

Lifevantage Corp
Form 10-K
December 12, 2016

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, 2016

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 (IRS Employer
incorporation or organization) 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):

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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, 2015, the end of the registrant's second fiscal quarter, was approximately \$133.2 million, based on a closing market price of \$9.52 per share.

The number of shares of common stock (par value \$0.001) outstanding as of November 30, 2016, was 14,057,722 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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, general and administrative costs and research and development spending; statements regarding the future performance of our network marketing efforts; statements regarding our expectations regarding ongoing litigation; statements regarding international growth; and statements regarding future financial performance, results of operations, capital expenditures and sufficiency of capital resources to fund our operating requirements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and 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:

- Matters relating to our audit committee's independent review into sales of our products in certain international markets;
- Non-compliance by our independent distributors with applicable legal requirements or our policies and procedures;
- Potential adverse effects on our business and stock price due to ineffective internal controls over financial reporting;
- Inability to manage financial reporting and internal control systems and processes;
- Inability to properly motivate and manage our independent distributors;
- Inability to manage existing markets, open new international markets or expand our operations;
- Inability of new products to gain distributor or market acceptance;
- Inability to execute our product launch process due to increased pressure on our supply chain, information systems and management;
- Inability to appropriately manage our inventory;
- Disruptions in our information technology systems;
- Inability to protect against cyber security risks and to maintain the integrity of data;
- Inability to comply with financial covenants imposed by our credit facility and the impact of debt service obligations and restrictive debt covenants;
- International trade or foreign exchange restrictions, increased tariffs, foreign currency exchange fluctuations;
- 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;
- Dependence upon a few products for revenue;
- Inability to retain independent distributors or to attract new independent distributors on an ongoing basis;
- High quality materials 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 in our various markets 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 in various markets;

• Legal proceedings may be expensive and time consuming;

• Strict government regulations on our business;

• Regulations governing the production or marketing of our skin care 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 may 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;

• Potential delisting of our common stock due to non-compliance with Nasdaq's continued listing requirements;

• Inability to raise future capital or complete acquisitions as a result of delayed periodic reports with the SEC;

• Volatility of the market price of our common stock;

• Substantial sales of shares may negatively impact the market price of our common stock;

• Dilution of outstanding common shares may occur if holders of our existing warrants and options exercise their securities or upon future vesting of Performance Stock Units; 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.

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PART I

ITEM 1 — BUSINESS

Overview

LifeVantage Corporation is a company focused on nutrigenomics, the study of how nutrition and naturally occurring compounds affect our genes. We are dedicated to helping people achieve their health, wellness and financial independence goals. We provide quality, scientifically-validated products and a financially rewarding direct sales business opportunity to preferred customers, retail 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, Thailand, the United Kingdom and the Netherlands.

We engage in the identification, research, development and distribution of advanced nutraceutical dietary supplements and skin care products, including Protandim[®], our line of scientifically-validated dietary supplements, LifeVantage TrueScience[®], our line of anti-aging skin care products, Canine Health[®], our companion pet supplement formulated to combat oxidative stress in dogs, Axio[®], our energy drink mixes, and PhysIQ[™], our smart weight management system. 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[®], through traditional retail stores. In October 2008, we announced that we were transitioning our business model from a traditional retail model to a direct sales model in which Protandim[®] would be sold primarily through our network of independent distributors. Since entering direct sales, we have increased our geographic reach by entering new international markets and increased our product offering by introducing additional scientifically-validated products.

Fiscal Year 2016 Highlights

International Expansion

We expanded our international sales activities into the United Kingdom in March 2016 and the Netherlands in June 2016.

New Science-Based Products

We expanded our product offerings in fiscal year 2016 with three new products. In October 2015, we added Micro Lift Serum[®] to our TrueScience[®] Skin Care System, which was formulated as a natural way to visibly tighten, smooth and firm the skin around the eyes, quickly restoring a youthful looking radiance without sacrificing long-term skin health. In December 2015, we launched our PhysIQ[™] Smart Weight Management system, which includes four products to promote weight loss and support optimal digestion and immune function: PhysIQ[™] Cleanse, PhysIQ[™] Probio, PhysIQ[™] Fat Burn and PhysIQ[™] Protein. In May 2016, we expanded Protandim[®] from a single product into a line of dietary supplements by introducing Protandim[®] NRF1 Synergizer, which was formulated to strengthen the mitochondria, the powerhouse of all cells, for better cellular health. Protandim[®] NRF1 Synergizer is designed to work in tandem with our flagship Protandim[®] Nrf2 Synergizer. 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 show our commitment to delivering scientifically-backed products that help people feel, look and perform better.

Executive Team

We made significant changes to our executive management team during fiscal year 2016. In July 2015, we appointed Justin Rose as our Chief Sales Officer. Prior to joining LifeVantage, Mr. Rose spent 26 years in the direct selling industry in senior sales and marketing roles. In August 2015, we appointed Mark Jaggi as our Chief Financial Officer who, prior to joining LifeVantage, spent 20 years in lead financial, operational and strategic planning roles. In November 2015, we appointed Ryan Goodwin as our Chief Marketing Officer. Mr. Goodwin has more than a decade of experience building brands and marketing strategies for both direct sales companies and traditional consumer brands.

Technology Innovation

We introduced new mobile applications for our independent distributors to use to enhance their businesses. Our suite of four apps, available for both iPhone and Android, provide training and tools to help our independent distributors share our products and business opportunity. Our LV Pro App was designed for independent distributors access to their businesses in real-time, directly from their smart phones. Our LV Share App uses social media as an effective tool to connect and expand social

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reach on sites like Facebook, Twitter, Pinterest and Instagram. Our Brandr App provides a library of professionally-designed overlays with our branding and other useful tools, including quotes, tips and facts independent distributors can share with their social networks. Lastly, our LV Move App is a platform designed to engage new distributors upon enrollment and mentor existing distributors to help them launch their respective businesses.

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 LifeVenture® 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 believe our compensation plan and incentive programs help motivate our independent distributors to achieve success.

Our Products: We have a focus in nutrigenomics, the study of how nutrition and naturally occurring compounds affect our genes. We have developed quality, scientifically-validated nutrigenomics products focused on helping individuals look, feel and perform better. Protandim® Nrf2 Synergizer 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. Protandim® NRF1 Synergizer is a dietary supplement formulated to strengthen the mitochondria for better cellular health. Our skin care line, LifeVantage TrueScience®, is a patented combination of scientifically based anti-aging skin care products formulated to target the visible signs of aging on the skin. Axio®, our line of energy drink mixes, is formulated to promote alertness and support mental performance. PhysIQ™, our Smart Weight Management System, promotes weight loss and supports optimal digestion and immune function. Our companion pet supplement, Canine Health®, incorporates some of the same active ingredients as Protandim® Nrf2 Synergizer 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.

Distributor Training and Resources: We are committed to providing our independent distributors with resources and training designed to increase productivity and increase their potential for success. We provide training materials and we encourage our independent distributors to participate in company-sponsored events, including conventions, promotions and incentives. In addition, we are dedicated to using technology to facilitate a streamlined approach for independent distributors to manage their businesses and sell our products. Our suite of four new mobile applications provides the training and tools to help our independent distributors share our products and business opportunity directly from their smart phones.

Our Culture: We are committed to creating a culture for our independent distributors, customers 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,

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

NRF1 Activation

Nuclear Respiratory Factor 1 or NRF1 is a transcription factor that contributes to the expression of many genes required for the maintenance and function of the mitochondria. Mitochondria are subcellular self-autonomous organelles and are primarily responsible for the generation of the chemical energy (ATP) that cells require to stay alive. Mitochondria constantly expand and divide based on the demand of the tissue cells in which they reside. They also play an important role in triggering the signaling cascade that results in the death of cells (apoptosis). Proper regulation of these mitochondrial functions is vitally important for the life and death of cells and for human health. Dysfunction of mitochondria has been associated with many chronic diseases in a wide variety of animal models. Therefore, the upregulation of NRF1 represents an important therapeutic target to support the proper function of mitochondria and human health.

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®, Axio®, and PhysIQ™ 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. 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® Nrf2 Synergizer

Protandim® Nrf2 Synergizer 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® Nrf2 Synergizer combats oxidative stress by increasing the body's natural antioxidant protection at the genetic level. The unique blend of phytonutrients in Protandim® Nrf2 Synergizer signals the activation of Nrf2 to increase production

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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 multiple U.S. and international patents relating to Protandim® Nrf2 Synergizer. 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® Nrf2 Synergizer in two formulas, one for our Japan market and one for all our other markets where registered.

Protandim® Nrf2 Synergizer has been, and is currently, the subject of numerous independent scientific studies at various universities and research facilities including Ohio State University, Louisiana State University, University of Colorado Denver, Virginia Commonwealth University, Colorado State University, Texas Tech University and the National Institute on Aging. 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.

Protandim® NRF1 Synergizer

Protandim® NRF1 Synergizer is a dietary supplement which was formulated to strengthen the mitochondria, the powerhouse of all cells, for better cellular health. It is designed to work in tandem with our flagship Protandim® Nrf2 Synergizer and further enhance the body's internal ability to naturally produce antioxidants and reduce the effects of cellular stress. Protandim® NRF1 Synergizer activates NRF1, a protein that regulates the expression of genes involved in mitochondrial DNA transcription, translation and repair. The unique blend of ingredients in Protandim® NRF1 Synergizer supports the mitochondria to slow cellular aging and increase cellular energy.

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, firms and tightens the upper eyelid area and evens skin tone and dark circles that are visible signs of aging.

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

• TrueScience® Micro-Lift Serum: a serum that tightens and smooths skin around eyes to combat the appearance of fine lines and wrinkles.

We received a composition patent for our LifeVantage TrueScience® skin care products, which were tested in an independent third-party clinical study and 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® Nrf2 Synergizer 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®

Axio® is formulated to promote alertness and support mental performance. These 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.

PhysIQ[™] Smart Weight Management System.

We sell a full line of weight management products under our PhysIQ[™] brand, which consists of:

• PhysIQ[™] Fat Burn: a supplement containing natural active ingredients to stimulate the breakdown of abdominal fat, increase energy and support long-term weight management.

• PhysIQ[™] Probio: a supplement designed to support long-term gut health by restoring healthy gut bacteria to support digestive system health.

• PhysIQ[™] Cleanse: a supplement designed to stimulate healthy digestion and regularity and supports the cleansing of your digestive system.

• PhysIQ[™] Protein Shake: a combination of fast and slow release proteins designed to satisfy hunger and deliver amino acids to support quick recovery and improved muscle synthesis.

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 direct sales 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, 2016 and June 30, 2015, we had approximately 69,000 and 65,000 active independent distributors, respectively.

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 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-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. We provide tools, training and technology designed to increase our independent distributors' productivity and increase their potential for success. We offer training and business development opportunities to our independent distributors, including the following:

- **Blueprint:** 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;
- **Elite Academy and Global Convention:** regularly occurring 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.

We also introduced