

Lifevantage Corp  
Form 10-Q  
February 04, 2015

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

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2014

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 001-35647

LIFEVANTAGE CORPORATION  
(Exact name of Registrant as specified in its charter)

COLORADO (State or other jurisdiction of incorporation or organization) 9785 S. Monroe Street, Ste 300, Sandy, UT 84070 (Address of principal executive offices) (801) 432-9000 (Registrant's telephone number)	90-0224471 (IRS Employer Identification No.)
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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 (§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  No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of January 29, 2015 was 98,222,449.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q, in particular "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," and the information incorporated by reference herein contains "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:

- 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;

• We have not paid dividends on our capital stock, and we do not currently anticipate paying dividends in the foreseeable future; and

• Other factors not specifically described above, including the other risks, uncertainties, and contingencies described under “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Items 1, 1A and 7 of our Annual Report on Form 10-K for the year ended June 30, 2014.

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

LIFEVANTAGE CORPORATION  
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## PART I Financial Information

## Item 1. Financial Statements

## LIFEVANTAGE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	As of, December 31, 2014	June 30, 2014	
(In thousands, except per share data)			
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 18,647	\$ 20,387	
Accounts receivable	1,106	1,317	
Income tax receivable	2,320	4,681	
Inventory	12,099	8,826	
Current deferred income tax asset	158	158	
Prepaid expenses and deposits	4,288	4,604	
Total current assets	38,618	39,973	
Property and equipment, net	6,533	6,941	
Intangible assets, net	1,946	2,014	
Deferred debt offering costs, net	1,229	1,353	
Long-term deferred income tax asset	1,285	1,285	
Other long-term assets	1,443	2,433	
<b>TOTAL ASSETS</b>	<b>\$ 51,054</b>	<b>\$ 53,999</b>	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$ 4,002	\$ 2,854	
Commissions payable	6,718	7,594	
Other accrued expenses	6,136	7,554	
Current portion of long-term debt	4,700	4,700	
Total current liabilities	21,556	22,702	
Long-term debt			
Principal amount	23,775	26,125	
Less: unamortized discount	(955	) (1,052	)
Long-term debt, net of unamortized discount	22,820	25,073	
Other long-term liabilities	2,131	2,234	
Total liabilities	46,507	50,009	
Commitments and contingencies - Note 6			
Stockholders' equity			
Preferred stock — par value \$0.001 per share, 50,000 shares authorized, no shares issued or outstanding	—	—	
Common stock — par value \$0.001 per share, 250,000 shares authorized and 98,836 and 102,173 issued and outstanding as of December 31, 2014 and June 30, 2014, respectively	99	102	
Additional paid-in capital	116,300	115,244	
Accumulated deficit	(111,657	) (111,240	)
Accumulated other comprehensive loss	(195	) (116	)

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Total stockholders' equity	4,547	3,990
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$51,054	\$53,999

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

LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
 (Unaudited)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
(In thousands, except per share data)				
Revenue, net	\$48,247	\$51,538	\$99,880	\$102,866
Cost of sales	7,486	7,944	13,165	15,753
Gross profit	40,761	43,594	86,715	87,113
Operating expenses:				
Commissions and incentives	23,195	25,399	47,769	50,798
Selling, general and administrative	14,476	13,029	28,091	26,079
Total operating expenses	37,671	38,428	75,860	76,877
Operating income	3,090	5,166	10,855	10,236
Other income (expense):				
Interest expense	(785 )	(833 )	(1,593 )	(836 )
Other income (expense), net	(246 )	468 )	(43 )	509 )
Total other income (expense)	(1,031 )	(365 )	(1,636 )	(327 )
Income before income taxes	2,059	4,801	9,219	9,909
Income tax expense	(587 )	(1,519 )	(3,031 )	(3,371 )
Net income	\$1,472	\$3,282	\$6,188	\$6,538
Net income per share:				
Basic	\$0.02	\$0.03	\$0.06	\$0.06
Diluted	\$0.01	\$0.03	\$0.06	\$0.06
Weighted-average shares outstanding:				
Basic	97,694	105,770	98,624	110,218
Diluted	100,716	112,392	101,663	117,363
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(136 )	(192 )	(79 )	(466 )
Other comprehensive loss, net of tax:	\$(136 )	\$(192 )	\$(79 )	\$(466 )
Comprehensive income	\$1,336	\$3,090	\$6,109	\$6,072
The accompanying notes are an integral part of these condensed consolidated statements.				

LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
 (Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
(In thousands)						
Balances, June 30, 2014	102,173	\$ 102	\$ 115,244	\$(111,240 )	\$( 116 )	\$ 3,990
Stock-based compensation	—	—	862	—	—	862
Exercise of options and warrants	1,455	2	194	—	—	196
Issuance of shares related to restricted stock	220	—	—	—	—	—
Shares canceled or surrendered as payment of tax withholding	(87 )	—	—	—	—	—
Repurchase of company stock	(4,925)	(5 )	—	(6,605 )	—	(6,610 )
Currency translation adjustment	—	—	—	—	(79 )	(79 )
Net income	—	—	—	6,188	—	6,188
Balances, December 31, 2014	98,836	\$ 99	\$ 116,300	\$(111,657 )	\$( 195 )	\$ 4,547

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



LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	For the Six Months Ended December	
	31,	2013
	2014	
(In thousands)		
Cash Flows from Operating Activities:		
Net income	\$6,188	\$6,538
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,165	997
Stock-based compensation	969	1,475
Amortization of deferred financing fees	124	39
Amortization of debt discount	97	30
Changes in operating assets and liabilities:		
Decrease in receivables	2,451	2,395
Decrease / (increase) in inventory	(3,693)	) 529