly product sales are eligible for additional incentive programs including automobile allowances, sales convention privileges and travel awards.

Distributor Information

The Company's revenue is highly dependent upon the number and productivity of its independent Managers and Distributors. Growth in sales volume requires an increase in the productivity and/or growth in the total number of independent Managers and Distributors.

Within the Company, there are a number of different distributor compensation plans and qualifications, which generate active independent Managers and Distributors with different sales values in its different business segments. The declines in active independent Managers and Distributors within the NSP Americas and NSP Russia, Central and Eastern Europe segments have resulted in declines in overall 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.

Due to the size of NSP Peru and United Kingdom markets, lack of net sales growth, and continuing operating losses, the Company made the decision to transition these markets to wholesale markets, in which it sells its 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. Manager, Distributor and customer totals for Peru and the United Kingdom are included in the table below in the China and New Markets segment for the years prior to their conversion to wholesale markets. There are no Managers, Distributors, and customers in the China and New Markets segment as the wholesale business accounts for all of the segment's sales to date.

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

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Total Managers, Distributors and Customers by Segment as of December 31,

	2015		2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	286,600	6,500	296,900	6,600	312,900	7,300
NSP Russia, Central and Eastern Europe	163,200	2,800	231,400	3,700	260,200	6,000
Synergy WorldWide	126,400	3,400	122,300	3,100	118,500	3,000
China and New Markets	—	—	—	—	9,300	100
Total	576,200	12,700	650,600	13,400	700,900	16,400

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

“Total Distributors and customers” includes the Company’s independent Distributors and customers who have purchased products directly from the Company for resale and/or personal consumption during the previous twelve months ended as of the date indicated. This includes independent Manager, Distributor and customer accounts that may have become inactive since such respective dates.

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

Active Distributors and Customers by Segment as of December 31,

	2015		2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	131,600	6,500	135,900	6,600	144,500	7,300
NSP Russia, Central and Eastern Europe	72,000	2,800	97,900	3,700	131,800	6,000
Synergy WorldWide	60,800	3,400	58,800	3,100	51,800	3,000
China and New Markets	—	—	—	—	4,300	100
Total	264,400	12,700	292,600	13,400	332,400	16,400

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

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

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

	2015		2014		2013	
	Distributors & Customers	Managers	Distributors & Customers	Managers	Distributors & Customers	Managers
NSP Americas	127,900	3,000	130,300	3,200	137,100	3,100
	47,000	700	66,400	1,200	89,300	1,600

NSP Russia, Central and Eastern Europe						
Synergy WorldWide	76,600	2,300	73,500	2,200	71,800	1,900
China and New Markets	—	—	1,600	—	6,800	100
Total	251,500	6,000	271,800	6,600	305,000	6,700

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

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

Source and Availability of Raw Materials

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

Trademarks and Trade Names

The Company has obtained trademark registrations for Nature’s Sunshine®, and the landscape logo for all of its Nature’s Sunshine Products product lines. It has also obtained trademark registrations for Synergy Worldwide® for all of the Company's Synergy WorldWide product lines. The Company holds trademark registrations in the United States and in many other countries. The Company's customers’ recognition and association of its brands and trademarks with quality is an important element of its operating strategy.

Seasonality

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

Inventories

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

Dependence upon Customers

As a result of the Company's business model, it is not dependent upon a single Manager, Distributor or customer, the loss of which would not have a material adverse effect on its business.

Backlog

The Company typically ships orders for its products within 24 hours after receipt of payment. As a result, it has not historically experienced significant backlogs due to its high level of product availability as discussed above.

Competition

The Company's products are sold in competition with other companies, some of which have greater sales volumes and financial resources than the Company does, and sell brands that are, through advertising and promotions, better known to consumers. The Company competes in the nutritional and personal care industry against companies that sell through retail

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stores, as well as against other direct selling companies. For example, it competes against manufacturers and retailers of nutritional and personal care products, which are distributed through supermarkets, drug stores, health food stores, vitamin outlets, discount stores, and mass market retailers, among others. It competes for product sales and managers and distributors with many other direct selling companies, including Amway, Herbalife, Pharmanex (NuSkin), Shaklee and USANA, among others. The Company believes that the principal components of competition in the direct selling of nutritional and personal care products are distributor expertise and service, product quality and differentiation, price and brand recognition. In addition, the Company relies on its independent Managers and Distributors to compete effectively in the direct selling markets, and its ability to attract and retain independent Managers and Distributors depends on various factors, including the recruitment, training, travel and financial incentives for the independent Managers and Distributors.

Research and Development

The Company conducts research and development activities at its manufacturing facility located in Spanish Fork, Utah. During 2015, the Company opened the Hughes Center for Research and Innovation, a new state of the art research and development facility at its corporate offices in Lehi, Utah, which will further advance the Company's research of innovative products. The Company's principal emphasis in its research and development activities is the development of new products and the enhancement of existing products. The amount, excluding capital expenditures, spent on research and development activities was approximately $2.8 million in 2015, $2.5 million in 2014 and $2.0 million in 2013.

Compliance with Environmental Laws and Regulations

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

Regulation

General

In both United States and foreign markets, the Company is affected by extensive laws, governmental regulations, administrative determinations and guidance, court decisions and similar constraints (collectively “Regulations”). Such Regulations exist at the federal, state or local levels in the United States and at all levels of government in foreign jurisdictions, including Regulations pertaining to: (1) the formulation, manufacturing, packaging, labeling, distribution, importation, sale and storage of its products; (2) product claims and advertising, including direct claims and advertising by the Company, as well as claims and advertising by independent Distributors, for which the Company may be held responsible; (3) the Company's direct selling program; (4) transfer pricing and similar regulations that affect the level of U.S. and foreign taxable income and customs duties; (5) taxation of its independent Distributors (which in some instances may impose an obligation on the Company to collect the taxes and maintain appropriate records); and (6) currency exchange and repatriation.

Products

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

FDA regulations relating specifically to foods and dietary supplements for human use are set forth in Title 21 of the Code of Federal Regulations. These regulations include basic labeling requirements for both foods and dietary supplements. Additionally, FDA regulations require the Company to meet relevant good manufacturing practice regulations for the preparation, packaging and storage of its food and dietary supplements.

FDA rules impose requirements on the manufacture, packaging, labeling, holding, and distribution of dietary supplement products. For example, it requires that companies establish written procedures governing areas such as: (1) personnel, (2) plant and equipment cleanliness, (3) production controls, (4) laboratory operations, (5) packaging and labeling, (6) distribution,

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(7) product returns, and (8) complaint handling. The FDA also requires identity testing of all incoming dietary ingredients unless a company successfully petitions for an exemption from this testing requirement in accordance with the regulations. The current good manufacturing practices are designed to ensure that dietary supplements and dietary ingredients are not adulterated with contaminants or impurities, and are labeled to accurately reflect the active ingredients and other ingredients in the products.

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

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

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

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

In 2014, the Company passed several audits performed by the United States National Sanitation Foundation and independent auditors; as well as the Utah Department of Agriculture. Both entities noted that the Company continues to be in the top tier of companies with regard to compliance against GMP (Good Manufacturing Standards) requirements.

Direct Selling

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

The FTC, which exercises jurisdiction over the advertising of all of the Company's products in the United States, has in the past several years instituted enforcement actions against several dietary supplement and food companies and against manufacturers of weight loss products generally for false and misleading advertising of some of their products. In addition, the FTC has increased its scrutiny of the use of testimonials, which it also utilizes, as well as the role of expert endorsers and product clinical studies. The Company cannot be sure that the FTC, or comparable foreign agencies, will not question its advertising or other operations in the future. It is unclear whether the FTC will subject the Company's advertisements to increased surveillance to ensure compliance with the principles set forth in its published advertising guidance.

Transfer Pricing

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

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Although the Company believes that it is in substantial compliance with all applicable regulations and restrictions, it is subject to the risk that governmental authorities could audit its transfer pricing and related practices and assert that additional taxes are owed.

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

Other Regulations

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

The Company's failure to comply with these regulations could have a material adverse effect on its business in a particular market or in general. Assertions that the Company failed to comply with regulations or the effect of adverse regulations in one market could adversely affect it in other markets as well, by causing increased regulatory scrutiny in those other markets or as a result of the negative publicity generated in those other markets.

Compliance

In order to comply with regulations that apply to both the Company and its independent Distributors, the Company conducts considerable research into the applicable regulatory framework prior to entering any new market to identify all necessary licenses and approvals and applicable limitations on the Company's operations in that market. Typically, it conducts this research with the assistance of local legal counsel and other representatives. The Company devotes substantial resources to obtaining the necessary licenses and approvals and bringing its operations into compliance with the applicable limitations. It also researches laws applicable to independent Distributor operations and revises or alters its Distributor manuals and other training materials and programs to provide independent Distributors with guidelines for operating a business, selling and distributing its products and similar matters, as required by applicable regulations in each market. The Company is unable to monitor its independent Distributors effectively, however, to ensure that they refrain from distributing its products in countries where it has not commenced operations, and it does not devote significant resources to this type of monitoring.

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

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

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To further mitigate any compliance risk, a Compliance Committee of the Board of Directors (the "Compliance Committee") was created in 2014. The purpose of the Compliance Committee is to oversee the Company's efforts with respect to operational compliance. "Operational Compliance" is defined by the Compliance Committee's charter to include: distributor compliance and direct selling best practices; employee compliance, including code of conduct and other mandated trainings; product and product distribution regulatory compliance, including adherence to FTC, FDA and other similar regulatory bodies' mandates; and non-financial, whistleblower reports. For avoidance of doubt, "Operational Compliance" does not include adherence to the FCPA. The charter of the Compliance Committee requires that the Compliance Committee consist of at least three directors, one of whom must be the Chair of the Company's Audit Committee, and that a majority of such members meet the independence and experience requirements of the NASDAQ Stock Market, Section 10A(m)(3) of the Securities Exchange Act of 1934 (the "Exchange Act") and the rules and regulations of the Securities and Exchange Commission ("SEC"), as affirmatively determined by the Company's Board. The Board may, at any time and in its complete discretion, replace a compliance committee member.

International Operations

A significant portion of the Company's net sales are generated within the United States, which represented 45.4 percent, 40.5 percent and 41.2 percent of net sales in 2015, 2014, and 2013, respectively. The Company's second largest market, South Korea, represented 14.9 percent, 14.8 percent and 9.2 percent of net sales in 2015, 2014, and 2013, respectively. Outside of the United States and South Korea, no one country accounted for 10.0 percent or more of net sales revenue in any year in the last three years. As the Company continues to grow its international business, its operating results will likely become more sensitive to economic and political conditions in foreign markets, as well as to foreign currency fluctuations. A breakdown of net sales revenue by region in 2015, 2014, and 2013, is set forth below.

(Dollar amounts in thousands)									
Year Ended December 31,	2015			2014			2013		
Net Sales Revenue:									
North America	$171,486	52.8	%	$175,118	47.8	%	$179,919	48.6	%
Europe	53,237	16.4		83,048	22.7		98,299	26.6	
Asia Pacific	76,482	23.6		81,199	22.2		62,932	17.0	
Central & South America	23,500	7.2		27,002	7.4		28,676	7.8	
	$324,705	100.0	%	$366,367	100.0	%	$369,826	100.0	%

The Company's international operations are conducted in a manner that it believe is comparable with its U.S. operations; however, in order to conform to local variations, economic realities, market customs, consumer habits and regulatory environments, differences often exist in the products that the Company sells and in its distribution and selling programs.

The Company's international operations are subject to many of the same risks faced by its U.S. operations, including competition and the strength of the local economy. In addition, its international operations are subject to certain risks inherent in doing business abroad, including foreign regulatory restrictions, fluctuations in monetary exchange rates, import-export controls, effective management and support services by contracted third-parties and the economic and political policies of foreign governments. The significance of these risks will increase as the Company grows its international operations.

The Company has international operations in Belarus, which is considered to be a highly inflationary economy. Also, in 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. See below for further discussion of the

Company’s exit of the Venezuela market in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

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Executive Officers

The Company’s executive officers, as of the date of this report, are as follows:

Name	Age	Position	Served in Position Since
Gregory L. Probert	59	Chief Executive Officer and Chairman of the Board of Directors	2013
Stephen M. Bunker	57	Executive Vice President, Chief Financial Officer and Treasurer	2006
Richard D. Strulson	47	Executive Vice President, General Counsel, Chief Compliance Officer, and Secretary	2013
Paul E. Noack	54	President of China and New Markets	2014
Susan M. Armstrong	51	Executive Vice President and Chief Operations Officer	2014

Gregory L. Probert. Mr. Probert has served as the Company's Chief Executive Officer since October 1, 2013. He has served as the Chairman of the Company's Board of Directors since January 2013, and as Executive Vice Chairman since June 2011. Mr. Probert served as an independent consultant to the Company from September 2010 to June 2011. Mr. Probert previously served as Chairman of the Board and Chief Executive Officer of Penta Water Company from 2008 to 2010, which filed for bankruptcy protection in 2009. Mr. Probert was President and Chief Operating Officer of Herbalife International of America, Inc. from 2003 to 2008, and Chief Executive Officer of DMX Music from 2001 to 2003. Prior to that, he held various senior positions at The Walt Disney Company from 1988. He has been a member of the Board of Trustees of the California Science Museum since 2007. Mr. Probert received his B.A. from the University of Southern California in 1979.

Stephen M. Bunker. Mr. Bunker has served as the Company's Executive Vice President, Chief Financial Officer and Treasurer since March 27, 2006. Before joining the Company, Mr. Bunker worked for Geneva Steel Holdings Corporation, where he served as Vice President of Finance and Treasurer from 2001 to 2006 and as Corporate Controller from 1990 until 2001. Mr. Bunker is a Certified Public Accountant, and worked for Arthur Andersen for six years. Mr. Bunker received his B.A. in Accounting from Brigham Young University in 1983 and his Masters of Accountancy from Brigham Young University in 1984.

Richard D. Strulson. Mr. Strulson was appointed as the Company's Executive Vice President, General Counsel, Chief Compliance Officer and Secretary of the Company in November 2013. From 2004 to October 2013, Mr. Strulson held various Vice President positions at Herbalife International of America, Inc., one of the world's largest direct selling companies, including Senior Vice President, Chief Privacy Officer, and Counsel from 2007 to October 2013. From 1998 to 2004, he served in a variety of senior legal counsel positions for The Walt Disney Company and FOX Cable Networks, where he was responsible for negotiating media rights and licensing agreements. Prior to his internal legal counsel positions, Mr. Strulson was a corporate attorney in Los Angeles with Latham and Watkins from 1995 to 1998 and clerked for Chief Justice E. Norman Veasey of the Delaware Supreme Court from 1994 to 1995. Mr. Strulson received a Doctor of Jurisprudence and Masters of Business Administration from Duke University in 1994, and a B.A. in Foreign Affairs and Economics from the University of Virginia in 1990.

Paul E. Noack. Mr. Noack was appointed as the Company's President of China and New Markets in October 2014. Mr. Noack served as President of ViSalus, Inc., a direct selling health and wellness company from January 2012 to October 2014. Prior to his appointment as President of ViSalus, Inc. in 2012, Mr. Noack consulted with the ViSalus, Inc. board of directors and management team. From 2009 to 2010, Mr. Noack served in several director and senior executive roles at Penta Water Company, LLC, which filed for bankruptcy protection in 2009. Mr. Noack previously served in a variety of executive roles at Herbalife International of America, Inc., one of the world’s largest direct selling companies, including Managing Director of the Asia Pacific Region, as Chief Strategic Officer, and as Senior Vice President, Corporate Planning and Strategy. Mr. Noack received a B.A. in Accounting from St. Johns

University in 1983.

Susan M. Armstrong. Ms. Armstrong has served as the Company's Chief Operations Officer since December 2014. Prior to her appointment as the Company's Chief Operations Officer, Ms. Armstrong served as Executive Vice President, Operations since joining the Company in March 2013. From June 2011 to March 2013, Ms. Armstrong served as Senior Vice President, Value Chain at Metagenics, a leading manufacturer and distributor of high quality dietary supplements and medical foods sold through health care practitioners in the U.S. and pharmacies abroad. From 2006 until 2011, Ms. Armstrong was Vice President, Global Supply Chain at Carl Zeiss Vision, a leader in ophthalmic lenses and eye care solutions. Ms. Armstrong received a Bachelor of Science degree in Chemistry from the University of Sheffield in the United Kingdom.

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Employees

The Company employed 901 individuals as of December 31, 2015. The Company believes that its relations with its employees are satisfactory.

Available Information

The Company's principal executive office is located at 2500 West Executive Parkway, Suite 100, Lehi, Utah 84043. Its telephone number is (801) 341-7900 and its Internet website address is www.natr.com. The Company makes available free of charge on its website its Annual Reports on Form 10-K, its Quarterly Reports on Form 10-Q, its Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as soon as practicable after electronically filing these documents with, or furnish them to, the Securities and Exchange Commission (the “SEC”). The SEC also maintains an Internet website that contains reports, and other information regarding issuers that file electronically with the SEC at www.sec.gov. The Company also makes available free of charge on its website its Code of Conduct Policy and the charters of its Audit Committee, Governance Committee, Compensation Committee and Compliance Committee.

Item 1A. Risk Factors

You should carefully consider the following risks in evaluating the Company and its business. The risks described below are the risks that the Company currently believes are material to its business. However, additional risks not presently known to the Company, or risks that it currently believes are not material, may also impair its business operations. You should also refer to the other information set forth in this report, including the information set forth in “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as the Company's consolidated financial statements and the related notes. The Company's business prospects, financial condition or results of operations could be adversely affected by any of the following risks. If the Company is adversely affected by such risks, then the market price of its common stock could decline.

Changes in laws and regulations regarding direct selling may prohibit or restrict the Company's ability to sell its products in some markets.

Direct selling systems are subject to laws and regulations by various government agencies throughout the world. These laws and regulations are generally intended to prevent fraudulent or deceptive practices and to ensure that sales are made to consumers of the products, and that compensation, recognition and advancement within the selling organization are based upon sales of the products. Failure to comply with these laws and regulations could result in significant penalties. Violations could result from misconduct by an associate, ambiguity in statutes, changes or new laws and regulations affecting Nature Sunshine's business and court-related decisions. Furthermore, the Company may be restricted or prohibited from using direct selling plans in some foreign countries. In addition, changes in existing laws or additional regulations could make it difficult to register or sell the Company's products in the countries in which it operates. For example, in Peru, changes in local regulations restricted the Company's ability to sell a majority of its key products in this market through its traditional direct selling business model. In response to this change in regulations, in 2014, the Company transitioned this market to an export market, in which it sells its products to a locally managed entity independent of the Company that has distribution rights for the market.

The Company's products, business practices and manufacturing activities are subject to extensive government regulations and could be subject to additional laws and regulations.

The formulation, manufacturing, packaging, labeling, advertising, distribution and sales of each of the Company's major product groups are subject to regulation by numerous domestic and foreign governmental agencies and authorities. In the U.S., these governmental agencies and authorities include the FDA, the FTC, the CPSC, the EPA, the USDA and state regulatory agencies. In September 2015, the New York Attorney General issued a cease and desist letter to the Company and many other national retailers, related to the sale of a common herbal supplement known as Devil's Claw. In the letter, the New York Attorney General requested, among other things, that the Company provide certain information with respect to the Company's manufacture and sale of Devil's Claw products. Although the Company believes it is lawfully selling Devil's Claw products, the letters that it and other retailers received, demonstrate a focus by the New York Attorney General and other states' Attorneys General on the manufacture and sale of various dietary supplements. As a result of such focus, such states' Attorneys General could seek to take actions against the Company or other industry participants or amend applicable regulations in their State.

Generally, each international market in which the Company operates has regulatory agencies similar to the regulatory agencies in the U.S. These markets have varied regulations which often require it to reformulate products for specific markets,

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conform product labeling to market regulations and register or qualify products or obtain necessary approvals with the applicable governmental authorities in order to market its products in these markets. Failure to comply with the regulatory requirements of these various governmental agencies and authorities could result in enforcement actions including: cease and desist orders, injunctions, limits on advertising, consumer redress, divestitures of assets, rescission of contracts, or such other relief as may be deemed necessary. Violation of these regulations could result in substantial financial or other penalties. Any action against the Company could materially affect its ability to successfully market its products.

In the future, the Company may be subject to additional laws or regulations administered by the FDA or other federal, state, local or foreign regulatory authorities, the repeal or amendment of laws or regulations which it considers favorable and/or more stringent interpretations of current laws or regulations. The Company can neither predict the nature of such future laws, regulations, interpretations or applications, nor what effect additional governmental regulations or administrative orders, when and if promulgated, would have on its business. They could, however, require reformulation of certain products to meet new standards, recall or discontinuance of certain products not able to be reformulated, imposition of additional record-keeping requirements, expanded documentation of the properties of certain products, expanded or altered labeling and/or scientific substantiation. Any or all such requirements could increase the Company's costs of operating the business and have a material negative impact on the Company's financial position, results of operations or cash flows.

The FTC, which exercises jurisdiction over the advertising of all of the Company’s products in the United States, has in the past several years instituted enforcement actions against several dietary supplement and food companies and against manufacturers of weight loss products generally for false and misleading advertising of some of their products. In addition, the FTC has increased its scrutiny of the use of testimonials, as well as the role of expert endorsers and product clinical studies. The Company cannot be sure that the FTC, or comparable foreign agencies, will not question its advertising or other operations in the future. It is unclear whether the FTC will subject the Company’s advertisements to increased surveillance to ensure compliance with the principles set forth in its published advertising guidance.

The Company is subject to the U.S. Foreign Corrupt Practices Act (the “FCPA”), which prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business, and the anti-bribery laws of other jurisdictions. A finding of FCPA noncompliance could subject the Company to, among other things, significant penalties and legal expenses, as well as reputational harm, which could have a material adverse effect on its business, financial condition and results of operations.

The Company’s failure to comply with these regulations could have a material adverse effect on its business in a particular market or in general. Assertions that the Company failed to comply with regulations or the effect of adverse regulations in one market could adversely affect it in other markets as well, by causing increased regulatory scrutiny in those other markets or as a result of the negative publicity generated in those other markets.

If the Company is unable to attract and retain distributors, its business could suffer.

As a direct selling company, the Company relies on its independent distributors to market and sell its products. Many independent distributors sell the Company's products on a part-time basis to friends or associates or use the products for themselves. The Company's independent distributors may terminate their service at any time, and, like most direct selling companies, the Company experiences high turnover among its independent distributors from year to year. As a result, the Company needs to retain existing independent distributors and continue to attract additional independent distributors in order to maintain and/or increase sales in the future.

Several factors affect the Company's ability to attract and retain independent distributors, including:

- any adverse publicity regarding the Company, its products, its distribution channels or its competitors;
- on-going motivation of Company's independent distributors;
- the public’s perceptions about the value and efficacy of the Company's products;
- the public’s perceptions and acceptance of direct selling;
- general and economic business conditions;
- government regulations;

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- changes to the Company's compensation arrangements, training and support for its independent distributors; and
- competition in recruiting and retaining independent distributors and/or market saturation.

The Company cannot provide any assurance that its independent distributors will continue to maintain their current levels of productivity, or that it will be able to retain existing independent distributors, or attract additional independent distributors, in sufficient numbers to sustain future growth or to maintain present sales levels.

Difficult economic conditions could harm the Company's business.

Global economic conditions continue to be challenging. Consumer spending habits, including spending for the Company's products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, consumer confidence and consumer perception of economic conditions. Economic slowdowns in the markets in which the Company does business may adversely affect consumer spending habits and demand for the Company's products, which may result in lower net sales of the Company's products in future periods. A prolonged global or regional economic downturn could have a material negative impact on the Company's financial position, results of operation or cash flows. For example, recent economic declines in Mainland China's stock market and other negative economic indicators have caused uncertainty regarding the potential for growth in Mainland China's economy. Continued declines in economic conditions in Mainland China could negatively impact the Company's business prospects in that market and in other markets globally.

Currency exchange rate fluctuations affect the Company's net revenue and net income.

In 2015, the Company recognized approximately 54.6 percent of its revenue in markets outside the United States, the majority of which was recognized in each market’s respective local currency. The Company purchases inventory primarily in the United States in U.S. dollars. In preparing its financial statements, the Company translates revenues and expenses in foreign countries from their local currencies into U.S. dollars using average exchange rates. Because a majority of its sales are in foreign countries, exchange rate fluctuations may have a significant effect on its sales and earnings. The Company reported net earnings have in the past been, and are likely to continue to be, significantly affected by fluctuations in currency exchange rates, with net sales revenue and earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. These fluctuations had a generally negative effect on the Company's revenue in the years ended December 31, 2015, 2014, and 2013. As the Company's operations grow in countries where foreign currency transactions are made, its operating results will increasingly be subject to the risks of exchange rate fluctuations, and it may not be able to accurately estimate the impact of these changes on the Company's future results of operations or financial condition.

Some of the markets in which the Company operates may become highly inflationary.

Inflation is another risk associated with the Company's international operations. For example, in 2010, prior to the discontinuation of the Company's operations in Venezuela, the Venezuela was designated as a highly inflationary economy under generally accepted accounting principles in the United States (“U.S. GAAP”). A country is considered to have a highly inflationary economy if, among other qualitative factors, it has a cumulative inflation rate of approximately 100% or more over a three-year period. The functional currency in a highly inflationary economy is the U.S. dollar. As a result, all gains and losses resulting from the re-measurement of the Company's financial statements and other transactional foreign exchange gains and losses were reflected in the Company's earnings, which resulted in volatility within the its earnings, rather than as a component of comprehensive income within shareholders’ equity. It could have a negative impact on the Company's results of operations if the economy of other countries in which the Company does business are designated as highly inflationary.

Some of the markets in which the Company operates have currency controls in place which may restrict the repatriation of cash.

The possibility that foreign governments may impose currency remittance restrictions is another risk faced by the Company's international operations. Due to the possibility of government restrictions on transfers of cash out of the country and control of exchange rates, the Company may not be able to repatriate cash at exchange rates beneficial to the Company, which could have a material adverse effect on its financial position, results of operations or cash flows. For example, in 2014, the Company discontinued its operations in Venezuela due to the difficulties and uncertainties related to import controls, difficulties associated with repatriating cash and high inflation.

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Availability and integrity of raw materials could become compromised.

The Company acquires all of its raw materials for the manufacture of its products from third-party suppliers. If the Company was to lose a significant supplier and experience difficulties in finding or transitioning to an alternative supplier, the Company could experience shortages or product back orders, which could harm its business. There can be no assurance that suppliers will be able to provide the Company with the raw materials in the quantities and at the appropriate level of quality that it requests or at a price that it is willing to pay. The Company is also subject to the delays caused by any interruption in the production of these materials including weather, crop conditions, climate change, transportation interruptions and natural disasters or other catastrophic events.

Occasionally, the Company's suppliers have experienced production difficulties with respect to its products, including the delivery of materials or products that do not meet the Company's quality control standards. These quality problems have in the past resulted in, and in the future could result in, stock outages or shortages of the Company's products, and could harm its sales and create inventory write-offs for unusable product.

Geopolitical issues and conflicts could adversely affect the Company's business.

Because a substantial portion of the Company's business is conducted outside of the United States, its business is subject to global political issues and conflicts. If these conflicts or issues escalate, it could harm the Company's foreign operations. In addition, changes in and actions by governments in foreign markets could harm its business. For example, the Company has cautioned that it anticipates sales in its NSP Russia, Central and Eastern Europe segment to continue to be affected by the political unrest in Ukraine and Russia, possible sanctions in Russia and the impact of currency devaluation.

The Company's business is subject to the effects of adverse publicity and negative public perception.

The Company's ability to attract and retain independent distributors, as well as its ability to maintain or grow sales in the future, may be affected by adverse publicity or negative public perception with regard to its industry, its competition, its direct selling model, the quality or efficacy of nutritional product supplements and ingredients, and its business generally. There can be no assurance that the Company will not be subject to adverse publicity or negative public perception in the future or that it would not have an adverse or material negative impact on its financial position, results of operations or cash flows.

Taxation and transfer pricing affect the Company's operations.

As a U.S. company doing business in many international markets, the Company is subject to foreign tax and intercompany pricing laws, including those relating to the flow of funds between the parent Company and its subsidiaries. These pricing laws are designed to ensure that appropriate levels of income and expense are reported by its U.S. and foreign entities, and that they are taxed appropriately. Regulators in the United States and in foreign markets closely monitor the Company's corporate structures, intercompany transactions, and how it effectuates intercompany fund transfers. If regulators challenge the Company's corporate structures, transfer pricing methodologies or intercompany transfers, its operations may be harmed, and its effective tax rate may increase. The Company is eligible to receive foreign tax credits in the United States for certain foreign taxes actually paid abroad. In the event any audits or assessments are concluded adversely to the Company, it may not be able to offset the consolidated effect of foreign income tax assessments through the use of U.S. foreign tax credits. Because the laws and regulations governing U.S. foreign tax credits are complex and subject to periodic legislative amendment, the Company cannot be sure that it would in fact be able to take advantage of any foreign tax credits in the future. The various customs, exchange control and transfer pricing laws are continually changing, and are subject to the interpretation of governmental agencies.

The Company collects and remits value-added taxes and sales taxes in jurisdictions and states in which it has determined that nexus exists. Other states may claim, from time to time, that the Company has state-related activities constituting a sufficient nexus to require such collection.

Despite the Company's efforts to be aware of and to comply with such laws and changes to the interpretations thereof, there is a risk that it may not continue to operate in compliance with such laws. The Company may need to adjust its operating procedures in response to these interpretational changes, and such changes could have a material negative impact on its financial position, results of operation or cash flows.

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The Company's business is subject to intellectual property risks.

Most of the Company's products are not protected by patents. Restrictive regulations governing the precise labeling of ingredients and percentages for nutritional supplements, the large number of manufacturers that produce products with many active ingredients in common and the rapid change and frequent reformulation of products generally make obtaining patent protection for the Company's products impractical. The Company has other intellectual property that it considers valuable, including trademarks for the Nature’s Sunshine Products name and logo as well as the Synergy WorldWide name. The Company's efforts to protect its intellectual property may be unsuccessful and third parties may assert claims against the Company for infringement of intellectual property rights, which could result in the Company being required to obtain costly licenses for such rights, to pay royalties or to terminate its manufacturing of infringing products, all of which could have a material negative impact on the Company's financial position, results of operations or cash flows.

Product liability claims could harm the Company's business.

As a manufacturer and distributor 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 is alleged to results in injury to consumers. The Company has historically had a very limited number of product liability claims or reports from individuals who have asserted that they have suffered adverse consequences as a result of using its products. The Company has established a wholly-owned captive insurance company to provide it with product liability insurance coverage, and has accrued a reserve that it believes is sufficient to cover probable and reasonably estimable liabilities related to product liability claims based upon the Company's history. Such reserve may prove to be insufficient if the outcome of a product liability claim against the Company is beyond our estimate of probable and reasonably estimable liabilities, which could have a material negative impact on the Company's business prospects, financial position, results of operations or cash flows.

Inventory obsolescence due to finite shelf lives could adversely affect the Company's business.

To provide a high level of product availability to its independent distributors and customers, the Company generally maintains a considerable inventory of raw materials in the United States and of finished goods in most countries in which it does business. The Company's inventories of both raw materials and finished goods have finite shelf lives. If the Company overestimates the demand for its products, the Company could experience significant write-downs of its inventory due to obsolescence. Such write-downs could have a material negative impact on the Company's financial position, results of operations or cash flows.

Cyber security risks and the failure to maintain the integrity of data could expose the Company to data loss, litigation and liability, and the Company's reputation could be significantly harmed.

The Company collects and retains large volumes of data from employees and independent distributors, including credit card numbers and other personally identifiable information, for business purposes, including for transactional and promotional purposes, and its various information technology systems enter, process, summarize and report such data. The integrity and protection of this data is critical to the Company's business. The Company is subject to significant security and privacy regulations, as well as requirements imposed by the credit card industry. Maintaining compliance with these evolving regulations and requirements could be difficult and may increase the Company's expenses. In addition, a penetrated or compromised data system or the intentional, inadvertent or negligent release or disclosure of data could result in theft, loss or fraudulent or unlawful use of company, employee, distributor or guest data which could harm the Company's reputation, disrupt its operations, or result in remedial and other costs, fines or lawsuits.

System failures could harm the Company's business.

Like many companies, the Company's business is highly dependent upon its information technology infrastructure (websites, accounting and manufacturing applications, and product and customer information databases) to manage effectively and efficiently the Company's operations, including order entry, customer billing, accurately tracking purchases and volume incentives and managing accounting, finance and manufacturing operations. The occurrences of natural disasters, security breaches or other unanticipated problems could result in interruptions in the Company's day-to-day operations that could adversely affect its business. A long-term failure or impairment of any of the Company's information systems could adversely affect its ability to conduct its day-to-day business.

Beginning in 2013, the Company began to significantly reinvest in 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

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integrate the Company’s business process on a worldwide basis. The unsuccessful implementation or failure of this ERP program could disrupt or adversely affect the Company's operations.

The Company could incur obligations relating to the activities of its independent distributors and contracted third-parties.

The Company sells its products worldwide to a sales force of independent distributors who use the products themselves or resell them to customers. In addition, in certain foreign markets, the Company contracts with third-parties to distribute its product and provide support services to its independent distributors. Independent distributors and contracted third-parties are not employees and operate their own business separate and apart from the Company, and the Company may not be able to control aspects of their activities that may impact its business. If local laws and regulations or the interpretation of locals laws and regulations change and require the Company to treat its independent distributors as employees, or if its independent distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which the Company operates to be its employees rather than independent contractors under existing laws and interpretations, the Company may be held responsible for a variety of obligations that are imposed upon employers relating to their employees, including employment related taxes and penalties. The Company's independent distributors also operate in jurisdictions where local legislation and governmental agencies require it to collect and remit taxes such as sales tax or value-added taxes. In addition, there is the possibility that some jurisdictions could seek to hold the Company responsible for false product claims or the actions of an independent distributor. If the Company were found to be responsible for any of these issues related to its independent distributors, it could have a material negative impact on the Company's financial position, results of operations or cash flows.

If the Company's independent distributors fail to comply with advertising laws, then its financial condition and operating results would be harmed.

The advertisement of the Company's products is subject to extensive regulations in most of the markets in which the Company does business, including the United States. The Company's independent distributors may fail to comply with such regulations governing the advertising of the Company's products. In the U.S., the Company's products are sold principally as dietary supplements and cosmetics and are subject to rigorous FDA regulations limiting the types of therapeutic claims that can be made relating to the products. The treatment or cure of disease, for example, is not a permitted claim for the Company's products. Despite the Company's efforts to train its independent distributors and its attempts to monitor its independent distributors’ marketing materials, the Company cannot ensure that all such materials comply with applicable regulations, including bans on therapeutic claims. If the Company's independent distributors fail to comply with these restrictions, then the Company and its independent distributors could be subjected to claims of false advertising, significant financial penalties, costly mandatory product recalls or relabeling requirements, any of which could harm the Company's financial condition and operating results.

Changes in key management could materially adversely affect the Company.

The Company believes its success depends in part on its ability to retain its executive officers, and to continue to attract additional qualified individuals to its management team. The Company has entered into employment agreements with each of its executive officers. The Company cannot guarantee the continued service of its key officers. The loss or limitation of any of its executive officers or the inability to attract additional qualified management personnel could have a material negative impact on the Company's financial position, results of operations or cash flows. The Company does not carry key man insurance on the lives of any of its executive officers.

The Company's business is involved in an industry with intense competition.

The Company operates in an industry with numerous manufacturers, distributors and retailers of nutritional products. The market for these products is intensely competitive. Many of the Company's competitors are significantly larger, have greater financial resources, and have better name recognition than it does. The Company also relies on independent distributors to market and sell its products through direct selling techniques, as well as sponsoring other independent distributors. The Company's ability to compete with other direct selling companies depends greatly on its ability to retain existing independent distributors and attract new independent distributors. In addition, the Company currently does not have significant patent or other proprietary protection, and competitors may introduce products with the same or similar ingredients that the Company uses in its products. As a result, the Company may have difficulty differentiating its products from its competitors' product and other competing products that enter the nutritional market. The Company's future operations could be harmed as a result of changing market conditions and future competition.

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The Company may experience unintended negative effects from its independent distributor promotions or compensation plans.

The payment of volume incentives to the Company's independent distributors is its most significant expense. These incentives include commissions, bonuses and certain awards and prizes based on promotions and product sales levels. From time to time, the Company adjusts its compensation plan to better manage these incentives as a percentage of net sales. The Company closely monitors the amount of volume incentives that are paid as a percentage of net sales, and may periodically adjust its compensation plan to prevent volume incentives from having a significant adverse effect on the Company's earnings. In addition to the compensation plan, the Company frequently designs and implements economic and non-economic incentives and promotions to motivate and reward its independent distributors. Changes to the Company's compensation plan, product pricing, or promotions and incentives may not be successful in achieving target levels of volume incentives as a percentage of net sales. Furthermore, such programs, promotions or incentives could result in unintended or unforeseen negative economic and non-economic consequences to the Company's business, such as higher than anticipated costs.

The Company's manufacturing activity is subject to certain risks.

The Company manufacture approximately 80 percent of the products sold at its manufacturing facility located in Spanish Fork, Utah. As a result, the Company is dependent upon the uninterrupted and efficient operation of its manufacturing facility in Spanish Fork and its distribution facilities throughout the country. The Company's manufacturing facilities and distribution facilities are subject to the risk of catastrophic loss due to, among other things, earthquake, fire, flood, terrorism or other natural or man-made disasters, as well as occurrence of significant equipment failures. If any of these facilities were to experience a catastrophic loss, it would be expected to disrupt the Company's operations and could result in personal injury or property damage, damage relationships with its customers or result in large expenses to repair or replace the facilities or systems, as well as result in other liabilities and adverse impacts.

As the primary manufacturer of its own products, the Company is subject to FDA regulations on Good Manufacturing Practices, which require the Company to maintain good manufacturing processes, including ingredient identification, manufacturing controls and record keeping. The ingredient identification requirement, which requires the Company to confirm the levels, identity and potency of ingredients listed on its product labels within a narrow range, is particularly burdensome and difficult for the Company with respect to its product formulations, which contain many different ingredients. The Company's operations could be harmed if regulatory authorities make determinations that the Company is not in compliance with Good Manufacturing Practices. A finding of noncompliance may result in administrative warnings, penalties or actions impacting the Company's ability to continue selling certain products. In addition, compliance with these regulations has increased and may further increase the cost of manufacturing certain of the Company's products.

In addition, the Company contracts with third-party manufacturers to produce some of its vitamins, mineral and other nutritional supplements, personal care products and certain other miscellaneous products in accordance with the Company's specifications and standards. These contract manufacturers are subject to the same risks as the Company's manufacturing facility as noted above. In addition, while the Company has implemented stringent quality control procedures to verify that its contract manufacturers comply with its specifications and standards, the Company does not have full control over their manufacturing activities. Any difficulties, delays and defects in the Company's products resulting from the activities of its contract manufacturers may have an adverse effect on the Company's business and results of operations.

Failure of third party support could negatively impact the Company's sales revenue and profitability.

The Company has contracted with third-parties in several of its key markets to distribute its product and provide support services to the Company's independent sales force of independent distributors. The Company relies on these third parties to perform various required administrative functions in support of its independent distributors. Any failure of these third parties in this regard could result in the disruption of the Company's business in these markets and adversely affect revenue and profitability.

The Company's failure to appropriately respond to changing consumer preferences and demand for new products or product enhancements could significantly harm its distributor relationships and product sales and harm its financial condition and operating results.

The Company's business is subject to changing consumer trends and preferences. The Company's continued success depends in part on its ability to anticipate and react to these changes, and the Company may not react in a timely or commercially appropriate manner to such changes. Furthermore, the nutritional supplement industry is characterized by rapid and frequent changes in demand for products and new product introductions and enhancements. The Company's failure to accurately predict these trends could negatively impact consumer opinion of its products, which in turn could harm its relationships with its independent distributors and cause the loss of sales. If the Company does not introduce new products or make enhancements to meet the changing needs of its customers in a timely manner, some of its products could be rendered obsolete, which could negatively impact the Company's revenues, financial condition and operating results.

The Company's expansion in China is subject to risks associated with operating a joint venture, as well as general, industry-specific, economic, political, currency and legal risks in China and requires it to utilize a different business model from that which it uses elsewhere in the world.

The Company's expansion of operations into China is subject to risks and uncertainties related to operating a joint venture, as well as general economic, political and legal developments in China, among other things. The Chinese government exercises significant control over all aspects of the Chinese economy, and the direct selling industry in particular. Accordingly, any adverse change in the Chinese economy, the Chinese legal system or Chinese governmental, economic or other policies could have a material adverse effect on the Company's business in China and its prospects generally.

On August 25, 2014, the Company completed a transaction with Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharma"), which created a joint venture owned 80 percent by the Company and 20 percent by a wholly-owned subsidiary of Fosun Pharma. Smooth operation of the joint venture depends on good relations between the Company and Fosun Pharma, active synergies between the two companies and positive legal and regulatory recognition of the joint venture. Any disruption in relations, inability to work efficiently or disadvantageous treatment of the joint venture by the Chinese or other authorities could have a material adverse effect on the Company's business in China and its prospects generally.

In 2005, China published regulations governing direct selling and prohibiting pyramid promotional schemes, and a number of administrative methods and proclamations were issued in 2005 and in 2006. These regulations require the Company to use a business model different from that which it offers in other markets. The Company is creating a model specifically for China to operate under these regulations.

The direct selling regulations require the Company to apply for various approvals to conduct a direct selling enterprise in China. The process for obtaining the necessary licenses to conduct a direct selling business is protracted and cumbersome and involves multiple layers of Chinese governmental authorities and numerous governmental employees at each layer. While direct selling licenses are centrally issued, such licenses are generally valid only in the jurisdictions within which related approvals have been obtained. Such approvals are generally awarded on local and provincial bases, and the approval process requires involvement with multiple ministries at each level. The Company's participation and conduct during the approval process is guided not only by distinct Chinese practices and customs, but is also subject to applicable laws of China and the other jurisdictions in which the Company operates, including the U.S., as well as the Company's internal code of ethics. There is always a risk that in attempting to comply with local customs and practices in China during the application process or otherwise, the Company will fail to comply with requirements applicable in China itself or in other jurisdictions, and any such failure to comply with applicable requirements could prevent the Company from obtaining the direct selling licenses or related local or provincial approvals. Furthermore, the Company relies on certain key management, regulatory and legal personnel in China to assist during the approval process, and the loss of any such key personnel could delay or hinder the Company's ability to obtain licenses or related approvals. For all of the above reasons, there can be no assurance that the Company will obtain direct-selling licenses, or obtain related approvals to expand into any or all of the localities or provinces in China that are important to this venture. The Company's inability to obtain, retain, or renew any or all of the licenses or related approvals that are required to operate in China could negatively impact the Company.

Additionally, although certain regulations have been published with respect to obtaining and operating under such approvals and otherwise conducting business in China, other regulations are pending and there continues to be uncertainty regarding the interpretation and enforcement of Chinese regulations. The regulatory environment in China is evolving, and officials in the Chinese government exercise broad discretion in deciding how to interpret and apply regulations. The Company cannot be certain that its business model will continue to be deemed compliant by national or local Chinese regulatory authorities. The Chinese government rigorously monitors the direct selling market in China, and in the past has taken serious action against companies that the government believed were engaging in activities they regarded to be in violation of applicable law, including shutting down their businesses and imposing substantial fines. As a result, there can be no guarantee that the Chinese government’s current or future interpretation and application of the existing and new regulations will not negatively impact the Company's business in China, result in regulatory investigations or lead to fines or penalties.

Chinese regulations prevent persons who are not Chinese nationals from engaging in direct selling in China. The Company cannot guarantee that any of its Members living outside of China or any of its sales representatives or independent

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service providers in China have not engaged or will not engage in activities that violate the Company's policies in this market, or that violate Chinese law or other applicable law, and therefore result in regulatory action and adverse publicity.

If the Company is not able to register products for sale in Mainland China, its business could be harmed.

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

If the Company is unable to effectively manage rapid growth in China, its operations could be harmed.

If the Company's operations in China are successful and it experiences rapid growth, there can be no assurances that the Company will be able to successfully manage rapid expansion of manufacturing operations and a rapidly growing and dynamic sales force. If the Company is unable to effectively manage such growth and expansion of its retail stores and manufacturing operations, the Company's government relations may be compromised and its operations in China may be harmed.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's corporate offices are located in Lehi, Utah, and consist of approximately 66,000 square feet. These facilities are leased from an unaffiliated third party through a lease agreement which expires in 2017.

The Company's principal warehousing and manufacturing facilities are housed in a building consisting of approximately 270,000 square feet and located on approximately 10 acres in Spanish Fork, Utah. These facilities are owned by the Company and support all of its business segments.

The Company owns approximately 28,000 square feet of office space in Mexico.

The Company also owns approximately 53 acres of undeveloped land in Springville, Utah, and approximately 8 acres of undeveloped land in Provo, Utah.

The Company leases properties used primarily as distribution warehouses located in Georgia, Ohio, Texas and Utah, as well as offices and distribution warehouses in the majority of the countries in which it does business. The Company believes these facilities are suitable for their respective uses and are, in general, adequate for the Company's present and near-term future needs. During 2015, 2014 and 2013, the Company incurred approximately $6.3 million, $6.2 million, and $6.1 million, respectively, for all of its leased facilities in lease expense.

The Company believes that its current facilities are adequate for its business operation and that additional space, if required, will be available on commercially reasonable terms for the foreseeable future.

Item 3. 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

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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.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market and Share Prices

The Company's common stock is traded on the NASDAQ Global Market (symbol "NATR").

The following table summarizes the quarterly high and low market prices of the Company's common stock for the years ended December 31, 2015 and 2014:

	Market Prices	
2015	High	Low
First Quarter	$14.98	$11.88
Second Quarter	$14.11	$11.89
Third Quarter	$13.84	$11.30
Fourth Quarter	$12.63	$10.30

	Market Prices	
2014	High	Low
First Quarter	$18.81	$18.34
Second Quarter	$18.37	$12.91
Third Quarter	$17.35	$14.12
Fourth Quarter	$15.76	$13.40

The approximate number of shareholders of record of the Company's common shares as of February 19, 2016, was 772. This number of holders of record does not represent the actual number of beneficial owners of the Company's common shares because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

Recent Sales of Unregistered Securities

None.

Dividends

There were 772 shareholders of record as of December 31, 2015.

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 $1.9 million that was paid on March 23, 2015, to shareholders of record on March 12, 2015. On May 7, 2015, the Company announced a cash dividend of $0.10 per common share in an aggregate amount of $1.9 million that was paid on June 2, 2015, to shareholders of record on May 22, 2015. On August 10, 2015, the Company announced a cash dividend of $0.10 per common share in an aggregate amount of $1.9 million that was paid on September 8, 2015, to shareholders of record on August 25, 2015. On November 3, 2015, the Company announced a cash dividend of $0.10 per common share in an aggregate amount of $1.9 million that was paid on November 30, 2015, to shareholders of record on November 18, 2015.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table contains information regarding the Company’s equity compensation plans as of December 31, 2015:

Plan category	Number of securities to be issued upon exercise or vesting of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	2,427,288	$12.21	885,850

(1) Consists of two plans: The Nature’s Sunshine Products, Inc. 2012 Stock Incentive Plan (the “2012 Incentive Plan”) and the Nature’s Sunshine Products, Inc. 2009 Stock Incentive Plan (the “2009 Incentive Plan”). The 2012 Incentive Plan was approved by shareholders on August 1, 2012. The 2009 Incentive Plan was approved by shareholders on November 6, 2009. The terms of these plans are summarized in Note 11, “Capital Transactions”, of the Notes to Consolidated Financial Statements in Item 8, Part 2 of this report.

Performance Graph

The graph below depicts the Company's common stock as an index, assuming $100.00 was invested on December 31, 2010, along with the composite prices of companies listed on the NASDAQ Stock Market and the Company's peer group. Standard & Poor’s Investment Services has provided this information. The comparisons in the graph are required by regulations of the SEC, and are not intended to forecast or be indicative of the possible future performance of the Company's common stock. The publicly-traded companies that comprise this peer group include Herbalife International, Ltd., NuSkin Enterprises, Inc. and USANA Health Sciences, Inc. The Company considers these companies to be its peer group as they have similar product lines and distribution techniques.

The material in this section captioned “Performance Graph” is being furnished and shall not be deemed “filed” with the SEC for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall the material in this section be deemed to be incorporated by reference in any registration statement or other document filed with the

SEC under the Securities Act of 1933, except to the extent the Company specifically and expressly incorporate it by reference into such filing.

	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Nature’s Sunshine Products, Inc.	$100.00	$172.83	$162.84	$216.54	$209.55	$147.74
NASDAQ Index	100.00	99.17	116.48	163.21	187.27	200.31
Peer Group	100.00	147.26	104.96	305.29	140.28	169.00

Item 6. Selected Financial Data

The selected financial data presented below is summarized from the Company's results of consolidated operations for each of the five years in the period ended December 31, 2015, as well as selected consolidated balance sheet data as of December 31, 2015, 2014, 2013, 2012, and 2011.

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

Consolidated Statement of Operations Data

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Net sales revenue	$324,705	$366,367	$369,826	$360,826	$362,497
Cost of sales	(85,345)	(91,584)	(92,344)	(91,369)	(87,906)
Gross profit	239,360	274,783	277,482	269,457	274,591
Operating expenses:					
Volume incentives	117,786	135,808	135,516	130,875	131,840
Selling, general and administrative	107,702	119,927	118,383	104,716	107,752
Contract termination costs	—	—	—	—	14,750
Operating income	13,872	19,048	23,583	33,866	20,249
Other income (loss), net	(592)	(34)	1,993	1,573	1,256
Income before income taxes	13,280	19,014	25,576	35,439	21,505
Provision (benefit) for income taxes	1,740	(743)	7,923	10,531	5,136
Net income from continuing operations	11,540	19,757	17,653	24,908	16,369
Income (loss) from discontinued operations	2,116	(9,957)	(44)	472	1,232
Net income	13,656	9,800	17,609	25,380	17,601
Loss attributable to noncontrolling interests	(1,031)	(219)	—	—	—
Net income attributable to common shareholders	$14,687	$10,019	$17,609	$25,380	$17,601

Consolidated Balance Sheet Data

	December 31,				
	2015	2014	2013	2012	2011
Cash and cash equivalents	$41,420	$58,699	$77,247	$79,241	$58,969
Working capital	48,382	63,340	80,025	83,943	57,305
Inventories	38,495	40,438	41,910	43,280	41,611
Property, plant and equipment, net	68,728	51,343	32,022	27,950	25,137
Total assets	200,520	196,799	199,612	193,919	175,811
Long-term liabilities	11,119	9,933	25,784	16,893	20,575
Total shareholders’ equity	136,265	128,957	105,259	115,636	87,438

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Summary Cash Flow Information

	December 31,				
	2015	2014	2013	2012	2011
Operating activities	$10,162	$14,182	$29,378	$26,651	$3,908
Investing activities	(18,592)	(26,674)	(8,564)	(2,989)	(1,679)
Financing activities	(7,578)	(5,076)	(21,331)	(3,133)	9,588

Common Share Summary

	December 31,				
	2015	2014	2013	2012	2011
Cash dividend per share (1)	$0.40	$1.90	$1.90	$0.15	$—
Basic and diluted earnings per share					
Basic weighted average number of shares	18,656	17,108	15,997	15,648	15,550
Diluted weighted average number of shares	19,177	17,641	16,390	15,987	15,695
Basic earnings per share attributable to common shareholders:					
Net income from continuing operations	$0.67	$1.15	$1.10	$1.59	$1.05
Income (loss) from discontinued operations	$0.11	$(0.57)	$—	$0.03	$0.08
Net income attributable to common shareholders	$0.79	$0.58	$1.10	$1.62	$1.13
Diluted earnings per share attributable to common shareholders:					
Net income from continuing operations	$0.66	$1.12	$1.08	$1.56	$1.04
Income (loss) from discontinued operations	$0.11	$(0.56)	$(0.01)	$0.03	$0.08
Net income attributable to common shareholders	$0.77	$0.56	$1.07	$1.59	$1.12

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(1) — 2014 and 2013 include a special cash dividend of $1.50 per share paid on September 19, 2014 and August 29, 2013, respectively.

Other Information

	December 31,				
	2015	2014	2013	2012	2011
Square footage of property in use	703,696	754,548	771,439	768,513	763,389
Number of employees	901	964	1,010	995	1,003

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

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

OVERVIEW

The Company's Business, Industry and Target Market

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 and resell them to other independent

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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 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. The Company discontinued operations in Vietnam during the second quarter of 2015, which were approximately 0.1 percent and 0.4 percent of consolidated net sales during the twelve month periods ended December 31, 2015 and 2014, respectively.

In 2015, the Company experienced a decrease in its consolidated net sales of 11.4 percent (or 6.7 percent in local currencies) compared to the same period in 2014. NSP Russia, Central and Eastern Europe net sales decreased approximately 45.5 percent compared to the same period in 2014. Synergy WorldWide net sales decreased approximately 10.9 percent compared to the same period in 2014 (or 1.8 percent in local currencies). NSP Americas net sales decreased approximately 1.8 percent compared to the same period in 2014 (or increased 1.0 percent in local currencies). China and New Markets net sales decreased approximately 27.4 percent compared to the same period in 2014. During 2015, the Synergy Worldwide segment experienced net sales growth in local currencies in Japan, Thailand and Indonesia and the NSP Americas experienced net sales growth in local currencies in North America. Excluding the NSP Russia, Central and Eastern Europe segment, net sales decreased by approximately 5.9 percent (or 0.7 percent in local currencies) during 2015. The strengthening of the U.S. dollar versus the local currencies of the Company’s European, Latin American and Asian markets resulted in an approximate 5.2 percent or $16.7 million reduction of its net sales during 2015.

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. The Company does not expect this decline in net sales to reverse in the near term. The Company remains strongly supportive and engaged with its independent Distributors in the region, and believes its solid foundation and strong relationships in the region will allow it to reignite growth once the political situation and currency value stabilize.

In absolute terms, selling, general and administrative expenses decreased $12.2 million during 2015. Over the same period, selling, general and administrative expenses as a percentage of net sales revenue for 2015 increased to 33.2

percent from 32.7 percent in 2014. The percentage increase was primarily the result of the decrease in net sales from the Company’s NSP Russia, Central & Eastern Europe and the impact of foreign currency devaluation versus the U.S. dollar in certain of its other markets.

The Company distributes its products to consumers through an independent sales force comprised of independent Managers and Distributors, some of whom also consume its products. Typically a person who joins the Company’s independent sales force begins as a Distributor. A Distributor may earn Manager status by committing more time and effort to selling the Company’s products, recruiting productive independent Distributors and attaining certain product sales levels. On a worldwide basis, active independent Managers were approximately 12,700 and 13,400 and active independent Distributors and customers were approximately 264,400 and 292,600 at December 31, 2015 and 2014, respectively, primarily due to declines in the Company's 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 wholesale markets.

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

Critical Accounting Policies and Estimates

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

A summary of the Company's significant accounting policies is provided in Note 1 of the Notes to Consolidated Financial Statements in Item 8 of this report. Management believes the critical accounting policies and estimates described below reflect its more significant estimates and assumptions used in the preparation of the Company's consolidated financial statements. The impact and any associated risks on the Company's 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. Amounts received for undelivered merchandise are recorded as deferred revenue.

From time to time, the Company’s U.S. operations extend short-term credit associated with product promotions. In addition, for certain of the Company’s international operations, the Company offers credit terms consistent with industry standards within the country of operation. Payments to independent Managers and Distributors for sales incentives or rebates are recorded as a reduction of revenue. Payments for sales incentives and rebates are calculated monthly based upon qualifying sales. Membership fees are deferred and amortized as revenue over the life of the membership, primarily one year. 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. Sales returns for the years 2015, 2014 and 2013, were $1.2 million, $1.5 million, and $1.5 million, respectively.

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

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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 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 has a wholly-owned captive insurance company to provide it with product liability insurance coverage. The Company has accrued an amount that it 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.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, such as property, plant and equipment and intangible assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. It may use an estimate of future undiscounted net cash flows of the related assets or groups of assets over their remaining lives in measuring whether the assets are recoverable. An impairment loss is calculated by determining the difference between the carrying values and the fair values of these assets. 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 year ended December 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.

Incentive Trip Accrual

The Company accrues for expenses associated with its direct sales program, which rewards independent Managers and Distributors with paid attendance for incentive trips, including Company conventions and meetings. Expenses associated with incentive trips are accrued over qualification periods as they are earned. It specifically analyzes incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could generate liabilities more or less than the amounts recorded. The Company has accrued incentive trip costs of approximately $4.8 million and $4.2 million at December 31, 2015 and 2014, respectively, which are included in accrued liabilities in the consolidated balance sheets.

Contingencies

The Company is involved in certain legal proceedings. When a loss is considered probable in connection with litigation or non-income tax contingencies and when such loss can be reasonably estimated with a range, it records its best estimate

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within the range related to the contingency. If there is no best estimate, its records the minimum of the range. As additional information becomes available, it assesses the potential liability related to the contingency and revise the estimates. Revision in estimates of the potential liabilities could materially affect its results of operations in the period of adjustment. The Company's contingencies are discussed in further detail in Note 14, “Commitments and Contingencies”, of the Notes to Consolidated Financial Statements, in Item 8, Part 2 of this report.

Income Taxes

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

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating the Company’s ability to recover its deferred tax assets, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, the Company develops assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income, and are consistent with the plans and estimates that the Company is using to manage the underlying businesses. Valuation allowances are recorded as reserves against 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. As of December 31, 2015 and 2014, the Company had recorded valuation allowances of $6.6 million and $13.2 million, respectively, as offsets to its net deferred tax assets.

At December 31, 2015, foreign subsidiaries had unused operating loss carryovers for tax purposes of approximately $5.4 million. The net operating losses will expire at various dates from 2016 through 2025, with the exception of those in some foreign jurisdictions where there is no expiration. For financial reporting purposes, the release of these valuation allowances would reduce income tax expenses. At December 31, 2015, the Company had approximately $11.7 million of foreign tax and withholding credits, most of which expire in 2024.

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

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

Share-Based Compensation

The Company recognizes all share-based payments to Directors and employees, including grants of stock options and restricted stock units, to be recognized in the statement of operations based on their grant-date fair values. It records compensation expense, 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. The estimated forfeiture rate is based upon historical experience.

PRESENTATION

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. The Company also offers reduced volume rebates with respect to certain products and promotions worldwide.

The Company's gross profit consists of net sales less cost of sales, which represents its manufacturing costs, the price it pays to its raw material suppliers and manufacturers of its products, and duties and tariffs, as well as shipping and handling costs related to product shipments and distribution to its independent Managers, Distributors and customers.

Volume incentives are a significant part of the Company's direct sales marketing program, and represent commission payments made to its independent Managers and Distributors. These payments are designed to provide incentives for reaching

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higher sales levels and for recruiting additional independent Distributors. Volume incentives vary slightly, on a percentage basis, by product due to the Company's pricing policies and commission plans in place in its various operations.

Selling, general and administrative expenses represent the Company's 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.

Most of the Company's sales to independent Distributors outside the United States are made in the respective local currencies. In preparing its financial statements, the Company translates revenues into U.S. dollars using average exchange rates. Additionally, the majority of the Company's purchases from its suppliers 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 the Company's reported sales and contribution margins and can generate transaction losses on intercompany transactions.

RESULTS OF OPERATIONS

The following table summarizes the Company's consolidated net income from continuing operations results as a percentage of net sales revenue for the periods indicated:

	Year Ended December 31,					
	2015		2014		2013	
Net sales revenue	100.0	%	100.0	%	100.0	%
Cost of sales	(26.3	)	(25.0	)	(25.0	)
Gross profit	73.7		75.0		75.0	
Operating expenses:						
Volume incentives	36.3		37.1		36.6	
Selling, general and administrative	33.2		32.7		32.0	
Operating income	4.3		5.2		6.4	
Other income (expense):						
Interest and other income, net	0.5		—		0.2	
Interest expense	—		(0.1	)	(0.1	)
Foreign exchange gains, net	(0.6	)	0.1		0.4	
	(0.2	)	—		0.5	
Income before provision for income taxes	4.1		5.2		6.9	
Provision (benefit) for income taxes	0.5		(0.2	)	2.1	
Net income from continuing operations	3.6	%	5.4	%	4.8	%

Net Sales Revenue

The Company’s international operations have provided, and are expected to continue to provide, a significant portion of its total net sales. As a result, total net sales will continue to be affected by fluctuations in the U.S. dollar against foreign currencies. In order to provide a framework for assessing how its underlying businesses performed excluding the effect of foreign currency fluctuations, in addition to comparing the percent change in net sales from one period to another in U.S. dollars, it compares the percentage change in net sales from one period to another period by excluding the effects of foreign currency exchange as shown below. Net sales excluding the impact of foreign exchange fluctuations is not a U.S. GAAP financial measure. Net sales in local currency removes from net sales in U.S. dollars the impact of changes in exchange rates between the U.S. dollar and the functional currencies of its foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. The Company believes presenting the impact of foreign currency fluctuations is useful to investors because it allows a more meaningful comparison of net sales of its foreign operations from period to period. However, net sales

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excluding the impact of foreign currency fluctuations should not be considered in isolation or as an alternative to net sales in U.S. dollar measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP. Throughout the last five years, foreign currency exchange rates have fluctuated significantly. See Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Year Ended December 31, 2015, as Compared to the Year Ended December 31, 2014

Net Sales Revenue

The following table summarizes the changes in the Company's net sales revenue by operating segment with a reconciliation to net sales revenue excluding the impact of currency fluctuations for the fiscal years ended December 31, 2015 and 2014 (dollar amounts in thousands).

Net Sales Revenue by Operating Segment

	2015	2014	Percent Change	Impact of Currency Exchange	Percent Change Excluding Impact of Currency
NSP Americas:					
NSP North America	$147,017	$145,650	0.9 %	$(1,753)	2.1 %
NSP Latin America	32,134	36,745	(12.5)%	(3,292)	(3.6)%
	179,151	182,395	(1.8)%	(5,045)	1.0 %
NSP Russia, Central and Eastern Europe	$27,408	$50,274	(45.5)%	$(463)	(44.6)%
Synergy WorldWide:					
Synergy Asia Pacific	76,479	81,199	(5.8)%	(6,592)	2.3 %
Synergy Europe	25,829	31,732	(18.6)%		

The fair value of shares vesting during the years ended September 30, 2016, 2015 and 2014 was $304, $353 and $571, respectively. Fair value was calculated as the number of shares vested times the market price of shares on the date of vesting. The weighted average grant date fair value of unvested restricted stock at September 30, 2016 was $8.48.

All the restricted shares granted under the Amended Plan (vested or unvested) participate in dividends issued to common shareholders, if any.

Phantom Stock Units

Phantom stock units (PSUs) are primarily granted to the members of the Board of Directors as part of their overall compensation. These PSUs are paid via unrestricted stock grants to each director upon their departure from the Board of Directors. We record compensation expense for the full value of the grant on the date of grant. For the years ended September 30, 2016, 2015 and 2014, we recognized $136, $224, and $243, respectively, in compensation expense related to these grants.

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Performance Based Phantom Stock Units

A performance based phantom stock unit (a PPSUs) is a contractual right to receive one share of the Company s common stock. The PPSUs will generally become vested, if at all, upon the achievement of certain specified performance objectives and continued performance of services through mid-December 2018. During the year ended September 30, 2016, the Company granted an aggregate of 420,000 three-year performance-based PPSUs. The vesting of these awards is subject to the achievement of specified levels of cumulative net income before taxes or specified stock price levels. For the year ended September 30, 2016, we recognized compensation expense of $808 related to these grants.

Stock Options

We utilized a binomial option pricing model to measure the fair value of stock options granted. Our determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, the risk-free rate of return, and actual and projected employee stock option exercise behaviors. The expected life of stock options is not considered under the binomial option pricing model that we utilize. We did not issue stock options during the years ended September 30, 2016 and 2014. The assumptions used in the fair value method calculation for the year ended September 30, 2015 are disclosed in the following table:

	Year Ended September 30, 2015
Weighted average value per option granted during the period	$ 3.87
Dividends (1)	$
Stock price volatility (2)	55.6 - 57.8%
Risk-free rate of return	1.34 - 1.48%
Option term	10.0 years
Expected life	6.0 years
Forfeiture rate (3)	10.0%

(1) We do not currently pay dividends on our common stock.
(2) Based upon the Company s historical volatility.
(3) Based upon the Company s historical data.

Stock-based compensation expense recognized during the period is based on the value of the portion of the share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Consolidated Statements of Comprehensive Income is based on awards ultimately expected to vest. We estimate our forfeitures at the time of grant and revise, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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The following table summarizes activity under our stock option plans.

	Shares	Weighted Average Exercise Price
Outstanding, September 30, 2013	170,000	$ 5.46
Options granted		
Exercised		
Forfeited and Cancelled		
Outstanding, September 30, 2014	170,000	$ 5.46
Options granted	37,000	7.25
Exercised		
Forfeited and Cancelled	(74,000)	5.76
Outstanding, September 30, 2015	133,000	$ 5.79
Options granted		
Exercised	42,500	5.17
Forfeited and Cancelled	(11,000)	3.60
Outstanding, September 30, 2016	79,500	$ 6.43

The following table summarizes options outstanding and exercisable at September 30, 2016:

Exercise Prices	Outstanding as of September 30, 2016	Remaining Contractual Life in Years	Weighted-Average Exercise Price	Exercisable as of September 30, 2016	Weighted-Average Exercise Price
$5.76	43,500	6.58	$ 5.76	43,500	$ 5.76
$7.27	22,000	8.29	$ 7.27		$
$7.21	14,000	8.34	$ 7.21		$
	79,500		$ 6.43	43,500	$ 5.76

Our 2011 options vested over a three year period at a rate of one-third per year upon the annual anniversary date of the grant. Our 2013 and 2015 options cliff vest at the end of a two year period ending at the anniversary date of the grant. All options expire ten years from the grant date if they are not exercised. Upon exercise of stock options, it is our policy to first issue shares from treasury stock, then to issue new shares. Unexercised stock options expire July 2021, May 2023, January 2025 and February 2025.

During the years ended September 30, 2016, 2015 and 2014, we recognized $70, $(45) and $267, respectively, in compensation expense related to our stock option awards. The net benefit in 2015 relates to a revision in forfeiture assumptions upon the departure of the Company s former Chairman and CEO in January 2015, at which time he forfeited unvested stock options. At September 30, 2016, the unamortized compensation cost related to outstanding unvested stock options was $23. We expect to recognize all $23 of this unamortized compensation expense during the year ended September 30, 2017.

The intrinsic value of stock options outstanding and exercisable was $286 and $88 at September 30, 2016 and 2015, respectively. The intrinsic value is calculated as the difference between the fair value as of the end of the period and the exercise price of the stock options.

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12. RELATED-PARTY TRANSACTIONS

The Company is a party to a sublease agreement with Tontine Associates, L.L.C., an affiliate of Tontine, for corporate office space in Greenwich, Connecticut. The lease was renewed for a three-year term in April 2016 with an increase in the monthly rent to $8, reflecting the increase paid by Tontine Associates, L.L.C. to its landlord and the Company s increased use of the corporate office space. The lease has terms at market rates and payments by the Company are at a rate consistent with that paid by Tontine Associates, L.L.C. to its landlord.

13. EMPLOYEE BENEFIT PLANS

401(k) Plan

In November 1998, we established the IES Holdings, Inc. 401(k) Retirement Savings Plan. All full-time IES employees are eligible to participate on the first day of the month subsequent to completing sixty days of service and attaining age twenty-one. Participants become vested in our matching contributions following three years of service. We recognized $616, $288, and $276 in matching expenses in fiscal years 2016, 2015 and 2014, respectively.

Infrastructure Solutions has two 401(k) plans. We recognized $121, $99, and $74 in matching expenses in fiscal years 2016, 2015 and 2014, respectively.

Executive Savings Plan

Under the Executive Deferred Compensation Plan adopted on July 1, 2004 (the Executive Savings Plan), certain employees are permitted to defer a portion (up to 75%) of their base salary and/or bonus for a plan year. The Human Resources and Compensation Committee of the Board of Directors may, in its sole discretion, credit one or more participants with an employer deferral (contribution) in such amount as the Committee may choose (Employer Contribution). The Employer Contribution, if any, may be a fixed dollar amount, a fixed percentage of the participant s compensation, base salary, or bonus, or a matching amount with respect to all or part of the participant s elective deferrals for such plan year, and/or any combination of the foregoing as the Committee may choose. No compensation earned during the years ended September 30, 2016, 2015 or 2014 was deferred under this plan.

Post Retirement Benefit Plans

Certain individuals at one of the Company s locations are entitled to receive fixed annual payments that reach a maximum amount, as specified in the related agreements, for a ten year period following retirement or, in some cases, the attainment of 62 years of age. We recognize the unfunded status of the plan as a non-current liability in our Consolidated Balance Sheet. Benefits vest 50% after ten years of service, which increases by 10% per annum until benefits are fully vested after 15 years of service. We had an unfunded benefit liability of $875 and $871 recorded as of September 30, 2016 and 2015, respectively. We recognized compensation expense related to these agreements of $65, $11, and $15 during the years ended September 30, 2016, 2015 and 2014, respectively.

Multiemployer Pension Plan

Infrastructure Solutions participates in a multiemployer direct benefit pension plan for employees covered under our collective bargaining agreement. We do not administer the plan. We do not significantly participate in this plan. As of December 31, 2015, this plan was funded at 83.91%.

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14. FAIR VALUE MEASUREMENTS

Fair Value Measurement Accounting

Fair value is considered the price to sell an asset, or transfer a liability, between market participants on the measurement date. Fair value measurements assume that the asset or liability is (1) exchanged in an orderly manner, (2) the exchange is in the principal market for that asset or liability, and (3) the market participants are independent, knowledgeable, able and willing to transact an exchange. Fair value accounting and reporting establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment is required to interpret the market data used to develop fair value estimates. As such, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair value.

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2016, are summarized in the following table by the type of inputs applicable to the fair value measurements:

	September 30, 2016		
	Total Fair Value	Quoted Prices (Level 1)	Significant Unobservable (Level 3)
Executive savings plan assets	$ 599	$ 599	$
Executive savings plan liabilities	(486)	(486)	
Contingent consideration liability	(1,100)		(1,100)
Total	$ (987)	$ 113	$ (1,100)

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2015, are summarized in the following table by the type of inputs applicable to the fair value measurements:

	September 30, 2015		
	Total Fair Value	Quoted Prices (Level 1)	Significant Unobservable (Level 3)
Executive savings plan assets	$ 617	$ 617	$
Executive savings plan liabilities	(504)	(504)	

Total	$ 113	$ 113	$

In the first quarter of 2016, we entered into a contingent consideration arrangement related to a business combination. Please see Note 18, *Business Combinations and Divestitures* for further discussion. At September 30, 2016, we estimated the fair value of the contingent consideration liability at $1,100. The table below presents a reconciliation of the fair value of this obligation, which used significant unobservable inputs (Level 3).

	Contingent Consideration Agreement
Fair Value at September 30, 2015	$
Issuances	448
Adjustments to Fair Value	652
Fair Value at September 30, 2016	$ 1,100

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Below is a description of the inputs used to value the assets summarized in the preceding tables:

Level 1 Inputs represent unadjusted quoted prices for identical assets exchanged in active markets.

Level 2 Inputs include directly or indirectly observable inputs other than Level 1 inputs such as quoted prices for similar assets exchanged in active or inactive markets; quoted prices for identical assets exchanged in inactive markets; and other inputs that are considered in fair value determinations of the assets.

Level 3 Inputs include unobservable inputs used in the measurement of assets. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or related observable inputs that can be corroborated at the measurement date.

15. INVENTORY

Inventories consist of the following components:

	September 30, 2016	September 30, 2015
Raw materials	$ 2,538	$ 1,641
Work in process	4,158	2,641
Finished goods	1,558	1,199
Parts and supplies	4,982	8,496
Total inventories	$ 13,236	$ 13,977

16. GOODWILL AND INTANGIBLE ASSETS

The following is a progression of goodwill by segment for the years ended September 30, 2016, 2015 and 2014:

	Residential	Commercial & Industrial	Infrastructure Solutions	Total
Balance at September 30, 2014	$ 8,631	$	$ 6,362	$ 14,993
Acquisitions Note 18			2,256	2,256
Balance at September 30, 2015	8,631		8,618	17,249
Acquisitions Note 18		3,806	19,458	23,264

Divestitures Note 18			(577)	(577)
Balance at September 30, 2016	$ 8,631	$ 3,806	$ 27,499	$ 39,936

Goodwill

Based upon the results of our annual impairment analysis, the fair value of our Infrastructure Solutions and Commercial & Industrial segments exceeded the book value at September 30, 2016, and warranted no impairment. We evaluated goodwill attributable to our Residential segment qualitatively, and have concluded no impairment is indicated.

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(All Amounts in Thousands Except Share Amounts)

Intangible assets consist of the following:

	September 30, 2016			
	Estimated Useful Lives (in Years)	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks/trade names	5 - 20	$ 3,845	$ 139	$ 3,706
Technical library	20	400	61	339
Customer relationships	6 - 15	27,414	2,003	25,411
Developed technology	4	400	358	42
Backlog	1	1,621	545	1,076
Construction contracts	1	2,191	1,042	1,149
Total		$ 35,871	$ 4,148	$ 31,723

	September 30, 2015			
	Estimated Useful Lives (in Years)	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks/trade names	8 - Indefinite	$ 1,400	$ 9	$ 1,391
Technical library	20	400	41	359
Customer relationships	8 - 12	3,600	788	2,812
Covenants not to compete	3	140	121	19
Developed technology	4	400	258	142
Total		$ 5,940	$ 1,217	$ 4,723

For the years ended September 30, 2016, 2015 and 2014, amortization expense of intangible assets was $2,936, $381 and $635, respectively. Our future amortization expense for years ended September 30, is as follows:

Year Ended September 30,	
2017	$ 5,050
2018	3,154
2019	2,903

2020	2,818
2021	2,714
Thereafter	15,084
Total	$ 31,723

17. COMMITMENTS AND CONTINGENCIES

Legal Matters

From time to time we are a party to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business. We maintain various insurance coverages to minimize financial risk associated with these proceedings. None of these proceedings, separately or in the aggregate, are expected to have a material adverse effect on our financial position, results of operations or cash flows. With respect to all such proceedings, we record reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. We expense routine legal costs related to these proceedings as they are incurred.

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IES HOLDINGS, INC.

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(All Amounts in Thousands Except Share Amounts)

The following is a discussion of our significant legal matters:

Capstone Construction Claims

From 2003 to 2005, two of our former subsidiaries performed HVAC and electrical work under contract with Capstone Building Corporation (Capstone) on a university student housing project in Texas. In 2005, our subsidiaries filed for arbitration against Capstone, seeking payment for work performed, change orders and other impacts. The parties settled those claims, and the release included a waiver of warranties associated with any of the HVAC work. Several years later the subsidiaries discontinued operations, and the Company sold their assets.

On October 24, 2013, Capstone filed a petition in the 12th Judicial District Court of Walker County, Texas against these subsidiaries, among other subcontractors, seeking contribution, defense, indemnity and damages for breach of contract in connection with alleged construction defect claims brought against Capstone by the owner of the student housing project. The owner claims $10,406 in damages, plus attorneys fees and costs against Capstone, which Capstone is seeking to recover from the subcontractors. The claims against the Company are based on alleged defects in the mechanical design, construction and installation of the HVAC and electrical systems performed by our former subsidiaries.

Based on the settlement reached in the 2005 arbitration, we moved for, and the District Court granted us, summary judgment, dismissing all of Capstone s claims in the 2013 lawsuit. Capstone appealed, and on April 28, 2016, the 10th Court of Appeals, Waco, Texas Division, reversed the ruling with respect to the indemnity claims and remanded the case back to the District Court. On September 21, 2016, we filed a petition for review to the Texas Supreme Court. On October 28, 2016, the Supreme Court ordered Capstone to file a response to our petition on or before November 28, 2016. Capstone filed for an extension of that deadline; their response is now due December 28, 2016. Should the Texas Supreme Court agree that the claims should be remanded to the District Court, the Company will defend the claims and expects ultimately to prevail on the merits, but there can be no assurance that the Company will prevail or that it will not incur costs and liability for indemnity in connection with resolution of the claims. To date, the Company has not established a reserve with respect to this matter, as we believe the likelihood of our responsibility for damages is not probable and a potential range of exposure is not reasonably estimable.

Risk-Management

We retain the risk for workers compensation, employer s liability, automobile liability, construction defects, general liability and employee group health claims, as well as pollution coverage, resulting from uninsured deductibles per accident or occurrence which are generally subject to annual aggregate limits. Our general liability program provides coverage for bodily injury and property damage. In many cases, we insure third parties, including general contractors, as additional insureds under our insurance policies. Losses up to the deductible amounts, or losses that are not covered under our policies, are accrued based upon our known claims incurred and an estimate of claims incurred but not reported. As a result, many of our claims are effectively self-insured. Many claims against our insurance are in the form of litigation. At September 30, 2016 and September 30, 2015, we had $5,464 and $4,518, respectively, accrued for insurance liabilities. We are also subject to construction defect liabilities, primarily within our Residential segment. As of September 30, 2016 and September 30, 2015, we had $235 and $464, respectively, reserved for these claims. Because the reserves are based on judgment and estimates, and involve variables that are inherently uncertain, such as the outcome of litigation and an assessment of insurance coverage, there can be no assurance that the ultimate liability will not be higher or lower than such estimates or that the timing of payments will not create liquidity issues for the Company.

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(All Amounts in Thousands Except Share Amounts)

Some of the underwriters of our casualty insurance program require us to post letters of credit as collateral. This is common in the insurance industry. To date, we have not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At September 30, 2016, $6,126 of our outstanding letters of credit was utilized to collateralize our insurance program.

Surety

As of September 30, 2016, the estimated cost to complete our bonded projects was approximately $54,287. We evaluate our bonding requirements on a regular basis, including the terms offered by our sureties. We believe the bonding capacity presently provided by our current sureties is adequate for our current operations and will be adequate for our operations for the foreseeable future. Posting letters of credit in favor of our sureties reduces the borrowing availability under our Credit Facility.

Other Commitments and Contingencies

Some of our customers and vendors require us to post letters of credit as a means of guaranteeing performance under our contracts and ensuring payment by us to subcontractors and vendors. If our customer has reasonable cause to effect payment under a letter of credit, we would be required to reimburse our creditor for the letter of credit. At September 30, 2016, $818 of our outstanding letters of credit were to collateralize our vendors.

From time to time, we may enter into firm purchase commitments for materials such as copper or aluminum wire which we expect to use in the ordinary course of business. These commitments are typically for terms of less than one year and require us to buy minimum quantities of materials at specific intervals at a fixed price over the term. As of September 30, 2016, we had no such commitments.

18. BUSINESS COMBINATIONS AND DIVESTITURES

Business Combinations

The Company completed four acquisitions in the year ended September 30, 2016:

Technibus, Inc. (Technibus) We acquired Technibus, a Canton, Ohio based provider of custom engineered, metal enclosed bus duct solutions, on June 15, 2016. Technibus is included in our Infrastructure Solutions segment, and we expect it will enhance Infrastructure Solutions current offerings, which are primarily focused on industrial repairs and services, to include custom engineered solutions for our customers. We believe Technibus products and engineering expertise, combined with Infrastructure Solutions service capabilities, a shared customer base, and the close geographic proximity of Technibus to our Infrastructure Solutions segment s Massillon, Ohio headquarters, will enhance our solutions offering.

STR Mechanical, LLC (STR) We acquired 80% of the membership interests in STR, a Charlotte, North Carolina-based provider of commercial and industrial mechanical services, including maintenance, repair, and replacement services, and temperature control system installations, on April 27, 2016. STR is included in our Commercial & Industrial segment. We expect STR s focus on providing comprehensive mechanical maintenance services to its customers, often through preventative maintenance agreements, will contribute to the diversification of revenue sources and enhance Commercial & Industrial s capabilities.

Shanahan Mechanical and Electrical, Inc. (Shanahan) We acquired Shanahan, a Nebraska-based provider of mechanical and electrical contracting services, on November 20, 2015. Shanahan is

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IES HOLDINGS, INC.

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(All Amounts in Thousands Except Share Amounts)

included in our Commercial & Industrial segment. We believe this acquisition adds mechanical contracting expertise to Commercial & Industrial, and also accelerates our entry into the Lincoln, Nebraska market, an area that we had targeted for expansion. Further, we believe the acquisition gives us the opportunity to expand our geographic coverage and capabilities without the costs and risks of a start-up operation.

Calumet Armature & Electric, LLC (Calumet) We acquired Calumet, an Illinois-based provider of design, manufacturing, assembly, and repair services of electric motors for the industrial and mass transit markets, on October 30, 2015. Calumet is included in our Infrastructure Solutions segment, and we believe it allows us to enhance our industrial footprint in the greater Chicago, Illinois area and, given Calumet s expertise in manufacturing new armatures, that it will support our targeted growth into the mass transit market.

The total aggregate consideration of $59,592 for these four acquisitions includes aggregate cash consideration of $59,144 and contingent consideration in connection with the Calumet acquisition with an acquisition date fair value estimated at $448. Of the cash consideration, $58,448 was paid on the various acquisition dates, and the remaining $696 was paid within approximately 90 days subsequent to the various acquisition dates, in accordance with the working capital settlement provisions set forth in various acquisition agreements. The Calumet contingent consideration arrangement provides that a maximum of $2,250 may be earned over the three year period ending October 30, 2018. As of September 30, 2016 the fair value of the contingent consideration arrangement was $1,100. Based on an increase in the fair value of the liability driven by the improved actual and expected financial performance of Calumet, we have recorded additional contingent consideration expense as a component of income from continuing operations.

The Company accounted for the transactions under the acquisition method of accounting, which requires recording assets and liabilities at fair value (Level 3). The valuations derived from estimated fair value assessments and assumptions used by management are preliminary pending finalization of certain tangible and intangible asset valuations and assessment of deferred taxes. While management believes that its preliminary estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different values being assigned to individual assets acquired and liabilities assumed. This may result in adjustments to the preliminary amounts recorded. The preliminary valuation of the assets acquired and liabilities assumed as of the various acquisition dates is as follows:

Current assets	$ 14,903
Property and equipment	4,572
Intangible assets (primarily customer relationships)	30,071
Goodwill	23,264
Current liabilities	(6,192)
Deferred tax liability	(5,331)
Noncontrolling interest	(1,695)

Net assets acquired	$ 59,592

With regard to the aggregate $5,331 deferred tax liability recorded in connection with the acquisitions, we reduced a portion of our valuation allowance equal to this deferred tax liability, resulting in a corresponding income tax benefit in the year ended September 30, 2016.

With regard to goodwill, the balance is attributable to the workforce of the acquired business and other intangibles that do not qualify for separate recognition. In connection with the Technibus transaction, we acquired tax basis of $15,305 with respect to goodwill.

IES HOLDINGS, INC.

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In conjunction with these acquisitions, we acquired receivables totaling $9,000, of which we estimate $518 to be uncollectible at the date of acquisition.

In the aggregate, these four acquisitions contributed $34,367 in additional revenue and $3,527 in additional operating income during the year ended September 30, 2016.

Noncontrolling Interest

Our agreement governing the operations of STR contains a provision where, at any time after five years from the acquisition date, we may purchase all or a portion of the 20% noncontrolling interest. Pursuant to this provision, we may purchase the noncontrolling interest, or, with notice, the noncontrolling interest holders may cause us to purchase their interests, for a contractually determined price based on the trailing 2 year earnings before interest, taxes, depreciation, and amortization of STR, calculated at the time of the purchase.

As of the acquisition date, the fair value of the noncontrolling interest in STR was equal to 20% of the overall fair value of STR. As of September 30, 2016, the carrying amount of the noncontrolling interest was in excess of the amount we would pay to acquire the noncontrolling interest pursuant to the terms of the operating agreement, if the option to purchase that interest had been available to us as of September 30, 2016.

Unaudited Pro Forma Information

The following unaudited supplemental pro forma results of operations include the results of the four acquisitions completed during year ended September 30, 2016, as described above, as if each had been acquired as of October 1, 2014, and have been provided for illustrative purposes only and do not purport to be indicative of the actual results that would have been achieved by the combined companies for the periods presented or that may be achieved by the combined companies in the future. Future results may vary significantly from the results reflected in the following pro forma financial information because of future events and transactions, finalization of the valuations of deferred taxes, fixed assets, and certain intangible assets, as well as other factors, many of which are beyond IES s control. Cost savings and other synergy benefits resulting from the business combination have not been included in pro forma results.

The unaudited pro forma financial information reflects certain adjustments related to the acquisition, such as the recording of depreciation expense in connection with fair value adjustments to property and equipment, amortization expense in connection with recording acquired identifiable intangible assets at fair value, and interest expense calculated on the $20,000 drawn on the Company s available line of credit at a rate of 2.5%. The unaudited pro forma financial information also includes the effect of certain non-recurring items as of October 1, 2014 such as the $5,331 of tax benefits and acquisition related costs of $681 incurred during the year ended September 30, 2016, which are shown as if they had been incurred on October 1, 2014.

The supplemental pro forma results of operations for the years ended September 30, 2016 and 2015, as if the acquisitions had been completed on October 1, 2014, are as follows:

	Unaudited	
	Year Ended September 30, 2016	Year Ended September 30, 2015
Revenues	$ 721,254	$ 634,760
Net Income	$ 117,134	$ 16,430

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Southern Rewinding

On May 21, 2015, our wholly-owned subsidiary Magnetech Industrial Services, Inc. (Magnetech) acquired all of the common stock and certain related real estate of Southern Industrial Sales and Services, Inc. (Southern Rewinding), a Columbus, Georgia-based motor repair and related field services company, for total consideration of $3,937. Of that amount, $3,137 was paid at closing, with additional consideration of $400 paid during the year ended September 30, 2016, and a final payment of $400 expected to be made in fiscal 2017. After closing, we provided the newly-acquired entity with $1,065 of working capital. Southern Rewinding is included in our Infrastructure Solutions segment.

The Company accounted for the transaction under the acquisition method of accounting, which requires recording assets and liabilities at fair value (Level 3). The valuation of the assets acquired and liabilities assumed as of May 21, 2015 is as follows:

Current assets	$ 1,225
Property and equipment	911
Intangible assets (primarily customer relationships)	1,700
Non-tax-deductible goodwill	2,256
Current liabilities	(1,431)
Deferred tax liability	(724)
Net assets acquired	$ 3,937

Pro forma revenues and results of operations for the acquisition have not been presented because the effects were not material to the consolidated financial statements.

Divestitures

In February 2016, our Board of Directors approved a plan for the sale of substantially all of the operating assets of HK Engine Components, LLC (HK), a wholly-owned subsidiary of the Company operating in the Infrastructure Solutions segment. In connection with the sale, we allocated $577 of goodwill to the disposal group. In conjunction with the write down of these assets to their net realizable value of $2,200, we then recognized a loss of $821, recorded within (Gain) loss on sale of assets within our Condensed Consolidated Statement of Comprehensive Income for the years ended September 30, 2016. The sale of these assets to a third party was completed on April 15, 2016.

19. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Quarterly financial information for the years ended September 30, 2016 and 2015 are summarized as follows:

	Fiscal Year Ended September 30, 2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 150,766	$ 159,981	$ 179,599	$ 205,647
Gross profit	$ 27,633	$ 27,812	$ 33,997	$ 37,538
Net income attributable to IES Holdings, Inc.	$ 5,799	$ 2,194	$ 10,805	$ 101,980
Earnings per share:				
Basic	$ 0.27	$ 0.10	$ 0.50	$ 4.75
Diluted	$ 0.27	$ 0.10	$ 0.50	$ 4.74

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The sum of the individual quarterly earnings per share amounts may not agree with year-to-date earnings per share as each period s computation is based on the weighted average number of shares outstanding during the period.

	Fiscal Year Ended September 30, 2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 136,336	$ 133,752	$ 144,082	$ 159,687
Gross profit	$ 22,704	$ 21,708	$ 25,052	$ 30,427
Net income from continuing operations	$ 3,473	$ 1,854	$ 3,962	$ 7,588
Net loss from discontinued operations	$ (181)	$ (44)	$ (5)	$ (109)
Net income	$ 3,292	$ 1,810	$ 3,957	$ 7,479
Earnings per share from continuing operations:				
Basic	$ 0.16	$ 0.08	$ 0.19	$ 0.36
Diluted	$ 0.16	$ 0.08	$ 0.19	$ 0.36
Loss per share from discontinued operations:				
Basic	$ (0.01)	$ 0.00	$ 0.00	$ (0.01)
Diluted	$ (0.01)	$ 0.00	$ 0.00	$ (0.01)
Earnings per share:				
Basic	$ 0.15	$ 0.08	$ 0.19	$ 0.35
Diluted	$ 0.15	$ 0.08	$ 0.19	$ 0.35

The sum of the individual quarterly earnings per share amounts may not agree with year-to-date earnings per share as each period s computation is based on the weighted average number of shares outstanding during the period.

20. SUBSEQUENT EVENTS

On November 8, 2016, the Company implemented the new NOL Rights Plan, following the expiration of the Company s prior tax benefit protection plan, which was implemented in January 2013. Thereafter, the Board of Directors declared and paid a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock. The dividend was payable to the stockholders of record as of the close of business on November 18, 2016. Each Right represents a right to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock of the Company at a price of $79.30.

As with the prior plan, the Board adopted the NOL Rights Plan in an effort to protect stockholder value by attempting to protect against a possible limitation on the Company s ability to use its NOLs to reduce potential future federal income tax obligations. The Company historically experienced substantial operating losses, and under the Internal Revenue Code and rules promulgated by the Internal Revenue Service, the Company may carry forward these losses in certain circumstances to effect any current and future earnings and thus reduce the Company s federal income tax liability, subject to certain requirements and restrictions. To the extent that the NOLs do not otherwise become limited, the Company believes that it will be able to carry forward a significant amount of NOLs, and therefore these NOLs are a substantial asset to the Company. However, if the Company experiences an ownership change , as defined in Section 382 of the Internal Revenue Code, its ability to use the NOLs will be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, which could therefore significantly impair the value of that asset.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***
None.

Item 9A. ***Controls and Procedures***
Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Disclosure Controls and Procedures

In accordance with Exchange Act Rule 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our President and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of September 30, 2016 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management s Report on Internal Control over Financial Reporting

Management, including the Company s President and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company s internal control system was designed to provide reasonable assurance to the Company s Management and Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 framework). Based on this assessment, our management determined that as of September 30, 2016, our internal control over financial reporting was effective.

In conducting management s evaluation of the effectiveness of the Company s internal controls over financial reporting, we have excluded Calumet Armature & Electric, LLC, Shanahan Mechanical and Electrical, Inc., STR Mechanical, LLC, and Technibus, Inc. because they were acquired during the year ended September 30, 2016. Excluding goodwill and intangible assets, these operations accounted for less than 7% of our total assets and less than 5% of our consolidated revenues for the year then ended.

Ernst & Young LLP, an independent registered public accounting firm that has audited the Company s financial statements as of and for the three-year period ended September 30, 2016, has issued a report on their audit of management s internal control over financial reporting, which is included herein.

Item 9B. ***Other Information***

None.

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required to be included Item 10 of Part III of this Form 10-K is incorporated by reference from the sections entitled Security Ownership of Certain Beneficial Owners and Management; Section 16(a) Beneficial Ownership Reporting Compliance; Report of the Audit Committee and Election of Directors in the Company s definitive Proxy Statement for its 2017 Annual Meeting of Stockholders (the Proxy Statement) to be filed with the SEC no later than December 31, 2016.

Item 11. ***Executive Compensation***

The information required to be included in Item 11 of Part III of this Form 10-K is incorporated by reference from the section entitled Executive Compensation in the Proxy Statement.

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

Certain information required to be included in Item 12 of Part III of this Form 10-K is incorporated by reference from the section entitled Security Ownership of Certain Beneficial Owners and Management in the Proxy Statement.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Equity Compensation Plan Information

The following table provides information as of September 30, 2016 with respect to shares of our common stock that may be issued upon the exercise of options, warrants and rights granted to employees, consultants or members of the Board of Directors under the Company s existing equity compensation plans. For additional information about our equity compensation plans, see Note 11, Stockholders Equity in the notes to our Consolidated Financial Statements set forth in Item 8, *Financial Statements and Supplementary Data* of this Form 10-K.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))

Equity compensation plans approved by security holders			1,056,574(1)
Equity compensation plans not approved by security holders	499,500(2)	$ 6.43	

(1) Represents shares available for issuance under the Company s 2006 Equity Incentive Plan, which was amended and restated effective February 9, 2016 (the Amended Plan), following approval by shareholders at the Company s annual stockholders meeting. This plan provides for the granting or awarding of stock options, stock, restricted stock and other forms of equity to employees (including officers), consultants and directors of the Company.

(2) Represents shares issuable upon exercise of outstanding options granted under the Company s 2006 Equity Incentive Plan (amended and restated as of October 2007), which was in place prior to the Amended Plan. This includes 79,500 options with a weighted-average term of 7.36 years. This also includes 420,000 shares that may be issued pursuant to outstanding PPSUs, based on reported financial results, where applicable, and otherwise assuming the target award is met.

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Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required to be included in Item 13 of Part III of this Form 10-K is incorporated by reference from the section entitled Certain Relationships and Related Person Transactions in the Proxy Statement.

Item 14. ***Principal Accountant Fees and Services***

The information required to be included in Item 14 of Part III of this Form 10-K is incorporated by reference from the section entitled Audit Fees in the Proxy Statement.

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PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) Financial Statements and Supplementary Data, Financial Statement Schedules and Exhibits
See Index to Financial Statements under Item 8, *Financial Statements and Supplementary Data* of this From 10-K.

(b) Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger effective as of March 13, 2013, by and among Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), IES Subsidiary Holdings, Inc. and MISCOR Group, Ltd. (Attached as part of Annex A to the joint proxy statement/prospectus that is part of this Registration Statement) (the schedules and annexes have been omitted pursuant to Item 601(b)(2) of Regulation S-K)
2.2	First Amendment to Agreement and Plan of Merger, dated as of July 10, 2013, by and among Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), IES Subsidiary Holdings, Inc. and MISCOR Group, Ltd. (Attached as part of Annex A to the joint proxy statement/prospectus that is part of this Registration Statement)
2.3	Stock Purchase Agreement dated as of June 1, 2016, by and among IES Infrastructure Solutions, LLC, IES Holdings, Inc., Technibus, Inc. and Technibus, LLC. (Incorporated by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed June 15, 2016)
3.1	Second Amended and Restated Certificate of Incorporation of IES Holdings, Inc., as amended by the Certificate of Amendment thereto, effective May 24, 2016 (composite). (Incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q filed on August 8, 2016)
3.2	Certificate of Designations of Series A Junior Participating Preferred Stock (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on January 28, 2013)
3.3	Amended and Restated Bylaws of IES Holdings, Inc., effective May 24, 2016 (Incorporated by reference to Exhibit 3.2 to the Company s Current Report on Form 8-K, filed on May 24, 2016)
4.1(1)	Specimen common stock certificate.
4.2	Tax Benefit Protection Plan Agreement by and between IES Holdings, Inc. and American Stock Transfer & Trust Company, LLC, as Rights Agent, dated as of November 8, 2016, including the form of Rights Certificate and Summary of Stockholder Rights Plan attached thereto as Exhibits A and B, respectively (Incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on November 9, 2016)
4.3	Registration Rights Agreement, dated May 12, 2006, by and among Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), Tontine Capital Partners, L.P. and certain of its affiliates and

	Southpoint Master Fund, L.P. (Incorporated by reference to Exhibit 10.5 to the Company s Current Report on Form 8-K filed on May 17, 2006)
4.4	First Amendment to Registration Rights Agreement, dated September 11, 2007, by and among Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), Tontine Capital Partners, L.P. and certain of its affiliates. (Incorporated by reference to Exhibit 10.24 to the Company s Annual Report on Form 10-K filed on December 14, 2012)

Exhibit No.	Description
10.1	Restated Underwriting, Continuing Indemnity and Security Agreement, dated May 12, 2006, by Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.) and certain of its subsidiaries and affiliates in favor of Federal Insurance Company. (Incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed May 17, 2006)
10.2	First Amendment, dated as of October 30, 2006, to the Restated Underwriting, Continuing Indemnity, and Security Agreement, dated May 12, 2006, by Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), certain of its subsidiaries and Federal Insurance Company and certain of its affiliates. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed November 6, 2006)
10.3	Third Amendment, dated May 1, 2007, to the Restated Underwriting, Continuing Indemnity and Security Agreement, dated May 12, 2006, by Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), certain of its subsidiaries and Federal Insurance Company and certain of its affiliates. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed October 12, 2007)
10.4	Fourth Amendment to the Restated Underwriting, Continuing Indemnity and Security Agreement, dated May 12, 2006, by Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), certain of its subsidiaries and Federal Insurance Company and certain of its affiliates. (Incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed October 12, 2007)
10.5	Rider to Add Principal/Indemnitor and Fifth Amendment, dated September 29, 2008, to Restated Underwriting, Continuing Indemnity, and Security Agreement, dated May 12, 2006, by Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), certain of its subsidiaries and Federal Insurance Company and certain of its affiliates. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed October 24, 2008)
10.6	Agreement of Indemnity, dated May 7, 2010, by Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.) and certain of its present and future subsidiaries and affiliates and Chartis Property Casualty Company, Chartis Insurance Company of Canada, American Home Assurance Company, Commerce and Industry Insurance Company, Granite State Insurance Company, Lexington Insurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company and The Insurance Company of the State of Pennsylvania and any and all of their affiliates, subsidiaries, successors and assigns. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed May 13, 2010)
10.7	Amendment No. 1 to Agreement of Indemnity, dated August 16, 2012, between Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.) and certain of its present and future subsidiaries and affiliates and Chartis Property Casualty Company, Chartis Insurance Company of Canada, American Home Assurance Company, Commerce and Industry Insurance Company, Granite State Insurance Company, Lexington Insurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company and The Insurance Company of the State of Pennsylvania, and any and all of their affiliates, subsidiaries, successors and assigns (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed August 17, 2012)
10.8	Agreement of Indemnity, dated May 7, 2013, by Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.) and certain of its present and future subsidiaries and affiliates and XL Specialty Insurance Company, XL Reinsurance America, Inc. and Greenwich Insurance Company and their

affiliates, subsidiaries, successors and assigns. (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q filed May 13, 2013)

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Exhibit No.	Description
10.9	Agreement of Indemnity, September 9, 2016, by IES Holdings, Inc. and certain of its present and future subsidiaries and affiliates and Everest Reinsurance Company and Everest National Insurance Company, and their affiliated, associated and subsidiary companies, successors and assigns. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed September 13, 2016)
10.10	Amended and Restated Credit and Security Agreement, dated September 24, 2014, by and among Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), each of the other Borrowers and Guarantors named therein and Wells Fargo Bank, National Association. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed September 24, 2014)
10.11(1)	First Amendment, dated November 6, 2014, to Amended and Restated Credit and Security Agreement, dated as of September 24, 2014, by and among Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), each of the other Borrowers and Guarantors named therein and Wells Fargo Bank, National Association.
10.12	Second Amendment, dated May 3, 2016, to Amended and Restated Credit and Security Agreement, dated as of September 24, 2014, by and among Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), each of the other Borrowers and Guarantors named therein and Wells Fargo Bank, National Association. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed May 3, 2016)
10.13(1)	Third Amendment, dated September 9, 2016, to Amended and Restated Credit and Security Agreement, dated as of September 24, 2014, by and among IES Holdings, Inc., each of the other Borrowers and Guarantors named therein and Wells Fargo Bank, National Association.
10.14	Sublease Agreement between Tontine Associates, L.L.C. and IES Shared Services, Inc., dated March 29, 2012. (Incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q filed on May 15, 2012)
10.15	First Amendment between Tontine Associates, L.L.C., IES Shared Services, Inc. and IES Management ROO, LP, dated as of March 31, 2016, to Sublease Agreement between Tontine Associates, L.L.C., and IES Shared Services, Inc., dated March 29, 2012. (Incorporated by reference to Exhibit 10.5 to the Company s Quarterly Report on Form 10-Q filed on May 9, 2016)
10.16	Subcontract, dated June 17, 2009, by and between IES Commercial, Inc. and Manhattan Torcon A Joint Venture. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed November 24, 2009)
10.17	Letter Agreement, dated November 4, 2009, by and between Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.), IES Commercial, Inc. and Manhattan Torcon A Joint Venture. (Incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed November 24, 2009)
*10.18	Term Life Insurance Plan. (Incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed October 17, 2007)
*10.19	Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.) 2006 Equity Incentive Plan, as amended and restated through 2007. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed October 17, 2007)
*10.20	

Form of Performance-Based Phantom Stock Unit Award Agreement under the Company s 2006 Equity Incentive Plan, as amended and restated through 2007. (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q filed February 8, 2016)

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Exhibit No.	Description
*10.21	Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.) Amended and Restated 2006 Equity Incentive Plan (as of February 9, 2016) (Incorporated by reference to Exhibit A to the Company s Definitive Proxy Statement filed on December 28, 2015)
*10.22	Form of Phantom Stock Unit Award under the Company s Amended and Restated 2006 Equity Incentive Plan (as of February 9, 2016). (Incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q filed May 9, 2016)
*10.23	Form of Stock Option Award Agreement under the Company s Amended and Restated 2006 Equity Incentive Plan (as of February 9, 2016). (Incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q filed on May 9, 2016)
*10.24	Form of Restricted Stock Award Agreement under the Company s Amended and Restated 2006 Equity Incentive Plan (as of February 9, 2016). (Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q filed May 9, 2016)
*10.25	Performance-Based Phantom Stock Unit Award Agreement, dated as of June 6, 2016, by and between the Company and Mr. Santoni, under the Company s Amended and Restated 2006 Equity Incentive Plan (as of February 9, 2016). (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed June 7, 2016)
*10.26	Performance-Based Phantom Cash Unit Award Agreement, dated as of June 6, 2016, by and between the Company and Mr. Santoni, under the Company s Amended and Restated 2006 Equity Incentive Plan (as of February 9, 2016) (Incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed June 7, 2016)
*10.27	Annual Management Incentive Plan. (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed November 19, 2007)
*10.28	Amended and Restated 2009 Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.34 to the Company s Annual Report on Form 10-K filed December 15, 2008)
*10.29	Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.) Long Term Incentive Plan, as amended and restated. (Incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed September 23, 2009)
*10.30(1)	Amended and Restated Integrated Electrical Services, Inc. (n/k/a IES Holdings, Inc.) Executive Severance Benefit Plan, effective January 12, 2016.
21.1	Subsidiaries of the Registrant(1)
23.1	Consent of Ernst & Young LLP(1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Robert W. Lewey, President(1)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Tracy A. McLauchlin, Chief Financial Officer(1)
32.1	Section 1350 Certification of Robert W. Lewey, President(1)
32.2	Section 1350 Certification of Tracy A. McLauchlin, Chief Financial Officer(1)
(1)101.INS	XBRL Instance Document
(1)101.SCH	XBRL Schema Document

(1)101.LAB	XBRL Label Linkbase Document
(1)101.PRE	XBRL Presentation Linkbase Document
(1)101.DEF	XBRL Definition Linkbase Document
(1)101.CAL	XBRL Calculation Linkbase Document

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* Management contracts or compensatory plans or arrangements required to be filed herewith pursuant to Item 15(a)(3) of this Annual Report on Form 10-K.

(1) Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on December 9, 2016.

IES HOLDINGS, INC.

By: /s/ Robert W. Lewey
Robert W. Lewey
President and Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned officers and directors of IES HOLDINGS, INC. hereby constitutes and appoints Robert W. Lewey and Gail D. Makode, and each of them individually, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and on his behalf and in his name, place and stead, in any and all capacities, to sign, execute and file any or all amendments to this report, with any and all exhibits thereto, and all other documents required to be filed therewith, with the Securities and Exchange Commission or any regulatory authority, granting unto each such attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in order to effectuate the same, as fully to all intents and purposes as he himself might or could do, if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

SIGNATURES

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

Signature	Title	Date
/s/ Robert W. Lewey	President and Director	December 9, 2016
Robert W. Lewey	(Principal Executive Officer)	
/s/ Tracy A. McLauchlin	Senior Vice President, Chief Financial	December 9, 2016
Tracy A. McLauchlin	Officer and Treasurer	
	(Principal Financial Officer)	
	(Principal Accounting Officer)	
/s/ Joseph L. Dowling III	Director	December 9, 2016

Joseph L. Dowling III		
/s/ David B. Gendell	Director and Vice Chairman of the Board	December 9, 2016
David B. Gendell		
/s/ Jeffrey L. Gendell	Director and Chairman of the Board	December 9, 2016
Jeffrey L. Gendell		
/s/ Joe D. Koshkin	Director	December 9, 2016
Joe D. Koshkin		
/s/ Donald L. Luke	Director	December 9, 2016
Donald L. Luke		