RELIV INTERNATIONAL INC
Form 10-Q
August 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from _________to_________

Commission File Number

000-19932

RELIV' INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Delaware	371172197
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
136 Chesterfield Industrial Boulevard Chesterfield, Missouri	63005
(Address of principal executive offices)	(Zip Code)

(636) 537-9715

(Registrant's telephone number, including area code)

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

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

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

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

Smaller reporting company þ Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The number of shares outstanding of the Registrant's common stock as of August 3, 2017 was 1,845,160 (excluding treasury shares).

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PART I -- FINANCIAL INFORMATION

Item No. 1 - Financial Statements

Reliv International, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30 2017 (unaudited)	December 31 2016
Assets		
Current assets:		
Cash and cash equivalents	$3,448,928	$3,606,817
Accounts receivable, less allowances of $26,300 in 2017 and $26,700 in 2016	91,292	126,113
Accounts and note due from employees and distributors	137,253	139,931
Inventories		
Finished goods	2,443,056	2,629,541
Raw materials	1,840,796	1,728,136
Sales aids and promotional materials	147,089	130,153
Total inventories	4,430,941	4,487,830
Refundable income taxes	28,844	97,194
Prepaid expenses and other current assets	822,129	474,183
Total current assets	8,959,387	8,932,068
Other assets	329,901	305,137
Cash surrender value of life insurance	3,026,252	2,965,981
Note receivable due from distributor	1,463,925	1,521,005
Deferred income taxes	503,000	487,000
Intangible assets, net	2,287,240	2,400,234
Property, plant and equipment:		
Land and land improvements	905,190	905,190
Building	9,953,774	9,943,512
Machinery & equipment	4,694,656	4,329,329
Office equipment	1,182,545	1,203,868
Computer equipment & software	2,245,409	2,218,766
	18,981,574	18,600,665
Less: Accumulated depreciation	13,044,455	12,746,363
Net property, plant and equipment	5,937,119	5,854,302
Total assets	$22,506,824	$22,465,727

See notes to financial statements.

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Reliv International, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30 2017 (unaudited)	December 31 2016
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses:		
Trade accounts payable and other accrued expenses	$2,396,088	$2,352,692
Distributors' commissions payable	1,445,838	1,402,370
Sales taxes payable	233,678	234,153
Payroll and payroll taxes payable	283,594	245,090
Total accounts payable and accrued expenses	4,359,198	4,234,305
Current portion of long-term debt	324,960	389,096
Total current liabilities	4,684,158	4,623,401
Noncurrent liabilities:		
Long-term debt, less current portion	2,355,861	2,518,341
Other noncurrent liabilities	440,983	409,813
Total noncurrent liabilities	2,796,844	2,928,154
Stockholders' equity:		
Preferred stock, par value $.001 per share; 500,000 shares authorized; -0- shares issued and outstanding in 2017 and 2016	-	-
Common stock, par value $.001 per share; 5,000,000 authorized; 2,110,013 shares issued and 1,845,160 shares outstanding as of 6/30/2017; 2,110,013 shares issued and 1,845,160 shares outstanding as of 12/31/2016	2,110	2,110
Additional paid-in capital	30,582,032	30,565,144
Accumulated deficit	(9,280,189)	(9,284,317)
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	(939,571)	(1,030,205)
Treasury stock	(5,338,560)	(5,338,560)
Total stockholders' equity	15,025,822	14,914,172
Total liabilities and stockholders' equity	$22,506,824	$22,465,727

See notes to financial statements.

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Reliv International, Inc. and Subsidiaries

Condensed Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

(unaudited)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Product sales	$9,258,809	$10,166,478	$21,093,925	$22,209,039
Handling & freight income	747,819	886,844	1,690,485	1,880,733
Net sales	10,006,628	11,053,322	22,784,410	24,089,772
Costs and expenses:				
Cost of products sold	2,328,452	2,530,771	5,163,977	5,514,875
Distributor royalties and commissions	3,554,773	3,921,005	8,053,326	8,545,380
Selling, general and administrative	4,631,860	5,541,328	9,558,139	11,150,596
Total costs and expenses	10,515,085	11,993,104	22,775,442	25,210,851
Income (loss) from operations	(508,457)	(939,782)	8,968	(1,121,079)
Other income (expense):				
Interest income	25,827	27,133	51,353	54,490
Interest expense	(27,448)	(26,778)	(52,289)	(53,179)
Other income	12,413	71,263	45,096	184,944
Income (loss) before income taxes	(497,665)	(868,164)	53,128	(934,824)
Provision for income taxes	22,000	120,000	49,000	97,000
Net income (loss)	$(519,665)	$(988,164)	$4,128	$(1,031,824)
Other comprehensive income (loss):				
Foreign currency translation adjustment	65,162	(147,062)	90,634	(221,613)
Comprehensive income (loss)	$(454,503)	$(1,135,226)	$94,762	$(1,253,437)
Earnings (loss) per common share - Basic	$(0.28)	$(0.54)	$0.00	$(0.56)
Weighted average shares	1,845,000	1,846,000	1,845,000	1,846,000
Earnings (loss) per common share - Diluted	$(0.28)	$(0.54)	$0.00	$(0.56)
Weighted average shares	1,845,000	1,846,000	1,846,000	1,846,000

See notes to financial statements.

Reliv International, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows
(unaudited)

	Six months ended June 30	
	2017	2016
Operating activities:		
Net income/(loss)	$4,128	$(1,031,824)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	435,261	498,415
Stock-based compensation	16,888	35,112
Non-cash life insurance policy accretion	(60,270)	(58,488)
(Gain) loss on sale of property, plant and equipment	(11,361)	-
Deferred income taxes	10,000	14,000
Foreign currency transaction (gain) loss	(35,184)	(162,293)
(Increase) decrease in accounts receivable and accounts due from employees and distributors	40,767	72,102
(Increase) decrease in inventories	112,036	590,841
(Increase) decrease in refundable income taxes	68,516	53,474
(Increase) decrease in prepaid expenses and other current assets	(342,897)	(341,478)
(Increase) decrease in other assets	(24,907)	11,840
Increase (decrease) in accounts payable & accrued expenses and other noncurrent liabilities	126,216	769,312
Net cash provided by operating activities	339,193	451,013
Investing activities:		
Purchase of property, plant and equipment	(403,910)	(14,849)
Proceeds from the sale of property, plant and equipment	11,900	-
Payments received on distributor note receivable	53,763	50,639
Net cash provided by (used in) investing activities	(338,247)	35,790
Financing activities:		
Principal payments on long-term borrowings	(228,336)	(288,851)
Net cash used in financing activities	(228,336)	(288,851)
Effect of exchange rate changes on cash and cash equivalents	69,501	5,511
Increase (decrease) in cash and cash equivalents	(157,889)	203,463

Cash and cash equivalents at beginning of period	3,606,817	3,262,263
Cash and cash equivalents at end of period	$3,448,928	$3,465,726

See notes to financial statements.

Reliv International, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

June 30, 2017

Note 1-- Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and notes thereto have been prepared in accordance with the instructions to Form 10-Q and reflect all adjustments (which primarily include normal recurring accruals) which management believes are necessary to present fairly the financial position, results of operations and cash flows. These statements, however, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. Interim results may not necessarily be indicative of results that may be expected for any other interim period or for the year as a whole. These financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the annual report on Form 10-K for the year ended December 31, 2016, filed March 28, 2017 with the Securities and Exchange Commission.

On October 4, 2016, the Company effected a 1-for-7 reverse stock split of the Company's common stock. Each stockholder's percentage ownership and proportional voting power remained unchanged as a result of the reverse stock split. All applicable share data, per share amounts, and related information in these Condensed Consolidated Financial Statements and notes thereto have been adjusted retroactively to give effect to the 1-for-7 reverse stock split.

Note 2-- Basic and Diluted Earnings (Loss) per Share

Basic earnings (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted average number of common shares and potential dilutive common shares that were outstanding during the period. Potential dilutive common shares consist of outstanding stock options, outstanding stock warrants, and convertible preferred stock.

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Numerator:				
Net income (loss)	$(519,665)	$(988,164)	$4,128	$(1,031,824)
Denominator:				

Denominator for basic earnings (loss) per share--weighted average shares	1,845,000	1,846,000	1,845,000	1,846,000
Dilutive effect of employee stock options and other warrants	-	-	1,000	-
Denominator for diluted earnings (loss) per share--adjusted weighted average shares	1,845,000	1,846,000	1,846,000	1,846,000
Basic earnings (loss) per share	$(0.28)	$(0.54)	$0.00	$(0.56)
Diluted earnings (loss) per share	$(0.28)	$(0.54)	$0.00	$(0.56)

Options and warrants to purchase 146,715 shares of common stock and 142,013 shares of common stock for the three months and six months ended June 30, 2017, respectively, were not included in the denominator for diluted earnings (loss) per share because their effect would be antidilutive or because the shares were deemed contingently issuable. Options and warrants to purchase 267,226 shares of common stock for the three months and six months ended June 30, 2016, respectively, were not included in the denominator for diluted earnings (loss) per share because their effect would be antidilutive or because the shares were deemed contingently issuable.

Note 3-- Fair Value of Financial Instruments

Fair value can be measured using valuation techniques such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). Accounting standards utilize a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The carrying amount and fair value of the Company's financial instruments are approximately as follows:

Description	Carrying Value	Fair Value	Level 1	Level 2	Level 3
June 30, 2017					
Long-term debt	$2,680,821	$2,680,821	-	$2,680,821	-
Note receivable	1,576,401	1,779,000	-	1,779,000	-
Marketable securities	322,000	322,000	$322,000	-	-
December 31, 2016					
Long-term debt	$2,907,437	$2,907,437	-	$2,907,437	-
Note receivable	1,630,164	1,812,000	-	1,812,000	-
Marketable securities	296,000	296,000	$296,000	-	-

Long-term debt: The fair value of the Company's term and revolver loans approximate carrying value as these loans were incurred within the past two years and have variable market-based interest rates which reset every thirty days. The fair value of the Company's notes payable obligation approximates carrying value as these obligations have variable market-based interest rates which reset every ninety days.

Note receivable: The Company's note receivable is a variable rate residential mortgage-based financial instrument. An average of published interest rate quotes for a fifteen-year residential jumbo mortgage, a comparable financial instrument, was used to estimate fair value of this note receivable under a discounted cash flow model.

Marketable securities: The assets (trading securities) of the Company's Supplemental Executive Retirement Plan are recorded at fair value on a recurring basis, and are presented within Other Assets in the consolidated balance sheets.

The carrying value of other financial instruments, including cash, accounts receivable and accounts payable, and accrued liabilities approximate fair value due to their short maturities or variable-rate nature of their respective balances.

Note 4-- Taxes

The interim financial statement provision (benefit) for income taxes is different from the amounts computed by applying the United States federal statutory income tax rate of 34%. In summary, the reasons for these differences are as follows:

	Six months ended June 30	
	2017	2016
Income taxes (benefit) at U.S. statutory rate	$18,000	$(318,000)
Change in valuation allowance	56,000	383,000
State income taxes, net of federal benefit	16,000	23,000
Higher / (lower) effective taxes on earnings/losses in certain foreign countries	(74,000)	(46,000)
Foreign corporate income taxes	27,000	44,000
Other, net	6,000	11,000
	$49,000	$97,000

For fiscal year 2016, beginning in the second quarter, the Company determined that it was more likely than not that 2016 U.S. federal and various state net operating losses primarily generated in 2016 would not be realized based on projections of future U.S. taxable income, estimated reversals of existing taxable timing differences, and other considerations. Accordingly, the Company's full year 2016 income tax provision included the impact of recording a total valuation allowance of $292,000 against all U.S. net deferred tax assets, including the 2016 losses generated, from a U.S. tax perspective.

From a U.S. tax perspective, for the six months ended June 30, 2017, the Company increased its valuation allowance for the portion of federal and state net operating losses it estimates to generate in 2017.

One of the Company's foreign subsidiaries is presently under local country audit for alleged deficiencies (totaling approximately $800,000 plus interest at 20% per annum) in value-added tax (VAT) and withholding tax for the years 2004 through 2006. The Company, in consultation with its legal counsel, believes that there are strong legal grounds that it is not liable to pay the majority of the alleged tax deficiencies. As of December 31, 2010, management estimated and reserved approximately $185,000 in taxes and interest for resolution of this matter and recorded this amount within Selling, General, and Administrative expense in the 2010 Consolidated Statement of Income. In 2011, the Company made good faith deposits to the local tax authority under the tax agency's administrative judicial resolution process. As of June 30, 2017 and December 31, 2016, management's estimated reserve (net of deposits) for this matter is approximately $167,000 and $158,000, respectively. There has been no change in this matter during the first six months of 2017.

Note 5-- Restructuring Activities - 2016

In May 2016, the Company implemented an employee headcount cost reduction program resulting in the reduction of approximately 9% of the Company's worldwide employees. The total cost of this program, representing severance and benefits, was approximately $275,000, and was included in the company's operating results for the quarter ended June 30, 2016. The aggregate annual salaries of the affected employees was approximately $1,100,000.

At June 30, 2016, the remaining reserve for severance and benefits under this program was approximately $47,000, and was paid out in the third quarter of 2016.

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Note 6-- Recent Accounting Standards

Adopted in 2017

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory,* which requires inventory within the scope of this update to be measured at the lower of its cost or net realizable value, with net realizable value being the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. As required, the Company adopted this new standard effective January 1, 2017. The Company's adoption of this standard did not have any impact on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 781): Improvements to Employee Share-Based Payment Accounting.* This amendment is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liability, forfeitures, and classification on the statement of cash flows. As required, the Company adopted this new standard effective January 1, 2017. Concurrently with the adoption of this new standard, the Company revised its accounting policy to recognize share-based compensation costs based on actual stock option forfeitures versus previous accounting guidance which required the Company to recognize share-based compensation costs based on management's estimate of future stock option forfeitures. The Company's adoption of this standard did not have any impact on its consolidated financial statements and related disclosures.

Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing U.S. GAAP revenue recognition guidance and will be adopted by the Company, when required, on January 1, 2018. The new standard permits the use of either the retrospective or modified retrospective transition method. The Company's primary source of revenue is from the sale of nutritional products to the Company's independent distributors whereby revenue is currently recognized when product is shipped and risk of loss has passed to the customer. Upon adoption of this new standard, the Company believes that the timing of revenue recognition related to nutritional products sales will remain materially consistent with its current practice. Based on the evaluation completed to date, the Company has identified membership fee-type revenue and sales incentive programs as areas that may be affected by the new standard; and these areas require further evaluation. Overall, the Company continues to evaluate the adoption of this standard, including the transition method, will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-2, *Leases (Topic 842)* which supercedes the existing lease guidance. This update requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with earlier application permitted. The Company expects the adoption of this standard to result in the recognition of right-of-use assets and lease liabilities not currently recorded in the Company's consolidated financial statements. The Company is evaluating its transition method and other effects that the new standard will have on its consolidated financial statements and related disclosures.

FORWARD-LOOKING STATEMENTS

This quarterly report includes both historical and “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future results. Words such as “may,” “should,” “could,” “would,” “expect,” “plan,” “anticip “believe,” “estimate,” “predict,” “potential,” “continue,” or similar words are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that our opinions and expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements, and our actual results may differ substantially from the views and expectations set forth in this quarterly report on Form 10-Q. We disclaim any intent or obligation to update any forward-looking statements after the date of this annual report to conform such statements to actual results or to changes in our opinions or expectations.

Item No. 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis discusses the financial condition and results of our operations on a consolidated basis, unless otherwise indicated.

Overview

We are a developer, manufacturer and marketer of a proprietary line of nutritional supplements addressing basic nutrition, specific wellness needs, weight management and sports nutrition. We sell our products through an international network marketing system utilizing independent distributors. Sales in the United States represented approximately 77.7% of worldwide net sales for the six months ended June 30, 2017 and 77.3% of worldwide net sales for the six months ended June 30, 2016. Our international operations currently generate sales through distributor networks with facilities in Australia, Canada, Indonesia, Malaysia, Mexico, the Philippines, and the United Kingdom. We also operate in Ireland, France, Germany, Austria and the Netherlands from our United Kingdom distribution center, in New Zealand from our Australia office, and in Singapore from our Malaysia office.

We derive our revenues principally through product sales made by our global independent distributor base, which, as of June 30, 2017, consisted of approximately 35,110 distributors. Our sales can be affected by several factors, including our ability to attract new distributors and retain our existing distributor base, our ability to properly train and motivate our distributor base and our ability to develop new products and successfully maintain our current product line.

All of our sales to distributors outside the United States are made in the respective local currency; therefore, our earnings and cash flows are subject to fluctuations due to changes in foreign currency rates as compared to the U.S. dollar. As a result, exchange rate fluctuations may have an effect on sales and gross margins. U.S. generally accepted accounting practices require that our results from operations be converted to U.S. dollars for reporting purposes. Consequently, our reported earnings may be significantly affected by fluctuations in currency exchange rates, generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. Products manufactured by us for sale to our foreign subsidiaries are transacted in U.S. dollars. From time to time, we enter into foreign exchange forward contracts to mitigate our foreign currency exchange risk.

Components of Net Sales and Expense

Product sales represent the actual product purchase price typically paid by our distributors, after giving effect to distributor allowances, which can range from 10% to 40% of suggested retail price, depending on the rank of a particular distributor. Handling and freight income represents the amounts billed to distributors for shipping costs. We record net sales and the related commission expense when the merchandise is shipped.

Our primary expenses include cost of products sold, distributor royalties and commissions and selling, general and administrative expenses.

Cost of products sold primarily consists of expenses related to raw materials, labor, quality control and overhead directly associated with production of our products and sales materials, as well as shipping costs relating to the shipment of products to distributors, and duties and taxes associated with product exports. Cost of products sold is impacted by the cost of the ingredients used in our products, the cost of shipping distributors' orders, along with our efficiency in managing the production of our products.

Distributor royalties and commissions are monthly payments made to distributors based on products sold in their downline organization. Based on our distributor agreements, these expenses have typically approximated 23% of sales at suggested retail. Wholesale pricing discounts on distributor orders are based on the retail value of the product. Distributor royalties and commissions are paid on an amount referred to as the business value ("BV"), which typically ranges between 80% and 90% of the retail price of each product. Also, we include other sales leadership bonuses, such as Ambassador bonuses, within this caption. Overall, distributor royalties and commissions remain directly related to the level of our sales and should continue at comparable levels as a percentage of net sales going forward.

Selling, general and administrative expenses include the compensation and benefits paid to our employees, except for those in manufacturing, all other selling expenses, marketing, promotional expenses, travel and other corporate administrative expenses. These other corporate administrative expenses include professional fees, non-manufacturing depreciation and amortization, occupancy costs, communication costs and other similar operating expenses. Selling, general and administrative expenses can be affected by a number of factors, including staffing levels and the cost of providing competitive salaries and benefits; the amount we decide to invest in distributor training and motivational initiatives; and the cost of regulatory compliance.

Results of Operations

Net Sales. Overall net sales decreased by 9.5% in the three months ended June 30, 2017 compared to the same period in 2016. During the second quarter of 2017 ("Q2 2017"), sales in the United States decreased by 10.8%, and international sales decreased by 5.2% over the prior-year period. International sales, when reported in U.S. dollars, were negatively impacted by a stronger U.S. dollar versus most of the currencies of the markets where we do business. Excluding the impact of currency exchange fluctuation, international sales increased by 2.8%.

The following table summarizes net sales by geographic market for the three months ended June 30, 2017 and 2016.

Three months ended June 30,			
2017	2016	Change from prior year	
Amount	Amount	Amount	%

		% of Net Sales			% of Net Sales			
	(dollars in thousands)							
United States	$7,450	74.4	%	$8,356	75.6	%	$ (906)	(10.8)%
Australia/New Zealand	227	2.3		286	2.6		(59)	(20.6)
Canada	217	2.2		242	2.2		(25)	(10.3)
Mexico	89	0.9		137	1.2		(48)	(35.0)
Europe	1,308	13.1		1,621	14.7		(313)	(19.3)
Asia	716	7.1		411	3.7		305	74.2
Consolidated total	$10,007	100.0	%	$11,053	100.0	%	$ (1,046)	(9.5)%

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The following table summarizes net sales by geographic market for the six months ended June 30, 2017 and 2016.

	Six months ended June 30,									
	2017			2016			Change from prior year			
	Amount	% of Net Sales		Amount	**% of Net Sales**		Amount		%	
	(dollars in thousands)									
United States	$17,709	77.7	%	$18,610	77.3	%	$ (901	)	(4.8	)%
Australia/New Zealand	486	2.1		584	2.4		(98	)	(16.8	)
Canada	481	2.1		549	2.3		(68	)	(12.4	)
Mexico	247	1.1		300	1.2		(53	)	(17.7	)
Europe	2,508	11.0		3,177	13.2		(669	)	(21.1	)
Asia	1,353	6.0		870	3.6		483		55.5	
Consolidated total	$22,784	100.0	%	$24,090	100.0	%	$ (1,306	)	(5.4	)%

The following table sets forth, as of June 30, 2017 and 2016, the number of our active distributors and Master Affiliates and above. The total number of active distributors includes Master Affiliates and above. We define an active distributor as one that enrolls as a distributor or renews his or her distributorship during the prior twelve months. Master Affiliates and above are distributors that have attained the highest level of discount and are eligible for royalties generated by Master Affiliate groups in their downline organization. In February 2016, we introduced a formal Preferred Customer program in the United States and Canada. As a result, we are including Preferred Customers as part of our Active Distributor count. Preferred Customer programs were previously in place in Europe and other foreign markets. Preferred Customers represent approximately 4,960 and 4,490 of the Active Distributor count as of June 30, 2017 and 2016, respectively.

	June 30, 2017		June 30, 2016		% Change		
	Active Distributors and Preferred Customers	Master Affiliates and Above	Active Distributors and Preferred Customers	Master Affiliates and Above	Active Distributors and Preferred Customers	Master Affiliates and Above	
United States	24,670	2,690	30,080	4,110	(18.0)%	(34.5	)%
Australia/New Zealand	1,240	110	1,660	130	(25.3)	(15.4	)
Canada	740	90	970	150	(23.7)	(40.0	)
Mexico	770	60	1,130	90	(31.9)	(33.3	)
Europe	4,130	430	5,630	510	(26.6)	(15.7	)
Asia	3,560	350	3,030	320	17.5	9.4	
Consolidated total	35,110	3,730	42,500	5,310	(17.4)%	(29.8	)%

Use of Non-GAAP Financial Information

Net sales expressed in local currency or net sales adjusted for the impact of foreign currency fluctuation are non-GAAP financial measures. We use these measurements to assess the level of business activity in a foreign market, absent the impact of foreign currency fluctuation relative to the United States dollar, which our local management has no ability to influence. This is a meaningful measurement to management, and we believe this is a useful measurement to provide to shareholders.

The following table provides key statistics related to distributor activity by market and should be read in conjunction with the following discussion. Adjusted results should be considered only in conjunction with results reported according to accounting principles generally accepted in the United States.

Distributor Activity by Market	**United States**	**AUS/NZ**	**Canada**	**Mexico**	**Europe**	**Asia**	**International – Total**
Sales in USD (in 000's):							
Quarter ended 6/30/2017	$ 7,450	$ 227	$ 217	$ 89	$ 1,308	$ 716	$ 2,557
Quarter ended 6/30/2016	$ 8,356	$ 286	$ 242	$ 137	$ 1,621	$ 411	$ 2,697
% change in sales-Q2 2017 vs. Q2 2016:							
in USD	-10.8 %	-20.6 %	-10.3 %	-35.0 %	-19.3 %	74.2 %	-5.2 %
due to currency fluctuation	-	0.5 %	-4.6 %	1.0 %	-9.8 %	-12.0 %	-8.0 %
Sales in local currency (non-GAAP)	-10.8 %	-21.1 %	-5.7 %	-36.0 %	-9.5 %	86.2 %	2.8 %
# of new distributors-Q2 2017 (1)	981	39	42	56	528	684	1,349
# of new distributors-Q2 2016 (1)	1,291	88	33	105	570	349	1,145
% change	-24.0 %	-55.7 %	27.3 %	-46.7 %	-7.4 %	96.0 %	17.8 %
# of new Master Affiliates-Q2 2017	139	2	2	1	39	70	114
# of new Master Affiliates-Q2 2016	136	7	2	4	47	34	94
% change	2.2 %	-71.4 %	0.0 %	-75.0 %	-17.0 %	105.9%	21.3 %
# of Product orders-Q2 2017	31,724	1,439	827	702	4,576	7,207	14,751
# of Product orders-Q2 2016	35,979	1,809	867	949	5,665	2,894	12,184
% change	-11.8 %	-20.5 %	-4.6 %	-26.0 %	-19.2 %	149.0%	21.1 %

	United States	**AUS/NZ**	**Canada**	**Mexico**	**Europe**	**Asia**	**International – Total**
Sales in USD (in 000's):							
YTD ended 6/30/2017	$ 17,709	$ 486	$ 481	$ 247	$ 2,508	$ 1,353	$ 5,075
YTD ended 6/30/2016	$ 18,610	$ 584	$ 549	$ 300	$ 3,177	$ 870	$ 5,480
% change in sales-YTD 2017 vs. YTD 2016:							
in USD	-4.8 %	-16.8 %	-12.4 %	-17.7 %	-21.1 %	55.5 %	-7.4 %
due to currency fluctuation	-	2.3 %	-0.5 %	-5.8 %	-11.0 %	-10.0 %	-8.1 %
Sales in local currency (non-GAAP)	-4.8 %	-19.1 %	-11.9 %	-11.9 %	-10.1 %	65.5 %	0.7 %
	2,594	105	86	139	994	1,387	2,711

# of new distributors-YTD 2017 (2)							
# of new distributors-YTD 2016	3,005	200	77	227	1,245	863	2,612
% change	-13.7 %	-47.5 %	11.7 %	-38.8 %	-20.2 %	60.7 %	3.8 %
# of new Master Affiliates-YTD 2017	294	5	5	8	73	158	249
# of new Master Affiliates-YTD 2016	497	21	13	13	96	80	223
% change	-40.8 %	-76.2 %	-61.5 %	-38.5 %	-24.0 %	97.5 %	11.7 %
# of Product orders-YTD 2017	66,732	2,891	1,641	1,795	9,280	12,882	28,489
# of Product orders-YTD 2016	75,047	3,696	1,936	1,995	11,824	5,730	25,181
% change	-11.1 %	-21.8 %	-15.2 %	-10.0 %	-21.5 %	124.8 %	13.1 %

(1) The new distributor totals for Q2 2017 and Q2 2016 include 964 and 927, respectively, of new worldwide preferred customers.

(2) The new distributor totals for YTD 2017 and YTD 2016 include 1,983 and 1,763, respectively, of new worldwide preferred customers.

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United States

- Net sales declined in the United States in Q2 2017 compared to the prior-year quarter, as new distributor/preferred customer enrollments and sales of the new Fit3 products declined in Q2 2017 compared to the sales when launched in the first quarter of 2017 ("Q1 2017").
- In February 2017, we launched Fit3™, a new fitness and weight loss program. The Fit3 program consists of three principal components: nutrition coaching, exercise coaching, and three new Fit3 formulas: Active, Burn and Purify. Active combines a three-protein blend of whey, casein and non-GMO soy with additional ingredients to support weight loss, athletic performance and energy. Burn and Purify are capsule products, with Burn as a targeted fat-burning formula and Purify as a probiotic, liver cleanse and metabolic supporter.
- Sales of the Fit3 product line represented 4.9% of net sales in the U.S. in Q2 2017, down from 10.1% of net U.S. sales in Q1 2017. Products in the LunaRich line, including Reliv Now® and LunaRich X™, continued to perform well, constituting 16.8% and 13.7% of net sales in the United States, respectively, in Q2 2017. Reliv NOW and LunaRich X represented 17.9% and 15.1%, respectively, of net sales in the United States in the prior-year quarter.
- For the six months ended June 30, 2017 ("YTD 2017"), sales of Reliv Now and LunaRich X represented 16.2% and 13.4%, respectively, of net sales in the United States. Sales of the Fit3 product line represented 7.9% of net sales in the United States for the YTD 2017 period.
- Distributor/preferred customer enrollments decreased by 24.0% and new Master Affiliate qualifications increased by 2.2% in Q2 2017 compared to the prior year quarter.
- Distributor retention was 67.8% for the twelve month period ended June 30, 2017 compared to 66.9% for all of 2016. Distributor retention is determined by the percentage of active distributors from 2016 that renewed their distributorships in 2017.
- Our average order size in Q2 2017 increased by 1.1% to $324 at suggested retail value compared to the prior-year quarter. The number of product orders decreased by 11.8% in Q2 2017 compared to the prior year quarter for the same reasons as the overall decrease in sales.

International Operations

- The average foreign exchange rate for the U.S. dollar for YTD 2017 was stronger versus the British pound, Philippine peso, Canadian dollar, and Mexican peso when compared with the average exchange rates for the same period in 2016. The average exchange rates for the Australian and New Zealand dollars both increased versus the U.S. dollar in YTD 2017.
- We continue to review prices and margins in all of our international markets and plan to make adjustments as needed during 2017. We are also reviewing sales by product to phase out products with lower sales levels and gross margins as strategically appropriate.
- Australia/New Zealand and Canadian net sales in Q2 2017 decreased by 21.1% and 5.7%, respectively, in local currency compared to the prior-year quarter as the result of decreased distributor activity in the market.
- Net sales in Mexico decreased by 36.0% in local currency in Q2 2017 compared to the prior-year quarter. Sales decreased as new distributor enrollments and the number of product orders declined by 46.7% and 26.0%, respectively.
- Net sales in Europe decreased by 9.5% in local currency in Q2 2017 compared to the prior-year quarter. Distributor activity declined both in the form of new distributor and preferred customer enrollments and in new Master Affiliate

qualifications in the region.

Sales in Asia increased by 86.2% in local currency in Q2 2017 compared to the prior-year quarter led by strong sales growth in the Philippines. Local currency sales in the Philippines improved 107% in Q2 2017 as all measures of distributor activity showed strong increases in the market. Local sales campaigns involving our NOW for Kids nutritional product continue to show good success.

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Costs and Expenses

The following table sets forth selected results of our operations expressed as a percentage of net sales for the three- and six-month periods ended June 30, 2017 and 2016. Our results of operations for the periods described below are not necessarily indicative of results of operations for future periods.

Income statement data **(amounts in thousands)**	**Three months ended**			
	June 30, 2017		June 30, 2016	
	Amount	**% of net sales**	**Amount**	**% of net sales**
Net sales	$10,007	100.0 %	$11,053	100.0 %
Costs and expenses:				
Cost of products sold	2,328	23.3	2,531	22.9
Distributor royalties and commissions	3,555	35.5	3,921	35.5
Selling, general and administrative	4,632	46.3	5,541	50.1
Loss from operations	(508)	(5.1)	(940)	(8.5)
Interest income	26	0.3	27	0.2
Interest expense	(28)	(0.3)	(26)	(0.2)
Other income	12	0.1	71	0.6
Loss before income taxes	(498)	(5.0)	(868)	(7.9)
Provision for income taxes	22	0.2	120	1.0
Net loss	$(520)	(5.2)%	$(988)	(8.9)%
Loss per common share-Basic and Diluted(1)	$(0.28)		$(0.54)	

	Six months ended			
	June 30, 2017		June 30, 2016	
	Amount	**% of net sales**	**Amount**	**% of net sales**
Net sales	$22,784	100.0 %	$24,090	100.0 %
Costs and expenses:				
Cost of products sold	5,164	22.7	5,515	22.9
Distributor royalties and commissions	8,053	35.3	8,545	35.5
Selling, general and administrative	9,558	42.0	11,151	46.3
Income (loss) from operations	9	-	(1,121)	(4.7)
Interest income	51	0.2	54	0.2
Interest expense	(52)	(0.2)	(53)	(0.2)

Other income	45	0.2	185	0.8
Income (loss) before income taxes	53	0.2	(935)	(3.9)
Provision for income taxes	49	0.2	97	0.4
Net income (loss)	$4	- %	$(1,032)	(4.3)%
Income (loss) per common share-Basic and Diluted[1]	$-		$(0.56)	

[1] The three- and six-month per share amounts for 2016 have been adjusted for the 1-for-7 reverse stock split effective on October 4, 2016.

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Cost of Products Sold:

- The cost of products sold as a percentage of net sales in Q2 2017 increased compared to the prior-year period; however, for YTD 2017, the percentage decreased compared to the prior-year period. For Q2 2017, the cost of products sold was negatively impacted by lower plant utilization.

Distributor Royalties and Commissions:

- Distributor royalties and commissions as a percentage of net sales for Q2 2017 and YTD 2017 remained relatively steady compared to the prior-year periods. Overall, distributor royalties and commissions remain directly related to the level of our sales and should continue at comparable levels as a percentage of net sales.

Selling, General and Administrative Expenses:

- Selling, general and administrative expenses declined by $909,000 in Q2 2017 and declined by $1.59 million in YTD 2017 compared to the prior-year periods.
- Salaries, other staffing expenses, benefits, and incentive compensation decreased in the aggregate by $826,000 in YTD 2017, compared to the prior-year period. Total compensation expense decreased as the result of continued headcount reductions in the United States through attrition and a worldwide workforce reduction that took place in May 2016.
- Sales and marketing expenses decreased by $370,000 in YTD 2017 vs. the prior-year period. Components of decrease include:
  - Conference and other corporate-sponsored distributor meeting expenses decreased by $244,000 as we have reduced the quantity of corporate-sponsored events and the cost of our major distributor conference.
  - Star Director and other distributor bonuses, credit card fees, and other expenses related to the level of sales decreased by $154,000.
- Other general and administrative expenses decreased by $373,000 in YTD 2017 versus the prior-year period.
  - Research & development expenses, along with other foreign product compliance requirements decreased by $175,000 in YTD 2017 compared to the prior-year period.
  - Other decreases from YTD 2017 vs. YTD 2016 include:
    - Consulting fees decreased by $38,000.
    - Utility expenses decreased by $33,000.
    - Computer software maintenance expenses decreased by $39,000.
    - Shareholder communication and other SEC-related expenses decreased by $41,000.

Other Income/Expense:

- The other income in YTD 2017 and YTD 2016 is primarily the result of foreign currency exchange gains on intercompany debt denominated in U.S. dollars in certain of our subsidiaries.

Income Taxes:

- We reported an income tax expense of $49,000 for YTD 2017.
- See Note 4 of the Condensed Consolidated Financial Statements for additional detail regarding income taxes, including a reconciliation of the income tax expense/benefit to the U.S. statutory rate for each period.

Net Income/Loss:

- We reported a net loss of $520,000 in Q2 2017 compared to a net loss of $988,000 in the prior-year quarter. For YTD 2017, we reported net income of $4,000 compared to a net loss of $1.03 million in the prior year-to-date period. Although net sales decreased by 9.5% in Q2 2017 vs. Q2 2016, our results from operations improved as the result of the continuing impact of the reduction in selling, general and administrative expenses from last year's cost reduction initiative.

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Liquidity and Capital Resources

During the first six months of 2017, we generated $339,000 of net cash from operating activities, $338,000 was used in investing activities, and we used $228,000 in financing activities. This compares to $451,000 of net cash provided by operating activities, $36,000 provided by investing activities, and $289,000 used in financing activities in the same period of 2016. Cash and cash equivalents decreased by $158,000 to $3.45 million as of June 30, 2017 compared to December 31, 2016.

Significant changes in working capital items consisted of a decrease in inventory of $112,000, and an increase in prepaid expenses/other current assets of $343,000 in the first six months of 2017. The decrease in inventory is the result of production adjustments subsequent to the launch of the Fit3 product line, and the increase in prepaid expenses/other current assets represents the annual premium payments made in the first quarter of 2017 on most of the corporate business insurance policies.

Investing activities during the first six months of 2017 consisted of an investment of $404,000 for capital expenditures, offset by payments received on a distributor note receivable of $54,000. Financing activities during the first six months of 2017 consisted of principal payments of $228,000 on long-term borrowings.

Stockholders' equity increased to $15.0 million at June 30, 2017 compared to $14.9 million at December 31, 2016. The increase is due to our net income during the first six months of 2017 of $4,000 coupled with a favorable adjustment in foreign currency translation of $91,000. Our working capital balance was $4.28 million at June 30, 2017 compared to $4.31 million at December 31, 2016. The current ratio at June 30, 2017 was 1.91 compared to 1.93 at December 31, 2016.

Our $3.25 million term loan has a term of three years and requires monthly term loan payments, under a ten-year amortization, consisting of principal of $27,080 plus interest with a balloon payment for the outstanding balance due and payable on September 30, 2018. The term loan's interest rate is based on the 30-day LIBOR plus 2.25% and was 3.24% at June 30, 2017.

Our $3.5 million revolving line of credit agreement accrues interest at a floating interest rate based on the 30-day LIBOR plus 2.25% and has a maturity date of April 30, 2018. As of June 30, 2017, there were no outstanding borrowings on the revolving line of credit.

Borrowings under the new lending agreements are secured by all our tangible and intangible assets, a whole life insurance policy on the life of our Chief Executive Officer, and by a mortgage on the real estate of our headquarters.

The lending agreements include quarterly covenants requiring us to maintain net tangible worth of not less than $9.5 million, and i) a cumulative minimum EBITDA requirement of $400,000, $600,000, and $800,000 for the fiscal periods ending June 30, 2017, September 30, 2017, and December 31, 2017, respectively; and ii) a minimum EBITDA of $200,000 for the quarter ended March 31, 2018.

As defined, EBITDA means our consolidated net income for such period, before interest expense, income tax expense, depreciation and amortization, and management fees, and further adjusted to exclude any gain or loss on the sale of assets, other extraordinary gains or losses, and any one-time adjustment approved by the lender.

At June 30, 2017, we were in compliance with all applicable covenants.

Management believes that our cash on hand, internally generated funds, and revolving line of credit extension will be sufficient to meet working capital requirements and our debt service requirements for the next twelve months.

Critical Accounting Policies

A summary of our critical accounting policies and estimates is presented in our 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2017. Our critical accounting policies remain unchanged as of June 30, 2017.

Item No. 4 - Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has reviewed and evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017. Based on such review and evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of June 30, 2017, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, (a) is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms and (b) is accumulated and communicated to our management, including the officers, as appropriate to allow timely decisions regarding required disclosure. There were no material changes in our internal control over financial reporting during the second quarter of 2017 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item No. 6 – Exhibits

Exhibit Number	**Document**
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended (filed herewith).
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	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	Interactive Data Files, including the following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss), (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

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

RELIV’ INTERNATIONAL, INC.

By:/s/ Robert L. Montgomery
Robert L. Montgomery, Chairman of the Board of Directors and Chief Executive Officer

Date: August 14, 2017

By:/s/ Steven D. Albright
Steven D. Albright, Chief Financial Officer (and accounting officer)

Date: August 14, 2017