Lifevantage Corp
Form 10-Q
May 01, 2019

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

Form 10-Q

ý QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019
¨ 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)

DELAWARE	90-0224471
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

9785 S. Monroe Street, Ste 400, Sandy, UT 84070
(Address of principal executive offices)
(801) 432-9000
(Registrant's telephone number)

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically Interactive Data File required to be submitted 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 such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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.

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging Growth Company	¨

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. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares outstanding of the issuer's common stock, par value $0.0001 per share, as of April 26, 2019 was 14,340,159.

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 simila 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 properly manage, motivate and retain our independent distributors or to attract new independent distributors on an ongoing basis;
- Inability to manage existing markets, open new international markets or expand our operations;
- Non-compliance by our independent distributors with applicable legal requirements or our policies and procedures;
- Inability of new products and technological innovations to gain distributor or market acceptance;
- Inability to execute our product launch process due to increased pressure on our supply chain, information systems and management;
- Inability to appropriately manage our inventory;
- Potential adverse effects on our business and stock price due to ineffective internal controls;
- Disruptions in our information technology systems;
- Inability to protect against cyber security risks and to maintain the integrity of data;
- Inability to comply with financial covenants imposed by our credit facility and the impact of debt service obligations and restrictive debt covenants;
- International trade or foreign exchange restrictions, increased tariffs, foreign currency exchange fluctuations;
- Inability to raise additional capital or complete desired acquisitions;
- Dependence upon a few products for revenue;
- High quality materials for our products may become difficult to obtain or expensive;
- 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;
- Unfavorable publicity on our business or products;
- Our direct selling program could be found to not be in compliance with current or newly adopted laws or regulations in various markets;

- Legal proceedings may be expensive and time consuming;
- Strict government regulations on our business;
- Regulations governing the production or marketing of our skin care products;
- Risk of investigatory and enforcement action by the Federal Trade Commission;
- Government authorities may question our tax positions or transfer pricing policies or change their laws in a manner that could increase our effective tax rate or otherwise harm our business;
- Failure to comply with anti-corruption laws;
- Inability to build and integrate our new management team could harm our business;
- Loss of, or inability to attract, key personnel;
- We may be held responsible for certain taxes or assessments relating to the activity of our independent distributors;
- Competition in the dietary supplement market;
- Our inability to protect our intellectual property rights;
- Third party claims that we infringe on their intellectual property;
- Product liability claims against us;
- Economic, political, foreign exchange and other risks associated with international operations;
- Potential delisting of our common stock due to non-compliance with Nasdaq's continued listing requirements;
- Volatility of the market price of our common stock;
- Substantial sales of shares may negatively impact the market price of our common stock; and
- Dilution of outstanding common shares may occur if holders of our existing options exercise their securities or upon future vesting of performance restricted stock units.

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. Financial Information

Item 1. Financial Statements

LIFEVANTAGE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share data)	March 31, 2019	June 30, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$15,913	$16,652
Accounts receivable	1,916	2,067
Income tax receivable	2,718	451
Inventory, net	14,490	13,627
Prepaid expenses and other	7,640	6,141
Total current assets	42,677	38,938
Property and equipment, net	6,818	6,587
Intangible assets, net	1,016	1,115
Deferred income tax asset	2,349	3,255
Other long-term assets	1,245	1,247
TOTAL ASSETS	$54,105	$51,142
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Accounts payable	$5,065	$3,813
Commissions payable	8,336	7,546
Income tax payable	188	39
Other accrued expenses	11,950	10,407
Current portion of long-term debt, net	1,939	2,000
Total current liabilities	27,478	23,805
Long-term debt		
Principal amount	—	3,500
Less: unamortized discount and deferred offering costs	—	(88)
Long-term debt, net of unamortized discount and deferred offering costs	—	3,412
Other long-term liabilities	1,881	1,978
Total liabilities	29,359	29,195
Commitments and contingencies - Note 7		
Stockholders’ equity		
Preferred stock — par value $0.0001 per share, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock — par value $0.0001 per share, 40,000 shares authorized and 14,328 and 14,073 issued and outstanding as of March 31, 2019 and June 30, 2018, respectively	1	1
Additional paid-in capital	125,695	124,663
Accumulated deficit	(100,918)	(102,731)
Accumulated other comprehensive income (loss)	(32)	14
Total stockholders’ equity	24,746	21,947
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$54,105	$51,142

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
(In thousands, except per share data)				
Revenue, net	$56,012	$50,562	$169,788	$149,171
Cost of sales	9,270	8,921	28,263	26,778
Gross profit	46,742	41,641	141,525	122,393
Operating expenses:				
Commissions and incentives	27,205	24,320	83,166	71,124
Selling, general and administrative	17,296	15,023	54,213	45,246
Total operating expenses	44,501	39,343	137,379	116,370
Operating income	2,241	2,298	4,146	6,023
Other expense:				
Interest expense, net	(72)	(92)	(282)	(357)
Other income (expense), net	(11)	27	(132)	(120)
Total other expense	(83)	(65)	(414)	(477)
Income before income taxes	2,158	2,233	3,732	5,546
Income tax expense	(376)	(598)	(210)	(2,777)
Net income	$1,782	$1,635	$3,522	$2,769
Net income per share:				
Basic	$0.13	$0.12	$0.25	$0.20
Diluted	$0.12	$0.12	$0.24	$0.20
Weighted-average shares outstanding:				
Basic	14,165	14,006	14,027	13,975
Diluted	15,286	14,178	14,978	14,136
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(42)	97	(46)	163
Other comprehensive income (loss), net of tax	$(42)	$97	$(46)	$163
Comprehensive income	$1,740	$1,732	$3,476	$2,932

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

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
(In thousands)						
Balances, June 30, 2018	14,073	$ 1	$124,663	$(102,731)	$ 14	$21,947
Cumulative effect of adoption of accounting principle	—	—	—	(3)	—	(3)
Balances, July 1, 2018	14,073	1	124,663	(102,734)	14	21,944
Stock-based compensation	—	—	629	—	—	629
Exercise of options	35	—	172	—	—	172
Shares canceled or surrendered as payment of tax withholding	(5)	—	—	—	—	—
Currency translation adjustment	—	—	—	—	(125)	(125)
Net income	—	—	—	911	—	911
Balances, September 30, 2018	14,103	1	125,464	(101,823)	(111)	23,531
Stock-based compensation	—	—	999	—	—	999
Exercise of options	2	—	12	—	—	12
Common stock issued under equity award plans	513	—	—	—	—	—
Shares canceled or surrendered as payment of tax withholding	(222)	—	(2,974)	—	—	(2,974)
Repurchase of company stock	(129)	—	—	(1,500)	—	(1,500)
Currency translation adjustment	—	—	—	—	121	121
Net income	—	—	—	829	—	829
Balances, December 31, 2018	14,267	1	123,501	(102,494)	10	21,018
Stock-based compensation	—	—	2,006	—	—	2,006
Exercise of options	90	—	381	—	—	381
Shares canceled or surrendered as payment of tax withholding	(14)	—	(193)	—	—	(193)
Repurchase of company stock	(15)	—	—	(206)	—	(206)
Currency translation adjustment	—	—	—	—	(42)	(42)
Net income	—	—	—	1,782	—	1,782
Balances, March 31, 2019	14,328	$ 1	$125,695	$(100,918)	$ (32)	$24,746

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

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

	Nine Months Ended March 31,	
	2019	2018
(In thousands)		
Cash Flows from Operating Activities:		
Net income	$3,522	$2,769
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,356	942
Stock-based compensation	4,136	2,110
Amortization of deferred financing fees	4	10
Amortization of debt discount	23	15
Deferred income tax	906	493
Changes in operating assets and liabilities:		
Accounts receivable	144	42
Income tax receivable	(2,267)	633
Inventory, net	(878)	985
Prepaid expenses and other	692	(2,668)
Other long-term assets	7	104
Accounts payable	1,266	(230)
Income tax payable	149	(143)
Other accrued expenses	2,161	3,311
Other long-term liabilities	(416)	(588)
Net Cash Provided by Operating Activities	10,805	7,785
Cash Flows from Investing Activities:		
Investments in convertible note receivable	(2,000)	—
Purchase of equipment	(1,689)	(3,367)
Net Cash Used in Investing Activities	(3,689)	(3,367)
Cash Flows from Financing Activities:		
Repurchase of company stock	(1,706)	(500)
Payment on term loan	(3,500)	(1,500)
Shares purchased as payment of tax withholding	(3,167)	—
Exercise of options	565	30
Net Cash Used in Financing Activities	(7,808)	(1,970)
Foreign Currency Effect on Cash	(47)	46
Increase (Decrease) in Cash and Cash Equivalents:	(739)	2,494
Cash and Cash Equivalents — beginning of period	16,652	11,458
Cash and Cash Equivalents — end of period	$15,913	$13,952
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$216	$263
Cash paid for income taxes	$1,195	$1,793

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

LIFEVANTAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

These unaudited condensed consolidated financial statements and notes should be read in conjunction with the audited financial statements and notes of LifeVantage Corporation (the “Company”) as of and for the year ended June 30, 2018 included in the annual report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on August 15, 2018.

Note 1 — Organization and Basis of Presentation

LifeVantage Corporation is a company focused on biohacking the aging code through nutrigenomics, the study of how nutrition and naturally occurring compounds affect our genes. The Company is dedicated to helping people achieve their health, wellness and financial goals. The Company provides quality, scientifically-validated products and a financially rewarding direct sales business opportunity to customers and independent distributors. The Company sells its products in the United States, Japan, Hong Kong, Australia, Canada, Mexico, Thailand, the United Kingdom, the Netherlands, Germany, Austria, Taiwan and Spain. The Company also sells its products in a number of countries to customers for personal consumption only. In addition, the Company sells its products in China through an e-commerce business model.

The Company engages in the identification, research, development and distribution of advanced nutraceutical dietary supplements and skin and hair care products, including its Protandim® product line, Omega+ and ProBio dietary supplements, the TrueScience® line of Nrf2-infused skin and hair care products, Petandim™ for Dogs, Axio® Smart Energy Drink mixes, and the PhysIQ™ Smart Weight Management System.

On March 9, 2018, following approval by the Company's stockholders and its 2018 Annual Meeting of Stockholders, the Company changed its state of incorporation from the State of Colorado to the State of Delaware pursuant to a plan of conversion. All outstanding shares of common stock, options and share units of the Colorado corporation were converted into an equivalent share, option or share unit of the Delaware corporation and the par value of the Company's common stock was adjusted to $0.0001. All directors and officers of the Colorado corporation held the same position within the Delaware corporation on the date of reincorporation.

The condensed consolidated financial statements included herein have been prepared by the Company’s management, without audit, pursuant to the rules and regulations of the SEC. In the opinion of the Company’s management, these interim financial statements include all adjustments that are considered necessary for a fair presentation of its financial position as of March 31, 2019, and the results of operations for the three and nine months ended March 31, 2019 and 2018, and the cash flows for the nine months ended March 31, 2019 and 2018. Interim results are not necessarily indicative of results for a full year or for any future period. Certain amounts in the prior year financial statements have been reclassified for comparative purposes in order to conform with current year presentation.

The condensed consolidated financial statements and notes included herein are presented as required by Form 10-Q, and do not contain certain information included in the Company’s audited financial statements and notes for the fiscal year ended June 30, 2018, pursuant to the rules and regulations of the SEC. For further information, refer to the financial statements and notes thereto as of and for the year ended June 30, 2018, and included in the annual report on Form 10-K on file with the SEC.

Note 2 — Summary of Significant Accounting Policies

Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The Company prepares the condensed consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (GAAP). In preparing these statements, the Company is required to use estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. On an ongoing basis, the Company reviews its estimates, including those related to inventory valuation and obsolescence, sales returns, income taxes and tax valuation reserves, transfer pricing methodology and positions, impairment of receivables, share-based compensation, and loss contingencies.

Foreign Currency Translation

A portion of the Company’s business operations occurs outside the United States. The local currency of each of the Company’s subsidiaries is generally its functional currency. All assets and liabilities are translated into U.S. dollars at exchange rates existing at the balance sheet dates, revenue and expenses are translated at weighted-average exchange rates and stockholders’ equity is recorded at historical exchange rates. The resulting foreign currency translation adjustments are recorded as a separate component of stockholders’ equity in the condensed consolidated balance sheets and as a component of comprehensive income. Transaction gains and losses are included in other expense, net in the condensed consolidated statements of operations and comprehensive income. For the three months ended March 31, 2019 and 2018, a net foreign currency loss of $44,000 and a gain of $0.1 million, respectively, are recorded in other expense, net. For the nine months ended March 31, 2019 and 2018, a net foreign currency loss of $0.1 million and a gain of $0.1 million, respectively, are recorded in other expense, net.

Derivative Instruments and Hedging Activities

The Company's subsidiaries enter into transactions with each other which may not be denominated in the respective subsidiaries' functional currencies. The Company seeks to reduce its exposure to fluctuations in foreign exchange rates through the use of derivatives. The Company does not use such derivative financial instruments for trading or speculative purposes.

To hedge risks associated with the foreign-currency-denominated intercompany transactions, the Company entered into forward foreign exchange contracts which were all settled by the end of March 2019 and were not designated for hedge accounting. For the three months ended March 31, 2019 and 2018, realized losses of $0.1 million and $0.1 million, respectively, related to forward contracts, are recorded in other expense, net. For the nine months ended March 31, 2019 and 2018, realized losses of $0.2 million and $0.2 million, respectively, related to forward contracts, are recorded in other expense, net. The Company did not hold any derivative instruments at March 31, 2019.

Cash and Cash Equivalents

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

Concentration of Credit Risk

Accounting guidance for financial instruments requires disclosure of significant concentrations of credit risk regardless of the degree of such risk. Financial instruments with significant credit risk include cash and investments. At March 31, 2019, the Company had $12.2 million in cash accounts at one financial institution and $3.7 million in accounts at other financial institutions. As of March 31, 2019 and June 30, 2018, and during the periods then ended, the Company’s cash balances exceeded federally insured limits.

Accounts Receivable

The Company’s accounts receivable as of March 31, 2019 and June 30, 2018 consist primarily of credit card receivables. Based on the Company’s verification process for customer credit cards and historical information available, management has determined that an allowance for doubtful accounts on credit card sales related to its customer sales as of March 31, 2019 is not necessary. No bad debt expense was recorded during the three and nine months ended March 31, 2019 and 2018.

Inventory

As of March 31, 2019 and June 30, 2018, inventory consisted of (in thousands):

	March 31, 2019	June 30, 2018
Finished goods	$ 10,237	$7,859
Raw materials	4,253	5,768
Total inventory	$ 14,490	$13,627

Inventories are carried and depicted above at the lower of cost or market, using the first-in, first-out method, which includes a reduction in inventory values of $0.5 million and $1.4 million at March 31, 2019 and June 30, 2018, respectively, related to obsolete and slow-moving inventory.

Convertible Note Receivable

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The Company entered into a convertible promissory note agreement with Gig Economy Group, Inc. ("GEG") pursuant to which the Company agreed to loan to GEG up to an aggregate of $2.0 million in a series of loan installments, evidenced by a convertible promissory note