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Lifevantage Corp  
Form 10-K  
September 10, 2014

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

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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, 2014

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

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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)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  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, 2013, the end of the registrant's second fiscal quarter, was approximately \$171.4 million, based on a closing market price of \$1.65 per share.

The number of shares of common stock (par value \$0.001) outstanding as of September 4, 2014, was 100,717,598 shares.

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**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, 2014.

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#### 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 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:

- Inability to strengthen our business and properly manage distractions among our distributors in Japan;
- We may be unable to manage our growth and expansion;
- We may not succeed in growing existing markets or opening new international markets;
- We may not succeed in expanding 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 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 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;
- We may be unable to raise additional capital if needed;
- Exposure to environmental liabilities stemming from past operations and property ownership;
- Significant dependence upon a single product;
- Our 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;
- Our 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 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;  
Our business is subject to strict government regulations;  
Regulations governing the production or marketing of our products;  
We are subject to the 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;  
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;  
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.

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## 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 and Mexico primarily through a network of independent distributors, and to preferred customers.

We also 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 launched in fiscal 2014, and Canine Health<sup>®</sup>, our companion pet supplement formulated to combat oxidative stress in dogs.

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 2014 Highlights

We expanded our product offering significantly in April 2014 by introducing a full line of anti-aging skin care products under our LifeVantage TrueScience<sup>®</sup> brand. The line of skin care products includes TrueScience<sup>®</sup> Ultra Gentle Facial Cleanser, TrueScience<sup>®</sup> Perfecting Lotion, TrueScience<sup>®</sup> Eye Corrector Serum, and an enhanced version of our TrueScience<sup>®</sup> Anti-Aging Cream. We believe our new skin care products leverage our Nrf2 activation and oxidative stress research and complement our other product offerings. Additionally, in April 2014, we acquired a new line of sports nutrition products from Wicked Fast Sports Nutrition. We intend to conduct additional research and development on these sports nutrition products 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. We believe the partnership provides the LifeVantage brand with high-impact exposure in stadiums, on television, in advertising and through player appearances across the country and around the world.

We made valuable additions to our management team during fiscal year 2014. In November 2013 we appointed David Phelps as our Chief Sales Officer and in January 2014 we appointed Shawn Talbott, Ph.D. as our Chief Science Officer. Both Mr. Phelps and Dr. Talbott have significant experience in the direct selling industry. Mr. Phelps previously held roles at Synergy Worldwide, FFi, Jeunesse Global, MonaVie and Organo Gold and has been involved in the direct selling industry in North America, Europe, Latin America and several major markets in Asia. Dr. Talbott earned a Ph.D. in Nutritional Biochemistry from Rutgers University and has received several competitive research awards. Dr. Talbott has published over 200 articles and 10 books on nutrition, health and fitness and has served as a consultant and educator for elite-level athletes in a variety of sports.

During fiscal year 2014 we conducted a self tender offer in which we purchased approximately 16.3 million shares of our common stock at a purchase price of \$2.45 per share, for an aggregate cost of approximately \$40 million. These shares represented approximately 13.9% of our outstanding shares of common stock as of September 13, 2013, the date on which we commenced the self tender offer. We also actively repurchased shares of our common stock throughout fiscal year 2014 pursuant to publicly announced repurchased plans. In July 2013, we purchased

approximately 1.2 million shares of our common stock for an aggregate purchase price of approximately \$2.9 million under a repurchase plan we had announced in March 2013. We also commenced a stock repurchase program in March 2014 in which we repurchased approximately 2.1 million shares of our common stock for an aggregate purchase price of approximately \$3 million. In June 2014 we announced another share repurchase program in which we plan to purchase up to \$4 million worth of shares of our common stock in fiscal year 2015. We believe these share repurchase initiatives enhance long-term shareholder value.

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## 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<sup>®</sup> 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 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<sup>®</sup> 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 new skin care line, LifeVantage TrueScience<sup>®</sup>, is a combination of scientifically based anti-aging skin care products formulated to target the visible signs of aging on the skin. Our companion pet supplement, Canine Health<sup>®</sup>, incorporates some of the same active ingredients as Protandim<sup>®</sup> 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, independent 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.

## 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.

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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.

#### Research and Development

In January 2014, we bolstered our research and development efforts by hiring Shawn Talbott, Ph.D., as our Chief Science Officer. Dr. Talbott has established a research and product development team that includes an experienced internal scientific staff and an esteemed external scientific advisory board. 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 while also 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®

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 introduced a full line of anti-aging skin care products under our LifeVantage TrueScience® brand in fiscal 2014. The full line of LifeVantage TrueScience® anti-aging skin care products consists of:

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

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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.

#### 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. 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, 2014, we had approximately 68,000 active independent distributors compared to approximately 67,000 active independent distributors as of June 30, 2013.

#### 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 incentive 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

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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.

#### 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. In June 2014, Douglas C. Robinson, our President and Chief Executive Officer, was elected to the Board of Directors of the United States Direct Selling Association.

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, 2014, we had approximately 128,000 active preferred customers compared to

approximately 138,000 active preferred customers as of June 30, 2013.

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### 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 and Mexico. In fiscal year 2014, revenue generated in the United States accounted for approximately 64% of our total revenue and revenue generated from Japan accounted for approximately 29% 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,								
	2014		2013		2012				
Americas	\$141,227	66.0	%	\$133,046	63.9	%	\$90,122	71.4	%
Asia/Pacific	72,741	34.0	%						