

Lifevantage Corp  
Form 10-K  
September 01, 2015

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

---

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended June 30, 2015

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35647

---

LIFEVANTAGE CORPORATION

(Exact name of registrant as specified in its charter)

Colorado

90-0224471

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

9785 S. Monroe, Ste 300

Sandy, UT 84070

(Address of principal executive offices, including zip code)

Registrant's telephone number: (801) 432-9000

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

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

Common Stock, \$0.001 par value per share

(Title of Class)

---

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

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

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

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

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

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

Edgar Filing: Lifevantage Corp - Form 10-K

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates as of December, 31, 2014, the end of the registrant's second fiscal quarter, was approximately \$128.5 million, based on a closing market price of \$1.30 per share.

The number of shares of common stock (par value \$0.001) outstanding as of August 27, 2015, was 97,537,215 shares.

---

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed subsequent to the date hereof with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's fiscal year 2015 annual meeting of shareholders are incorporated by reference into Part III of this report. Such definitive proxy statement will be filed with the Commission not later than 120 days after the end of the registrant's fiscal year ended June 30, 2015.

---

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report and the information incorporated by reference herein may contain “forward-looking statements” (as such term is defined in Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended). These statements, which involve risks and uncertainties, reflect our current expectations, intentions, or strategies regarding our possible future results of operations, performance, and achievements. Forward-looking statements include, without limitation: statements regarding future products or product development; statements regarding future selling, marketing, general and administrative costs and research and development spending; statements regarding expansion in new and existing markets; statements regarding our product development strategy; statements regarding the future performance of our business; and statements regarding future financial performance and results of operations. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, applicable rules of the Securities and Exchange Commission and common law.

These forward-looking statements may be identified in this report and the information incorporated by reference by words such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “plan”, “predict”, “project”, “should” and similar expressions, including references to assumptions and strategies. These statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties, and contingencies, which could cause our actual results, performance, or achievements to differ materially from those expressed in, or implied by, such statements.

The following factors are among those that may cause actual results to differ materially from our forward-looking statements:

- Inability to strengthen our business and properly manage distractions among our distributors in Japan;
- Inability to manage existing markets, open new international markets or expand our operations;
- Inability of new products to gain distributor or market acceptance;
- Our inability to execute our product launch process due to increased pressure on our supply chain, information systems and management;
- Disruptions in our information technology systems;
- Inability to comply with financial covenants imposed by our credit facility;
- Inability to protect against cyber security risks and to maintain the integrity of data;
- The impact of our debt service obligations and restrictive debt covenants;
- Claims against us as a result of our independent distributors failing to comply with applicable legal requirements or our policies and procedures;
- International trade or foreign exchange restrictions, increased tariffs, foreign currency exchange;
- Deterioration of global economic conditions;
- Inability to maintain appropriate level of internal control over financial reporting;
- Inability to raise additional capital if needed;
- Exposure to environmental liabilities stemming from past operations and property ownership;
- Significant dependence upon a single product for revenue;
- Inability to retain independent distributors or to attract new independent distributors on an ongoing basis;
- High quality material for our products may become difficult to obtain or expensive;
- Improper actions by our independent distributors that violate laws or regulations;
- Dependence on third parties to manufacture our products;
- Disruptions to the transportation channels used to distribute our products;
- We may be subject to a product recall;

- Government regulations on direct selling activities may prohibit or severely restrict our business model;
- Unfavorable publicity on our business or products;
- Our direct selling program could be found to not be in compliance with current or newly adopted laws or regulations;
- Legal proceedings may be expensive and time consuming;
- Strict government regulations on our business;
- Regulations governing the production or marketing of our products;
  - Risk of investigatory and enforcement action by the federal trade commission;
- Government authorities may question our tax positions or transfer pricing policies or change their laws in a manner that could increase our effective tax rate or otherwise harm our business;
- Failure to comply with anti-corruption laws;
- Inability to build and integrate our new management team could harm our business;
- Loss of, or inability to attract, key personnel;
- We could be held responsible for certain taxes or assessments relating to the activity of our independent distributors;
- Competition in the dietary supplement market;
- Our inability to protect our intellectual property rights;
- Third party claims that we infringe on their intellectual property;
- Product liability claims against us;
- Economic, political, foreign exchange and other risks associated with international operations;
- Our inability to regain compliance with the Nasdaq Capital Market continued listing standards;
- Volatility of the market price of our common stock;
- Substantial sales of shares may negatively impact the market price of our common stock;
- Significant dilution of outstanding voting shares if holders of our existing warrants and options exercise their securities for shares of common stock; and
- We have not paid dividends on our capital stock, and we do not currently anticipate paying dividends in the foreseeable future.

When considering these forward-looking statements, you should keep in mind the cautionary statements in this report and the documents incorporated by reference. Except as required by law, we have no obligation and do not undertake to update or revise any such forward-looking statements to reflect events or circumstances after the date of this report.

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>5</u>
<u>Item 1A. Risk Factors</u>	<u>15</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>28</u>
<u>Item 2. Properties</u>	<u>28</u>
<u>Item 3. Legal Proceedings</u>	<u>28</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>28</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>28</u>
<u>Item 6. Selected Financial Data</u>	<u>30</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>42</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>42</u>
<u>Item 9A. Controls and Procedures</u>	<u>42</u>
<u>Item 9B. Other Information</u>	<u>43</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>43</u>
<u>Item 11. Executive Compensation</u>	<u>43</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>43</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>44</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>44</u>
<u>PART IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	<u>44</u>
<u>Signatures</u>	<u>45</u>

## PART I

### ITEM 1 — BUSINESS

#### Overview

LifeVantage Corporation is a company dedicated to helping people achieve their health, wellness and financial independence goals. We provide quality, scientifically-validated products and a financially rewarding network marketing business opportunity to customers and independent distributors who seek a healthy lifestyle and financial freedom. We sell our products in the United States, Japan, Hong Kong, Australia, Canada, Philippines, Mexico and Thailand.

We engage in the identification, research, development and distribution of advanced nutraceutical dietary supplements and skin care products, including Protandim<sup>®</sup>, our scientifically-validated dietary supplement, LifeVantage TrueScience<sup>®</sup>, our line of revolutionary anti-aging skin care products, Canine Health<sup>®</sup>, our companion pet supplement formulated to combat oxidative stress in dogs, and Axio<sup>®</sup>, our energy drink mixes.

We were incorporated in Colorado in June 1988 under the name Andraplex Corporation. We changed our corporate name to Yaak River Resources, Inc. in January 1992, and subsequently changed it again in October 2004 to Lifeline Therapeutics, Inc. In October 2004 and March 2005, we acquired all of the outstanding common stock of Lifeline Nutraceuticals Corporation. In November 2006, we changed our name to LifeVantage Corporation. From our fiscal year 2005 until our fiscal year 2009, we marketed and sold a single product, Protandim<sup>®</sup>, through traditional retail stores. In October 2008, we announced that we were transitioning our business model from a traditional retail model to a network marketing model in which Protandim<sup>®</sup> would be sold primarily through our network of independent distributors. Since entering network marketing, we have increased our geographic reach by entering new international markets and increased our product offering by introducing additional scientifically-validated products.

#### Fiscal Year 2015 Highlights

We expanded our product offering in October 2014 by introducing Axio<sup>®</sup>, our energy mixes. Axio<sup>®</sup> is formulated to promote alertness and support mental performance. We currently have additional products in development. We intend to conduct additional research and development on these and other product candidates before introducing them through our network of independent distributors. We believe these new product lines, together with Protandim<sup>®</sup>, show our commitment to delivering scientifically backed products that help people feel, look and perform better.

We commenced our partnership with Real Salt Lake of Major League Soccer in January 2014. Our partnership with Real Salt Lake includes placement of our logo on the front of the team's jersey as well as strategic placement of our logo around the stadium and on televised broadcasts of games. During fiscal 2015, we expanded this partnership by hosting distributor recruiting events at Real Salt Lake games in the U.S. and Canada. We believe the partnership provides the LifeVantage brand with high-impact exposure and recognition in stadiums, on television, in advertising and through player appearances across the country and around the world.

We made significant changes to our executive management team during fiscal year 2015. Most significantly, in May 2015, we appointed Darren Jensen as our President and Chief Executive Officer. Prior to joining LifeVantage, Mr. Jensen has spent his entire career in the direct selling industry. Most recently, he served as President-Americas beginning in June 2014 and prior to that, Chief Sales Officer from September 2012 to June 2014 at Jeunesse Global, a personal care and nutrition direct selling company. Prior to Jeunesse, Mr. Jensen served as Chief Sales Officer at Ampegy, a direct selling company focused on the energy industry. Prior to Ampegy, Mr. Jensen served as Executive Vice President and Corporate General Manager at Agel Enterprises, a nutritional supplements direct selling company.

#### Our Competitive Advantages

We believe we have a competitive advantage in several key areas:

**Our Compensation:** We believe our compensation plan is one of the more financially rewarding in the direct selling industry. Our percentage of sales paid to independent distributors as compensation and incentive is one of the highest percentages reported in the direct selling industry. Our compensation plan also enables independent distributors to earn compensation early and often as they sell our products. Some elements of our compensation plan are paid weekly, allowing new independent distributors to receive compensation quickly. We believe more frequent payments of compensation helps us retain new independent distributors by allowing them to experience success soon after enrolling. We also offer a variety of incentive programs to our independent distributors for achieving specified sales

goals. For example, our My LifeVentures® is an incentive program that enables independent distributors to earn the title to a new Jeep Wrangler by achieving and maintaining specified sales goals. We also offer various training

- 5-

---

resources to help our independent distributors become more effective. We believe our compensation plan, incentive programs and training resources help to motivate and prepare our independent distributors for success.

**Our Products:** We offer quality, scientifically-validated products focused on helping individuals look, feel and perform better. Protandim® is a patented dietary supplement clinically proven to combat oxidative stress, a natural consequence of cellular metabolism associated with many of the undesirable effects of aging. Our skin care line, LifeVantage TrueScience®, is a combination of scientifically based anti-aging skin care products formulated to target the visible signs of aging on the skin. Axio®, introduced in November 2014, is our new line of energy drink mixes formulated to promote alertness and support mental performance. Our companion pet supplement, Canine Health®, incorporates some of the same active ingredients as Protandim® to combat oxidative stress in dogs. We believe our significant number of preferred customers who regularly purchase our products without the intention of becoming independent distributors is a strong indicator of the benefits of our products.

**Our Culture:** We are committed to creating a culture for our independent distributors and employees that focuses on ethical, legal and transparent business practices. At enrollment, our independent distributors agree to abide by our policies and procedures. Our policies and procedures, when followed, ensure that our independent distributors comply with applicable laws and regulations. Our compliance department monitors the activities of our independent distributors as part of our effort to enforce our policies and procedures. Similarly, our code of business conduct and ethics sets forth guidelines and expectations for our employees. We believe our ethical, legal and transparent culture attracts highly qualified employees and independent distributors who share our commitment to these principles.

**Our Employees:** We believe that our employees are an essential asset. We have a dedicated team of professionals that support our system of independent distributors, work to generate long-term value for our shareholders and contribute to the broader public through LifeVantage Legacy and other charitable programs. In turn, we offer competitive compensation, invest in our employees' careers and direct their focus on the long-term goals of our independent distributors and shareholders.

#### Scientific Background

##### Oxidative Stress

Oxidative stress refers to the cellular and tissue damage caused by chemically reactive oxygen species that is generated as a natural result of cellular metabolism and the body's use of oxygen to generate energy. Levels of reactive oxygen species, also known as ROS, and free radicals can be elevated under a wide variety of conditions, including radiation, UV light, smoking, excessive alcohol consumption, as well as medical conditions involving inflammation, cardiovascular disease, neurodegenerative disease, diabetes and advancing age. Elevated ROS levels inflict structural damage on nucleic acid, lipid, carbohydrate and protein components of cells, thereby directly contributing to or exacerbating tissue dysfunction, disease and age-related debilitation.

Cellular antioxidant enzymes normally serve to inactivate ROS and maintain levels of ROS at those compatible with normal cell function. Important among these cellular antioxidant enzymes are superoxide dismutase and catalase. However, the levels of these protective antioxidant enzymes decrease with age and in a number of disease conditions. As we age and the levels of antioxidant enzymes decrease, oxidative stress levels increase significantly and our body is unable to maintain homeostasis relative to elevated ROS levels.

Oxidative stress is widely believed to be a key factor in many of the undesirable effects of aging because it promotes cell death. Additionally, high levels of oxidative stress have also been linked as a causative or associated factor in over 100 diseases.

##### Nrf2 Activation

Nuclear factor (erythroid-derived 2)-like 2, also known as NFE2L2 or Nrf2, is a transcription factor that in humans is encoded by the NFE2L2 gene. Nrf2 is the master regulator of the antioxidant response, which is important for the amelioration of oxidative stress. Because Nrf2 is able to induce gene activity important in combating oxidative stress, thereby activating the body's own protective response, it helps protect from a variety of complications related to oxidative stress.

Under normal or unstressed conditions, Nrf2 resides in the cytoplasm of the cell, outside the nucleus, and is targeted for degradation. When activated, Nrf2 is able to move into the nucleus, where it promotes the expression of several thousand genes, including those that encode antioxidant enzymes as well as anti-inflammatory and stress response



proteins.

In recent years, Nrf2 has become the subject of intense research. A common theme in much of this research is that activation of Nrf2 upregulates a coordinated antioxidant response and is therefore capable of protecting against oxidative

- 6-

---

stress-related injury and inflammatory disease in a wide variety of animal models. Therefore, Nrf2 represents an important therapeutic target.

#### Research and Development

Historically, we have focused our research and development efforts on creating and supporting scientifically-validated, yet highly demonstrative products under the Protandim®, TrueScience®, Canine Health®, and Axio® federation of brands. We anticipate that our future research and development efforts will be focused on creating, developing and evaluating new products that are consistent with our commitment to provide quality, scientifically-validated products. We intend to build on our foundation of combating oxidative stress and targeting specific benefit areas that help individuals feel, look and perform better, including exploring products focused on weight-loss and gut health. We also plan to continue sponsoring additional studies on our current products in an effort to further validate the benefits they provide.

#### Product Overview

##### Protandim®

Protandim® is a patented dietary supplement that has been shown in a clinical trial to reduce the age-dependent increase in markers of oxidative stress, and has also been shown to provide substantial benefits to combat the variety of negative health effects linked to oxidative stress.

Protandim® combats oxidative stress by increasing the body's natural antioxidant protection at the genetic level. The unique blend of phytonutrients in Protandim® signals the activation of Nrf2 to increase production of antioxidant enzymes, specifically superoxide dismutase and catalase, and other cell-protective gene products. The body's internally produced antioxidant enzymes provide a better defense against oxidative stress than externally derived sources of antioxidants such as Vitamin C, Vitamin E and Coenzyme Q-10. Unlike externally derived sources of antioxidants, these enzymes are "catalytic," which means these enzymes are not used up upon neutralizing free radicals. We hold six U.S. and five international patents relating to Protandim®. We believe these patents set Protandim® apart from other dietary supplements and protect the original formula as well as certain formula modifications we could create to extend our Protandim® product line. We sell Protandim® in two formulas, one for the Japan market and the other formula for all other markets.

Protandim® has been, and is currently, the subject of numerous independent scientific studies at various universities and research facilities including The Ohio State University, Louisiana State University, University of Colorado Denver, Virginia Commonwealth University, Colorado State University and Texas Tech University. The results of these studies have been published in a variety of peer-reviewed scientific journals, including Free Radical Biology & Medicine, Enzyme Research, Circulation-the scientific journal of the American Heart Association, American Journal of Physiology-Lung Cellular and Molecular Physiology, PLoS One, Journal of Dietary Supplements, Molecular Aspects of Medicine, Oxidative Medicine and Cell Longevity, Exercise & Sports Science Reviews, Clinical Pharmacology, and The FASEB Journal.

##### LifeVantage TrueScience®

We sell a full line of anti-aging skin care products under our LifeVantage TrueScience® brand, which consists of:

• TrueScience® Ultra Gentle Facial Cleanser: a concentrated, ultra-rich cleanser used to remove impurities and light make-up without drying or stripping natural oils in the skin.

• TrueScience® Perfecting Lotion: a hybrid lotion formulated for smoother, radiant and brighter looking skin.

• TrueScience® Eye Corrector Serum: a serum that noticeably improves the visible signs of fine lines, creases and wrinkles around the entire eye area, diminishes puffiness above and below the eye, and evens skin tone and dark circles that are visible signs of premature aging.

• TrueScience® Anti-Aging Cream: a cream that deeply moisturizes and helps to combat the appearance of fine lines and wrinkles.

These products were tested in an independent third-party clinical study and were shown to reduce the visible signs of aging by utilizing Nrf2 technology to mitigate the visible effects of skin damage caused by oxidative stress. Our LifeVantage TrueScience® skin care products leverage our research on Nrf2 activation and oxidative stress.



#### Canine Health®

Canine Health® is a supplement specially formulated to combat oxidative stress in dogs through Nrf2 activation. Canine Health® builds upon the active ingredients in Protandim® to reduce oxidative stress, and support joint function, mobility and flexibility in dogs. Canine Health® received the Quality Seal from the National Animal Supplement Council.

#### Axio®

We introduced our energy drink, Axio®, in October 2014. Axio® is formulated to promote alertness and support mental performance. LifeVantage energy drink powders deliver sustained energy, as well as improved mental focus and promote a positive mood. Axio® is derived from a unique combination of scientifically validated ingredients.

#### Distribution of Products

We believe our products are well suited for person-to-person sales through our direct selling model. This model allows our independent distributors to educate our customers regarding the benefits of our unique products more thoroughly than other business models. Our direct selling model also allows our independent distributors to offer personalized customer service to our customers and encourage regular use of our products.

#### Product Return Policy

All products purchased directly from us include a customer satisfaction guarantee. Subject to some exceptions based on local regulations, customers may return unopened product to us within 30 days of purchase for a refund of the purchase price less shipping and handling. In addition, our inventory repurchase program allows independent distributors who terminate their distributorship to return certain amounts of unopened, unexpired product purchased within the prior 12 months for a refund of the purchase price less a 10% restocking fee. The amount of inventory we will repurchase from an independent distributor is subject to specified consumption limitations.

#### Customers

We generally categorize our customers as independent distributors and preferred customers.

#### Independent Distributors

An independent distributor in our company is someone who participates in our network marketing business opportunity by purchasing our products at wholesale prices and selling our products to others interested in the products. We believe our independent distributors are typically entrepreneurs who believe in our products and desire to earn income by building a business of their own. Many of our independent distributors are attracted by the opportunity to sell unique, scientifically-validated products without incurring significant start-up costs. Independent distributors sign a contract with us that includes a requirement that they adhere to strict policies and procedures. Independent distributors purchase product from us for individual consumption, but also purchase small quantities of product from us to use for demonstrations and one-off, person-to-person retailing opportunities. They also spend a large amount of their time encouraging others to purchase our products, either for personal consumption or resale. While we provide support, product samples, brochures, magazines, and other sales and marketing materials, independent distributors are primarily responsible for attracting, enrolling and educating new independent distributors with respect to our products and compensation plan. An independent distributor creates multiple levels of compensation by selling our products and enrolling new independent distributors who sell our products. These newly enrolled independent distributors form a “downline” for the independent distributor who enrolled them. If downline independent distributors enroll new independent distributors who purchase our products, they create additional levels of compensation and their downline independent distributors remain in the same downline network as the original enrolling independent distributor. We pay commissions only upon the sale of our products. We do not pay commissions for enrolling independent distributors.

We define “active independent distributors” as those independent distributors who have purchased product from us for retail or personal consumption during the prior three months. As of June 30, 2015, we had approximately 65,000 active independent distributors compared to approximately 68,000 active independent distributors as of June 30, 2014.

#### Independent Distributor Compensation

We believe our compensation plan is one of the more financially rewarding in the direct selling industry. Our percentage of sales paid to independent distributors as compensation and incentives is one of the highest percentages reported in the direct selling industry. Some elements of our compensation plan are paid weekly. We believe this gives

Edgar Filing: Lifevantage Corp - Form 10-K

us a competitive advantage and helps retain new distributors by allowing them to experience success quickly from their efforts. Our compensation plan is intended to appeal to a broad cross-section of people, particularly those seeking to supplement family income, start a home-

- 8-

---

based business or pursue entrepreneurial opportunities full or part-time. Our independent distributors earn compensation on their product sales and product sales made by independent distributors within their sales organization, or "downline." Our independent distributors can also earn money by purchasing product from us at our wholesale cost and selling that product to others at the retail cost. We generally pay commissions in the local currency of the independent distributor's home country.

#### Independent Distributor Motivation and Training

Our revenue depends in part on the success and productivity of our independent distributors. Our Master Track program is designed to increase our independent distributors' productivity and increase their potential for success. The Master Track program includes the following components:

- **Blueprint for Prosperity:** professionally-designed training materials independent distributors can utilize in their sales efforts;

- **Pro Audio Series:** our weekly audio series presented by our independent distributor leaders providing training and tips on becoming more productive independent distributors;

- **Premier Schools:** monthly, company-sponsored events held throughout the U.S., and less frequently in Japan, designed to deliver training and motivation to independent distributors;

- **Elite Academy and Global Convention:** quarterly and annual company-sponsored events intended to provide training and motivation to our independent distributors; and

- **Promotions and Incentive Trips:** we hold special promotions and incentive trips from time to time in order to motivate our independent distributors to accomplish specific sales goals.

In addition to the Master Track program, we have an on-line media channel, LVN Media, through which we deliver educational and motivational content to our independent distributors. The Master Track program and LVN Media are important parts of our efforts to increase the productivity and potential for success of our independent distributors. We are evaluating how to incorporate new technology and training opportunities to improve distributor success.

#### Distributor Compliance Activities

Given that our independent distributors are independent contractors, we do not control or direct their promotional efforts. We do, however, require that our independent distributors abide by policies and procedures that require them to act in an ethical manner and in compliance with applicable laws and regulations. As a member of the United States Direct Selling Association and similar organizations in many of the markets where we do business, we are also subject to the ethical business practices and consumer service standards required by the industry's code of ethics.

Independent distributors must represent to us that their receipt of commissions is based on retail sales and substantial personal sales efforts. We must produce or pre-approve all sales aids used by distributors such as brochures and online materials. Products may be promoted only by personal contact or by collateral materials produced or approved by us. Independent distributors may not use our trademarks or other intellectual property without our consent.

We monitor and systematically review alleged independent distributor misbehavior through our internal compliance department. If we determine one of our independent distributors has violated any of our policies and procedures, we may discipline the independent distributor and may terminate the independent distributor's rights to distribute our products. When necessary, we have brought legal action against independent distributors, or former independent distributors, to enforce our policies and procedures. Short of termination or legal action, we may impose sanctions against independent distributors whose actions are in violation of our policies and procedures. Such sanctions may include warnings, probation, withdrawal or denial of an award, suspension of privileges of a distributorship, fines and/or withholding of commissions until specified conditions are satisfied, or other appropriate injunctive relief.

#### Preferred Customers

Preferred customers are customers who purchase products directly from us at our wholesale price on a monthly auto-ship basis for personal consumption, without the intent to resell or earn commissions from the sale of products. A preferred customer may enroll as an independent distributor at any time if he or she becomes interested in reselling the product. We believe our preferred customers are a great source of word-of-mouth advertising for our products. We also believe our large base of preferred customers validates the benefits of our products, separate from the direct selling business opportunity.



We define an “active preferred customer” as a preferred customer who has purchased product from us within the prior three months. As of June 30, 2015, we had approximately 115,000 active preferred customers compared to approximately 128,000 active preferred customers as of June 30, 2014.

#### Sales of Our Products

We accept orders for our products through our own website at [www.lifevantage.com](http://www.lifevantage.com) and through personalized websites we provide to our independent distributors, which we refer to as “Virtual Offices”. Orders placed through Virtual Offices and through our website are processed daily at our fulfillment centers, where orders are shipped directly to the consumer.

We offer toll-free numbers for our independent distributors and other customers to order product or ask questions. Our customer service representatives assist customers in placing orders through our web order processing system, answer questions, track packages, and initiate refunds. The customer service representatives receive extensive training about our products and our direct selling business model. Independent distributors and preferred customers generally pay for products by credit card, prior to shipment, and as a result, we carry minimal accounts receivable.

#### Seasonality

In addition to general economic factors, we are impacted by seasonal factors and trends such as major cultural events and vacation patterns. We believe that direct selling in Japan and the United States is also generally negatively impacted during our first fiscal quarter, from July 1 through September 30, when many individuals, including our independent distributors, traditionally take vacations.

Although our product launch process may vary by market, we may introduce new products to our independent distributors and customers through limited-time offers and promotions. The limited-time offers and promotions typically generate significant activity and a high level of purchasing, which may result in a higher than normal increase in revenue during the quarter of the limited-time offer and skew year-over-year and sequential comparisons.

#### Geographic Information

We currently sell and distribute products in the United States, Japan, Hong Kong, Australia, Canada, Philippines, Mexico and Thailand. In fiscal year 2015, revenue generated in the United States accounted for approximately 70% of our total revenue and revenue generated from Japan accounted for approximately 22% of our total revenue. For reporting purposes, we generally divide our markets into two geographic regions: Americas and Asia/Pacific. The following table sets forth net revenue information by region for the periods indicated (in thousands):

	For the years ended June 30,								
	2015			2014			2013		
Americas	\$138,118	72.6	%	\$141,227	66.0	%	\$133,046	63.9	%
Asia/Pacific	52,218	27.4	%	72,741	34.0	%	75,132	36.1	%
Total	\$190,336	100	%	\$213,968	100	%	\$208,178	100	%

Additional comparative revenue and related financial information is presented in the section captioned "Segment Information" in Note 2 to our Consolidated Financial Statements.

#### Marketing

We have a sales, marketing, public relations and customer service group consisting of 166 full-time employees as of June 30, 2015. We utilize our network of independent distributors located throughout the United States, Australia, Hong Kong, Japan, Canada, Philippines, Mexico and Thailand to market and sell our products.

#### Raw Materials and Manufacturing

We outsource the primary manufacturing, fulfillment, and shipping components of our business to companies we believe possess a high degree of expertise. We believe outsourcing provides us access to advanced manufacturing process capabilities and expertise without incurring fixed costs associated with manufacturing our own products. We currently outsource the manufacturing of Protandim® to multiple contract manufacturers and use a single contract manufacturer for each of our Canine Health®, Axio® and LifeVantage TrueScience® products. Our contract manufacturers of Protandim® have a legal obligation to comply with the current Good Manufacturing Practices regulations that are applicable to those who manufacture, package, label and hold dietary supplements. Additionally, we are subject to regulations that, among other things, obligate us to know what and how manufacturing activities are performed so that we can make decisions related to





whether the packaged and labeled product conforms to our established specifications and whether to approve and release product for distribution. We maintain and qualify alternative manufacturing options in order to keep our costs low, maintain the quality of our products, and be prepared for unanticipated spikes in demand or manufacturing failure. Our contract manufacturers deliver products to our fulfillment centers based on our purchase orders. We acquire raw materials for our products from third-party suppliers. Although we generally have good relationships with our suppliers, we believe we could replace any of our current suppliers without great difficulty or significant increase to our cost of goods sold. We also have ongoing relationships with secondary and tertiary suppliers. Please refer to "Risk Factors - High quality material for our products may be difficult to obtain or expensive" for a discussion of the risks and uncertainties associated with our sourcing of raw materials.

#### Product Liability and Other Insurance

We have product liability insurance coverage for our products that we believe is adequate for our needs. We also maintain commercial property and liability coverage and directors' and officers' liability insurance.

#### Intellectual Property

Protandim<sup>®</sup> is a proprietary, patented dietary supplement formulation for enhancing antioxidant enzymes including superoxide dismutase and catalase. The patents and patent applications protecting this formulation are held by our wholly-owned subsidiary, Lifeline Nutraceuticals Corporation.

We use commercially reasonable efforts to protect our intellectual property and license rights through patent protection, trade secrets, and contractual protections, and intend to continue to develop a strong brand identity in the Protandim<sup>®</sup> trademark.

Our intellectual property is covered, in part, by six issued U.S. patents and five issued foreign patents in Australia, Canada, China, Japan and India. A corresponding foreign patent application is pending in Europe. Our patents and patent applications claim the benefit of priority of seven U.S. provisional patent applications, the earliest of which was filed on March 23, 2004, and relate to compositions, methods of use, and methods of manufacture of various compositions, including those embodied by the Protandim<sup>®</sup> formulation. The expected duration of our patent protection via granted patents is through approximately March 2025.

We also continue to protect our products and brands using trademarks. We have filed and successfully procured registered trademarks for Protandim<sup>®</sup>, LifeVantage<sup>®</sup>, and TrueScience<sup>®</sup> in many countries around the world, and we have pending trademark applications in many other countries. We anticipate seeking protection in other countries as we deem appropriate.

In order to protect the confidentiality of our intellectual property, including trade secrets, know-how and other proprietary technical and business information, it is our policy to limit access to such information to those who require access in order to perform their functions and to enter into agreements with employees, consultants and vendors to contractually protect such information.

#### Competition

##### Direct Selling Companies

We compete with other direct selling companies, many of which have longer operating histories and greater visibility, name recognition and financial resources than we do. We also compete with newer direct selling companies that attempt to solicit our independent distributors by offering the possibility of a more financially rewarding opportunity by being among the company's early distributor base. We compete for new independent distributors with these companies on the basis of our business opportunity, product offerings, compensation plan, management and our operations. In order to successfully compete in the direct selling industry and attract and retain independent distributors, we must maintain the attractiveness of our business opportunity, product offerings and compensation plan.

##### Dietary Supplement Market

We compete with other companies that sell dietary supplements. We believe the dietary supplement market is a highly fragmented and competitive market. We believe competition in the dietary supplement market is based primarily on quality, price, efficacy of products, brand name and recognition of product benefits. In the dietary supplement industry, our competition includes numerous nutritional supplement companies, pharmaceutical companies and packaged food and beverage companies. Many of these companies have broader product lines, larger sales volumes

and greater financial resources than we do. Additionally, some of these companies are able to compete more effectively due to greater vertical integration. Increased

- 11-

---

competition in the dietary supplement market could have a material adverse effect on our results of operations and financial condition.

#### Nrf2 Activators

In the last few years we have seen the number of products marketed as Nrf2 activators increase, and we are currently aware of at least five such products. We anticipate the number of products that claim to activate Nrf2 will continue to increase as the technology becomes more popular and more broadly accepted. Although we are unaware of any competing direct selling company marketing products as Nrf2 activators, we are aware that at least two competing direct selling companies have sponsored research studies related to Nrf2 activation.

#### Direct Antioxidants

Vitamin C, Vitamin E, Coenzyme Q-10, and other sources of externally derived antioxidants may be considered competitors of Protandim® but they are mechanistically distinct from Protandim®. These other sources of antioxidants do not increase the body's elimination of oxidants using internal antioxidant enzymes. Our research indicates that Protandim® increases production of hundreds of stress-related anti-inflammatory, and anti-fibrotic gene products including antioxidant enzymes, such as superoxide dismutase and catalase, within the cells of the body. We believe that the body's internally produced antioxidant enzymes provide a better defense against oxidative stress than externally derived sources of antioxidants.

#### Oral Superoxide Dismutase and Catalase

There are many companies performing research into antioxidants. Several companies sell oral forms of superoxide dismutase and catalase. Although we believe Protandim® is a superior alternative to oral forms of superoxide dismutase and catalase, these products do compete with Protandim® in the marketplace. We anticipate additional companies will likely develop, purchase or in-license products that are competitive with Protandim®.

#### Personal Skin Care Market

In the personal skin care market, we compete principally with large, well-known cosmetics companies that manufacture and sell broad product lines through retail establishments. Many of these competitors have greater financial resources and brand recognition than we do. We believe, however, we can compete with these larger companies by leveraging our direct selling model and emphasizing our unique, science-based skin care products.

#### Animal Supplement Market

We compete principally with large, well-known companies in the animal supplement market. Most of the companies we compete with in the animal supplement market have broad distribution channels that include retail establishment. Many of these competitors have greater financial resources and brand recognition than we do. We believe, however, we can compete with these larger companies by leveraging our direct selling model and emphasizing our unique, science-based animal supplement product.

#### Energy Drink Market

We compete with large, well-known companies in the energy drink market. Most of the companies we compete with in the energy drink market have broad distribution channels that include big box retail establishments. Many of these competitors have greater financial resources and brand recognition than we do. We intend to compete with these larger companies by leveraging our direct selling model and emphasizing our unique, science-based energy drink product. Axio is a no sugar, low-carbohydrate and low calorie energy drink that is also non-GMO, gluten-free and vegan.

#### Regulatory Environment

The formulation, manufacturing, packaging, labeling, and advertising of our products in the United States are subject to regulation by the Food and Drug Administration, or FDA, and the Federal Trade Commission, or FTC, as well as comparable state laws.

#### FDA Regulations and DSHEA

We market Protandim® as a "dietary supplement" as defined in the Dietary Supplement Health and Education Act of 1994, or DSHEA. DSHEA is intended to promote access to safe, quality dietary supplements, and information about dietary supplements. DSHEA established a new framework governing the composition and labeling of dietary supplements. DSHEA does not apply to animal supplements like Canine Health®. We are not required to obtain FDA pre-market approval to sell our products in the United States under current laws.



DSHEA permits statements of nutritional support, called “structure-function” statements, to be included in labeling for dietary supplements without FDA marketing approval. Such statements may claim a benefit related to a classical nutrient deficiency disease and disclose the prevalence of such disease in the United States, describe the role of a nutrient or dietary ingredient intended to affect the structure or function in humans, characterize the documented mechanism by which a nutrient or dietary ingredient acts to maintain such structure or function, or describe general well-being from consumption of a nutrient or dietary ingredient. Such statements may not expressly or impliedly claim that a dietary supplement is intended to diagnose, cure, mitigate, treat, or prevent a disease. A company that uses a statement of nutritional support in labeling must possess evidence substantiating that the statement is truthful and not misleading and is supported by competent and reliable scientific evidence.

The FDA may assert that a particular statement of nutritional support that a company is using is an illegal claim; that assertion, normally, is in the form of a warning letter to that company. We have a duty to send to the FDA a notice that lists each new structure-function statement made by us; we are obligated to send that notice within 30 days after the first marketing of a supplement with such a statement.

DSHEA also permits certain scientific literature, for example a reprint of a peer-reviewed scientific publication, to be used in connection with the sale of a dietary supplement to consumers without the literature being subject to regulation as labeling. However, such literature must not be false or misleading, the literature may not promote a particular manufacturer or brand of dietary supplement and it must include a balanced view of the available scientific information on the subject matter, among other requirements.

The FDA's Center for Veterinary Medicine, or CVM, is responsible for enforcing the portion of the Federal Food, Drug, and Cosmetic Act, or the Act, that relates to animal supplements, like our Canine Health<sup>®</sup> product. CVM's primary responsibility in enforcing the Act is to ensure that animal supplements are safe, effective, and can be manufactured to a consistent standard.

While we exercise care in our formulation, manufacturing, packaging, labeling, and advertising of our products, we cannot guarantee the FDA will never inform us that the FDA believes some violation of law has occurred either by us or by our independent distributors. Any allegations of our non-compliance may result in time-consuming and expensive defense of our activities. The FDA's normal course of action is to issue a warning letter if it believes that a product is misbranded or adulterated. The responsive action requested by the FDA differs depending upon the nature of the product and claims in question. Typically, the FDA expects a written response within 15 working days of the receipt of a warning letter. The warning letter is public information posted on the FDA's web site. That information could affect our relationships with our investors, independent distributors, vendors, and consumers. Warning letters also often spark private class action litigation under state consumer protection statutes. The FDA could also order compliance activities, such as an inspection of our facilities and products, and could file a civil lawsuit in which an arrest warrant (seizure) could be issued as to some or all of our products. In extraordinary cases, we could be named a defendant and sued for declaratory and injunctive relief.

#### FTC Regulations

Advertising and marketing of our products in the United States are also subject to regulation by the FTC under the Federal Trade Commission Act, or FTC Act. Among other things, the FTC Act prohibits unfair methods of competition and unfair false or deceptive acts or practices in or affecting commerce. The FTC Act also makes it illegal to disseminate or cause to be disseminated any false advertisement. The FTC Act provides that disseminating any false advertisement pertaining to foods, which would include dietary supplements, is an unfair or deceptive act or practice. An advertiser is required to have competent and reliable scientific evidence for all express and implied health-related product claims at the time the claims are first made. We are required to have adequate scientific substantiation for all material advertising claims made for our products in the United States. The FTC routinely reviews websites to identify questionable advertising claims and practices. Competitors sometimes inform the FTC when they believe other competitors are violating the FTC Act and consumers also notify the FTC of what they believe may be wrongful advertising. The FTC may initiate a non-public investigation that focuses on our advertising claims which usually involves non-public pre-lawsuit extensive formal discovery. Such an investigation may be very expensive to defend, be lengthy, and result in a publicly disclosed Consent Decree, which is a settlement agreement. If no settlement can be reached, the FTC may start an administrative proceeding or a federal court lawsuit against us or

our principal officers. The FTC often seeks to recover from the defendants, whether in a Consent Decree or a proceeding, any or all of the following: (i) consumer redress in the form of monetary relief or disgorgement of profits; (ii) significant reporting requirements for several years; and (iii) injunctive relief. In addition, most, if not all, states have statutes prohibiting deceptive and unfair acts and practices. The requirements under these state statutes are similar to those of the FTC Act.

The National Advertising Division, or NAD, of the national Better Business Bureau, a non-governmental not-for-profit organization through its Advertising Self-Regulatory Council, or ASRC, is also actively engaged in conducting investigations, called inquiries, which are focused on determining whether the requisite claim substantiation standard exists for specific

structure-function claims. Although the results of each inquiry or proceeding are not binding on the recipient, they are posted on NAD's website. We have been the subject of such a proceeding in 2008 and 2009, which was concluded in 2009.

#### Regulation of Direct Selling Activities

Direct selling activities are regulated by the FTC, as well as various federal, state and local governmental agencies in the United States and foreign countries. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" schemes, which compensate participants primarily for recruiting additional participants without significant emphasis on product sales. The laws and regulations often:

- require us or our distributors to register with governmental agencies;

- impose caps on the amount of commission we can pay;

- impose reporting requirements; and

require that we ensure, among other things, that our distributors maintain levels of product sales to qualify to receive commissions and that our distributors are being compensated primarily for sales of products and not primarily for recruiting additional participants.

The laws and regulations governing direct selling are modified from time to time, and, like other direct selling companies, we may be subject from time to time to government investigations related to our direct selling activities.

This may require us to make changes to our business model and our compensation plan.

#### State Regulations

In addition to U.S. federal regulation, each state has enacted its own food and drug laws. We may receive requests to supply information regarding our sales or advertising to state regulatory agencies. We remain subject to the risk that, in one or more of our present or future markets, our products, sales, and advertising could be found non-compliant with state laws and regulations. If we fail to comply with these laws and regulations, it could have a material adverse effect on our business in a particular market or in general. In addition, these laws and regulations could affect our ability to enter new markets.

#### The FDA Food Safety Modernization Act

The FDA Food Safety Modernization Act, or FSMA, was enacted in 2011 and is now part of the Federal Food, Drug and Cosmetic Act, or FFDCA. The FSMA is a comprehensive set of laws that gives the FDA considerable authority with respect to the prevention of food contamination and the serious problems associated with such contamination.

Among other things, it does the following:

- gives the FDA explicit authority to inspect and copy certain records related to any food and to compel a recall if the FDA believes there is a reasonable probability of serious adverse health consequences or death;

- places strict obligations on food and dietary supplement importers to verify that food from foreign suppliers is not adulterated or misbranded; and

- provides whistle blower protection for employees of conventional food or dietary supplement companies who provide information to governmental authorities about violations of the FFDCA.

#### International Regulations

In addition to the regulations applicable to our activities in the United States, all other markets in which we operate our business regulate our products under a variety of regulatory schemes. We typically market Protandim® in international markets as foods or health foods under applicable regulatory regimes. However, because of varied regulations, some products or ingredients that are recognized as a "food" in certain markets may be treated as a "pharmaceutical" in other markets. In the event a product, or an ingredient in a product, is classified as a drug or pharmaceutical product in any market, we will generally not be able to distribute that product through our distribution channel because of pre-marketing approval requirements and strict regulations applicable to drug and pharmaceutical products. In Japan, for example, ashwagandha was determined to be inappropriate for inclusion in food products. Ashwagandha is one of the ingredients in Protandim®. While we disagree with the assessment of ashwagandha by Japanese regulatory authorities, we are restricted from selling a formulation of Protandim® that contains ashwagandha in Japan. As such, we reformulated Protandim® for the Japan market to exclude ashwagandha. This reformulated Protandim® was introduced in Japan in fiscal 2013.



Similarly, our other markets outside the United States regulate advertising and product claims regarding the efficacy of our products and require adequate substantiation of claims. As such, we are unable to claim that any of our products will diagnose,

- 14-

---

cure, mitigate, treat or prevent diseases. For example, in Japan, Protandim® is considered a food product, which significantly limits our ability to make claims regarding the product. If marketing materials make claims that exceed the scope of allowed claims for dietary supplements, regulatory authorities could deem our products to be unapproved drugs and we could experience substantial harm.

#### Potential FDA and Other Regulation

We could become subject to additional laws or regulations administered by the FDA, FTC, or other federal, state, local or international regulatory authorities, to the repeal of laws or regulations that we consider favorable, such as DSHEA, or to more stringent interpretations of current laws or regulations. Because of negative publicity associated with some adulterated or misbranded supplements, including pharmaceutical drugs marketed as dietary supplements, there has been an increased movement in the United States and other markets to expand the regulation of dietary supplements, which could impose additional restrictions or requirements in the future. In general, the regulatory environment is becoming more complex with increasingly strict regulations.

The Dietary Supplement and Nonprescription Drug Consumer Protection Act requires us to report to the FDA all serious adverse events and to maintain for six years records of all adverse events, whether or not serious. An adverse event is defined as any health-related event associated with the use of a dietary supplement that is adverse. In addition, this law requires the label of each dietary supplement, including our Protandim® product, to include a domestic address or telephone number by which the company selling the product may receive a report of a serious adverse event associated with such product. The label of Protandim® complies with that statutory provision.

Legislation known as the Dietary Supplement Labeling Act was introduced in the United States in 2013. This proposed legislation purports to help consumers distinguish between dietary supplements that are safe and those that have potentially serious side-effects or drug interactions. The Dietary Supplement Labeling Act would require dietary supplement manufacturers to disclose known ingredient risks and display mandatory warnings if a product contains an ingredient that could cause potentially serious adverse events. Although it is not currently known if, or in what form, the Dietary Supplement Labeling Act will be enacted, it could create additional regulatory burdens on our business and increase our cost of goods sold.

#### Employees

As of June 30, 2015 and June 30, 2014, we had 166 and 201 full time employees, respectively. As of June 30, 2015, 126 of our full time employees were based in the United States, 36 were based in Japan, nine were based in Thailand and three were based in Hong Kong. We do not include our independent distributors in our number of employees because our independent distributors are independent contractors and not employees. We outsource our manufacturing and distribution operations.

#### Available Information

Our principal offices are located at 9785 S. Monroe Street, Suite 300, Sandy, UT 84070. Our telephone number is (801) 432-9000 and our fax number is (801) 880-0699. Our website address is [www.lifevantage.com](http://www.lifevantage.com); however, information found on our website is not incorporated by reference into this report. Our web site address is included in this annual report as an inactive textual reference only.

The reports filed with the Securities and Exchange Commission, or SEC, by us and by our officers, directors, and significant shareholders are available for review on the SEC's website at [www.sec.gov](http://www.sec.gov). You may also read and copy materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

#### ITEM 1A — RISK FACTORS

Because of the following risks, as well as other risks affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. The risks described below are those we currently believe could materially affect us. The following risks are not necessarily all of the important factors that could cause our actual results of operations to differ materially from those expressed in the forward-looking statements in this report.

#### Risk Factors Relating to Our Company

Because our Japanese operations account for a significant part of our business, an inability to strengthen our business and properly manage distractions among our distributors in Japan could harm our business.

Approximately 22% and 29% of our revenue for fiscal year 2015 and fiscal year 2014, respectively, was generated in Japan. We began selling our products into the market in fiscal year 2010 and opened fully supported operations in Japan in fiscal year 2013. Due to our limited experience in Japan, the initiatives we have implemented, or that we may implement in the future,

- 15-

---

may not be successful in galvanizing and motivating our leading independent distributors and we may be unable to retain existing leading independent distributors in Japan. There has been discord among our leading independent distributors in Japan and some of these distributors have left our company to join a competing direct selling company. If we fail to properly manage any discord among our leading independent distributors in Japan, we could lose additional leaders to competing direct selling companies, which could have a significant negative impact on our revenue.

In addition, the regulatory framework in Japan has changed since we first started selling into the market. In fiscal year 2013, for example, we announced the release for the Japanese market of a new formulation of Protandim® in response to the determination of the Ministry of Health, Labour and Welfare, or MHLW, that one of the ingredients in Protandim® is inappropriate for inclusion in a food product in Japan. Our business in Japan could be substantially harmed if this formulation of Protandim® faces additional challenges from regulatory agencies in Japan or if it does not gain the acceptance that the original formulation has obtained in other markets.

Other factors that could impact our results in Japan include:

- inappropriate activities by our independent distributors and any resulting regulatory actions against us or our independent distributors;
- continued or increased levels of regulatory or media scrutiny of our industry and any regulatory actions, or any adoption of more restrictive regulations, in response to such scrutiny;
- significant weakening of the Japanese yen;
- increased regulatory constraints with respect to the claims we can make regarding the efficacy of our products, which could limit our ability to effectively market our products;
- improper practices of other direct selling companies or their independent distributors that increase regulatory or media scrutiny of our industry; and
- weakness in the economy or consumer confidence.

There is a high level of regulatory scrutiny of the direct selling industry in Japan, and several direct selling companies have been penalized for actions of distributors that violated applicable regulations. Such penalties have included suspension from sponsoring activities in Japan. If our distributors fail to comply with applicable regulations in Japan, regulators could take action against us, including a suspension of our sponsoring activities, or we could receive negative media attention, either of which could harm our business significantly.

We may not be successful in expanding our operations.

We may not be successful in expanding our operations. Although we began to sell our products through our direct selling network in fiscal year 2009, we still have limited experience in selling our products through direct selling compared to other companies in our industry. As such, we may have limited insight into trends, disruptions and other factors that may emerge and affect our business. For example, we may need to terminate one or more of our independent distributors for actions contrary to their contractual obligations with us, which may slow our growth by causing a disruption among our independent distributors. Additionally, we may not be successful in keeping our leading independent distributors focused and motivated or in aligning their goals with the goals of our company. We also have limited experience expanding into new geographic markets. Although we are seeking to continue our expansion, if we fail to effectively expand our operations into additional markets, we may be unable to generate consistent operating profit growth in future periods.

If we are able to expand our operations, we may be unable to successfully manage our future growth.

Our business has grown significantly since we initiated our direct selling model in fiscal 2009. This growth placed substantial strain on our management, operational, financial and other resources. If we are able to continue expanding our operations in the United States and in other countries where we believe our products will be successful, such expansion could place increased strain on our management, operational, financial and other resources. In addition, an inability to leverage our current resources in an efficient manner could have a material adverse effect on our business, operating margins and results of operations.

We may not succeed in growing existing markets or opening new markets.

We have international operations in Japan, Hong Kong, Canada, Australia, Philippines, Mexico and Thailand. In fiscal 2015, we generated approximately 30% of our revenues from our international operations, most of which was

generated from Japan. We believe that our ability to achieve future growth is dependent in part on our ability to effectively expand into new international markets. In some of our international markets, we have experienced unexpected difficulties that have resulted in slower than anticipated growth. We may not succeed in growing our existing international markets, entering new international markets on a

- 16-

---

timely basis, or achieving profitability in new markets. We must overcome significant regulatory and legal barriers before we can begin marketing in any international market. Also, before marketing commences in a new country or market, it is difficult to assess the extent to which our products and sales techniques will be accepted or successful in any given country. In addition to significant regulatory barriers, we may also encounter problems conducting operations in new markets with different cultures and legal systems from those encountered elsewhere. We may be required to reformulate one or more of our products, including Protandim®, before commencing sales of that product in a given country. Once we have entered a market, we must adhere to the regulatory and legal requirements of that market. We may not be able to obtain and retain necessary permits and approvals in new markets, or we may have insufficient capital to finance our expansion efforts in a timely manner.

Inability of new products to gain distributor or market acceptance could harm our business.

In fiscal 2015, we introduced Axio®, our energy drink mix formulated to promote alertness and support mental performance. We believe our ability to introduce new products that gain acceptance among our distributors and customers is an important part of our ability to grow our revenue in future periods. However, any new products we introduce may not gain distributor and market acceptance to the extent we anticipate or project. Factors that could affect our ability to introduce new products include, among others, government regulations, the inability to attract and retain qualified research and development staff, the termination of third-party research and collaborative arrangements, proprietary protections of competitors that may limit our ability to offer comparable products and the difficulties in anticipating changes in consumer tastes and buying preferences. In addition, new products we introduce may not be successful or generate substantial revenue. The introduction of a new product could also negatively impact other product lines to the extent our distributor leaders focus their efforts on the new product instead of an existing product. If any of our products fail to gain distributor acceptance, we could see an increase in product returns.

Our business could be negatively impacted if we fail to execute our product launch process due to increased pressure on our supply chain, information systems and management.

Although our product launch process may vary by market, we generally introduce new products to our independent distributors and preferred customers through limited-time offers and promotions. The limited-time offers typically generate significant activity and a high level of purchasing, which may result in a higher than normal increase in revenue during the quarter of the limited-time offer and skew year-over-year and sequential comparisons. We may experience difficulty effectively managing growth associated with these limited-time offers. In addition, the size and condensed schedule of these product launches increases pressure on our supply chain. If we are unable to accurately forecast sales levels in each market, obtain sufficient ingredients or produce a sufficient supply to meet demand, we may incur higher expedited shipping costs and we may temporarily run out of stock of certain products, which could negatively impact the enthusiasm of our independent distributors and preferred customers. Conversely, if demand does not meet our expectations for a product launch, we could incur increased inventory write-offs. Any inventory write-off would negatively impact our gross margins. In addition, our order processing systems could have difficulties handling the high volume of orders generated by limited-time offers. Although our previous limited-time offers have not materially affected our product return rate, these events may increase our product return rate in the future.

We rely on our information technology systems to manage numerous aspects of our business, and a disruption in these systems could adversely affect our business.

We depend on our information technology, or IT, systems to manage numerous aspects of our business, including our finance and accounting transactions, to manage our independent distributor compensation plan and to provide analytical information to management. Our IT systems are an essential component of our business and growth strategies, and a serious disruption to our IT systems could significantly limit our ability to manage and operate our business efficiently. These systems are vulnerable to, among other things, damage and interruption from power loss or natural disasters, computer system and network failures, loss of telecommunications services, physical and electronic loss of data, security breaches and computer viruses. Any disruption could cause our business and competitive position to suffer and adversely affect our business and operating results. In addition, if we experience future growth, we will need to scale or change some of our systems to accommodate the increasing number of independent distributors and other customers. For example, we are in the process of implementing a new back office system and mobile application to be used by our independent distributors. The implementation of the new back office system is a

complicated process that will take multiple years to complete. In addition, we may not be successful in implementing a mobile application that our independent distributors find useful. Our ability to compete could be harmed if we are unable to successfully implement the new back office system or if our independent distributors do not adapt well to the new system or mobile application.

- 17-

---

Cyber security risks and the failure to maintain the integrity of data belonging to our company, employees, independent distributors and preferred customers could expose us to data loss, litigation and liability, and our reputation could be significantly harmed.

We collect and retain large volumes of data relating to our business and from our employees, independent distributors and preferred customers for business purposes, including for transactional and promotional purposes, and our various information technology systems enter, process, summarize and report such data. The integrity and protection of this data is critical to our business. We are subject to significant security and privacy regulations, as well as requirements imposed by the credit card industry. Maintaining compliance with these evolving regulations and requirements could be difficult and may increase our 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 data relating to our company or our employees, independent distributors or preferred customers, which could harm our reputation, disrupt our operations, or result in remedial and other costs, fines or lawsuits.

Our credit facility includes debt service obligations and restrictive covenants that could impede our operations and flexibility.

We entered into a Financing Agreement in October 2013 that provides for a credit facility consisting of a term loan facility in an aggregate principal amount of up to \$47 million and a delayed draw term loan facility in an aggregate principal amount not to exceed \$20 million (the "Financing Agreement"). At the end of the fiscal year ended June 30, 2015, the principal amount owing under the credit facility was approximately \$22 million. The principal amount borrowed under the credit facility is repayable in consecutive quarterly installments. We expect to generate the cash necessary to pay the principal and interest on the credit facility from our cash flows provided by operating activities. However, our ability to meet our debt service obligations will depend on our future performance, which may be affected by financial, business, economic, demographic and other factors. If we do not have enough money to pay our debt service obligations, we may be required to refinance all or part of our debt, sell assets, borrow more money or raise cash through the sale of equity. In such an event, we may not be able to refinance our debt, sell assets, borrow more money or raise cash through the sale of equity on terms acceptable to us or at all. Also, our ability to carry out any of these activities on favorable terms, if at all, may be further impacted by any financial or credit crisis which may limit access to the credit markets and increase the cost of capital.

The credit facility is secured by a lien on substantially all of our assets, and the assets of our subsidiaries, and contains customary covenants, including covenants that restrict our ability to incur or guarantee additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell our assets and enter into consolidations, mergers or transfers of all or substantially all of our assets. The credit facility includes financial covenants that require us to maintain specified financial ratios and satisfy certain financial condition tests. Our ability to meet these financial ratios and tests can be affected by events beyond our control and we may be unable to meet these ratios and tests. A breach of any of the covenants, ratios, tests or restrictions imposed by the credit facility would result in an event of default and the lender could declare all amounts outstanding under the credit facility to be immediately due and payable. Our assets may not be sufficient to repay the indebtedness if the lenders accelerate our repayment of the indebtedness under the credit facility.

We may not be able to comply with the financial covenants set forth in the Financing Agreement.

The Financing Agreement we entered into in October 2013 contains financial covenants that require us to maintain specified financial ratios and satisfy certain financial condition tests. For example, the Financing Agreement originally required us to have a minimum consolidated EBITDA for the four consecutive fiscal quarters ended March 31, 2015 of at least \$20.6 million. We were not in compliance with this financial covenant at March 31, 2015 and we entered into Amendment No. 1 to Financing Agreement on May 1, 2015 (the "Amendment") to remedy our noncompliance and to establish a lower EBITDA covenant for the four consecutive fiscal quarters ending March 31, 2015 and June 30, 2015. The Amendment, however, did not revise the required minimum consolidated EBITDA for periods subsequent to June 30, 2015.

On August 27, 2015 we entered into an Amendment No. 2 to Financing Agreement ("Amendment No. 2").

Amendment No. 2 revised the covenants related to minimum consolidated EBITDA (as defined in the amended Financing Agreement) for the four consecutive fiscal quarters ending September 30, 2015, December 31, 2015,



Edgar Filing: Lifevantage Corp - Form 10-K

March 31, 2016 and June 30, 2016 from \$22.2 million, \$23.1 million, \$24.4 million and \$25.6 million, respectively, to \$14.5 million, \$15.0 million, \$17.0 million and \$17.5 million, respectively. In addition, Amendment No. 2 requires that we make additional monthly accelerated principal payments on our outstanding term loan in the amount of \$0.5 million commencing on October 15, 2015 and continuing until the term loan has been paid in full. Amendment No. 2 also requires that we make additional accelerated payments at the end of each calendar quarter in the amount of all unrestricted cash on hand as of the close of business on the last day of the quarter in excess of \$12.5 million. If we are unable to further amend the Financing Agreement or significantly increase our revenue and manage our expenses, our consolidated EBITDA may not exceed the minimum consolidated EBITDA required by the Financing Agreement

- 18-

---

and, as a result, an event of default would exist under the Financing Agreement for which our lender could accelerate our repayment of the indebtedness.

Our independent distributors could fail to comply with applicable legal requirements or our distributor policies and procedures, which could result in claims against us that could harm our business.

Our independent distributors are independent contractors and, accordingly, we are not in a position to directly provide the same direction, motivation and oversight as we would if distributors were employees. As a result, there can be no assurance that our distributors will participate in our marketing strategies or plans, accept our introduction of new products, or comply with our distributor policies and procedures.

Extensive federal, state, local and international laws regulate our business, products and direct selling activities. Because we have expanded into foreign countries, our policies and procedures for our independent distributors differ slightly in some countries due to the different legal requirements of each country in which we do business. While our distributor policies and procedures are designed to govern distributor conduct, it can be difficult to enforce these policies and procedures because of the large number of distributors and their independent status. Violations by our independent distributors of applicable law or of our policies and procedures in dealing with customers could reflect negatively on our products and operations and harm our business reputation. In addition, it is possible that a court could hold us civilly or criminally accountable based on vicarious liability because of the actions of our independent distributors. In the past, we have had independent distributors investigated by government agencies for conduct violating the law and our policies. This type of investigation can have an adverse effect on us even if we are not involved in the independent distributor's activities.

A substantial portion of our business is conducted in foreign markets, exposing us to the risks of trade or foreign exchange restrictions, increased tariffs, foreign currency fluctuations, disruptions or conflicts with our third party importers and similar risks associated with foreign operations.

A substantial portion of our sales are generated outside the United States. If we are successful in entering additional foreign markets, we anticipate that the percentage of our sales generated outside the United States will increase. There are substantial risks associated with foreign operations. For example, a foreign government may impose trade or foreign exchange restrictions or increased tariffs, which could negatively impact our operations and financial results.

We are also exposed to risks associated with foreign currency fluctuations. For instance, in preparing our financial statements, we translate revenue and expenses in our markets outside the United States from their local currencies into U.S. dollars using weighted average exchange rates. If the U.S. dollar strengthens relative to local currencies, our reported revenue, gross profit and net income will likely be reduced. Foreign currency fluctuations can also result in losses and gains resulting from translation of foreign currency denominated balances on our balance sheet.

Additionally, purchases from suppliers are generally made in U.S. dollars while sales to distributors are generally made in local currencies. Accordingly, strengthening of the U.S. dollar versus a foreign currency could have a negative impact on us. Specifically, because a significant percentage of our revenues are generated in Japan, strengthening of the U.S. dollar versus the Japanese yen has had and could continue to have an adverse impact on our financial results. Although we may engage in transactions intended to reduce our exposure to foreign currency fluctuations, there can be no assurance that these transactions will be effective. Given the complex global political and economic dynamics that affect exchange rate fluctuations, it is difficult to predict future fluctuations and the effect these fluctuations may have upon future reported results or our overall financial condition.

Additionally, we may be negatively impacted by conflicts with or disruptions caused or faced by third party importers, as well as conflicts between such importers and local governments or regulatory agencies. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries.

Global economic conditions could harm our business.

Global economic conditions continue to be challenging and unpredictable. Consumer confidence and spending have declined in recent years and the global credit crisis has limited access to capital for many companies and consumers. The global economic downturn could adversely impact our business by causing a decline in demand for our products, particularly if the economic conditions are prolonged or worsen. In addition, poor global economic conditions may adversely impact access to capital for us and our suppliers, may decrease our independent distributors' ability to obtain or maintain credit, and may otherwise adversely impact our operations and overall financial condition.

Edgar Filing: Lifevantage Corp - Form 10-K

If we are unable to maintain our level of internal controls, our shareholders could lose confidence in our financial reporting and our stock price could suffer.

We have implemented internal controls to help ensure the accuracy of our financial reporting and have implemented internal controls to comply with Section 404 of the Sarbanes-Oxley Act of 2002. We regularly audit our internal controls and various aspects of our business and we regularly assess the effectiveness of our internal controls. There can be no assurance, however,

- 19-

---

that these internal or external assessments and audits will identify all significant or material weaknesses in our internal controls. Any failure to correct a weakness in internal controls could result in the disclosure of a material weakness. If a material weakness results in a material misstatement in our financial results, we may also have to restate our financial statements.

If we are to expand our product offerings, we may need to raise additional capital.

Although we introduced additional products in each of fiscal 2014 and 2015, we primarily depend on Protandim® for our revenue. We may decide to expand our product portfolio and may seek to do so by acquiring products by license or through product or company acquisitions. If cash generated from operations is insufficient to satisfy our requirements in this regard, we may need to raise additional capital, which may be dilutive to our existing shareholders. If we are unable to raise additional required capital in a timely manner, we could be forced to reduce our growth plans.

We could be exposed to certain environmental liabilities due to our past operations and property ownership.

During the 1990s, we owned mining properties in the Yaak River mining district of Montana. We never conducted any mining operations or ore processing on these properties, nor have we performed on-site environmental studies on these properties. The State of Montana Department of Environmental Quality believed that the properties may contain residues from past mining. We may be liable for material environmental liabilities associated with these properties.

In addition, until November 2004, we owned land in Lawrence, Colorado. We are not aware of any environmental liabilities with respect to this land. The party that acquired the land from us assumed any environmental liability related to the land. Nonetheless, a governmental agency or a private party could seek to hold us accountable for such environmental liabilities, if any.

#### Risk Factors Relating to Our Business and Industry

We primarily depend on a single product for our revenue.

Although we generate revenue through the sale of Canine Health®, our line of LifeVantage TrueScience® skin care products and Axio®, we primarily rely on the sale of Protandim® for our revenue. We do not have a broad portfolio of other products that we could rely on to support our operations if we were to experience any difficulty with the manufacture, marketing, sale or distribution of Protandim®. For example, our revenue was adversely impacted because sales of Protandim® slowed following our voluntary product recall during fiscal 2013. If we have similar problems in the future, our results could be negatively affected. In addition, we may be unable to sustain or increase the price or sales levels for Protandim®, which could harm our business.

If we are unable to retain our existing independent distributors or attract additional independent distributors, our revenue will not increase and may even decline.

Our independent distributors may terminate their services at any time, and we can and have in the past terminated distributors for conduct violative of our policies and procedures. As such, like most direct selling companies, we have experienced and are likely to continue to experience turnover among independent distributors. The departure for any reason of one of our leading independent distributors can be a major disruption to other independent distributors and can have a significant negative impact on our operating results. Independent distributors who join our company to purchase our products for personal consumption or for short-term income goals may only stay with us for a short time. While we take steps to help train, motivate, and retain independent distributors, we cannot accurately predict the number or productivity of our independent distributors.

Our operating results will be harmed if we and our independent distributor leaders do not generate sufficient interest in our business to retain existing independent distributors and attract new independent distributors. The number and productivity of our independent distributors could be harmed by several factors, including:

- any adverse publicity regarding us, our products, our distribution channel, or our competitors;
- lack of interest in existing or new products or their failure to achieve desired results;
- lack of a compelling business opportunity sufficient to generate the interest and commitment of new independent distributors;
- any changes we might make to our independent distributor compensation plan;
- any negative public perception of our company or our products or their ingredients;
- any negative public perception of our independent distributors and direct selling business in general;

our actions to enforce our policies and procedures;

- 20-

---

any efforts to sell our products through competitive channels;  
any regulatory actions or charges against us or others in our industry; and  
general economic and business conditions.

High quality material for our products may be difficult to obtain or expensive.

Raw materials account for a significant portion of our manufacturing costs and we rely on third-party suppliers to provide raw materials. Suppliers may be unable or unwilling to provide the raw materials our manufacturers need in the quantities requested, at a price we are willing to pay, or that meet our quality standards. We are also subject to potential delays in the delivery of raw materials caused by events beyond our control, including labor disputes, transportation interruptions and changes in government regulations. Our business could be adversely affected if we are unable to obtain a reliable source of any of the raw materials used in the manufacturing of our products that meets our quality standards. Additionally, if demand for our products exceeds our forecasts, we may have difficulties in obtaining additional raw materials in time to meet the excess demand. Any significant delay in or disruption of the supply of raw materials could, among other things, substantially increase the cost of such materials, require reformulation or repackaging of products, require the qualification of new suppliers, or result in our inability to meet customer demands.

Although our independent distributors are independent contractors, improper distributor actions that violate laws or regulations could harm our business.

Our independent distributors are not employees and act independent of us. However, activities by our independent distributors that violate applicable laws or regulations could result in government or third-party actions against us, which could harm our business. Our independent distributors agree to abide by our strict policies and procedures designed to ensure our independent distributors will comply with legal requirements. We have a compliance department that addresses violations of our independent distributors when they become known to us. However, given the size of our independent distributor network, we experience problems with independent distributors violating our policies and procedures from time to time and are not always able to discover or remedy such violations.

One of our most significant areas of risk with respect to independent distributor activities relates to improper product claims and claims regarding the business opportunity of being an independent distributor. Any determination by the Federal Trade Commission, any state agency or other similar governmental agency outside the United States that we or our independent distributors are not in compliance with applicable laws could materially harm our business. Even if governmental actions do not result in rulings or orders against us, they could create negative publicity that could detrimentally affect our efforts to recruit or motivate independent distributors and attract customers or lead to consumer lawsuits against us. As we experience growth in the number of our independent distributors, we have seen an increase in sales aids and promotional material being produced by distributors and distributor groups in some markets. This places an increased burden on us to monitor compliance of such materials and increases the risk that such materials could contain problematic product or marketing claims in violation of our policies and applicable regulations. As we expand internationally, our distributors sometimes attempt to anticipate additional new markets that we may enter in the future and begin marketing and sponsoring activities in markets where we are not qualified to conduct business. We could face fines or other legal action if our distributors violate applicable laws and regulations. We are dependent upon third parties to manufacture our product.

We currently rely on third parties to manufacture the products we sell. We are dependent on the uninterrupted and efficient operation of third party manufacturers' facilities. We currently have multiple third-party contractors who manufacture Protandim<sup>®</sup>, however we currently only have one third-party contractor who manufactures each of Canine Health<sup>®</sup>, our line of LifeVantage TrueScience<sup>®</sup> skin care products and Axio<sup>®</sup>. If any of our current manufacturers are unable or unwilling to fulfill our manufacturing requirements or seek to impose unfavorable terms, we will likely have to seek out other manufacturers, which could disrupt our operations and we may not be successful in finding alternative manufacturing resources. In addition, competitors who perform their own manufacturing may have an advantage over us with respect to pricing, availability of product, and in other areas through their control of the manufacturing process.

Disruptions to transportation channels used to distribute our products may adversely affect our margins and profitability.

We generally rely on the uninterrupted and efficient operation of third-party logistics companies to transport and deliver our products. These third-party logistics companies may experience disruptions to the transportation channels used to distribute our products, including increased airport and shipping port congestion, a lack of transportation capacity, increased fuel expenses, and a shortage of manpower. Disruptions to the transportation channels experienced by our third party logistics companies may result in increased costs, including the additional use of airfreight to meet demand.

- 21-

---

We are subject to risks related to product recalls.

We have implemented measures in our manufacturing process that are designed to prevent and detect defects in our products, including contaminants. However, such measures may not prevent or reveal defects or detect contaminants in our products and such defects and contaminants may not become apparent until after our products have been sold into the market. Accordingly, there is a risk that product defects will occur, or that our products will contain foreign contaminants, and that such defects and contaminants will require a product recall. We do not maintain product recall insurance. In December 2012, we commenced a voluntary recall of certain lots of Protandim® to alleviate concerns that some tablets may have included small metal fragments. We discovered these small metal fragments in certain batches of turmeric extract, an ingredient in Protandim® we purchase from third-party suppliers. Product recalls and subsequent remedial actions can be expensive to implement and could have a material adverse effect on our business, results of operations and financial condition. In addition, product recalls could result in negative publicity and public concerns regarding the safety of our products, either of which could harm the reputation of our products and our business and could cause the market value of our common stock to decline.

The events that lead to and followed our voluntary product recall in December 2012 strained our relationships with some of our third-party manufacturers. Additionally, following the voluntary recall we implemented more stringent measures, including several redundant measures, in our manufacturing process to detect contaminants. Third-party manufacturers may be reluctant to implement these redundant measures, may refuse to manufacture our products, and these additional measures may increase our cost of goods sold and further strain our relationships with manufacturers. Laws and regulations may prohibit or severely restrict direct selling and cause our revenue and profitability to decline, and regulators could adopt new regulations that negatively impact our business.

Various government agencies throughout the world regulate direct selling practices. The laws and regulations applicable to us and our independent distributors in Japan are particularly stringent. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as “pyramid” schemes, which compensate participants primarily for recruiting additional participants without significant emphasis on the sale of product to end consumers. The laws and regulations in some of our markets impose cancellations, product returns, inventory buy-backs and cooling-off rights for our independent distributors and customers. Excessive refunds and/or product returns pursuant to local laws and regulations could have a negative impact on our operating results.

Complying with these rules and regulations can be difficult and requires the devotion of significant resources on our part. We may not be able to continue business in existing markets or commence operations in new markets if we are unable to comply with these laws or adjust to changes in these laws.

Unfavorable publicity could materially harm our business.

We are highly dependent upon consumers' perceptions of the safety, quality, and efficacy of our products, as well as competitive products distributed by other companies. In the past, we have experienced negative publicity that has harmed our business. Critics of our industry and other individuals whose interests are not aligned with our interests, have in the past and may in the future utilize the Internet, the press and other means to publish criticism of the industry, our company, our products and our competitors, or make allegations regarding our business and operations, or the business and operations of our competitors. For instance, several prominent companies in our industry have been targeted by short sellers who profit if a company's stock price decreases. One such company has been targeted by a short seller who, after taking a significant short position, publicly made allegations regarding the legality of the company's direct selling model. Short sellers have an incentive to publicly criticize our industry and business model and any such criticism may adversely affect our stock price.

Future scientific research or publicity may not be favorable to our industry or any particular product, including Protandim®. Because of our dependence upon consumer perceptions, adverse publicity associated with illness or other adverse effects resulting or claimed to have resulted from the consumption or use of our products or any similar products distributed by other companies could have a material adverse impact on us. Such adverse publicity could arise even if the claims are unsubstantiated or if the adverse effects associated with such products resulted from failure to consume or use such products as directed. Adverse publicity could also increase our product liability exposure, result in increased regulatory scrutiny and lead to the initiation of private lawsuits.



Our direct selling program could be found to be not in compliance with current or newly adopted laws or regulations in one or more markets, which could prevent us from conducting our business in these markets and harm our financial condition and operating results.

Some of the legal and regulatory requirements concerning the direct selling business model are ambiguous and subject to interpretation. As a result, regulators and courts have discretion in their application of these laws and regulations, and the enforcement or interpretation of these laws and regulations by governmental agencies or courts can change. Recent allegations by short sellers regarding the legality of multi-level marketing companies generally have also created intense public scrutiny of our industry and could cause governmental agencies to change their enforcement and interpretation of applicable laws and

regulations. The failure of our business to comply with current or newly adopted regulations or interpretations could negatively impact our business in a particular market or in general and may adversely affect our share price.

We may become involved in legal proceedings that are expensive, time consuming and, if adversely adjudicated or settled, could adversely affect our financial results.

Litigation claims can be expensive and time consuming to bring or defend against and could result in settlements or damages that could significantly affect our financial results. It is not possible to predict the final resolution of litigation which we may in the future become party to; the impact of certain of these matters on our business, results of operations and financial condition could be material.

We are currently involved in various lawsuits, both as a plaintiff and as defendant. While we believe the suits against us are without merit, they are quite costly to defend and we cannot be assured that we will ultimately prevail. If we do not prevail and are required to pay damages, it could harm our business.

Government authorities may question our tax positions or transfer pricing policies or change their laws in a manner that could increase our effective tax rate or otherwise harm our business.

As a U.S. company doing business in international markets through subsidiaries, we are subject to various tax and intercompany pricing laws, including those relating to the flow of funds between our company and our subsidiaries.

From time to time, we are audited by tax regulators in the United States and in our foreign markets. If regulators challenge our tax positions, corporate structure, transfer pricing mechanisms or intercompany transfers, we may be subject to fines and payment of back taxes, our effective tax rate may increase and our operations may be harmed. Tax rates vary from country to country, and, if tax authorities determine that our profits in one jurisdiction may need to be increased, we may not be able to fully utilize all foreign tax credits that are generated, which will increase our effective tax rate. For example, our federal corporate income tax rate in the United States is 35%. If our profitability in a higher tax jurisdiction, such as Japan where our tax rate in fiscal 2015 was approximately 37%, increases disproportionately to the rest of our business, our effective tax rate may increase. The various customs, exchange control and transfer pricing laws are continually changing and are subject to the interpretation of government agencies. We may experience increased efforts by customs authorities in foreign countries to reclassify our products or otherwise increase the level of duties we pay on our products. Despite our efforts to be aware of and comply with such laws, and changes to and interpretations thereof, there is a risk that we may not continue to operate in compliance with such laws. We may need to adjust our operating procedures in response to such changes and, as a result, our business may suffer. In addition, due to the international nature of our business, we are subject from time to time to reviews and audits by taxing authorities of other jurisdictions in which we conduct business throughout the world. Our business is subject to strict government regulations.

The manufacturing, packaging, labeling, advertising, sale and distribution of our products are subject to federal laws and regulation by one or more federal agencies, including, in the United States, the FDA, the FTC, the Consumer Product Safety Commission, the United States Department of Agriculture, and the Environmental Protection Agency. These activities are also regulated by various state, local, and international laws and agencies of the states and localities in which our products are sold. For instance, the FDA regulates, among other things, the composition, safety, labeling, and marketing of dietary supplements (including vitamins, minerals, herbs and other dietary ingredients for human use). Government regulations may prevent or delay the introduction, or require the reformulation, of our products, which could result in lost revenues, increased costs and delay our expansion into new international markets. For instance, the FDA regulates, among other things, the composition, safety, labeling, and marketing of dietary supplements (including vitamins, minerals, herbs, and other dietary ingredients for human use).

The FDA may determine that a particular dietary supplement or ingredient is adulterated or misbranded or both, and may determine that a particular claim or statement of nutritional value that we make to support the marketing of a dietary supplement is an impermissible drug claim, is not substantiated, or is an unauthorized version of a "health claim." Determining whether a claim is improper frequently involves a degree of subjectivity. Any of these determinations by the FDA could prevent us from marketing that particular dietary supplement product, or making certain claims for that product. The FDA could also require us to remove a particular product from the market. Any future recall or removal would result in additional costs to us, including lost revenues from any product that we are required to remove from the market, which could be material. Any product recalls or removals could also lead to

liability, substantial costs, and reduced growth prospects.

Additional or more stringent regulations of dietary supplements and other products have been considered from time to time. In recent years, there has been increased pressure in the United States and other markets to increase regulation of dietary supplements. New regulations could impose additional restrictions, including requiring reformulation of some products to meet new standards, recalls or discontinuance of some products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of some products, additional or different labeling, additional scientific substantiation,

- 23-

---

additional adverse event reporting, or other new requirements. Any of these developments could increase our costs significantly. In the United States, for example, some legislators and industry critics continue to push for increased regulatory authority by the FDA over nutritional supplements. Our business could be harmed if more restrictive legislation is successfully introduced and adopted in the future. In the United States, the FTC's Guides Concerning the Use of Endorsements and Testimonials in Advertising, or Guides, require disclosure of material connections between an endorser and the company they are endorsing and generally do not allow marketing using atypical results. Our independent distributors have historically used testimonials to market and sell our products. Producing marketing materials that conform to the requirements and restrictions of the Guides may diminish the impact of our marketing efforts and negatively impact our sales results. If we or our distributors fail to comply with these Guides, the FTC could bring an enforcement action against us and we could be fined and/or forced to alter our marketing materials. Our operations also could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute nutritional supplements or impose additional burdens or requirements on nutritional supplement companies or require us to reformulate our products.

In addition, the Dietary Supplement and Nonprescription Drug Consumer Protection Act imposes significant regulatory requirements on dietary supplements, packers and distributors including the reporting of "serious adverse events" to the FDA and record keeping requirements. Complying with this legislation could raise our costs and negatively impact our business. We and our suppliers are also required to comply with FDA regulations with respect to current Good Manufacturing Practices in manufacturing, packaging, or holding dietary ingredients and dietary supplements. These regulations require dietary supplements to be prepared, packaged, and held in compliance with procedures that we and our subcontractors must develop and make available for inspection by the FDA. These regulations could raise our costs and negatively impact our business. Additionally, our third-party suppliers or vendors may not be able to comply with these rules without incurring substantial expenses. If our third-party suppliers or vendors are not able to comply with these rules, we may experience increased cost or delays in obtaining certain raw materials and third-party products. In 2011, the FDA published draft guidance which is intended, among other things, to help manufacturers and distributors of dietary supplement products determine when they are required to file with the FDA a New Dietary Ingredient, or NDI, notification with respect to a dietary supplement product. In this draft guidance, the FDA highlighted the necessity for marketers of dietary supplements to submit NDI notifications as an important preventive control to ensure that consumers are not exposed to potential unnecessary public health risks in the form of new ingredients with unknown safety profiles. Although we do not believe that Protandim® contains an NDI, if the FDA were to conclude that we should have filed an NDI notification for Protandim®, then we could be subject to enforcement actions by the FDA. Such enforcement actions could include product seizures and injunctive relief being granted against us, any of which would harm our business.

Regulations governing the production and marketing of our line of skin care products could harm our business. LifeVantage TrueScience®, our line of anti-aging skin care products, is subject to various domestic and foreign laws and regulations that regulate cosmetic products and set forth regulations for determining whether a product can be marketed as a "cosmetic" or requires further approval as a drug. A determination that our skin care products impact the structure or function of the human body, including due to improper marketing claims by our independent distributors may lead to a determination that the LifeVantage TrueScience® skin care products require pre-market approval as a drug. Such regulations in any given market can limit our ability to import products and can delay product launches as we go through the registration and approval process for those products. Furthermore, if we fail to comply with these regulations, we could face enforcement action against us and we could be fined, forced to alter or stop selling our skin care products and/or be required to adjust our operations. Our operations also could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute our skin care products or impose additional burdens or requirements on the contents of our personal care products or require us to reformulate our products. We are subject to the risk of investigatory and enforcement action by the FTC.

We are subject to the risk of investigatory and enforcement action by the FTC based on our advertising claims and marketing practices. The FTC routinely reviews product advertising, including websites, to identify significant questionable advertising claims and practices. The FTC has brought many actions against dietary supplement companies based upon allegations that applicable advertising claims or practices were deceptive or not substantiated.

If the FTC initiates an investigation, the FTC can initiate pre-complaint discovery that may be nonpublic in nature. Any investigation may be very expensive to defend and may result in an adverse ruling or in a consent decree. Non-compliance with anti-corruption laws could harm our business.

Our international operations are subject to anti-corruption laws, including the Foreign Corrupt Practices Act, also known as the FCPA. Any allegations that we are not in compliance with anti-corruption laws may require us to dedicate time and resources to an internal investigation of the allegations or may result in a government investigation. Any determination that our operations or activities are not in compliance with existing anti-corruption laws or regulations could result in the imposition of substantial

fines, and other penalties. Although we have implemented anti-corruption policies and controls to protect against violation of these laws, we cannot be certain that these efforts will be effective.

If we are unable to build and integrate our new management team, our business could be harmed.

Since February 2015, our executive management team has undergone significant change, including the termination or resignation from employment of each of our former President and Chief Executive Officer, Chief Financial Officer, Chief Sales Officer, Chief Science Officer and General Counsel. In addition, in May 2015, Darren Jensen joined our company as our new President and Chief Executive Officer; in July 2015, Justin Rose was appointed as our Chief Sales Officer and in August 2015, Mark Jaggi became our Chief Financial Officer.

Our success depends largely on the development and execution of our business strategy by our senior management team. Each of our President and Chief Executive Officer, Chief Sales Officer and Chief Financial Officer is new to our Company and none of them have worked together in the recent past. We cannot assure you that our new management will succeed in working together as a team, working well with our other existing employees or successfully executing our business strategy in the near-term or at all, which could harm our business and financial prospects. Further, integrating new management into existing operations may be challenging. If we are unable to effectively integrate our new executive management team, our operations and prospects could be harmed.

The loss of or inability to attract key personnel could negatively impact our business.

Our future performance will depend upon our ability to attract, retain, and motivate our executive and senior management team and scientific staff. Our success depends to a significant extent both upon the continued services of our current executive and senior management team and scientific staff, as well as our ability to attract, hire, motivate, and retain additional qualified management and scientific staff in the future. Specifically, competition for executive and senior staff in the direct selling and dietary supplement markets is intense, and our operations could be adversely affected if we cannot attract and retain qualified personnel. Additionally, former members of our executive and senior management team have in the past, and could join in the future or form companies that compete against us in the direct selling industry.

All of our employees are “at will” employees, which means any employee may quit at any time and we may terminate any employee at any time. We do not carry “key person” insurance covering members of senior management or our employees.

We may be held responsible for certain taxes or assessments relating to the activities of our independent distributors, which could harm our financial condition and operating results.

Our distributors are subject to taxation, and in some instances, legislation or governmental agencies impose an obligation on us to collect taxes, such as value added taxes, and to maintain appropriate records. In the event that local laws and regulations or the interpretation of local laws and regulations change to require us to treat our independent distributors as employees, or that our distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for social security and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results. If our distributors were deemed to be employees rather than independent contractors, we would also face the threat of increased vicarious liability for their actions.

The dietary supplement market is highly competitive.

Our flagship product, Protandim<sup>®</sup>, competes in the dietary supplements market, which is large, highly competitive and fragmented. Participants include specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, on-line merchants, mail-order companies, and a variety of other smaller participants. Many of our competitors have greater financial and other resources available to them and possess better manufacturing, independent distribution and marketing capabilities than we do. We believe some of these competitors with greater resources are currently working on developing and releasing products that will compete directly with Protandim<sup>®</sup> and be marketed as Nrf2 activators. One or more of these products could significantly reduce the demand for Protandim<sup>®</sup> and have a material adverse effect on our revenue. We believe that the market is also highly sensitive to the introduction of new products, including various prescription drugs, which may rapidly capture a significant share of the market. Moreover, because of regulatory restrictions concerning claims about the efficacy of dietary supplements,

we may have difficulty differentiating our products from our competitors' products, and competing products entering the dietary supplements market could harm our revenue. In the United States and Japan, we also compete for sales with heavily advertised national brands manufactured by large pharmaceutical and food companies, as well as other retailers. In addition, as some products become more mainstream, we experience increased competition for those products as more participants enter the market. Our international competitors include large international pharmacy chains, major international supermarket chains, and other large U.S.-based companies with international operations. We may not be able to

- 25-

---

compete effectively and our attempt to do so may result in increased pricing pressure, which may result in lower margins and have a material adverse effect on our results of operations and financial condition.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products and brand.

The loss of our intellectual property rights in our products could permit our competitors to manufacture their own version of our products. We have attempted to protect our intellectual property rights in our products through a combination of patents, patent applications, confidentiality agreements, non-compete agreements and other contractual protection mechanisms, and we will continue to do so. While we intend to defend against any threats to our intellectual property, our patents or various contractual protections may not adequately protect our intellectual property. In addition, we could be required to expend significant resources to defend our rights to proprietary information, and may not be successful in such defense.

Moreover, our intellectual property rights are more limited outside of the United States than they are in the United States. As such, we may not be successful in preventing third parties from copying or misappropriating our intellectual property. There can also be no assurance that pending patent applications owned by us will result in patents being issued to us, that patents issued to or licensed by us in the past or in the future will not be challenged or circumvented by competitors or that such patents will be found to be valid or sufficiently broad to protect our products or to provide us with any competitive advantage. Third parties could also obtain patents that may require us to negotiate to obtain licenses to conduct our business, and any required licenses may not be available on reasonable terms or at all. We also rely on confidentiality and non-compete agreements with certain employees, independent distributors, consultants and other parties to protect, in part, trade secrets and other proprietary rights. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information or that third parties will not otherwise gain access to our trade secrets or proprietary knowledge.

Third parties might claim that we infringe on their intellectual property rights.

Although the dietary supplement industry has historically been characterized by products with naturally occurring ingredients, recently it is becoming more common for suppliers and competitors to apply for patents or develop proprietary technologies and processes. Third parties may assert intellectual property infringement claims against us despite our efforts to avoid such infringement. Such claims could prevent us from offering competitive products or result in litigation or threatened litigation.

Our business is susceptible to product liability claims.

The manufacture and sale of any product for human consumption raises the risk of product liability claims. These claims may derive from the product itself or a contaminant found in the product from the manufacturing, packaging, sales process or even due to tampering by unauthorized third parties. Our products consist of vitamins, minerals, herbs, and other ingredients that are classified as foods or dietary supplements and are not subject to pre-market regulatory approval in the United States. Our products could contain contaminated substances, and some of our products contain ingredients that do not have long histories of human consumption. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur. In addition, third-party manufacturers produce all of the products we sell. As a distributor of products manufactured by third parties, we may also be liable for various product liability claims for these products despite not manufacturing them. We may be subject to various product liability claims, including, among others, that our products include inadequate instructions for use or inadequate warnings concerning possible side effects and interactions with other substances. Any product liability claim against us could result in increased costs and could adversely affect our reputation with our customers, which in turn could adversely affect our revenues and operating income. Although we maintain insurance coverage, there is a risk that our insurance will not cover our potential exposure completely or would fail to cover a particular claim, in which case we may not have the financial resources to satisfy such claim. In addition, certain types of damages, such as punitive damages, are not covered by our insurance policy.

Economic, political, and other risks associated with our international operations could adversely affect our revenues and international growth prospects.



Edgar Filing: Lifevantage Corp - Form 10-K

As part of our business strategy, we intend to continue to expand our international presence. Our international operations are subject to a number of risks inherent to operating in foreign countries, and any expansion of our international operations will increase the effects of these risks. These risks include, among others:

political and economic instability of foreign markets;

foreign governments' restrictive trade policies;

lack of well-established or reliable legal systems in certain areas in which we operate;

- 26-

---

- inconsistent product regulation or sudden policy changes by foreign agencies or governments;
- the imposition of, or increase in, duties, taxes, government royalties, or non-tariff trade barriers;
- difficulty in collecting international accounts receivable and potentially longer payment cycles;
- the possibility that a foreign government may limit our ability to repatriate cash;
- increased costs in maintaining international marketing efforts;
- problems entering international markets with different cultural bases and consumer preferences; and
- fluctuations in foreign currency exchange rates.

Any of these risks could have a material adverse effect on our international operations and our growth strategy.

#### Risks Related to Ownership of Our Common Stock

The failure to maintain compliance with the continued listing standards of the Nasdaq Capital Market could result in delisting and adversely affect the market price and liquidity of our common stock.

Our common stock is currently listed on the Nasdaq Capital Market. To maintain our listing on the Nasdaq Capital Market we are required to meet its continued listing standards, including, among others, Nasdaq Listing Rule 5550(a)(2), which requires listed securities to maintain a minimum closing bid price of \$1.00 per share (the “Bid Price Rule”).

On April 1, 2015, we received a written notice from Nasdaq notifying us that we had not been in compliance with the Bid Price Rule for a period of 30 consecutive days. The notice has no immediate effect on the listing of our common stock on the Nasdaq Capital Market. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), we have a period of 180 days from the date of the written notice, or until September 28, 2015, to regain compliance with the Bid Price Rule.

To regain compliance with the Bid Price Rule, the closing bid price of our common stock must meet or exceed \$1.00 per share for a minimum of ten consecutive business days during the 180 day compliance period. If we do not regain compliance with the Bid Price Rule during the compliance period ending September 28, 2015, we may be afforded a second compliance period of 180 days if we (i) meet the continued listing requirement for market value of publicly-held shares and all other initial listing standards for the Nasdaq Capital Market, with the exception of the Bid Price Rule, and (ii) notify Nasdaq of our intent to cure the deficiency.

We may be unable to regain compliance with the Bid Price Rule during the compliance period(s), in which case we anticipate Nasdaq will commence proceedings to delist our common stock from the Nasdaq Capital Market. If our common stock is delisted, trading of our common stock most likely will be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities, such as the OTC Bulletin Board. Such trading would likely reduce the market liquidity of our common stock. As a result, an investor would find it more difficult to dispose of, or obtain accurate quotations for the price of, our common stock and the price of our common stock could decline significantly.

Our stock price may experience future volatility.

The trading price of our common stock has historically been subject to wide fluctuations. The price of our common stock may fluctuate in the future in response to quarter-to-quarter variations in operating results, material announcements by us or competitors, governmental regulatory action, conditions in the dietary supplement industry, or other events or factors, many of which are beyond our control, and some of which do not have a strong correlation to our operating performance.

Substantial sales of shares may impact the market price of our common stock.

If our shareholders sell substantial amounts of our common stock, the market price of our common stock may decline. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we consider appropriate.

We would issue up to 3.8 million shares if the holders of our outstanding warrants and options exercise their securities for shares of common stock, which would materially dilute the voting power of our currently outstanding common stock and could cause our stock price to decline.

As of June 30, 2015, we had 97.7 million shares of common stock outstanding. As of June 30, 2015, we also had outstanding warrants that are exercisable for an aggregate of 0.6 million shares of common stock and stock options outstanding for an aggregate of 3.2 million shares of common stock. The issuance of these shares will dilute the voting power of our currently outstanding common stock and could cause our stock price to decline.



We have never paid dividends on our capital stock, and we do not currently anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on any of our classes of capital stock to date. Although during fiscal 2015 we paid an aggregate of \$9.9 million to repurchase 7.6 million shares of our common stock, we currently intend to retain our future earnings, if any, to fund the development and growth of our business. Additionally, the Financing Agreement we entered into in October 2013 contains a customary covenant that restricts our ability to pay dividends. As a result, capital appreciation, if any, of our common stock is likely to be your sole source of gain for the foreseeable future.

#### ITEM 1B — UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2 — PROPERTIES

##### Corporate Offices

During fiscal year 2014, we moved into our corporate headquarters located at 9785 South Monroe Street, Suite 300, Sandy, Utah 84070. The lease for our corporate headquarters is for a term of ten years commencing on February 10, 2015, with an option for us to terminate the lease in our discretion after seven years. The lease includes approximately 44,353 square feet with options to occupy additional space in the future if needed.

In April 2014, we amended the lease for our previous corporate headquarters located at 9815 South Monroe Street in Sandy, Utah, to reduce the size of this location to approximately 8,742 square feet. In June 2015, we subleased this location. The lease for the 9815 South Monroe Street property expires in June 2017.

Our subsidiary, LifeVantage Japan K.K., leases approximately 10,400 square feet of office space in Tokyo, Japan. The term of the lease is for five years expiring on August 1, 2017.

##### Warehouse Facilities

Since fiscal year 2010, IntegraCore, LLC has provided fulfillment services to us, including services relating to procurement, warehousing, ordering, processing and shipping. We have also entered into arrangements to receive similar services in some of our international markets.

#### ITEM 3 — LEGAL PROCEEDINGS

On April 9, 2013, we were sued in the Third Judicial District Court for Salt Lake County, State of Utah. The plaintiff in the lawsuit is Ronald Jones, an independent distributor with our company. The lawsuit alleges that we entered into an agreement with Mr. Jones related to his distributor activities in Hong Kong and that we subsequently breached that agreement. It also alleges that we misappropriated trade secrets that purportedly belong to Mr. Jones. The lawsuit seeks over \$20 million in damages. We believe the allegations made by Mr. Jones are completely without merit and we intend to vigorously defend the lawsuit.

On November 20, 2013, we filed a complaint in the United States District Court, District of Utah, Central Division naming Jason Domingo and Ovation Marketing Group, Inc. as defendants. Ovation Marketing Group, Inc. is a former distributor of our company. In the complaint, we allege the defendants breached a contract and misappropriated our trade secrets. On January 21, 2014, the defendants filed an answer and counterclaim in response to our complaint. The defendants' answer and counterclaims allege defamation and tortious interference with economic relations, which the defendants claim resulted in damages of not less than \$20 million. We believe the counterclaims alleged by the defendants are completely without merit and we intend to vigorously defend against them.

#### ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.

#### PART II

#### ITEM 5 — MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

##### Market Information and Holders

Our common stock began trading on the NASDAQ Capital Market ("NASDAQ") under the symbol "LFVN" in September 2012. Our common stock was previously quoted on the OTC Bulletin Board under the symbol "LFVN."

The table below sets forth, for the fiscal quarters indicated, the reported high and low prices of our common stock, as quoted on NASDAQ or the OTC Bulletin Board, as applicable. These prices were reported by an online service, reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. Our fiscal year-end is June 30.

	Fiscal year		2014	
	2015	Low	High	Low
First Quarter	\$1.55	\$1.12	\$2.68	\$2.13
Second Quarter	\$1.43	\$1.10	\$2.62	\$1.37
Third Quarter	\$1.34	\$0.70	\$1.67	\$1.10
Fourth Quarter	\$0.80	\$0.48	\$1.51	\$1.22

Our common stock is issued in registered form and the following information is taken from the records of our current transfer agent, Computershare Trust Company, Inc., located in Golden, Colorado. As of June 30, 2015, we had 269 shareholders of record and 97.8 million shares of common stock outstanding. This does not include an unknown number of persons who hold shares in street name through brokers and dealers and who are not listed on our shareholder records.

#### Stock Performance Graph

The following line graph and table compares the cumulative total shareholder return on our common stock with the cumulative total return of (i) the NASDAQ Composite Index and (ii) a market-weighted index of publicly-traded peer companies (the "Peer Group") for the period from June 30, 2010 through June 30, 2015. The data shown assumes an investment on June 30, 2010 of \$100 and reinvestment of all dividends into additional shares of the same class of equity, if applicable, to the stock or index. There is no expectation that the rate of return achieved in the prior 5 years will be achievable in the upcoming years.

The Peer Group consists of the following companies, which compete in our industry and product categories: Nature's Sunshine Products, Inc.; Nu Skin Enterprises, Inc.; Mannatech, Incorporated; Herbalife LTD.; Reliv International, Inc.; Avon Products, Inc.; USANA Health Sciences, Inc. and Tupperware Brands Corporation.

Measured Period	LFVN	NASDAQ Composite	Peer Group
June 30, 2010	\$100.00	\$100.00	\$100.00
June 30, 2011	\$294.12	\$132.73	\$142.17
June 30, 2012	\$554.90	\$142.01	\$111.15
June 30, 2013	\$454.90	\$167.01	\$139.34
June 30, 2014	\$282.35	\$219.06	\$144.20
June 30, 2015	\$103.92	\$250.68	\$105.98

#### Dividends

We have not declared any dividends on any class of our equity securities since incorporation, and we do not currently anticipate declaring any dividends. Additionally, the Financing Agreement we entered into in October 2013 contains customary covenants that, among other things, restrict our ability to pay dividends.

#### Purchases of Equity Securities

There were no shares of our common stock issued during the three months ended June 30, 2015, due to the exercise of warrants.

We did not purchase any shares of our common stock during the quarter ended June 30, 2015.

During the three months ended June 30, 2015, we withheld 0.1 million shares to satisfy tax withholding obligations in connection with the partial vesting of restricted stock awards.

#### Recent Sale of Unregistered Securities

During the three months ended June 30, 2015, we did not issue any securities that were not registered under the Securities Act of 1933, as amended.

#### Equity Compensation Plan Information

This information is incorporated by references to Item 12 of this report.

#### ITEM 6 — SELECTED FINANCIAL DATA

The following table summarizes certain historical financial information at the dates and for the periods indicated prepared in accordance with GAAP. The consolidated statement of operations data for each of the years ended June 30, 2015, 2014 and 2013, and the consolidated balance sheet data as of June 30, 2015, and 2014, have been derived from our consolidated financial statements audited by EKS&H LLLP, an independent registered public accounting firm, included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for each of the years ended June 30, 2012 and 2011 and the consolidated balance sheet data as of June 30, 2013, 2012 and 2011 have been derived from our financial statements not included herein. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto, which are included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of operating results to be expected in the future.

Edgar Filing: Lifevantage Corp - Form 10-K

	Years Ended June 30,				
	2015	2014	2013	2012	2011
(In thousands, except per share data)					
Statement of Operations Data:					
Revenue, net	\$190,336	\$213,968	\$208,178	\$126,183	\$38,919
Cost of sales	28,010	33,194	31,845	18,052	5,917
Product recall costs	—	—	4,798	—	—
Gross profit	162,326	180,774	171,535	108,131	33,002
Operating expenses:					
Commission and incentives	91,074	104,525	101,737	57,955	17,132
Selling, general and administrative	57,353	56,801	57,730	28,719	12,168
Total operating expenses	148,427	161,326	159,467	86,674	29,300
Operating income (loss)	13,899	19,448	12,068	21,457	3,702
Other expense, net:					
Interest expense	(3,087 )	(3,177 )	(3 )	(8 )	(5,993 )
Other income (expense), net	(159 )	384	(912 )	(36 )	45
Change in fair value of derivative liabilities	—	—	—	(6,741 )	(48,454 )
Total other expense, net	(3,246 )	(2,793 )	(915 )	(6,785 )	(54,402 )
Income (loss) before income taxes	10,653	16,655	11,153	14,672	(50,700 )
Income tax expense	(3,666 )	(5,272 )	(3,545 )	(2,203 )	(92 )
Net income (loss)	\$6,987	\$11,383	\$7,608	\$12,469	\$(50,792 )
Net income (loss) per share:					
Basic	\$0.07	\$0.11	\$0.07	\$0.12	\$(0.69 )
Diluted	\$0.07	\$0.10	\$0.06	\$0.11	\$(0.69 )
Weighed average shares outstanding:					
Basic	97,293	105,791	112,276	102,696	73,173
Diluted	99,052	111,599	122,888	118,331	73,173
As of June 30,					
	2015	2014	2013	2012	2011
(In thousands)					
Balance Sheet Data:					
Cash and cash equivalents	\$13,905	\$20,387	\$26,299	\$24,648	\$6,721
Working capital	4,615	17,271	25,375	22,800	(3,105 )
Total assets	40,879	53,999	55,484	44,528	12,499
Current liabilities	25,860	22,702	20,566	16,028	13,380
Derivative liabilities	—	—	—	—	19,905
Long-term debt, net of unamortized discount	9,631	25,073	—	—	—
Total liabilities	37,554	50,009	21,539	16,245	33,307
Total stockholders equity (deficit)	3,325	3,990	33,945	28,283	(20,808 )

## ITEM 7 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in connection with our financial statements and related notes beginning on page F-1 following Part III of this report.

### Overview

We are a company dedicated to helping people achieve their health, wellness and financial independence goals. We provide quality, scientifically validated products and a financially rewarding network marketing business opportunity to customers and independent distributors who seek a healthy lifestyle and financial freedom. We engage in the identification, research, development and distribution of advanced nutraceutical dietary supplements and skin care products. We sell our products to independent distributors and preferred customers in two geographic regions: Americas and Asia/Pacific.

Our revenue depends on the number and productivity of our independent distributors and the number of our preferred customers. When we are successful in attracting and maintaining independent distributors and preferred customers, it is largely because of:

- Our scientifically-validated products, including Protandim<sup>®</sup>, LifeVantage TrueScience<sup>®</sup>, Canine Health<sup>®</sup> and Axio<sup>®</sup>;
- Our compensation plan and other sales initiatives; and
- Our goal to deliver superior customer service.

As a result, it is vital to our success that we leverage our product development resources to develop and introduce innovative products and provide opportunities for our independent distributors to sell these products in a variety of markets.

We have begun selling our products in and attracting new independent distributors and preferred customers in several new markets since the beginning of our direct selling activities in 2009, including Japan, Australia, Canada, Mexico, Hong Kong, Thailand and, on a limited basis, the Philippines. Entering a new market requires a considerable amount of time, resources and continued support. If we are unable to properly support an existing or new market, our revenue growth will be negatively impacted.

### Our Products

Our products are Protandim<sup>®</sup>, the LifeVantage TrueScience<sup>®</sup> skin care regimen, Axio<sup>®</sup>, and Canine Health<sup>®</sup>. Protandim<sup>®</sup> contains a proprietary blend of ingredients and has been shown to combat oxidative stress by increasing the body’s natural antioxidant protection at the genetic level, inducing the production of naturally-occurring protective antioxidant enzymes including superoxide dismutase, catalase, and glutathione synthase. Our LifeVantage TrueScience<sup>®</sup> skin care regimen includes TrueScience<sup>®</sup> Ultra Gentle Facial Cleanser, TrueScience<sup>®</sup> Perfecting Lotion, TrueScience<sup>®</sup> Eye Corrector Serum, and our enhanced TrueScience<sup>®</sup> Anti-Aging Cream. Axio<sup>®</sup> is our energy drink mix formulated to promote alertness and support mental performance. Canine Health<sup>®</sup> is a supplement specially formulated to combat oxidative stress in dogs through Nrf2 activation. The following table shows revenues by major product line for the years ended June 30, 2015, 2014 and 2013.

	For the years ended June 30,								
	2015			2014			2013		
Protandim <sup>®</sup>	\$120,967	63.6	%	\$142,935	66.8	%	\$138,996	66.8	%
LifeVantage TrueScience <sup>®</sup> skin care regimen	38,287	20.1	%	46,474	21.7	%	42,229	20.3	%
Other	31,082	16.3	%	24,559	11.5	%	26,953	12.9	%
Total	\$190,336	100.0	%	\$213,968	100.0	%	\$208,178	100.0	%

The Company's revenues are largely attributed to two products lines, Protandim<sup>®</sup> and the LifeVantage TrueScience<sup>®</sup> skin care regimen, which each accounted for more than 10% of total revenues for each of the years ended June 30, 2015, 2014 and 2013. On a combined basis, these products represent approximately 83.7%, 88.5% and 87.1% of our worldwide gross revenues for the years ended June 30, 2015, 2014 and 2013, respectively.





We currently have additional products in development. Any delays or difficulties in introducing compelling products or attractive initiatives or tools into our markets may have a negative impact on our revenue and our ability to attract new independent distributors and preferred customers.

Customers

Because we utilize a direct selling model for the distribution of our products, the success and growth of our business is primarily based on the effectiveness of our independent distributors in selling our products and on our ability to attract new and retain existing independent distributors. Changes in our product sales are typically the result of variations in product sales volume relating to fluctuations in the number of active independent distributors and preferred customers purchasing our products. The number of active independent distributors and preferred customers is, therefore, used by management as a key non-financial measure.

The following tables summarize the changes in our active customer base by geographic region. These numbers have been rounded to the nearest thousand as of the dates indicated. For purposes of this report, we only count as active customers those independent distributors and preferred customers who have purchased from us at any time during the most recent three-month period, either for personal use or for resale. We believe that the decrease in overall preferred customers is a result of a majority of our efforts being focused on attracting independent distributors who both consume our products and seek out others who will also purchase and consume our products.

Active Independent Distributors By Region

	As of June 30, 2015			As of June 30, 2014			Change from	Percent
			%			%	Prior Year	Change
Americas	44,000	67.7	%	44,000	64.7	%	—	—
Asia/Pacific	21,000	32.3	%	24,000	35.3	%	(3,000 )	(12.5 )%
	65,000	100.0	%	68,000	100.0	%	(3,000 )	(4.4 )%

Active Preferred Customers By Region

	As of June 30, 2015			As of June 30, 2014			Change from	Percent
			%			%	Prior Year	Change
Americas	94,000	81.7	%	107,000	83.6	%	(13,000 )	(12.1 )%
Asia/Pacific	21,000	18.3	%	21,000	16.4	%	—	—
	115,000	100.0	%	128,000	100.0	%	(13,000 )	(10.2 )%

Income Statement Presentation

We report revenue in two geographic regions and we translate revenue from each market's local currency into U.S. dollars using weighted-average exchange rates. Revenue consists primarily of product sales, fee revenues, and shipping and handling fees net of applicable sales discounts. Revenue is recognized upon the passage of title and risk of loss to customers. Also reflected in revenue is a provision for product returns and allowances, which is estimated based on our historical experience. The following table sets forth net revenue information by region for the periods indicated. The following table should be reviewed in connection with the tables presented under "Results of Operations" (in thousands):

	For the years ended June 30,								
	2015			2014			2013		
Americas	\$138,118	72.6	%	\$141,227	66.0	%	\$133,046	63.9	%
Asia/Pacific	52,218	27.4	%	72,741	34.0	%	75,132	36.1	%
Total	\$190,336	100	%	\$213,968	100	%	\$208,178	100	%

Cost of sales primarily consists of costs of products purchased from and manufactured by third-party vendors, costs of adjustments to inventory carrying value, and costs of sales materials which we sell to our sales force, as well as freight, duties and taxes that are associated with the import and export of our products. As our international sales increase as a percentage of total revenue, cost of sales are increasingly affected by additional duties, freight, and other factors, such as changes in currency exchange rates.

Commissions and incentives expenses are our most significant expenses and are classified as operating expenses. Commissions and incentives expenses include sales commissions paid to our independent distributors, special incentives, costs



for incentive trips and other rewards. Commissions and incentives expenses do not include any amounts we pay to our independent distributors for personal purchases. Commissions paid to independent distributors on personal purchases are considered a sales discount and are reported as a reduction to our net revenue. Our global sales compensation plan, which we employ in all our markets, is an important factor in our ability to attract and retain our independent distributors. Under our global sales compensation plan, independent distributors can earn commissions for product sales to their preferred customers as well as the product sales made through the sales network they have developed and trained. We do not pay commissions on sales materials, which are sold to our independent distributors. Commissions and incentives expenses, as a percentage of revenue, may increase in connection with limited-time offers due to growth in the number of independent distributors qualifying for increased sales compensation and promotional incentives. From time to time, we make modifications and enhancements to our global sales compensation plan in an effort to help motivate our sales force and develop leadership characteristics, which can have an impact on commissions and incentives expenses.

Selling, general and administrative expenses include wages and benefits, marketing and event costs, professional fees, rents and utilities, depreciation and amortization, research and development, travel costs, and other operating expenses. Wages and benefits represent the largest component of selling, general and administrative expenses. Marketing and event costs include costs of distributor conventions and events held in various markets worldwide, which we expense in the period in which they are incurred. Marketing and event costs also include expenses associated with our sponsorship of the Major League Soccer team, Real Salt Lake.

Sales to customers outside the United States are transacted in the respective local currencies and are translated to U.S. dollars at weighted-average currency exchange rates for each monthly accounting period to which they relate. Consequently, our net sales and earnings are affected by changes in currency exchange rates. In general, sales and gross profit are affected positively by a weakening U.S. dollar and negatively by a strengthening U.S. dollar. Currency fluctuations, however, have the opposite effect on our commissions paid to independent distributors and selling, and general and administrative expenses. In our revenue discussions that follow, we approximate the impact of currency fluctuations on revenue by translating current year revenue at the average exchange rates in effect during the comparable prior year periods.

#### Results of Operations

For the fiscal years ended June 30, 2015, 2014, and 2013, we generated net revenues of \$190.3 million, \$214.0 million and \$208.2 million, respectively, recognized operating profit of \$13.9 million, \$19.4 million and \$12.1 million, respectively, and recognized net income of \$7.0 million, \$11.4 million and \$7.6 million, respectively.

The following table presents certain consolidated earnings data as a percentage of net revenue:

	For the years ended,					
	June 30, 2015		June 30, 2014		June 30, 2013	
		%		%		%
Revenue, net	100.0		100.0		100.0	
Cost of sales	14.7		15.5		15.3	
Product recall costs	—		—		2.3	
Gross profit	85.3		84.5		82.4	
Operating expenses:						
Commissions and incentives	47.8		48.9		48.9	
Selling, general and administrative	30.1		26.5		27.7	
Total operating expenses	77.9		75.4		76.6	
Operating income	7.4		9.1		5.8	
Other income (expense):						
Interest expense	(1.6	)	(1.5	)	—	
Other income (expense), net	(0.1	)	0.2		(0.4	)
Total other income (expense)	(1.7	)	(1.3	)	(0.4	)
Income before income taxes	5.7		7.8		5.4	
Income tax expense	(1.9	)	(2.5	)	(1.7	)
Net income	3.8	%	5.3	%	3.7	%

Edgar Filing: Lifevantage Corp - Form 10-K

Comparison of Fiscal Years Ended June 30, 2015 and 2014

Revenue, net. We generated net revenue of \$190.3 million and \$214.0 million during the years ended June 30, 2015 and 2014, respectively. This included decreases in both the Americas region and the Asia/Pacific region. Foreign currency

- 34-

---

fluctuations negatively impacted our net revenue \$6.0 million or 2.8%, which is related primarily to our Asia/Pacific region. The overall decrease in sales of \$23.6 million in fiscal 2015 was primarily due to a decrease of \$20.5 million in sales in the Asia/Pacific region caused by both the negative foreign currency impact on sales and distractions in the distributor force in Japan.

Americas. The following table sets forth revenue for the years ended June 30, 2015 and 2014 for the Americas region (in thousands):

	For the years ended June 30,		
	2015	2014	% change
United States	\$ 132,831	\$ 136,758	(2.9 )%
Other	5,287	4,469	18.3 %
Americas Total	\$ 138,118	\$ 141,227	(2.2 )%

Revenue in the Americas region for the year ended June 30, 2015 decreased \$3.1 million or 2.2%. The decrease in revenue during the year ended June 30, 2015 is due to a decrease in the number of active preferred customers of 12.1% and lower volume of product sales in the region as compared to the prior year same period, offset partially by additional product purchases associated with the launch of Axio<sup>®</sup>, our new energy drink product.

Asia/Pacific. The following table sets forth revenue for the years ended June 30, 2015 and 2014 for the Asia/Pacific region and its principal markets (in thousands):

	For the years ended June 30,		
	2015	2014	% change
Japan	\$ 41,428	\$ 61,872	(33.0 )%
Hong Kong	5,963	7,347	(18.8 )%
Other	4,827	3,522	37.1 %
Asia/Pacific Total	\$ 52,218	\$ 72,741	(28.2 )%

Revenue in the region for the year ended June 30, 2015 was negatively impacted approximately \$5.5 million, or 7.6%, by foreign currency exchange rate fluctuations.

Local currency revenue in Japan decreased 24.4% in fiscal 2015 compared to fiscal 2014. During the year ended June 30, 2015 the Japanese yen weakened against the U.S. dollar, negatively impacting our revenue in this market by \$5.3 million or 8.6%. In addition to the negative impact of foreign currency fluctuations, product sales volume decreased in Japan and Hong Kong. The negative impact of foreign currency rate fluctuations and the decrease in product sales was partially offset by an increase in volume of product sales in Australia, Philippines and Thailand. All of our sales and marketing efforts continue to be directed toward building our network marketing sales. We expect increased revenue in the Americas region as we continue to focus on our growth initiatives, specifically product development and sales and marketing. We expect revenue in Australia, Hong Kong, and the Philippines to remain relatively consistent as we continue to provide similar levels of support as previous periods. Overall, we expect revenues to increase moderately as we continue to focus on strengthening our sales and marketing efforts, product innovation, and expanding our geographic reach.

We continue to face significant challenges in our Japan market, with our biggest challenge being the contraction in revenue. We believe that continued attempts by former distributors, including two previous lead distributors, who terminated their distributorships in June 2014 after being suspended for ongoing violations of our policies and procedures, to recruit our distributors to another network marketing company has continued to be a distraction and negatively impact our business in that market.

While there continues to be uncertainty regarding the full impact these distractions will have on future revenue, we have taken actions to mitigate the impact and we continue to monitor the progress of these actions. We have commenced and continue to take legal action against the company to which some of our former distributor leaders have moved, but anticipate that will take time to complete. In addition, we are working to unify our Japan distributor base, starting with our distributor leaders in the market. We have restructured our Japan field advisory board, with the intended effect to streamline the partnership process and focus leaders on positive in-country distributor activities. In addition to promoting greater leadership and unity in the market, we are focused on creating country-specific marketing tools and materials that we believe will be of significant benefit to our distributors as they build their

businesses.

- 35-

---

**Gross Margin.** Cost of sales were \$28.0 million for the year ended June 30, 2015, and \$33.2 million for the year ended June 30, 2014, resulting in a gross margin of \$162.3 million, or 85%, and \$180.8 million, or 84%, respectively. The increase in gross margin as a percent of revenues was primarily due to cost recoveries from insurance of approximately \$2.0 million that were received during the first quarter of fiscal year 2015. We expect the gross margin percentage to be in the 84-85% range for the foreseeable future based on our expected inventory and manufacturing costs. Economic conditions and changes in the supply of raw materials, new products with differing raw material cost basis, and additional manufacturing process costs could negatively impact our gross margins in the future.

**Operating Expenses.** Total operating expenses for the year ended June 30, 2015 were \$148.4 million as compared to operating expenses of \$161.3 million for the year ended June 30, 2014. Operating expenses consist of commissions and incentives expenses and selling, general and administrative expenses. Operating expenses as a percentage of revenue increased to 77.9% for the year ended June 30, 2015 from 75.4% for the year ended June 30, 2014. The decrease of \$12.9 million in operating expenses is due primarily to decreased commissions and incentives expenses caused by our decreased sales. The increase in operating expenses as a percentage of revenues is due to increased wage and salary expenses associated with changes in the Company's executive team as well as increased costs related to marketing events held during the fiscal year ended June 30, 2015.

Primary factors that may cause our operating expenses to fluctuate in the future include changes in the number of employees, foreign exchange rates, and the impact of our variable compensation programs, which are driven by overall operating results. A fluctuation in our stock price may also impact our share-based compensation expense recorded for liability classified awards.

**Commissions and Incentives.** Commissions and incentives expenses for the fiscal year ended June 30, 2015 were \$91.1 million or 47.8% of revenue compared to \$104.5 million or 48.9% of revenue for the fiscal year ended June 30, 2014. The decrease in expense of \$13.5 million in fiscal year 2015 was due primarily to the overall decrease in sales. We expect commissions and incentives expenses to remain relatively stable as a percentage of net sales, with some small fluctuations caused by changes to compensation and incentive programs.

**Selling, General and Administrative.** Selling, general and administrative expenses for the year ended June 30, 2015 were \$57.4 million compared to \$56.8 million for the fiscal year ended June 30, 2014. The increase of \$0.6 million was primarily due to increased wage expenses associated with changes in the executive team and increased research and development costs due to increased spending on product innovation.

We expect selling, general and administrative expenses, as a percent of revenue, to increase as a result of our strategic initiatives around strengthening our sales and marketing efforts, product innovation, and expanding our geographic reach.

**Other Income (Expense).** We recognized other expense for the year ended June 30, 2015 of \$3.2 million as compared to \$2.8 million for the year ended June 30, 2014. Other expense for the year ended June 30, 2015 consisted primarily of interest expense of \$3.1 million and the impact of changes in foreign currency exchange rates. As of June 30, 2015, we had no derivative liability instruments outstanding and do not expect to recognize expense or income relating to derivative liability in future periods.

The following table sets forth interest expense for the years ended June 30, 2015 and 2014 (in thousands):

	For the years ended June 30,	
	2015	2014
Contractual interest expense:		
2013 Term Loan	\$2,633	\$2,732
Amortization of deferred financing fees:		
2013 Term Loan	255	158
Amortization of debt discount:		
2013 Term Loan	198	123
Other	1	164
Total interest expense	\$3,087	\$3,177

**Income Tax Expense.** Our income tax expense for the year ended June 30, 2015 was \$3.7 million as compared to income tax expense of \$5.3 million for the year ended June 30, 2014. Our provision for income taxes for the year



ended June 30, 2015 consisted primarily of federal, state, and foreign tax on anticipated fiscal 2015 income which was partially offset by tax benefits

- 36-

---

related to research and development credits and a deduction for domestic production activities. We expect our income tax expense and effective tax rate to increase as our taxable income increases and our effective rate approaches normal statutory rates in future periods.

Net Income. As a result of the foregoing factors, net income for the year ended June 30, 2015 decreased to \$7.0 million compared to \$11.4 million for the year ended June 30, 2014.

Comparison of Fiscal Years Ended June 30, 2014 and 2013

Revenue. We generated net revenue of \$214.0 million and \$208.2 million during the years ended June 30, 2014 and 2013, respectively. This included an increase in net revenue in the Americas region and a slight decline in net revenue in the Asia/Pacific region. Foreign currency fluctuations negatively impacted our net revenue \$10.4 million or 5.0%, which is related primarily to our Asia/Pacific region. The increase in sales of \$5.8 million in fiscal 2014 was primarily due to an increase of 2.3% in active independent distributors in the Americas as well as the successful introduction of a full line of anti-aging skin care products under our LifeVantage TrueScience® brand in fiscal 2014.

Americas. The following table sets forth revenue for the years ended June 30, 2014 and 2013 for the Americas region (in thousands):

	For the years ended June 30,			
	2014	2013	% change	
United States	\$ 136,758	\$ 131,508	4.0	%
Other	4,469	1,538	190.6	%
Americas Total	\$ 141,227	\$ 133,046	6.1	%

Revenue in the Americas region for the year ended June 30, 2014 increased \$8.2 million or 6.1%. The increase in revenue during the year ended June 30, 2014 is due to an increased number of active independent distributors and higher volume of product sales in the region as compared to the prior year same period, including additional product sales associated with the launch of our full line of anti-aging skin care products under our LifeVantage TrueScience® brand.

Asia/Pacific. The following table sets forth revenue for the years ended June 30, 2014 and 2013 for the Asia/Pacific region and its principal markets (in thousands):

	For the years ended June 30,			
	2014	2013	% change	
Japan	\$61,872	\$69,491	(11.0)	)%
Hong Kong	7,347	2,478	100.0	%
Other	3,522	3,163	11.3	%
Asia/Pacific Total	\$72,741	\$75,132	(3.2)	)%

Revenue in the region for the year ended June 30, 2014 was negatively impacted approximately \$10.1 million, or 13.5%, by foreign currency exchange rate fluctuations.

Local currency revenue in Japan increased 3.2% in fiscal 2014 compared to fiscal 2013. During the year ended June 30, 2014 the Japanese yen weakened against the U.S. dollar, negatively impacted our revenue in this market by \$9.8 million or 14.1%. The negative impact of foreign currency rate fluctuations was partially offset by an increase in volume of product sales in Japan and Hong Kong. Effective April 1, 2014 we implemented a price increase in our Japan market of 20% to offset the yen devaluation.

Gross Margin. Cost of sales were \$33.2 million for the year ended June 30, 2014, and \$36.6 million for the year ended June 30, 2013, resulting in a gross margin of \$180.8 million, or 84%, and \$171.5 million, or 82%, respectively. The increase in gross margin was primarily caused by our voluntary recall which occurred in the prior fiscal year, December 2012.

Operating Expenses. Total operating expenses for the year ended June 30, 2014 were \$161.3 million as compared to operating expenses of \$159.5 million for the year ended June 30, 2013. Operating expenses consist of commission and incentives expenses and selling, general and administrative expenses. The increase of \$1.9 million in operating expenses was due to an increase in commissions and incentives expenses on our increased sales and partially offset by a reduction in selling, general and administrative expenses.



Commissions and Incentives. Commissions and incentives expenses for the year ended June 30, 2014 were \$104.5 million or 48.9% compared to \$101.7 million or 48.9% for the fiscal year ended June 30, 2013. The increase in expense of \$2.8 million in fiscal year 2014 was due primarily to commissions incurred on increased sales.

Selling, General and Administrative. Our selling, general and administrative expenses for the year ended June 30, 2014 were \$56.8 million compared to \$57.7 million for the fiscal year ended June 30, 2013. The decrease of \$0.9 million was primarily due to a decrease in research and development costs that resulted from a reduction in salaries and benefits related to the retirement of our former Chief Science Officer, Dr. McCord, and partially offset by increased spending on product innovation and an increase in salaries and wages as a result of hiring additional key employees.

Other Income (Expense). We recognized net other expense for the year ended June 30, 2014 of \$2.8 million as compared to \$0.9 million for the year ended June 30, 2013. Other expense for the year ended June 30, 2014 consisted primarily of interest expense of \$3.2 million offset by income related to a government-sponsored business development incentive and impacts of changes in foreign currency exchange rates.

Income Tax Expense. Our income tax expense for the year ended June 30, 2014 was \$5.3 million as compared to income tax expense of \$3.5 million for the year ended June 30, 2013. The decrease in tax expense is primarily due to the decrease in income before taxes for the fiscal year ended June 30, 2014 as compared to the fiscal year ended June 30, 2013. The effective tax rates remained consistent at 31.50% and 31.70% for the fiscal years ended June 30, 2014 and 2013, respectively.

Net Income. As a result of the foregoing factors, net income decreased to \$11.4 million for the year ended June 30, 2014 compared to \$7.6 million in for the year ended June 30, 2013.

#### Liquidity and Capital Resources

##### Liquidity

Our primary liquidity and capital resource requirements are to service our debt and finance the cost of our planned operating expenses and working capital (principally inventory purchases), as well as capital expenditures and stock repurchases. We have generally relied on cash flow from operations to fund operating activities and we have, at times, incurred long-term debt in order to fund stock repurchases and strategic transactions.

At June 30, 2015, our cash and cash equivalents were \$13.9 million. This represented a decrease of \$6.5 million from the \$20.4 million in cash and cash equivalents as of June 30, 2014. During the fiscal year ended June 30, 2015, our net cash provided by operating activities was \$13.2 million as compared to net cash provided by operating activities of \$12.1 million during the fiscal year ended June 30, 2014. The increase in cash provided by operating activities during the fiscal year ended June 30, 2015 is primarily due to increased collection of receivables and a decrease in prepayments made for expenses during the fiscal year ended June 30, 2015, partially offset by the decrease in net income for fiscal year 2015 compared to fiscal year 2014.

During the fiscal year ended June 30, 2015, our net cash used in investing activities was \$1.2 million, primarily due to capital expenditures. During the fiscal year ended June 30, 2014, our net cash used in investing activities was \$2.2 million, also primarily due to capital expenditures.

Cash used in financing activities during the fiscal year ended June 30, 2015 was \$18.5 million, compared to \$15.8 million during the fiscal year ended June 30, 2014. Cash used in financing activities during the fiscal year ended June 30, 2015 included principal payments on the Term Loan entered into in October 2013 totaling \$9.2 million and repurchases of shares of our common stock totaling \$9.9 million. Cash used in financing activities during the fiscal year ended June 30, 2014 was primarily due to the repurchases of shares of our common stock of \$46.2 million that was partially offset by proceeds from the Term Loan of \$45.8 million. Principal payments of \$16.2 million were made towards the Term Loan during the fiscal year ended June 30, 2014.

At June 30, 2015 and 2014, the total amount of our foreign subsidiary cash was \$5.2 million and \$2.8 million, respectively. For earnings considered to be indefinitely reinvested, we have not accrued taxes. If we were to remit the cash and cash equivalents from our foreign subsidiaries to our U.S. consolidated group for the purpose of repatriation of undistributed earnings, we would need to accrue and pay taxes. As of June 30, 2015, our U.S. consolidated group had approximately \$0.1 million of permanently reinvested unremitted earnings from our subsidiaries, and if these earnings were remitted, the impact of any tax consequences on our overall liquidity position would not be material.

Edgar Filing: Lifevantage Corp - Form 10-K

We do not have any plans to repatriate these unremitted earnings to our parent; therefore, we do not have any liquidity concerns relating to these unremitted earnings and related cash and cash equivalents.

At June 30, 2015, we had working capital (current assets minus current liabilities) of \$4.6 million compared to working capital of \$17.3 million at June 30, 2014. The decrease in working capital was due primarily to decreases in cash, income tax

- 38-

---

receivable, and prepaid expenses as well as an increase in short term debt. We believe that our cash and cash equivalents balances and our ongoing cash flow from operations will be sufficient to satisfy our cash requirements for at least the next 12 months. The majority of our historical expenses have been variable in nature and, as such, a potential reduction in the level of revenue would reduce our cash flow needs. In the event that our current cash balances and future cash flow from operations are not sufficient to meet our obligations or strategic needs, we would consider raising additional funds, which may not be available on terms that are acceptable to us, or at all. Our credit facility, however, contains covenants that restrict our ability to raise additional funds in the debt or equity markets and repurchase our equity securities without prior approval from the lender. Additionally, we would consider realigning our strategic plans including a reduction in capital spending.

#### Capital Resources

On October 18, 2013, we entered into a Financing Agreement providing for a term loan facility in an aggregate principal amount of \$47 million (the "Term Loan") and a delayed draw term loan facility in an aggregate principal amount not to exceed \$20 million (the "Delayed Draw Term Loan"). The Delayed Draw Term Loan was available for borrowing in specified minimum amounts from time to time beginning after the effective date (as defined in the Financing Agreement) until October 18, 2014 or until the Delayed Draw Term Loan is reduced to zero, if earlier. We did not borrow any amounts under the Delayed Draw Term Loan.

On May 1, 2015, we entered into an Amendment No. 1 to Financing Agreement ("Amendment No. 1"). Amendment No. 1 revised the covenants relating to minimum consolidated EBITDA (as defined in the Financing Agreement) for the four consecutive fiscal quarters ending March 31, 2015 and June 30, 2015 from \$20.6 million and \$21.3 million, respectively, to \$17.0 million for each quarter end. Amendment No. 1 also revised the minimum unrestricted cash and cash equivalents that we are required to hold from \$10.0 million to \$8.0 million for the reporting periods ended March 31, 2015 and June 30, 2015. In addition, Amendment No. 1 required that we make certain accelerated principal payments on the Term Loan totaling \$4.5 million during the fourth quarter of fiscal year 2015.

On August 27, 2015 we entered into an Amendment No. 2 to Financing Agreement ("Amendment No. 2" and collectively, with the Term Loan, the "Credit Facility"). Amendment No. 2 revised the covenants related to minimum consolidated EBITDA (as defined in the amended Financing Agreement) for the four consecutive fiscal quarters ending September 30, 2015, December 31, 2015, March 31, 2016 and June 30, 2016 from \$22.2 million, \$23.1 million, \$24.4 million and \$25.6 million, respectively, to \$14.5 million, \$15.0 million, \$17.0 million and \$17.5 million, respectively. In addition, Amendment No. 2 requires that we make additional monthly accelerated principal payments on the Term Loan in the amount of \$0.5 million commencing on October 15, 2015 and continuing until the Term Loan has been paid in full. Amendment No. 2 also requires that we make additional accelerated payments at the end of each calendar quarter in the amount of all unrestricted cash on hand as of the close of business on the last day of the quarter in excess of \$12.5 million.

The Credit Facility contains customary negative covenants that, among other things, restrict us from undertaking specified corporate actions such as creation of liens, incurrence of additional indebtedness, making certain investments with affiliates, changes of control, having excess foreign cash, issuance of equity, repurchasing our equity securities, and making certain restricted payments, including dividends, without prior approval from the lender. At June 30, 2015, we were in compliance with the applicable non-financial and restrictive covenants under the Term Loan. Additionally, management anticipates that in the normal course of operations, we will be in compliance with the non-financial and restrictive covenants during the ensuing year.

The Credit Facility also contains various financial covenants that require us to maintain a certain consolidated EBITDA, certain leverage and fixed charges ratios as well as a minimum level of liquidity. Specifically, after giving effect to Amendment No. 1 and Amendment No. 2, we must:

Have a consolidated EBITDA (as defined in the Financing Agreement) for the four consecutive fiscal quarters ending September 30, 2015, December 31, 2015, March 31, 2016 and June 30, 2016 of \$14.5 million, \$15.0 million, \$17.0 million and \$17.5 million, respectively. Our consolidated EBITDA requirement increases over time to \$25.6 million for the four consecutive fiscal quarters ending September 30, 2016 and each period of four consecutive fiscal quarters ending each December 31, March 30, June 30, and September 30, thereafter;

•

Edgar Filing: Lifevantage Corp - Form 10-K

Have a total leverage ratio (as defined in the Financing Agreement) of less than 1.78 to 1.00 for the quarter ended June 30, 2015. Our leverage ratio requirement decreases over time to 1.25 to 1.00 for the quarter ended June 30, 2016, and remains level thereafter;

Have a fixed charge ratio (as defined in the Financing Agreement) of greater than 1.25 to 1.00 for the four consecutive fiscal quarters ending June 30, 2015 and for each of the four consecutive quarters ending thereafter; and

- 39-

---

For the fiscal quarter ending September 30, 2015 have no less than \$7.0 million in unrestricted cash and cash equivalents at any time when the total leverage ratio is greater than 1.25 to 1.00, and for all fiscal quarters ending subsequent to September 30, 2015 have no less than \$8.0 million in unrestricted cash and cash equivalents at any time when the total leverage ratio is greater than 1.25 to 1.00.

At June 30, 2015, we were in compliance with all applicable financial covenants including those under the amended Credit Facility. We anticipate that in the absence of a significant increase to our consolidated EBITDA we likely will not meet our consolidated EBITDA covenants for the reporting periods subsequent to June 30, 2016. We will work with our lender to further revise our financial covenants under the Credit Facility as needed. While we expect to be successful in negotiating with our lender to revise the consolidated EBITDA covenant to a level that will be achievable in light of our current business, it is possible that these negotiations will be unsuccessful.

#### Commitments and Obligations

The following table summarizes our contractual payment obligations and commitments as of June 30, 2015 (in thousands):

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Long-term debt obligations	\$21,625	\$11,141	\$10,484	\$—	\$—
Interest on long-term debt obligations	1,993	1,444	549	—	—
Operating lease obligations	13,835	2,427	5,013	4,003	2,392
Total	\$37,453	\$15,011	\$16,046	\$4,003	\$2,392

#### Off-Balance Sheet Arrangements

At June 30, 2015 and 2014, we had no off-balance sheet arrangements.

#### Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments, and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates. Our significant accounting policies are described in Note 2 to our financial statements. Certain of these significant accounting policies require us to make difficult, subjective, or complex judgments or estimates. We consider an accounting estimate to be critical if (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

There are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements. Management has discussed the development and selection of these critical accounting estimates with our board of directors, and the audit committee has reviewed the disclosures noted below.

#### Allowances for Product Returns

We record allowances for product returns at the time we ship the product based on estimated return rates. Subject to some exceptions based on local regulations, customers may return unopened product to us within 30 days of purchase for a refund of the purchase price less shipping and handling. As of June 30, 2015, our shipments of products sold totaling approximately \$14.1 million were subject to our return policy. In addition, we allow terminating distributors to return up to 30% of unopened, unexpired product that they purchased within the prior twelve months.

We monitor our return estimate on an ongoing basis and revise the allowances to reflect our experience. Our allowance for product returns was \$0.1 million at June 30, 2015, compared with \$0.6 million at June 30, 2014. To date, product expiration dates have not played any role in product returns, and we do not expect they will in the future because it is unlikely that we will ship product with an expiration date earlier than the latest allowable product return date.





#### Inventory Valuation

We value our inventory at the lower of cost or market value on a first-in, first-out basis. Accordingly, we reduce our inventories for the diminution of value resulting from product obsolescence, damage or other issues affecting marketability equal to the difference between the cost of the inventory and its estimated market value. Factors utilized in the determination of estimated market value include (i) current sales data and historical return rates, (ii) estimates of future demand, (iii) competitive pricing pressures, (iv) new production introductions, (v) product expiration dates, and (vi) component and packaging obsolescence.

We have recorded \$0.3 million of obsolescence costs for the year ended June 30, 2015. For the year ended June 30, 2014 we recorded \$0.8 million of inventory write-downs primarily related to our voluntary recall in December 2012.

#### Revenue Recognition

We ship the majority of our product directly to the consumer and receive substantially all payment for these sales in the form of credit card receipts. Revenue from direct product sales to customers is recognized upon passage of title and risk of loss.

#### Stock-Based Compensation

We use the fair value approach to account for stock-based compensation in accordance with current accounting guidance. We recognize compensation costs for awards with performance conditions when we conclude it is probable that the performance conditions will be achieved. We reassess the probability of vesting at each balance sheet date and adjust compensation costs based on our probability assessment. For awards with market conditions, the cost of the awards is recognized as the requisite service is rendered by the employees, regardless of when, if ever, the market conditions are satisfied.

#### Research and Development Costs

We expense all of our costs related to research and development activities as incurred.

#### Recently Issued Accounting Standards

Refer to “Item 8. Financial Statements and Supplementary Data” and Note 2 to our consolidated financial statements included in Item 15 of this report for discussion regarding the impact of accounting standards that were recently issued but not yet effective, on our consolidated financial statements.

#### ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### Foreign Currency Risk

During the year ended June 30, 2015, approximately 30% of our net revenue was realized outside of the United States. The local currency of each international subsidiary is generally the functional currency. All revenues and expenses are translated at weighted average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Currency fluctuations, however, have the opposite effect on our expenses incurred outside the U.S. Given the large portion of our business derived from Japan, any weakening of the Japanese Yen will negatively impact our reported revenue and profits, whereas a strengthening of the Japanese Yen will positively impact our reported revenue and profits. Because of the uncertainty of exchange rate fluctuations, it is difficult to predict the effect of these fluctuations on our future business, product pricing and results of operations or financial condition. Changes in various currency exchange rates affect the relative prices at which we sell our products. We regularly monitor our foreign currency risks and periodically take measures to reduce the risk of foreign exchange rate fluctuations on our operating results. Additionally, we may seek to reduce our exposure to fluctuations in foreign currency exchange rates through the use of foreign currency exchange contracts. We do not use derivative financial instruments for trading or speculative purposes. At June 30, 2015, we did not have any derivative instruments. A 10% strengthening of the U.S. Dollar compared to all of the foreign currencies in which we transact business would have

resulted in a 2.8% decrease of our 2015 fiscal year revenue, in the amount of \$5.2 million.

- 41 -

---

Following are the average currency exchange rates of U.S. \$1 into local currency for each of our international or foreign markets:

	Year ended June 30, 2015				Year ended June 30, 2014			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Japan	103.93	114.47	119.17	121.35	98.93	100.41	102.83	102.15
Australia	1.08	1.17	1.27	1.29	1.09	1.08	1.12	1.07
Hong Kong	7.75	7.76	7.76	7.75	7.76	7.75	7.76	7.75
Mexico	13.12	13.87	14.95	15.32	12.91	13.02	13.24	13.00
Canada	1.09	1.14	1.24	1.23	1.04	1.05	1.10	1.09
Thailand	32.17	32.77	32.71	33.29	31.51	31.77	32.72	32.51

#### Interest Rate Risks

As of June 30, 2015, we had \$21.6 million in variable rate debt issued pursuant to the Financing Agreement we entered into in October 2013. Based on the amount of our variable debt as of June 30, 2015, a hypothetical 100 basis point increase or decrease in interest rates on our variable rate debt would increase or decrease our annual interest expense by approximately \$0.2 million. This change in market risk exposure was driven by our borrowings in connection with our repurchase of shares of our common stock under the November 2013 Dutch auction tender offer in which we accepted for payment an aggregate of 16.3 million shares of our common stock at an aggregate purchase price of \$40.0 million.

#### ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is set forth in the consolidated financial statements included in Item 15 of this report and is incorporated into this Item 8 by reference.

#### ITEM 9 — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

#### ITEM 9A — CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. The term disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified by the SEC’s rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2015. Such evaluation was based on the framework set forth in the report entitled Internal Control — Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The COSO framework summarizes each of the components of a company’s internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. Based on this evaluation, our management, including our Chief Executive Officer and Chief Financial Officer has concluded that our internal control over financial reporting was effective as of June 30, 2015.

The effectiveness of our internal control over financial reporting as of the end of the period covered by this report has been audited by EKS&H LLLP, an independent registered public accounting firm, as stated in their report which appears herein.

### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) or 15d-15(d) that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### ITEM 9B — OTHER INFORMATION

None.

### PART III

Certain information required by Part III of this report is omitted from this report pursuant to General Instruction G(3) of Form 10-K because we will file a definitive proxy statement pursuant to Regulation 14A for our 2015 annual meeting of shareholders (the “Proxy Statement”) not later than 120 days after the end of the fiscal year covered by this report, and the information included in the Proxy Statement that is required by Part III of this report is incorporated herein by reference.

### ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

### ITEM 11 — EXECUTIVE COMPENSATION

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

### ITEM 12 — SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Incorporated herein by reference to the information to be set forth in the Proxy Statement.



**ITEM 13 — CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS, AND DIRECTORS INDEPENDENCE**

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

**ITEM 14 — PRINCIPAL ACCOUNTING FEES AND SERVICES**

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

**PART IV**

**ITEM 15 — EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

The following documents are being filed as part of this report:

Financial Statements

See the information beginning on page F-1 of this report.

Exhibits

See the Exhibit Index following the signature page of this report.

## SIGNATURES

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

LifeVantage Corporation,  
a Colorado corporation

By: /s/ Darren Jensen  
Darren Jensen  
Its: President and Chief Executive Officer  
Date: September 1, 2015

Each person whose individual signature appears below hereby constitutes and appoints Darren Jensen and Mark Jaggi, each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof. 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	Date	Title
/s/ Darren Jensen Darren Jensen	September 1, 2015	President and Chief Executive Officer (Principal Executive Officer)
/s/ Mark Jaggi Mark Jaggi	September 1, 2015	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ Garry Mauro Garry Mauro	September 1, 2015	Chairman of the Board
/s/ Michael A. Beindorff Michael A. Beindorff	September 1, 2015	Director
/s/ Dave Manovich Dave Manovich	September 1, 2015	Director and Vice Chairman of the Board
/s/ George E. Metzger George E. Metzger	September 1, 2015	Director
/s/ Richard Okumoto Richard Okumoto	September 1, 2015	Director



Edgar Filing: Lifevantage Corp - Form 10-K

EXHIBIT INDEX

Exhibit No.	Document Description	Filed Herewith or Incorporated by Reference From
3.1	Amended and Restated Articles of Incorporation and Statement of Correction to Amended and Restated Articles of Incorporation	Exhibit to 4.1 to Registration Statement on Form S-8 (File No. 333-200363) filed on November 19, 2014.
3.2(a)	Amended and Restated Bylaws	Exhibit 3.2 to Form 10-K for the fiscal year ended June 30, 2011, filed on September 28, 2011.
3.2(b)	First Amendment of the Amended and Restated Bylaws	Exhibit to 3.1 Form 8-K filed on May 31, 2012.
4.1	Form of Warrant issued in connection with November 2009 Financing	Exhibit 4.2 to Form 8-K filed on November 18, 2009.
4.2	Amendment to Debentures and Warrants, dated as of December 11, 2009	Exhibit 4.3 to Form 10-Q for the fiscal quarter ended December 31, 2010 filed on February 16, 2010.
4.3	Form of Restated Warrant issued pursuant to Amended and Restated Securities Purchase Agreement dated December 11, 2009	Exhibit 4.5 to Form 10-Q for the fiscal quarter ended December 31, 2009 filed on February 16, 2010.
4.4	Form of Restated Common Stock Purchase Warrant issued on each of December 31, 2009, January 20, 2010, February 4, 2010 and February 26, 2010	Exhibit 4.2 to Form 10-Q for the fiscal quarter ended March 31, 2010 filed on May 14, 2010.
4.5	Form of LifeVantage Corporation Amendment to Warrant	Exhibit (a)(1)(ii) to Schedule TO filed on November 29, 2011.
10.1	Manufacturing and Supply Agreement dated July 1, 2008 between Cornerstone Research and Development and LifeVantage Corporation	Exhibit 10.21 to Form 10-K/A for the fiscal year ended June 30, 2009 filed October 28, 2009.
10.2#	LifeVantage Distributor Compensation Plan	Exhibit 10.14 to Form 10-K for the fiscal year ended June 30, 2010 filed on September 15, 2010.
10.3	Form of Securities Purchase Agreement entered into in connection with November 2009 Financing	Exhibit 10.1 to Form 8-K filed on November 18, 2009.
10.4	Form of Amended and Restated Securities Purchase Agreement originally dated December 11, 2009	Exhibit 10.3 to Form 10-Q for the fiscal quarter ended December 31, 2009 filed on February 16, 2010.
10.5	Amended and Restated Securities Purchase Agreement dated December 31, 2009, among LifeVantage Corporation and the purchaser parties thereto	Exhibit 10.1 to Form 10-Q for the fiscal quarter ended March 31, 2010 filed on May 14, 2010.

Edgar Filing: Lifevantage Corp - Form 10-K

- |      |   |  |
|------|---|--|
| 10.6 | Amended and Restated Securities Purchase Agreement dated January 20, 2010, among LifeVantage Corporation and the purchaser parties thereto  | Exhibit 10.2 to Form 10-Q for the fiscal quarter ended March 31, 2010 filed on May 14, 2010. |
| 10.7 | Amended and Restated Securities Purchase Agreement dated February 4, 2010, among LifeVantage Corporation and the purchaser parties thereto  | Exhibit 10.3 to Form 10-Q for the fiscal quarter ended March 31, 2010 filed on May 14, 2010. |
| 10.8 | Amended and Restated Securities Purchase Agreement dated February 26, 2010, among LifeVantage Corporation and the purchaser parties thereto | Exhibit 10.4 to Form 10-Q for the fiscal quarter ended March 31, 2010 filed on May 14, 2010. |

- 46-

---

Edgar Filing: Lifevantage Corp - Form 10-K

Exhibit No.	Document Description	Filed Herewith or Incorporated by Reference From
10.9#	LifeVantage Corporation 2007 Long-Term Incentive Plan	Appendix B to Proxy Statement on Schedule 14A filed on October 20, 2006.
10.10(a)#	LifeVantage Corporation 2010 Long-Term Incentive Plan effective as of September 27, 2010 and as amended as of August 21, 2014	Annex A to Proxy Statement on Schedule A filed on November 19, 2014.
10.10(b)#	Form of Nonstatutory Stock Option Agreement for the LifeVantage Corporation 2010 Long-Term Incentive Plan	Exhibit 4.4 to Registration Statement on Form S-8 (File No. 333-175104) filed on June 23, 2011.
10.10(c)#	Form of Incentive Stock Option Agreement for the LifeVantage Corporation 2010 Long-Term Incentive Plan	Exhibit 4.5 to Registration Statement on Form S-8 (File No. 333-175104) filed on June 23, 2011.
10.10(d)#	Form of Stock Unit Agreement for the LifeVantage Corporation 2010 Long-Term Incentive Plan	Exhibit 4.8 to Registration Statement on Form S-8 (File No. 333-200363) filed on November 19, 2014.
10.11#	LifeVantage Corporation FY 2014 Annual Incentive Plan	Exhibit 10.12 to Form 10-K for the fiscal year ended June 30, 2013 filed on September 12, 2013.
10.12#	LifeVantage Corporation FY 2014 Sales Incentive Plan	Exhibit 10.13 to Form 10-K for the fiscal year ended June 30, 2013 filed on September 12, 2013.
10.13#	LifeVantage Corporation FY2015 Annual Incentive Plan	Exhibit 10.13 to Form 10-K for the fiscal year ended June 30, 2014 filed on September 10, 2014.
10.14#	LifeVantage Corporation FY2015 Sales Incentive Plan	Exhibit 10.14 to Form 10-K for the fiscal year ended June 30, 2014 filed on September 10, 2014.
10.15#	LifeVantage Corporation Performance Incentive Plan	Filed herewith.
10.16#	LifeVantage Corporation FY2016 Annual Incentive Plan	Filed herewith.
10.17#	LifeVantage Corporation FY2016 Sales Incentive Plan	Filed herewith.
10.18#	LifeVantage Corporation Cash Settled Performance-Based Long Term Incentive Plan	Exhibit 10.14 to Form 10-K for the fiscal year ended June 30, 2013 filed on September 12, 2013.
10.19#	Form of Performance Unit Agreement	Exhibit 10.15 to Form 10-K for the fiscal year ended June 30, 2013 filed on September 12, 2013.
10.20#		Filed herewith.

Edgar Filing: Lifevantage Corp - Form 10-K

Form of Performance Unit Agreement - FY 2016  
through FY 2018

10.21# Amended and Restated Employment Agreement  
between LifeVantage Corporation and Douglas C.  
Robinson dated effective March 24, 2014

Exhibit 10.2 to Form 10-Q for the fiscal quarter  
ended March 31, 2014 filed on May 6, 2014.

- 47-

---

Edgar Filing: Lifevantage Corp - Form 10-K

Exhibit No.	Document Description	Filed Herewith or Incorporated by Reference From
10.22#	Separation Agreement and General Release between LifeVantage Corporation and Douglas C. Robinson effective February 13, 2015	Exhibit 10.1 to Form 8-K filed on February 20, 2015.
10.23#	Employment Agreement by and between Darren Jensen and LifeVantage Corporation dated April 26, 2015	Exhibit 10.1 to Form 8-K filed on April 29, 2015.
10.24#	Employment Agreement between David Colbert and Lifevantage Corporation effective August 1, 2012	Exhibit 10.1 to Form 8-K filed on August 6, 2012.
10.25#	Separation Agreement and General Release between LifeVantage Corporation and David Colbert effective July 3, 2015	Filed herewith.
10.26#	Employment Agreement by and between Robert Urban and Lifevantage Corporation effective as of May 29, 2012	Exhibit 10.1 to Form 8-K filed on May 31, 2012.
10.27#	Employment Agreement by and between Rob Cutler and LifeVantage Corporation effective March 21, 2012	Exhibit 10.17 to Form 10-K for the fiscal year ended June 30, 2013 filed on September 12, 2013.
10.28#	Separation Agreement and General Release between LifeVantage Corporation and Rob Cutler effective May 8, 2015	Filed herewith.
10.29	Lease dated September 22, 2011 between Sandy Park I L.L.C. and LifeVantage Corporation	Exhibit 10.3 to Form 10-Q for the fiscal quarter ended September 30, 2011 filed on November 14, 2011.
10.30	Lease dated September 20, 2012 between Sandy Park II L.L.C. and LifeVantage Corporation	Exhibit 10.1 to Form 10-Q for the fiscal quarter ended September 30, 2012 filed on November 8, 2012.
10.31	First Amendment to Lease entered into as of March 24, 2014 between Sandy Park II L.L.C. and LifeVantage Corporation	Exhibit 10.3 to Form 10-Q for the fiscal quarter ended March 31, 2014 filed on May 6, 2014.
10.32*	Commercial Supply Agreement dated January 31, 2014 between LifeVantage Corporation and Deseret Laboratories, Inc.	Exhibit 10.1 to Form 10-Q for the fiscal quarter ended March 31, 2014 filed on May 6, 2014.
10.33*	Software Service Agreement with JIA, Inc. dated September 28, 2012	Exhibit 1.01 to Form 10-Q/A for the fiscal quarter ended March 31, 2013 filed on May 24, 2013.

Edgar Filing: Lifevantage Corp - Form 10-K

- |         |   |   |
|---------|---|---|
| 10.34*  | Software License Agreement with JIA, Inc. dated September 28, 2012  | Exhibit 10.2 to Form 10-Q/A for the fiscal quarter ended March 31, 2013 filed on May 24, 2013.  |
| 10.35** | Service Agreement entered into as of June 1, 2014 between IntegraCore, LLC and LifeVantage                                  | Exhibit 10.29 to Form 10-K for the fiscal year ended June 30, 2014 filed on September 10, 2014. |
| 10.36** | Commercial Supply Agreement entered into as of May 30, 2014 between LifeVantage Corporation and Wasatch Product Development | Exhibit 10.30 to Form 10-K for the fiscal year ended June 30, 2014 filed on September 10, 2014. |

- 48-

---

Edgar Filing: Lifevantage Corp - Form 10-K

Exhibit No.	Document Description	Filed Herewith or Incorporated by Reference From
10.37#	Financing Agreement, dated October 18, 2013, by and among LifeVantage Corporation, the Guarantors and Lenders party thereto and TCW Special Situations, LLC as Collateral Agent and Administrative Agent	Exhibit (b) to the Schedule TO-I/A filed on October 18, 2013.
10.38#	Amendment No. 1 to Financing Agreement, dated May 1, 2015, by and between LifeVantage Corporation, the Guarantors and lenders party thereto and TCW Special Situations, LLC as Collateral Agent and Administrative Agent	Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2015 filed on May 6, 2015.
10.39#	Amendment No. 2 to Financing Agreement, dated August 27, 2015 by and between LifeVantage Corporation, the Guarantors and lenders party thereto and TCW Special Situations, LLC as Collateral Agent and Administrative Agent	Filed herewith.
21.1	List of Subsidiaries.	Exhibit A to Form 10-K for the fiscal year ended June 30, 2014 filed on September 10, 2014.
23.1	Consent of Ehrhardt Keefe Steiner & Hottman PC.	Filed herewith.
24.1	Power of Attorney	Signature page to this report.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101	The following financial information from the registrant's Annual Report on Form 10-K for the year ended June 30, 2015 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations and Other Comprehensive Income; (iii) Consolidated Statement of Stockholders' Deficit; (iv) Consolidated Statements of Cash Flows; and	Filed herewith.

(v) Notes to Consolidated Financial Statements,  
tagged as blocks of text.

- 49-

---



# Management contract or compensatory plan.

\* Confidential treatment has been granted by the SEC with respect to certain portions of these exhibits.

\*\* The Company has been granted confidential treatment for portions of this agreement. Accordingly, certain portions of this agreement have been omitted in the version filed with this report and such confidential portions have been filed with the SEC.

- 50-

---

LIFEVANTAGE CORPORATION

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

F - 2

Consolidated Financial Statements:

Consolidated Balance Sheets

F - 3

Consolidated Statements of Operations and Comprehensive Income

F - 4

Consolidated Statements of Stockholders' Equity (Deficit)

F - 5

Consolidated Statements of Cash Flows

F - 6, F - 7

Notes to Consolidated Financial Statements

F - 8

F - 1

---

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
LifeVantage Corporation  
Sandy, Utah

We have audited the accompanying consolidated balance sheets of LifeVantage Corporation and subsidiaries (the “Company”) as of June 30, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in stockholders’ equity (deficit), and cash flows for each of the years in the three-year period ended June 30, 2015. We also have audited the Company’s internal control over financial reporting as of June 30, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LifeVantage Corporation and subsidiaries as of June 30, 2015 and 2014, and the consolidated consolidated results of their operations and their cash flows for each of the years in the three-year period ended

Edgar Filing: Lifevantage Corp - Form 10-K

June 30, 2015, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, LifeVantage Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2015, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

EKS&H LLLP  
September 1, 2015  
Denver, Colorado

F - 2

---

LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	June 30, 2015	2014
(In thousands, except per share data)		
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 13,905	\$ 20,387
Accounts receivable	1,031	1,317
Income tax receivable	2,179	4,681
Inventory	9,248	8,826
Current deferred income tax asset	1,117	158
Prepaid expenses and deposits	2,995	4,604
Total current assets	30,475	39,973
Property and equipment, net	5,759	6,941
Intangible assets, net	1,879	2,014
Deferred debt offering costs, net	1,098	1,353
Long-term deferred income tax asset	235	1,285
Other long-term assets	1,433	2,433
<b>TOTAL ASSETS</b>	<b>\$40,879</b>	<b>\$53,999</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 2,614	\$ 2,854
Commissions payable	6,505	7,594
Other accrued expenses	5,600	7,554
Current portion of long-term debt	11,141	4,700
Total current liabilities	25,860	22,702
Long-term debt		
Principal amount	10,484	26,125
Less: unamortized discount	(853	) (1,052
Long-term debt, net of unamortized discount	9,631	25,073
Other long-term liabilities	2,063	2,234
Total liabilities	37,554	50,009
Commitments and contingencies- Note 11		
Stockholders' equity		
Preferred stock — par value \$0.001, 50,000 shares authorized, no shares issued or outstanding	—	—
Common stock — par value \$0.001, 250,000 shares authorized and 97,671 and 102,173 issued and outstanding as of June 30, 2015 and 2014, respectively	98	102
Additional paid-in capital	117,573	115,244
Accumulated deficit	(114,095	) (111,240
Accumulated other comprehensive loss	(251	) (116
Total stockholders' equity	3,325	3,990
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$40,879</b>	<b>\$53,999</b>

The accompanying notes are an integral part of these consolidated financial statements.



LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the years ended June 30,		
	2015	2014	2013
(In thousands, except per share data)			
Revenue, net	\$190,336	\$213,968	\$208,178
Cost of sales	28,010	33,194	31,845
Product recall costs	—	—	4,798
Gross profit	162,326	180,774	171,535
Operating expenses:			
Commissions and incentives	91,074	104,525	101,737
Selling, general and administrative	57,353	56,801	57,730
Total operating expenses	148,427	161,326	159,467
Operating income	13,899	19,448	12,068
Other income (expense):			
Interest expense	(3,087)	) (3,177	) (3
Other income (expense), net	(159)	) 384	(912
Total other income (expense)	(3,246)	) (2,793	) (915
Income before income taxes	10,653	16,655	11,153
Income tax expense	(3,666)	) (5,272	) (3,545
Net income	\$6,987	\$11,383	\$7,608
Net income per share:			
Basic	\$0.07	\$0.11	\$0.07
Diluted	\$0.07	\$0.10	\$0.06
Weighted-average shares outstanding:			
Basic	97,293	105,791	112,276
Diluted	99,052	111,599	122,888
Other comprehensive loss, net of tax:			
Foreign currency translation adjustment	(135)	) (3	) (92
Other comprehensive loss, net of tax:	(135)	) (3	) (92
Comprehensive income	\$6,852	\$11,380	\$7,516

The accompanying notes are an integral part of these consolidated financial statements.

LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

For the years ended June 30, 2015, 2014, and 2013

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
(In thousands)						
Balances, June 30, 2012	110,174	\$ 111	\$ 105,154	\$ (76,961 )	\$ (21 )	\$ 28,283
Stock-based compensation	—	—	2,169	—	—	2,169
Exercise of options and warrants	7,270	7	3,093	—	—	3,100
Issuance of shares related to restricted stock	2,616	3	(3 )	—	—	—
Repurchase of company stock	(2,972 )	—	—	(7,123 )	—	(7,123 )
Reclassification of liability warrants	—	—	—	—	—	—
Currency translation adjustment	—	—	—	—	(92 )	(92 )
Net income	—	—	—	7,608	—	7,608
Balances, June 30, 2013	117,088	\$ 121	\$ 110,413	\$ (76,476 )	\$ (113 )	\$ 33,945
Stock-based compensation	—	—	2,606	—	—	2,606
Exercise of options and warrants	5,185	5	2,225	—	—	2,230
Issuance of shares related to restricted stock	225	—	—	—	—	—
Shares canceled or surrendered as payment of tax withholding	(686 )	—	—	—	—	—
Repurchase of company stock	(19,639 )	(24 )	—	(46,147 )	—	(46,171 )
Currency translation adjustment	—	—	—	—	(3 )	(3 )
Net income	—	—	—	11,383	—	11,383
Balances, June 30, 2014	102,173	\$ 102	\$ 115,244	\$ (111,240 )	\$ (116 )	\$ 3,990
Stock-based compensation	—	—	1,737	—	—	1,737
Exercise of options and warrants	2,630	3	593	—	—	596
Issuance of shares related to restricted stock	1,325	1	(1 )	—	—	—
Shares canceled or surrendered as payment of tax withholding	(904 )	—	—	—	—	—
Repurchase of company stock	(7,553 )	(8 )	—	(9,842 )	—	(9,850 )
Currency translation adjustment	—	—	—	—	(135 )	(135 )
Net income	—	—	—	6,987	—	6,987
Balances, June 30, 2015	97,671	\$ 98	\$ 117,573	\$ (114,095 )	\$ (251 )	\$ 3,325

The accompanying notes are an integral part of these consolidated financial statements.



LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended June 30,		
	2015	2014	2013
(In thousands)			
Cash Flows from Operating Activities:			
Net income	\$6,987	\$11,383	\$7,608
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,285	2,118	1,659
Stock-based compensation	1,806	2,953	2,169
Amortization of deferred financing fees	255	159	—
Amortization of debt discount	198	122	—
Impairment of inventory	—	—	3,923
Deferred income tax	91	2,172	(892)
Changes in operating assets and liabilities:			
Decrease/(increase) in receivables	2,651	(2,044)	(3,653)
Decrease/(increase) in inventory	(936)	) 1,646	(3,356)
Decrease/(increase) in prepaid expenses and deposits	1,486	(2,318)	(1,065)
Decrease/(increase) in long-term assets	826	(1,045)	(1,168)
Increase/(decrease) in accounts payable	(171)	) (2,384)	) 1,593
Increase/(decrease) in accrued expenses	(2,170)	) (537)	) 3,403
Increase/(decrease) in other long-term liabilities	(87)	) (120)	) 441
Net Cash Provided by Operating Activities	13,221	12,105	10,662
Cash Flows from Investing Activities:			
Purchase of equipment	(1,159)	) (1,898)	) (5,080)
Purchase of intangible assets	—	(350)	) —
Net Cash Used in Investing Activities	(1,159)	) (2,248)	) (5,080)
Cash Flows from Financing Activities:			
Proceeds from term loan	—	45,825	—
Payment of deferred financing fees	—	(1,511)	) —
Excess tax benefits from stock-based compensation	128	655	1,406
Repurchase of company stock	(9,850)	) (46,171)	) (7,123)
Payment on term loan	(9,200)	) (16,175)	) —
Exercise of options and warrants	468	1,573	1,694
Net Cash Used in Financing Activities	(18,454)	) (15,804)	) (4,023)
Foreign Currency Effect on cash	(90)	) 35	92
Increase (Decrease) in cash and cash equivalents	(6,482)	) (5,912)	) 1,651
Cash and Cash Equivalents — beginning of period	20,387	26,299	24,648
Cash and Cash Equivalents — end of period	13,905	20,387	26,299

The accompanying notes are an integral part of these consolidated financial statements.

LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended June 30,		
	2015	2014	2013
Non Cash Investing and Financing Activities:			
Increase in property and equipment/other long-term liabilities \$—		\$ 1,386	\$ 359
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	\$ 2,633	\$ 2,758	\$ 3
Cash paid for income taxes	\$ 1,658	\$ 4,879	\$ 6,090
Common stock shares issued upon cashless warrant exercises	1,763	2,698	3,793
Total cashless exercise price of warrants	\$ 1,462	\$ 1,615	\$ 2,147
Gross warrants underlying cashless exercises	2,924	3,409	4,564

The accompanying notes are an integral part of these consolidated financial statements.

LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — The Company

LifeVantage Corporation is a company dedicated to helping people achieve their health, wellness and financial independence goals. We provide quality, scientifically-validated products and a financially rewarding network marketing business opportunity to customers and independent distributors who seek a healthy lifestyle and financial freedom. We sell our products to independent distributors and preferred customers located in the United States, Japan, Hong Kong, Australia, Canada, Philippines, Mexico, and Thailand.

We engage in the identification, research, development and distribution of advanced nutraceutical dietary supplements and skin care products, including Protandim<sup>®</sup>, our scientifically-validated dietary supplement, LifeVantage TrueScience<sup>®</sup>, our line of anti-aging skin care products, Canine Health<sup>®</sup>, our companion pet supplement formulated to combat oxidative stress in dogs, and Axio<sup>®</sup>, our energy drink mixes.

We were incorporated in Colorado in June 1988 under the name Andraplex Corporation. We changed our corporate name to Yaak River Resources, Inc. in January 1992, and subsequently changed it again in October 2004 to Lifeline Therapeutics, Inc. In October 2004 and March 2005, we acquired all of the outstanding common stock of Lifeline Nutraceuticals Corporation. In November 2006, we changed our name to LifeVantage Corporation.

Note 2 — Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. During fiscal 2014, the Company combined the line items sales and marketing, general and administrative, research and development, and depreciation and amortization into two line items on the consolidated statements of operations and comprehensive income, namely, commissions and incentives and selling, general and administrative to have a presentation that is more comparable to that of the Company's peers. The Company reclassified prior period line items to conform to the current period presentation. Certain other prior period balances have also been reclassified to conform to the current period presentation.

Use of Estimates

We prepare our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (GAAP). In preparing these statements, we are required to use estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. On an ongoing basis, we review our estimates, including those related to inventory obsolescence, sales returns, income taxes and tax valuation reserves, share-based compensation, and loss contingencies.

Foreign Currency Translation

A portion of the Company's business operations occurs outside the United States. The local currency of each of the Company's subsidiaries is generally its functional currency. All assets and liabilities are translated into U.S. dollars at exchange rates existing at the balance sheet dates, revenue and expenses are translated at weighted-average exchange rates and stockholders' equity is recorded at historical exchange rates. The resulting foreign currency translation adjustments are recorded as a separate component of stockholders' equity in the consolidated balance sheets.

Transaction gains and losses are included in other income (expense), net in the consolidated statements of operations and comprehensive income.

Fair Value of Financial Instruments

Accounting guidance on fair value measurements and disclosures requires disclosures about the fair value for all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about fair value of financial instruments are based on pertinent information available to management as of June 30, 2015 and 2014. Accordingly, the estimates presented in these consolidated financial statements are not necessarily indicative of the

amounts that could be realized on disposition of the financial instruments.

F - 8

---

Management has estimated the fair values of cash and cash equivalents, accounts receivable, accounts payable, commissions payable and other accrued expenses to approximate their respective carrying values reported in these consolidated financial statements because of their short maturities.

#### Cash and Cash Equivalents

The Company considers only its monetary liquid assets with original maturities of three months or less to be cash and cash equivalents.

#### Accounts Receivable

The Company's accounts receivable for the years ended June 30, 2015 and 2014 consist primarily of credit card receivables. Based on the Company's verification process for customer credit cards and historical information available, management has determined that an allowance for doubtful accounts on credit card sales related to its customer sales as of June 30, 2015 or 2014 is not necessary. No bad debt expense has been recorded for the years ended June 30, 2015, 2014, and 2013.

#### Inventory

As of June 30, 2015 and 2014, inventory consisted of (in thousands):

	June 30, 2015	2014
Finished goods	\$5,783	\$4,749
Raw materials	3,465	4,077
Total inventory	\$9,248	\$8,826

Inventories are carried and depicted above at the lower of cost or market, using the first-in, first-out method, which includes a reduction in inventory values of \$0.3 million and \$0.7 million at June 30, 2015 and June 30, 2014, respectively, related to obsolete and slow-moving inventory.

#### Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the following useful lives:

	Years
Equipment (includes computer hardware and software)	3
Furniture and fixtures	5
Leasehold improvements	*
Vehicles	5

\*Leasehold improvements are depreciated over the shorter of estimated useful life of the related asset or the lease term.

The cost of normal maintenance and repairs is charged to expense as incurred. When an asset is sold or otherwise disposed of, the cost and associated accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in the consolidated statements of operations and comprehensive income. Significant expenditures that increase the useful life of an asset are capitalized and depreciated over the estimated useful life of the asset.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value.

#### Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Definite-lived intangible assets are amortized over their related useful lives, using a straight-line method, consistent with the underlying expected future cash flows related to the specific intangible asset. Definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of an asset may not be recoverable. When indicators of impairment exist, an estimate of undiscounted net cash flows is used in measuring whether the carrying amount of the asset or related asset group is recoverable. Measurement of the amount of impairment, if any, is based upon the difference between the asset's carrying value and estimated fair value.



Indefinite-lived intangible assets are not amortized; however, they are tested at least annually for impairment or more frequently if events or changes in circumstances exist that may indicate impairment. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value. Annual impairment tests were completed resulting in no impairment charges for any of the periods shown.

#### Impairment of Long-Lived Assets

Pursuant to guidance established for impairment or disposal of assets, the Company assesses impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. When an assessment for impairment of long-lived assets, long-lived assets to be disposed of, and certain identifiable intangibles related to those assets is performed, the Company is required to compare the net carrying value of long-lived assets on the lowest level at which cash flows can be determined on a consistent basis to the related estimates of future undiscounted net cash flows for such assets. If the net carrying value exceeds the net cash flows, then an impairment is recognized to reduce the carrying value to the estimated fair value, generally equal to the future discounted net cash flow. For the years ended June 30, 2015 and 2014 management has concluded that there are no indications of impairment.

#### Concentration of Credit Risk

Accounting guidance for financial instruments requires disclosure of significant concentrations of credit risk regardless of the degree of such risk. Financial instruments with significant credit risk include cash and cash equivalents. At June 30, 2015, the Company had \$10.6 million in cash accounts at one financial institution and \$3.3 million in other financial institutions. As of June 30, 2015 and 2014 and during the years then ended, the Company's cash balances exceeded federally insured limits.

#### Revenue Recognition

The Company ships the majority of its product directly to the consumer and receives substantially all payment for these sales in the form of credit card receipts. Revenue from direct product sales to customers is recognized upon passage of title and risk of loss. Estimated returns are recorded when product is shipped. Subject to some exceptions based on local regulations, the Company's return policy is to provide a full refund for product returned within 30 days if the returned product is unopened or defective. After 30 days, the Company generally does not issue refunds to direct sales customers for returned product. The Company allows terminating distributors to return up to 30% of unopened, unexpired product that they have purchased within the prior twelve months for a full refund, less a 10% restocking fee. The Company establishes the returns reserve based on historical experience. The returns reserve is evaluated on a quarterly basis. As of June 30, 2015 and 2014, the Company's reserve balance for returns and allowances was \$0.1 million and \$0.6 million, respectively.

#### Commissions and Incentives

Commissions and incentives expenses are the Company's most significant expenses and are classified as operating expenses. Commissions and incentives expenses include sales commissions paid to our independent distributors, special incentives, costs for incentive trips and other rewards. Commission and incentive expenses do not include any amounts we pay to our independent distributors for personal purchases. Commissions paid to independent distributors on personal purchases are considered a sales discount and are reported as a reduction to our net revenue.

#### Shipping and Handling

Shipping and handling costs associated with inbound freight and freight out to customers, including independent distributors, are included in cost of sales. Shipping and handling fees charged to all customers are included in sales.

#### Research and Development Costs

The Company expenses all costs related to research and development activities as incurred. Research and development expenses for the years ended June 30, 2015, 2014, and 2013 were \$2.4 million, \$2.0 million, and \$2.9 million respectively.

#### Stock-Based Compensation

The Company recognizes stock-based compensation by measuring the cost of services to be rendered based on the grant date fair value of the equity award. The Company recognizes stock-based compensation, net of any estimated forfeitures, over the period an employee is required to provide service in exchange for the award, generally referred to as the requisite service period. For awards with market based performance conditions, the cost of the awards is

recognized as the requisite service is rendered by employees, regardless of when, if ever, the market based performance conditions are satisfied.

The Black-Scholes option pricing model is used to estimate the fair value of stock options. The determination of the fair value of stock options is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The Company uses historical volatility as the expected volatility

F - 10

---



assumption required in the Black-Scholes model. The Company utilizes a simplified method for estimating the expected life of the options. The Company uses this method because it believes that it provides a better estimate than the Company's historical data as post vesting exercises have been limited. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of the stock options.

The fair value of restricted stock grants is based on the closing market price of the Company's stock on the date of grant less the Company's expected dividend yield. The fair value of performance stock units that include market based performance conditions is based on the closing market price of the Company's stock on the date of grant less the Company's expected dividend yield, with further adjustments made to reflect the market conditions that must be satisfied in order for the units to vest by using a Monte-Carlo simulation model. Key assumptions for the Monte-Carlo simulation model include the risk-free rate, expected volatility, expected dividends and the correlation coefficient. The fair value of cash-settled performance-based awards, accounted for as liabilities, is remeasured at the end of each reporting period and is based on the closing market price of the Company's stock on the last day of the reporting period. The Company recognizes compensation costs for these awards with performance conditions when it concludes it is probable that the performance conditions will be achieved. The Company reassesses the probability of vesting at each balance sheet date and adjusts compensation costs accordingly.

#### Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the effective date of the change.

The Company recognizes tax benefits from an uncertain position only if it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the issue. The amount recognized is the largest benefit that the Company believes has greater than a 50% likelihood of being realized upon settlement.

#### Income Per Share

Basic income per share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period, less unvested restricted stock awards. Diluted income per common share is computed by dividing net income by the weighted-average common shares and potentially dilutive common share equivalents using the treasury stock method.

The effects of approximately 3.1 million and 0.3 million common shares issuable upon exercise of options and non-vested shares of restricted stock outstanding as of June 30, 2015 and 2014, respectively, are not included in the computations as their effect was anti-dilutive.

The following is a reconciliation of earnings per share and the weighted-average common shares outstanding for purposes of computing basic and diluted net income per share (in thousands, except per share amounts):

	Years ended June 30,		
	2015	2014	2013
Numerator:			
Net income	\$6,987	\$11,383	\$7,608
Denominator:			
Basic weighted-average common shares outstanding	97,293	105,791	112,276
Effect of dilutive securities:			
Stock awards and options	1,264	2,652	3,832
Warrants	495	3,156	6,780
Diluted weighted-average common shares outstanding	99,052	111,599	122,888
Basic	\$0.07	\$0.11	\$0.07
Diluted	\$0.07	\$0.10	\$0.06



### Segment Information

The Company operates in a single operating segment by selling products to an international network of independent distributors that operates in an integrated manner from market to market. Commissions and incentives expenses are the Company's largest expense comprised of the commissions paid to its worldwide independent distributors. The Company manages its business primarily by managing its international network of independent distributors. The Company does not use profitability reports on a regional or divisional basis for making business decisions. However, the Company does report revenue in two geographic regions: Americas and Asia/Pacific. Revenues by geographic area are as follows (in thousands):

	Years ended June 30,		
	2015	2014	2013
Americas	\$ 138,118	\$ 141,227	\$ 133,046
Asia/Pacific	52,218	72,741	75,132
Total revenues	\$ 190,336	\$ 213,968	\$ 208,178

Additional information as to the Company's revenue from operations in the most significant geographical areas is set forth below (in thousands):

	Years ended June 30,		
	2015	2014	2013
United States	\$ 132,831	\$ 136,758	\$ 131,508
Japan	\$ 41,428	\$ 61,872	\$ 69,492

As of June 30, 2015 long-lived assets were \$6.5 million in the U.S. and \$1.5 million in Japan. As of June 30, 2014 long-lived assets were \$9.8 million in the U.S. and \$2.3 million in Japan.

### Major Products

The Company's revenues are largely attributed to two product lines, Protandim<sup>®</sup> and the LifeVantage TrueScience<sup>®</sup> skin care regimen, which each accounted for more than 10% of total revenues for each of the years ended June 30, 2015, 2014 and 2013. On a combined basis, these products represent approximately 83.7%, 88.5% and 87.1% of our worldwide gross revenues for the years ended June 30, 2015, 2014 and 2013, respectively. The following table shows revenues by major product line for the years ended June 30, 2015, 2014 and 2013.

	For the years ended June 30,								
	2015			2014			2013		
Protandim <sup>®</sup>	\$ 120,967	63.6	%	\$ 142,935	66.8	%	\$ 138,996	66.8	%
LifeVantage TrueScience <sup>®</sup> skin care regimen	38,287	20.1	%	46,474	21.7	%	42,229	20.3	%
Other	31,082	16.3	%	24,559	11.5	%	26,953	12.9	%
Total	\$ 190,336	100.0	%	\$ 213,968	100.0	%	\$ 208,178	100.0	%

### New Accounting Pronouncements

In August 2014, FASB issued Accounting Standards Update (ASU) No. 2014-15 Preparation of Financial Statements - Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. Under GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Preparation of financial statements under this presumption is commonly referred to as the going concern basis of accounting. If and when an entity's liquidation becomes imminent, financial statements should be prepared under the liquidation basis of accounting in accordance with Subtopic 205-30, Presentation of Financial Statements-Liquidation Basis of Accounting. Even when an entity's liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. In those situations, financial statements should continue to be prepared under the going concern basis of accounting, but the amendments in this Update should be followed to determine whether to disclose information about the relevant conditions and events. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company will evaluate the going concern considerations in this ASU, but has not elected early application. However, as of and for the current period, management does



not believe that conditions exist or events have occurred that would require additional disclosure under the amendments in this update.

In January 2015, FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This guidance eliminates from GAAP the concept of extraordinary and unusual items, and is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early application is permitted. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

In April 2015, FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 825-30): Simplifying the Presentation of Debt Issuance Costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This update will become effective for the Company in the first quarter of fiscal 2016 and requires retrospective application. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

In July 2015, FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory.

This guidance requires an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

#### Note 3 — Property and Equipment

Property and equipment consist of (in thousands):

	June 30, 2015	2014
Equipment (includes computer hardware and software)	\$6,895	\$6,354
Furniture and fixtures	1,481	1,428
Leasehold improvements	3,324	3,095
Vehicles	51	142
Accumulated depreciation	(5,992	) (4,078
Total property and equipment, net	\$5,759	\$6,941

Depreciation expense totaled \$2.3 million, \$2.0 million, and \$1.5 million for the years ended June 30, 2015, 2014, and 2013, respectively.

#### Note 4 — Intangible Assets

Intangible assets consist of (in thousands):

	June 30, 2015	2014
Patent costs	\$2,330	\$2,330
Accumulated amortization	(1,046	) (911
Total definite-lived intangible assets, net	1,284	1,419
Trademarks and other indefinite-lived intangible assets	595	595
Total intangible assets, net	\$1,879	\$2,014

Amortization expense totaled \$0.1 million, \$0.1 million, and \$0.1 million for the years ended June 30, 2015, 2014, and 2013 respectively. Annual estimated amortization expense is expected to approximate \$0.1 million for each of the five succeeding fiscal years.

## Note 5 — Other Accrued Expenses

Other accrued expenses consist of (in thousands):

	June 30,	
	2015	2014
Accrued severance	\$638	\$150
Accrued incentives and promotions to distributors	380	829
Accrued payroll and other employee expenses	583	1,382
Deferred revenue	990	887
Accrued payable to vendors	1,019	910
Other taxes payable	809	1,894
Accrued other expenses	1,181	1,502
Total other accrued expenses	\$5,600	\$7,554

## Note 6 — Long-Term Debt

On October 18, 2013 the Company entered into a Financing Agreement providing for a term loan facility in an aggregate principal amount of \$47 million (the "Term Loan") and a delayed draw term loan facility in an aggregate principal amount not to exceed \$20 million (the "Delayed Draw Term Loan" and collectively with the Term Loan, the "Credit Facility"). The Delayed Draw Term Loan was available for borrowing in specified minimum amounts from time to time beginning after the effective date (as defined in the Financing Agreement) until October 18, 2014 or until the Delayed Draw Term Loan is reduced to zero, if earlier. The Company did not borrow any amounts under the Delayed Draw Term Loan.

On May 1, 2015 the Company entered into an Amendment No 1 to Financing Agreement ("Amendment No. 1"). Amendment No. 1 revised the March 31, 2015 and June 30, 2015 consolidated EBITDA covenants from \$20.6 million and \$21.3 million, respectively, to \$17.0 million for each quarter end. Amendment No. 1 also revised the minimum unrestricted cash and cash equivalents that the Company is required to hold from \$10.0 million to \$8.0 million for the reporting periods ended March 31, 2015 and June 30, 2015. In addition, Amendment No. 1 required that the Company make accelerated principal payments on the Term Loan totaling \$4.5 million during the fourth quarter of fiscal year 2015.

On August 27, 2015 the Company entered into an Amendment No. 2 to Financing Agreement ("Amendment No. 2" and collectively, with the Term Loan, the "Credit Facility"). Amendment No. 2 revised the covenants related to minimum consolidated EBITDA (as defined in the amended Financing Agreement) for the four consecutive fiscal quarters ending September 30, 2015, December 31, 2015, March 31, 2016 and June 30, 2016 from \$22.2 million, \$23.1 million, \$24.4 million and \$25.6 million, respectively, to \$14.5 million, \$15.0 million, \$17.0 million and \$17.5 million, respectively. In addition, Amendment No. 2 requires that the Company make additional monthly accelerated principal payments on the Term Loan in the amount of \$0.5 million commencing on October 15, 2015 and continuing until the Term Loan has been paid in full. Amendment No. 2 also requires that we make additional accelerated payments at the end of each calendar quarter in the amount of all unrestricted cash on hand as of the close of business on the last day of the quarter in excess of \$12.5 million.

The principal amount of the Term Loan is payable in consecutive quarterly installments beginning with the calendar quarter ended March 31, 2014 and matures on the earlier of October 18, 2018 or such date as the outstanding loans become payable in accordance with the terms of the Financing Agreement (the "Final Maturity Date"). The Term Loan bears interest at a rate equal to 7.5% per annum plus the greater of (i) 1.25% or (ii) LIBOR, or at the Company's option, a reference rate (as defined in the Financing Agreement) plus 6.5% per annum, with such interest payable monthly. For the year ended June 30, 2015 the average interest rate was 8.75%.

The Company's obligations under the Credit Facility are secured by a security interest in substantially all of the Company's assets. Loans outstanding under the Credit Facility (1) must be prepaid based on certain cash flow metrics and with any net proceeds of certain permitted asset sales and (2) may be prepaid in whole or in part at any time, with any prepayments made prior to the first anniversary of the effective date subject to a prepayment premium. Any principal amount of the loans which is prepaid or repaid may not be re-borrowed. During the year ended June 30, 2015, the Company made principal prepayments against the outstanding indebtedness of \$4.5 million as part of the

Amendment to the Term Loan discussed above.

The Credit Facility contains customary negative covenants that, among other things, restrict the Company from undertaking specified corporate actions such as creation of liens, incurrence of additional indebtedness, making certain investments with affiliates, changes of control, having excess foreign cash, issuance of equity, repurchasing the Company's

F - 14

---

equity securities, and making certain restricted payments, including dividends, without prior approval from the lender. The Credit Facility also contains various financial covenants that require the Company to maintain a certain consolidated EBITDA, certain leverage and fixed charges ratios as well as a minimum level of liquidity. Additionally, the Credit Facility contains cross-default provisions, whereby a default pursuant to the terms and conditions of certain indebtedness will cause a default on the remaining indebtedness under the Credit Facility. At June 30, 2015, the Company was in compliance with the applicable covenants including those under the amended Credit Facility. The Company incurred transaction costs associated with the Credit Facility totaling \$2.7 million, of which \$0.5 million and \$0.3 million was recorded in interest expense during the years ended June 30, 2015 and 2014, respectively. The remaining \$1.9 million as of June 30, 2015 consists of unamortized deferred debt offering costs and debt discount included in the accompanying consolidated balance sheet and are amortized to interest expense using the interest method.

The Company's book value for the Credit Facility approximates the fair value. Aggregate future principal payments required in accordance with the terms of the Credit Facility are as follows (in thousands):

Year ending June 30,	Amount
2016	\$11,141
2017	10,484
	\$21,625

#### Note 7 — Stockholders' Equity

During the years ended June 30, 2015, 2014, and 2013, the Company issued 2.6 million, 5.2 million, and 7.3 million shares, respectively, of common stock as a result of the exercise of options and warrants and during the years ended June 30, 2015, 2014, and 2013, the Company issued 1.3 million, 0.2 million, and 2.6 million shares, respectively, of restricted common stock. During the year ended June 30, 2015, 0.9 million shares of restricted stock were canceled or surrendered as payment of tax withholding upon vesting.

On November 6, 2014, the Company announced a share repurchase program authorizing it to repurchase up to \$7.0 million in shares of the Company's common stock. As part of that repurchase program, the Company entered into a pre-arranged stock repurchase plan that operated in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934. The pre-arranged stock repurchase program terminated in accordance with its terms on February 13, 2015. Pursuant to the program, the Company purchased 4.5 million shares of its common stock at an aggregate purchase price of \$5.9 million. The remaining \$1.1 million authorized under the program for repurchases was unused.

On June 3, 2014, the Company announced a share repurchase program authorizing it to repurchase up to \$4.0 million in shares of the Company's common stock. As part of that repurchase program, the Company entered into a pre-arranged stock repurchase plan that operated in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934. The pre-arranged stock repurchase program terminated in accordance with its terms on December 31, 2014. Pursuant to the program, the Company purchased 3.0 million shares of its common stock at an aggregate purchase price of \$4.0 million under this repurchase program.

On March 11, 2014 the Company announced a share repurchase program authorizing it to repurchase up to \$3 million of shares of the Company's common stock. As part of that repurchase program, the Company entered into a pre-arranged stock repurchase plan that operated in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934. The pre-arranged stock repurchase program terminated in accordance with its terms on June 8, 2014. Pursuant to the program, the Company purchased 2.2 million shares of its common stock at an aggregate purchase price of \$3 million under this repurchase program.

On November 1, 2013, the Company accepted for payment an aggregate of 16.3 million shares of its common stock at an aggregate purchase price of \$40 million as a result of its modified Dutch auction tender offer (the "Tender Offer") that expired October 25, 2013. The Company incurred transaction costs of \$0.3 million related to the Tender Offer. The Company entered into the Credit Facility to finance this repurchase. (see Note 6).

On March 22, 2013 the Company announced a share repurchase program authorizing it to repurchase up to \$5 million of shares of the Company's common stock. As part of that repurchase program, the Company entered into a pre-arranged stock repurchase plan that operated in accordance with guidelines specified under Rule 10b5-1 of the



Securities Exchange Act of 1934. The pre-arranged stock repurchase program terminated in accordance with its terms on December 1, 2013. Pursuant to the program, the Company purchased 2.1 million shares of its common stock at an aggregate purchase price of \$5 million under this repurchase program.

F - 15

---

The Company's Articles of Incorporation authorize the issuance of preferred shares. However, as of June 30, 2015, none have been issued nor have any rights or preferences been assigned to the preferred shares by the Company's Board of Directors.

#### Note 8 — Share-Based Compensation

##### Long-Term Incentive Plans

The Company adopted and the shareholders approved the Company's 2007 Long-Term Incentive Plan (the "2007 Plan"), effective November 21, 2006, to provide incentives to certain employees, directors and consultants. A maximum of 10.0 million shares of the Company's common stock can be issued under the 2007 Plan in connection with the grant of awards. Awards to purchase common stock have been granted pursuant to the 2007 Plan and are outstanding to various employees, officers, directors, Scientific Advisory Board members and independent distributors at prices between \$0.21 and \$1.50 per share, with initial vesting periods of one to three years. Awards expire in accordance with the terms of each award and the shares subject to the award are added back to the 2007 Plan upon expiration of the award. The contractual term of stock options granted is generally ten years. As of June 30, 2015 there were awards outstanding, net of awards expired, for the purchase in aggregate of 2.1 million shares of the Company's common stock.

The Company adopted and the shareholders approved the 2010 Long-Term Incentive Plan (the "2010 Plan"), effective September 27, 2010, as amended on August 21, 2014, to provide incentives to certain employees, directors and consultants who contribute to the strategic and long-term performance objectives and growth of the Company. A maximum of 10.5 million shares of the Company's common stock can be issued under the 2010 Plan in connection with the grant of awards. Awards to purchase common stock have been granted pursuant to the 2010 Plan and are outstanding to various employees, officers and directors. Outstanding stock options awarded under the 2010 Plan have exercise prices between \$0.63 and \$3.53 per share, and vest over one to four year vesting periods. Awards expire in accordance with the terms of each award and the shares subject to the award are added back to the 2010 Plan upon expiration of the award. The contractual term of stock options granted is generally ten years. As of June 30, 2015 there were awards outstanding, net of awards expired, for an aggregate of 1.2 million shares of the Company's common stock.

The Company adopted a Performance Incentive Plan effective July 1, 2013 (the "Fiscal 2014 Performance Plan"). The Fiscal 2014 Performance Plan is intended to provide selected employees an opportunity to earn performance-based cash bonuses whose value is based upon the Company's stock value and to encourage such employees to provide services to the Company and to attract new individuals with outstanding qualifications. The Fiscal 2014 Performance Plan seeks to achieve this purpose by providing for awards in the form of performance share units (the "Units"). No shares will be issued under the Fiscal 2014 Performance Plan. Awards may be settled only with cash and will be paid subsequent to award vesting. The fair value of share-based compensation awards, that include performance shares, are accounted for as liabilities. Vesting for the Units is subject to achievement of both service-based and performance-based vesting requirements. Performance-based vesting occurs in three installments if the Company meets certain performance criteria generally set for each year of a three-year performance period. The service-based vesting criteria occurs in three annual installments which are achieved at the end of a given fiscal year only if the participant has continuously remained in service from the date of award through the end of that fiscal year. The fair value of these awards is based on the trading price of the Company's common stock and is remeasured at each reporting period date until settlement. The Company adopted a separate Performance Incentive Plan effective July 1, 2014 (the "Fiscal 2015 Performance Plan"). The Fiscal 2015 Performance Plan is substantially similar to the Fiscal 2014 Performance Plan except that the service-based vesting criteria occurs in a single installment and is achieved at the end of the third fiscal year after the award is granted if the participant has continuously remained in service from the date of the award through the end of the third fiscal year.

##### Stock-Based Compensation

In accordance with accounting guidance on stock-based compensation, payments in equity instruments for goods or services are accounted for by the fair value method. For the fiscal years ended June 30, 2015, 2014, and 2013, stock-based compensation of \$1.7 million, \$2.6 million and \$2.2 million, respectively, was reflected as an increase to additional paid in capital and \$0.1 million and 0.3 million was reflected as an increase to other accrued expenses for

the fiscal years ended June 30, 2015 and 2014. There were no increases to other accrued expenses related to stock-based compensation for the fiscal year ended June 30, 2013. For the fiscal years ended June 30, 2015, 2014, and 2013, all stock-based compensation was employee related.

At June 30, 2015 there was \$2.9 million of unrecognized compensation cost related to nonvested share-based compensation arrangements under the 2010 Plan, based on management's estimate of the shares that will ultimately vest. The Company expects to recognize such costs over a weighted-average period of 1.9 years.

-F - 16-

---

## Stock Options

The weighted-average grant-date fair value of stock options granted during the fiscal year ended June 30, 2013 was \$2.49. There were no stock option grants during the fiscal years ended June 30, 2015 and 2014.

The fair value of stock option awards was estimated using the Black-Scholes option-pricing model with the following assumptions and weighted-average fair values:

	June 30, 2015	2014	2013	
Risk-free interest rate	N/A	N/A	0.82%	
Dividend yield	N/A	N/A	—	%
Expected life in years	N/A	N/A	5.0- 6.08	
Expected volatility	N/A	N/A	127%	

The following is a summary of stock option activity for the years ended June 30, 2015, 2014, and 2013:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2012	10,945	\$0.91		
Granted	152	\$2.82		
Exercised	(3,319 )	0.49		\$7,128
Forfeited	(768 )	1.54		
Expired or Canceled	—	—		
Outstanding at June 30, 2013	7,010	1.08		
Granted	—	\$—		
Exercised	(1,400 )	0.69		\$2,282
Forfeited	(469 )	1.84		
Expired or Canceled	—	—		
Outstanding at June 30, 2014	5,141	1.18		
Granted	—	\$—		
Exercised	(155 )	0.72		\$60
Forfeited	(1,756 )	1.31		
Expired or Canceled	—	—		
Outstanding at June 30, 2015	3,230	1.12	4.87	\$113
Exercisable at June 30, 2015	3,119	\$1.07	4.80	\$113

Edgar Filing: Lifevantage Corp - Form 10-K

Restricted Shares

The following is a summary of restricted shares granted during the years ended June 30, 2015, 2014, and 2013:

Nonvested Shares	Shares (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at June 30, 2012	162	—
Granted	2,808	\$2.62
Vested	(37 )	3.34
Forfeited	(196 )	3.25
Nonvested at June 30, 2013	2,737	2.61
Vested at June 30, 2013	—	—
Granted	225	\$1.79
Vested	(760 )	2.65
Forfeited	(478 )	2.55
Nonvested at June 30, 2014	1,724	2.46
Vested at June 30, 2014	—	—
Granted	1,325	\$0.8
Vested	(531 )	2.37
Forfeited	(770 )	2.22
Nonvested at June 30, 2015	1,748	1.34
Vested at June 30, 2015	—	—

The total vesting date fair value of restricted shares that vested during the years ended June 30, 2015, 2014 and 2013 was \$0.6 million, \$1.2 million and \$0.1 million, respectively.

Performance Stock Units

During the year ended June 30, 2015, the Company awarded performance stock units (the "Performance Stock Units") to its executive officers (the "Recipients"). Vesting for the Performance Stock Units occurs over three consecutive annual performance periods and is subject to achievement of both service based and market based performance vesting requirements. Subject generally to the Recipient's continued service with the Company (the serviced based requirement), each Performance Stock Unit represents a contingent right for the Recipient to receive, within thirty days after the end of each of three annual performance periods, a distribution of shares of common stock of the Company equal to 0% to 200% of the target number of Performance Stock Units subject to the award for each performance period. The actual number of shares distributed will be based on the Company's total stockholder return ("TSR") performance during the relevant performance period, subject to acceleration upon a change in control of the Company. The vesting for 50% of the target Performance Stock Units is based upon the Company's absolute TSR for the Performance Period as compared to a matrix of fixed numeric values and the vesting for the other 50% of the target Performance Stock Units is based upon a relative comparison of the Company's TSR to the Vanguard Russell 2000 exchange traded fund. The weighted average grant date fair value of Performance Stock Units granted during the fiscal year ended June 30, 2015 was \$1.54, which will be recognized on a straight-line basis over the requisite service period, regardless of when, if ever, the market based performance conditions are satisfied. There were no Performance Stock Units granted during the years ended June 30, 2014 and 2013.

The fair value of Performance Stock Units granted was estimated using a Monte Carlo simulation model which included the following assumptions in order to reflect the performance conditions that must be satisfied for the share units to vest:

	June 30, 2015	
Risk-free interest rate	1.07	%
Dividend yield	—	%
Expected volatility - company	54.1	%

Edgar Filing: Lifevantage Corp - Form 10-K

Expected volatility - peer company	15.7	%
Total measurement period (years)	3.0	

F - 18

---

The following is a summary of Performance Stock Units granted during the year ended June 30, 2015:

	Number of Units (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at June 30, 2014	—	—
Granted	1,600	\$1.54
Vested	—	—
Forfeited	(800	) 1.54
Nonvested at June 30, 2015	800	1.54
Vested at June 30, 2015	—	—
Cash-Settled Performance Units		

The following is a summary of cash settled performance units granted during the years ended June 30, 2015 and 2014:

	Number of Units (in thousands)	Weighted Average Grant Date Fair Value
Outstanding at June 30, 2013, nonvested	—	\$—
Granted	245	1.48
Vested	(214	) —
Forfeited	(31	) 1.51
Outstanding at June 30, 2014, nonvested	—	
Granted	482	1.15
Vested	(353	) —
Forfeited	(129	) 1.16
Outstanding at June 30, 2015, nonvested	—	

The fair value of vested awards under the Performance Plan as of June 30, 2015 was \$0.2 million. Payments of \$0.3 million were made to settle vested cash settled performance units during the year ended June 30, 2015. No payments were made to settle vested cash-settled performance units during the fiscal year ended June 30, 2014. No cash-settled performance units were granted or outstanding during the fiscal year ended June 30, 2013.

#### Warrants

As of June 30, 2015, the Company had outstanding warrants which were issued in conjunction with convertible debentures between November 2009 and February 2010.

Edgar Filing: Lifevantage Corp - Form 10-K

The following is a summary of the warrant activity for the years ended June 30, 2015, 2014, and 2013 (in thousands):

	Common Stock Warrants	
Outstanding and exercisable, June 30, 2012	12,964	
Issued	—	
Canceled	—	
Exercised	(4,723	)
Expired	—	
Outstanding and exercisable at June 30, 2013	8,241	
Issued	—	
Canceled	—	
Exercised	(3,996	)
Expired	—	
Outstanding and exercisable at June 30, 2014	4,245	
Issued	—	
Canceled	—	
Exercised	(3,637	)
Expired	—	
Outstanding and exercisable at June 30, 2015	608	

As of June 30, 2015, 2014, and 2013, the Company had no warrants classified as derivative liabilities.

Note 9 — Other Income (Expense), net

Other income (expense), net consists of the following (in thousands):

	Year ended June 30,		
	2015	2014	2013
Business development incentive, net	\$—	\$666	\$695
Foreign currency transaction loss, net	(498	) (194	) (1,689
Gain on settlement of forward contract	203	8	42
Other income (expense), net	136	(96	) 40
Total other income (expense), net	\$(159	) \$384	\$ (912

In January 2013, the Company began operations of a foreign subsidiary that qualified for a government-sponsored business development incentive. Under the incentive program, the Company's foreign subsidiary was allowed to retain certain non-income based taxes during the twelve month period ending December 31, 2013, rather than remit such taxes to the tax authorities. The income associated with the retention of these taxes is included in "Business development incentive, net" in the table above. No such incentives were realized during the fiscal year ended June 30, 2015.



## Note 10 — Income Taxes

As of June 30, 2015, the Company had a Federal net operating loss (“NOL”) carry-forward of approximately \$0.4 million. The net operating losses expire by June 30, 2024 and are subject to review by the Internal Revenue Service, and are subject to U.S. Internal Revenue Code Section 382 limitations. As of June 30, 2015, state NOLs were \$8.8 million and foreign NOLs were \$0.9 million. The income tax expense for the years ended June 30, 2015, 2014, and 2013 consists of the following (in thousands):

	2015	2014	2013	
Income / (Loss) Before Income Taxes:				
Domestic	\$8,249	\$13,894	\$11,250	
International	2,404	2,761	(97	)
	\$10,653	\$16,655	\$11,153	
Current Taxes:				
Federal	\$2,600	\$2,010	\$4,087	
State	446	72	383	
Foreign	856	1,018	(33	)
Total Current Income Tax Provision	\$3,902	\$3,100	\$4,437	
Deferred Taxes:				
Federal	97	2,299	(706	)
State	4	83	(77	)
Foreign	(337	) (210	) (109	)
Total Deferred Income Tax Provision	\$(236	) \$2,172	\$(892	)
Net Income Tax Provision	\$3,666	\$5,272	\$3,545	

The effective income tax rate for the years ended June 30, 2015, 2014, and 2013 differs from the U.S. Federal statutory income tax rate due to the following:

	2015	2014	2013	
Federal statutory income tax rate	35.0	% 35.0	% 35.0	%
State income taxes, net of federal benefit	2.0	% 1.9	% 1.8	%
Tax return to provision true-up	1.2	% (3.0	)% (2.5	)%
Permanent differences:				
— stock based compensation	1.2	% 1.3	% 0.8	%
— domestic production activities deduction	(1.6	)% (1.8	)% (2.7	)%
— credit for increasing research activities	(3.8	)% (1.5	)% (0.7	)%
— other	0.4	% (0.5	)% 0.0	%
Change in valuation allowance	0.0	% 0.1	% 0.0	%
Net income tax provision	34.4	% 31.5	% 31.7	%

Edgar Filing: Lifevantage Corp - Form 10-K

The components of the deferred tax assets and liabilities as of June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Deferred tax assets:		
Federal, state, and foreign net operating loss carryovers	\$656	\$1,016
Stock option compensation	1,353	1,353
Accrued vacation, allowance for returns, bonuses & other	1,395	572
Gross deferred tax asset	\$3,404	\$2,941
Deferred tax liabilities:		
Patents and trademarks	(468	) (500
Change in tax accounting methods	(98	) (198
Property & equipment	(1,268	) (583
Gross deferred tax liabilities	(1,834	) (1,281
Less: valuation allowance	(218	) (217
Deferred tax assets, net	\$1,352	\$1,443

The Company has adopted accounting guidance for uncertain tax positions which provides that in order to recognize an uncertain tax benefit, the taxpayer must be more likely than not of sustaining the position, and the measurement of the benefit is calculated as the largest amount that is more than 50% likely to be realized upon recognition of the benefit. We believe the Company has no material uncertain tax positions and do not expect significant changes within the next twelve months in the amount of unrecognized tax benefits. Accordingly, we have not reserved for interest or penalties. The tax years open for examination by the Internal Revenue Service (“IRS”) include returns for fiscal years June 30, 2012 through present and the open tax years by state tax authorities include returns for fiscal years June 30, 2010 through present. In addition, the IRS and state tax authorities may examine NOLs for any previous years if utilized by the Company.

The Company conducts its business globally. As a result, the Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions, and are subject to examination for the open tax years of June 30, 2010 through June 30, 2014.

Note 11 — Commitments and Contingencies

Operating Leases

The Company leases its facilities under non-cancelable operating leases, which expire at various dates through 2024. The facilities leases contain renewal options and are subject to cost increases. Future minimum annual payments under non-cancelable operating leases at June 30, 2015 are as follows (in thousands):

Year ending June 30,	Amount
2016	\$2,427
2017	2,439
2018	1,328
2019	1,246
2020	1,290
Thereafter	5,105
Total future minimum lease payments	\$13,835

Rent expense totaled \$2.4 million, \$1.9 million, and \$1.8 million for the years ended June 30, 2015, 2014, and 2013, respectively. In addition, the Company has \$0.2 million of sublease income to be received through the end of fiscal 2016.

Contingencies

The Company is occasionally involved in lawsuits and disputes arising in the normal course of business. The Company regularly reviews all pending litigation matters in which it is involved and establishes accruals deemed appropriate by management for these litigation matters when a probable loss estimate can be made. In the opinion of management, the amounts accrued for as of June 30, 2015 are appropriate based on the probable outcome of currently pending matters.



## Note 12 — Interim Financial Results (Unaudited)

The following summarizes selected quarterly financial information for quarterly periods during the years ended June 30, 2015 and 2014:

LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED QUARTERLY RESULTS

(in thousands except per share data)

	Fiscal Quarter				Year ended
	First	Second	Third	Fourth	June 30, 2015
Revenue, net	\$51,633	\$48,247	\$45,155	\$45,301	\$190,336
Gross profit	45,954	40,761	37,603	38,008	162,326
Net income	\$4,716	\$1,472	\$573	\$226	\$6,987
Per common share:					
Income per share, basic	\$0.05	\$0.02	\$0.01	\$—	\$0.07
Income per share, diluted	\$0.05	\$0.01	\$0.01	\$—	\$0.07
	Fiscal Quarter				Year ended
	First	Second	Third	Fourth	June 30, 2014
Revenue, net	\$51,328	\$51,538	\$55,064	\$56,038	\$213,968
Gross profit	43,519	43,594	46,605	47,056	180,774
Net income	\$3,256	\$3,282	\$2,494	\$2,351	\$11,383
Per common share:					
Income per share, basic	\$0.03	\$0.03	\$0.02	\$0.02	\$0.11
Income per share, diluted	\$0.03	\$0.03	\$0.02	\$0.02	\$0.10

## Note 13 — Subsequent Events

On July 2, 2015 the Company announced that it terminated the employment of David Colbert as Chief Financial Officer, effective July 3, 2015. Pursuant to Mr. Colbert's employment agreement, he will receive severance in an aggregate amount equal to \$325,000 to be paid in substantially equal monthly installments over the 12 month period following the termination date.

On July 15, 2015 the Company terminated the employment of David Phelps as Chief Sales Officer. Pursuant to Mr. Phelps' employment agreement, he will receive severance in an aggregate amount equal to \$352,000 to be paid in substantially equal monthly installments over the 12 month period following the termination date.