

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, 2018

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

(State or other jurisdiction of
incorporation or organization)

90-0224471

(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 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 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

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

The number of shares outstanding of the issuer's common stock, par value \$0.0001 per share, as of January 31, 2019 was 14,283,765.

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 terms and 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.

LIFEVANTAGE CORPORATION

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PART I. Financial Information**Item 1. Financial Statements**

LIFEVANTAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | December 31, 2018 | June 30, 2018 |
|--|-------------------|------------------|
| <i>(In thousands, except per share data)</i> | | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 18,989 | \$ 16,652 |
| Accounts receivable | 2,376 | 2,067 |
| Income tax receivable | 2,866 | 451 |
| Inventory, net | 13,301 | 13,627 |
| Prepaid expenses and other | 6,126 | 6,141 |
| Total current assets | 43,658 | 38,938 |
| Property and equipment, net | 5,848 | 6,587 |
| Intangible assets, net | 1,049 | 1,115 |
| Long-term deferred income tax asset | 2,283 | 3,255 |
| Other long-term assets | 1,255 | 1,247 |
| TOTAL ASSETS | \$ 54,093 | \$ 51,142 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 4,108 | \$ 3,813 |
| Commissions payable | 8,071 | 7,546 |
| Income tax payable | 162 | 39 |
| Other accrued expenses | 14,422 | 10,407 |
| Current portion of long-term debt | 2,000 | 2,000 |
| Total current liabilities | 28,763 | 23,805 |
| Long-term debt | | |
| Principal amount | 2,500 | 3,500 |
| Less: unamortized discount and deferred offering costs | (73) | (88) |
| Long-term debt, net of unamortized discount and deferred offering costs | 2,427 | 3,412 |
| Other long-term liabilities | 1,885 | 1,978 |
| Total liabilities | 33,075 | 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 14,267 and 14,073 issued and outstanding as of December 31, 2018 and June 30, 2018, respectively | 1 | 1 |
| Additional paid-in capital | 123,501 | 124,663 |
| Accumulated deficit | (102,494) | (102,731) |
| Accumulated other comprehensive income | 10 | 14 |
| Total stockholders' equity | 21,018 | 21,947 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 54,093 | \$ 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 December 31, | | Six Months Ended December 31, | |
|--|---------------------------------|-----------|-------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| <i>(In thousands, except per share data)</i> | | | | |
| Revenue, net | \$ 58,167 | \$ 49,482 | \$ 113,776 | \$ 98,609 |
| Cost of sales | 9,794 | 9,117 | 18,994 | 17,856 |
| Gross profit | 48,373 | 40,365 | 94,782 | 80,753 |
| Operating expenses: | | | | |
| Commissions and incentives | 28,176 | 23,395 | 55,961 | 46,804 |
| Selling, general and administrative | 19,616 | 14,643 | 36,918 | 30,224 |
| Total operating expenses | 47,792 | 38,038 | 92,879 | 77,028 |
| Operating income | 581 | 2,327 | 1,903 | 3,725 |
| Other expense: | | | | |
| Interest expense | (100) | (103) | (209) | (265) |
| Other expense, net | (72) | (169) | (120) | (147) |
| Total other expense | (172) | (272) | (329) | (412) |
| Income before income taxes | 409 | 2,055 | 1,574 | 3,313 |
| Income tax benefit (expense) | 420 | (1,738) | 166 | (2,179) |
| Net income | \$ 829 | \$ 317 | \$ 1,740 | \$ 1,134 |
| Net income per share: | | | | |
| Basic | \$ 0.06 | \$ 0.02 | \$ 0.12 | \$ 0.08 |
| Diluted | \$ 0.06 | \$ 0.02 | \$ 0.12 | \$ 0.08 |
| Weighted-average shares outstanding: | | | | |
| Basic | 13,944 | 13,956 | 13,996 | 13,959 |
| Diluted | 14,963 | 14,153 | 14,996 | 14,117 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustment | 121 | 46 | (4) | 66 |
| Other comprehensive income (loss), net of tax | \$ 121 | \$ 46 | \$ (4) | \$ 66 |
| Comprehensive income | \$ 950 | \$ 363 | \$ 1,736 | \$ 1,200 |

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 | | | | |
| <i>(In thousands)</i> | | | | | | |
| 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 |
| Issuance of shares related to restricted stock | 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 |

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

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

| | Six Months Ended December 31, | |
|---|-------------------------------|------------------|
| | 2018 | 2017 |
| <i>(In thousands)</i> | | |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 1,740 | \$ 1,134 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 878 | 672 |
| Stock-based compensation | 3,053 | 1,453 |
| Amortization of deferred financing fees | 2 | 6 |
| Amortization of debt discount | 13 | 10 |
| Deferred income tax | 972 | 690 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (303) | (218) |
| Income tax receivable | (2,415) | 827 |
| Inventory, net | 323 | (215) |
| Prepaid expenses and other | 2,206 | 1,202 |
| Other long-term assets | 7 | 104 |
| Accounts payable | 308 | (1,582) |
| Income tax payable | 122 | 192 |
| Other accrued expenses | 420 | 817 |
| Other long-term liabilities | (384) | (410) |
| Net Cash Provided by Operating Activities | 6,942 | 4,682 |
| Cash Flows from Investing Activities: | | |
| Investments in convertible note receivable | (2,000) | — |
| Purchase of equipment | (272) | (2,117) |
| Net Cash Used in Investing Activities | (2,272) | (2,117) |
| Cash Flows from Financing Activities: | | |
| Repurchase of company stock | (1,500) | (250) |
| Payment on term loan | (1,000) | (1,000) |
| Exercise of options | 184 | — |
| Net Cash Used in Financing Activities | (2,316) | (1,250) |
| Foreign Currency Effect on Cash | (17) | 21 |
| Increase in Cash and Cash Equivalents: | 2,337 | 1,336 |
| Cash and Cash Equivalents — beginning of period | 16,652 | 11,458 |
| Cash and Cash Equivalents — end of period | \$ 18,989 | \$ 12,794 |
| Non Cash Investing and Financing Activities: | | |
| Increase in other accrued expenses for shares purchased as payment of tax withholding | \$ 2,974 | \$ — |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 152 | \$ 183 |
| Cash paid for income taxes | \$ 1,066 | \$ 471 |

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 and Taiwan. 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 Protandim[®], its line of scientifically-validated dietary supplements, TrueScience[®], its line of Nrf2-infused skin and hair care products, Petandim[™] for Dogs, its companion pet supplement formulated to combat oxidative stress in dogs, Axio[®], its Smart Energy Drink mixes, PhysIQ[™], its Smart Weight Management System, and Omega+, its sustainable fish oil supplement.

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 December 31, 2018, and the results of operations for the three and six months ended December 31, 2018 and 2017, and the cash flows for the six months ended December 31, 2018 and 2017. 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 December 31, 2018 and 2017, net foreign currency losses of \$0.1 million and \$0.1 million, respectively, are recorded in other expense, net. For the six months ended December 31, 2018 and 2017, net foreign currency losses of \$0.1 million and \$8,000, 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 December 2018 and were not designated for hedge accounting. For the three months ended December 31, 2018 and 2017, realized losses of \$25,000 and \$0.1 million, respectively, related to forward contracts, are recorded in other expense, net. For the six months ended December 31, 2018 and 2017, realized losses of \$0.1 million and \$0.1 million, respectively, related to forward contracts, are recorded in other expense, net. The Company did not hold any derivative instruments at December 31, 2018.

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 December 31, 2018, the Company had \$13.4 million in cash accounts at one financial institution and \$5.6 million in accounts at other financial institutions. As of December 31, 2018 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 December 31, 2018 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 December 31, 2018 is not necessary. No bad debt expense has been recorded for the three and six months ended December 31, 2018 and 2017.

Inventory

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

| | December 31, 2018 | June 30, 2018 |
|-----------------|----------------------|------------------|
| Finished goods | \$ 9,364 | \$ 7,859 |
| Raw materials | 3,937 | 5,768 |
| Total inventory | \$ 13,301 | \$ 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 \$1.4 million and \$1.4 million at December 31, 2018 and June 30, 2018, respectively, related to obsolete and slow-moving inventory.

Convertible Note Receivable

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 having a maturity date of May 31, 2019. Interest shall accrue at a rate of 8% per annum, compounded annually. The principal and unpaid accrued interest of the note will either be repaid in cash or converted into shares of equity securities of GEG. As of December 31, 2018, the note receivable balance was \$2.0 million, which is included in prepaid expenses and other on the condensed consolidated balance sheet.

Revenue Recognition

The Company ships the majority of its product directly to the consumer and receives substantially all payment for these sales in the form of credit card receipts. Revenue from direct product sales to customers is recognized upon shipment, which is when passage of title and risk of loss occurs. Estimated returns are recorded when product is shipped. Subject to some exceptions based on local regulations, the Company's return policy is to provide a full refund for product returned within 30 days if the returned product is unopened or defective. After 30 days, the Company generally does not issue refunds to customers for returned product. The Company allows terminating independent distributors to return up to 30% of unopened, unexpired product that they have purchased within the prior twelve months for a full refund, less a 10% restocking fee.

Shipping and Handling

Shipping and handling costs associated with inbound freight and freight out to customers, including independent distributors, are included in cost of sales. Shipping and handling fees charged to customers are included in sales.

Research and Development Costs

The Company expenses all costs related to research and development activities, as incurred. Research and development expenses for the three months ended December 31, 2018 and 2017 were \$0.5 million and \$0.3 million, respectively. Research and development expenses for the six months ended December 31, 2018 and 2017 were \$0.9 million and \$0.5 million, respectively.

Stock-Based Compensation

The Company recognizes stock-based compensation by measuring the cost of services to be rendered based on the grant date fair value of the equity award. The Company recognizes stock-based compensation, net of any estimated forfeitures, over the period an employee is required to provide service in exchange for the award, generally referred to as the requisite service period. For awards with market-based performance conditions, the cost of the awards is recognized as the requisite service is rendered by employees, regardless of when, if ever, the market-based performance conditions are satisfied.

The Black-Scholes option pricing model is used to estimate the fair value of stock options. The determination of the fair value of stock options is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The Company uses historical volatility as the expected volatility assumption required in the Black-Scholes model. The Company uses historical data for estimating the expected life of stock options. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of the stock options.

The fair value of restricted stock grants is based on the closing market price of the Company's stock on the date of grant less the Company's expected dividend yield. The fair value of performance restricted stock units that include market-based performance conditions is based on the closing market price of the Company's stock on the date of grant less the Company's expected dividend yield, with further adjustments made to reflect the market conditions that must be satisfied in order for the units to vest by using a Monte-Carlo simulation model. Key assumptions for the Monte-Carlo simulation model include the risk-free rate, expected volatility, expected dividends and the correlation coefficient. The fair value of cash-settled performance-based awards, accounted for as liabilities, is remeasured at the end of each reporting period and is based on the closing market price of the Company's stock on the last day of the reporting period. The Company recognizes compensation costs for awards with performance conditions when it concludes it is probable that the performance conditions will be achieved. The Company reassesses the probability of vesting at each balance sheet date and adjusts compensation costs accordingly.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, updated for new corporate tax rates. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the effective date of the change. The Company

recognizes tax liabilities or benefits from an uncertain position only if it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the issue. The amount recognized would be the largest liability or benefit that the Company believes has greater than a 50% likelihood of being realized upon settlement.

For the six months ended December 31, 2018 and 2017, the Company recognized an income tax benefit of \$0.2 million and income tax expense of \$2.2 million, respectively, which is reflective of the Company's current estimated federal, state and foreign effective tax rate. Realization of deferred tax assets is dependent upon future earnings in specific tax jurisdictions, the timing and amount of which are uncertain.

Income Per Share

Basic income per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period, less unvested restricted stock awards. Diluted income per common share is computed by dividing net income by the weighted-average common shares and potentially dilutive common share equivalents using the treasury stock method.

For the three months ended December 31, 2018 and 2017, the effects of approximately 0.1 million and 0.1 million common shares, respectively, issuable upon exercise of options and non-vested shares of restricted stock are not included in computations as their effect was anti-dilutive. For the six months ended December 31, 2018 and 2017, the effects of approximately 0.2 million and 0.3 million common shares, respectively, issuable upon exercise of options and non-vested shares of restricted stock are not included in computations as their effect was anti-dilutive.

The following is a reconciliation of net income per share and the weighted-average common shares outstanding for purposes of computing basic and diluted net income per share (in thousands except per share amounts):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|---------------------------------|---------|-------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator: | | | | |
| Net income | \$ 829 | \$ 317 | \$ 1,740 | \$ 1,134 |
| Denominator: | | | | |
| Basic weighted-average common shares outstanding | 13,944 | 13,956 | 13,996 | 13,959 |
| Effect of dilutive securities: | | | | |
| Stock awards and options | 1,019 | 197 | 1,000 | 158 |
| Diluted weighted-average common shares outstanding | 14,963 | 14,153 | 14,996 | 14,117 |
| Net income per share, basic | \$ 0.06 | \$ 0.02 | \$ 0.12 | \$ 0.08 |
| Net income per share, diluted | \$ 0.06 | \$ 0.02 | \$ 0.12 | \$ 0.08 |

Segment Information

The Company operates in a single operating segment by selling products to an international network of independent distributors that operates in an integrated manner from market to market. Commissions and incentives expenses are the Company's largest expense comprised of the commissions paid to its independent distributors. The Company manages its business primarily by managing its international network of independent distributors. The Company does not use profitability reports on a regional or divisional basis for making business decisions. However, the Company does disaggregate revenue in two geographic regions: the Americas region and the Asia/Pacific & Europe region. See disaggregated revenue in Note 3.

The following table presents the Company's long-lived assets for its most significant geographic markets:

| | December 31, 2018 | June 30, 2018 |
|---------------|----------------------|------------------|
| United States | \$ 8,060 | \$ 9,778 |
| Japan | \$ 949 | \$ 921 |

Effect of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and has subsequently issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, ASU 2016-08, *Revenue from Contracts with Customers*

(Topic 606): *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815)*, ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, and ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* (collectively, Topic 606).

Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of Topic 606 is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. This guidance was effective for the Company beginning on July 1, 2018 with the option to adopt using either a full retrospective or a modified retrospective approach. The Company adopted Topic 606 using the modified retrospective approach, under which the cumulative effect of initially applying Topic 606 was recognized as an immaterial adjustment to the opening balance of retained earnings during the first quarter of fiscal 2019.

The Company evaluated each of its revenue streams and identified similar performance obligations under Topic 606 as compared to previous revenue recognition guidance. During its evaluation, the Company reviewed its loyalty points program and, based on the new guidance, changed the method of accounting from a cost provision method to a deferred revenue method, which resulted in immaterial adjustments to beginning balances upon adoption. As of December 31, 2018, the Company discontinued its loyalty points program, which resulted in an increase in revenue of approximately \$0.5 million from the recognition of deferred revenue related to accrued loyalty points.

There are also considerations related to internal control over financial reporting associated with implementing Topic 606. The Company evaluated its control framework for revenue recognition and identified no material changes needed in response to the new guidance. The Company also evaluated the expanded disclosure requirements under Topic 606 and designed and implemented the appropriate controls over gathering and reporting the information required under Topic 606. See Note 3.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. For lessees, this ASU requires that for all leases not considered to be short term, a company recognize both a right-of-use asset and lease liability on its balance sheet, representing the obligation to make payments and the right to use or control the use of a specified asset for the lease term. This ASU is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. The Company is currently evaluating the impact of the ASU on the Company's outstanding leases and its consolidated financial statements. The Company expects the adoption will result in a material increase to the assets and liabilities on the consolidated balance sheet, but does not expect a material impact on the consolidated statements of operations and comprehensive income or consolidated statements of cash flows.

In May 2017, FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*. The ASU provides guidance about which changes to the terms or conditions of a share-based award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: (1) The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified, (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. This ASU became effective for the Company on July 1, 2018 and will be applied to an award modified on or after July 1, 2018.

Note 3 — Revenue

Revenues are recognized when control of the promised goods or services are transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

The Company generates the majority of its revenues through product sales to customers. These products include the Protandim[®] product line, the TrueScience[®] line of Nrf2-infused skin and hair care products, Petandim[™] for Dogs, Axio[®] Smart Energy Drink mixes, PhysIQ[™] Smart Weight Management System and the Omega+ sustainable fish oil. The Company ships most of its product directly to the consumer and receives substantially all payment for product sales in the form of credit card receipts. Revenue from direct product sales to customers is recognized upon shipment, which is when passage of title and risk of loss occurs. For items sold in packs and bundles, the Company determines the standalone selling price at contract inception for each distinct good, and then allocates the transaction price on a relative standalone selling price basis. Any discounts are

accounted for as a direct reduction to the transaction price. Shipping and handling revenue is recognized upon shipment when the performance obligation is completed.

The Company also charges amounts to independent distributors to attend events held by the Company. Tickets to events are sold as standalone items or included within packs sold to independent distributors. For event tickets sold in packs, the Company allocates a portion of the transaction price to the ticket on a relative standalone selling price basis. Any discounts are accounted for as a direct reduction to the transaction price. Fee revenue associated with ticket sales is recorded in the month that the event is held, which is when the Company has performed its obligations under the contract.

Deferred Revenue

The Company records deferred revenue when cash payments are received or due in advance of performance, including amounts which are refundable. Deferred revenue is included in accrued expenses in the condensed consolidated balance sheets and includes pre-sell tickets to events and obligations related to the Company's loyalty points program.

The Company pre-sells tickets to its events. When cash payments are received in advance of events, the cash received is recorded to deferred revenue until the event is held, at which time the Company has performed its obligations under the contract and the revenue is recognized.

Historically, the Company has offered a loyalty points program for its customers that allows the customers to earn points from ongoing purchases that can be redeemed for products. As of December 31, 2018, the Company discontinued its loyalty points program and all revenues previously deferred under the program have been recognized. The Company accounted for these points prior to the discontinuance of the program as a reduction to the transaction price based on estimated usage.

Sales Returns and Allowances

Estimated returns are recorded when product is shipped. Subject to some exceptions based on local regulations, the Company's return policy is to provide a full refund for product returned within 30 days, if the returned product is unopened or defective. After 30 days, the Company generally does not issue refunds to direct sales customers for returned product. The Company allows terminating independent distributors to return up to 30% of unopened, unexpired product that they have purchased within the prior twelve months for a full refund, less a 10% restocking fee. The Company establishes a refund liability reserve and an asset reserve for its right to recover products based on historical experience. The returns asset reserve and returns liability reserve are evaluated on a quarterly basis. As of December 31, 2018 and June 30, 2018, the returns liability reserve, net was \$0.3 million and \$0.4 million, respectively.

Geographic Information

The Company reports revenue in two geographic regions: the Americas region and the Asia/Pacific & Europe region. The following table presents the Company's revenues disaggregated by these two geographic regions (in thousands):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|-----------------------|---------------------------------|-----------|-------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Americas | \$ 42,440 | \$ 36,903 | \$ 83,519 | \$ 73,066 |
| Asia/Pacific & Europe | 15,727 | 12,579 | 30,257 | 25,543 |
| Total revenues | \$ 58,167 | \$ 49,482 | \$ 113,776 | \$ 98,609 |

Additional information as to the Company's revenue from operations in the most significant geographical areas is set forth below (in thousands):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---------------|---------------------------------|-----------|-------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| United States | \$ 39,633 | \$ 34,914 | \$ 77,948 | \$ 68,929 |
| Japan | \$ 10,028 | \$ 10,383 | \$ 20,085 | \$ 21,240 |

Note 4 — Long-Term Debt

On March 30, 2016, the Company entered into a loan agreement (the "2016 Loan Agreement") to refinance its outstanding debt. In connection with the 2016 Loan Agreement and on the same date, the Company entered into a security agreement (the "Security Agreement"). The 2016 Loan Agreement provides for a term loan in an aggregate principal amount of \$10.0 million (the "2016 Term Loan") and a revolving loan facility in an aggregate principal amount not to exceed \$2.0 million

(the “2016 Revolving Loan,” and collectively with the 2016 Term Loan, the 2016 Loan Agreement and the Security Agreement, the “2016 Credit Facility”).

The principal amount of the 2016 Term Loan is payable in consecutive quarterly installments in the amount of \$0.5 million plus accrued interest beginning with the fiscal quarter ended June 30, 2016. If the Company borrows under the 2016 Revolving Loan, interest will be payable quarterly in arrears on the last day of each fiscal quarter.

On May 4, 2018, the Company entered into a loan modification agreement, which amended the 2016 Credit Facility (“Amendment No. 1”). Amendment No. 1 revised the maturity date from March 30, 2019 to March 31, 2021 (the “Maturity Date”) and increased the fixed interest rate for the term loan from 4.93% to 5.68%. Amendment No. 1 also revised certain financial covenants. The minimum fixed charge coverage ratio (as defined in Amendment No. 1) was revised from a minimum of 1.50 to 1.00 to 1.25 to 1.00, measured on a trailing twelve-month basis, at the end of each fiscal quarter. The minimum working capital was increased from \$5.0 million to \$8.0 million. The funded debt to EBITDA ratio was replaced with the total liabilities to tangible net worth ratio (as defined in Amendment No. 1) of not greater than 3.00 to 1.00 at the end of each quarter. The minimum tangible net worth measure was removed from the financial covenants.

The Company’s obligations under the 2016 Credit Facility, as amended, are secured by a security interest in substantially all of the Company’s assets. Loans outstanding under the 2016 Credit Facility, as amended, may be prepaid in whole or in part at any time without premium or penalty. In addition, if, at any time, the aggregate principal amount outstanding under the 2016 Revolving Loan exceeds \$2.0 million, the Company must prepay an amount equal to such excess. Any principal amount of the 2016 Term Loan which is prepaid or repaid may not be re-borrowed.

The 2016 Credit Facility, as amended, contains customary covenants, including affirmative and negative covenants that, among other things, restrict the Company’s ability to create certain types of liens, incur additional indebtedness, declare or pay dividends on or redeem capital stock, make other payments to holders of equity interests in the Company, make certain investments, purchase or otherwise acquire all or substantially all the assets or equity interests of other companies, sell assets or enter into consolidations, mergers or transfers of all or any substantial part of the Company’s assets. The 2016 Credit Facility, as amended, also contains various financial covenants that require the Company to maintain certain consolidated working capital amounts, total liabilities to tangible net worth ratios and fixed charge coverage ratios. Additionally, the 2016 Credit Facility, as amended, contains cross-default provisions, whereby a default under the terms of certain indebtedness or an uncured default of a payment or other material obligation of the Company under a material contract of the Company will cause a default on the remaining indebtedness under the 2016 Credit Facility, as amended. As of December 31, 2018, the Company was in compliance with all applicable covenants under the 2016 Credit Facility, as amended.

The Company’s book value for the 2016 Credit Facility, as amended, approximates the fair value. Aggregate future principal payments required in accordance with the terms of the 2016 Credit Facility, as amended, are as follows (in thousands):

| Fiscal Year Ending June 30, | Amount | |
|--|---------------|--------------|
| 2019 (remaining six months ending June 30, 2019) | \$ | 1,000 |
| 2020 | | 2,000 |
| 2021 | | 1,500 |
| | \$ | <u>4,500</u> |

On February 1, 2019, the Company made a principal payment of \$2.0 million under the 2016 Term Loan and amended the 2016 Credit Facility to increase the revolving loan facility from \$2.0 million to \$5.0 million. This amendment also included decreases in the required minimum working capital and fixed charge coverage ratio covenants.

Note 5 — Stockholders’ Equity

During the three and six months ended December 31, 2018, the Company issued 2,000 and 37,000 shares, respectively, of common stock upon the exercise of options. During the three and six months ended December 31, 2018, 0.2 million and 0.2 million shares, respectively, of restricted stock were canceled or surrendered as payment of tax withholding upon vesting.

On November 27, 2017, the Company announced a share repurchase program authorizing it to repurchase up to \$5 million in shares of the Company’s common stock. The repurchase program permits the Company to purchase shares through a variety of methods, including in the open market, through privately negotiated transactions or other means as determined by the Company’s management. As part of the repurchase program, the Company may enter into a pre-arranged stock repurchase plan which will operate in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act. Accordingly,

transactions, if any, would be completed in accordance with the terms of the stock repurchase plan, including specified price, volume and timing conditions. The authorization may be suspended or discontinued at any time and expires on November 27, 2020. During the six months ended December 31, 2018, 0.1 million shares of common stock were purchased by the Company under this repurchase program. At December 31, 2018, there is \$2.0 million remaining under this repurchase program. On February 1, 2019, the Board of Directors approved an amendment to the share repurchase program to increase the authorized share repurchase amount from \$5 million to \$15 million.

The Company's Certificate of Incorporation authorizes the issuance of preferred shares. However, as of December 31, 2018, none have been issued and no rights or preferences have been assigned to the preferred shares by the Company's board of directors.

Note 6 — Stock-Based Compensation

Long-Term Incentive Plans

Equity-Settled Plans

The Company adopted, and the stockholders approved, the 2007 Long-Term Incentive Plan (the "2007 Plan"), effective November 21, 2006, to provide incentives to eligible employees, directors and consultants. A maximum of 1.4 million shares of the Company's common stock can be issued under the 2007 Plan in connection with the grant of awards. Awards to purchase common stock have been granted pursuant to the 2007 Plan and are outstanding to various employees, officers, directors, Scientific Advisory Board members and independent distributors at prices between \$1.47 and \$10.50 per share, with initial vesting periods of one to three years. Awards expire in accordance with the terms of each award and the shares subject to the award are added back to the 2007 Plan upon expiration of the award. The contractual term of stock options granted is generally ten years. Effective November 21, 2016, no new awards can be granted under the 2007 Plan.

The Company adopted, and the stockholders approved, the 2010 Long-Term Incentive Plan (the "2010 Plan"), effective September 27, 2010, as amended on August 21, 2014, to provide incentives to certain employees, directors and consultants. A maximum of 1.0 million shares of the Company's common stock can be issued under the 2010 Plan in connection with the grant of awards. Awards to purchase common stock have been granted pursuant to the 2010 Plan and are outstanding to various employees, officers and directors. Outstanding stock options awarded under the 2010 Plan have exercise prices between \$5.60 and \$20.09 per share, and vest over one to four year vesting periods. Awards expire in accordance with the terms of each award and, upon expiration of the award, the shares subject to the award will be added to the 2017 Plan pool as described below. The contractual term of stock options granted is generally ten years. No new awards will be granted under the 2010 Plan and forfeited or terminated shares will be added to the 2017 Plan pool as described below.

The Company adopted, and the stockholders approved, the 2017 Long-Term Incentive Plan (the "2017 Plan"), effective February 16, 2017, to provide incentives to eligible employees, directors and consultants. On November 15, 2018 and February 2, 2018, the stockholders approved amendments to the 2017 Plan to increase by 715,000 shares and 425,000 shares, respectively, the number of shares of the Company's common stock that are available for issuance under the 2017 Plan. The maximum number of shares that can be issued under the 2017 Plan is not to exceed 2,265,000 shares, calculated as the sum of (i) 1,790,000 shares and (ii) up to 475,000 shares previously reserved for issuance under the 2010 Plan, including shares returned upon cancellation, termination or forfeiture of awards that were previously granted under that plan. As of December 31, 2018, a maximum of 2.3 million shares of the Company's common stock can be issued under the 2017 Plan in connection with the grant of awards. Outstanding stock options awarded under the 2017 Plan have exercise prices of \$4.44 per share, and vest over a three year vesting period. Awards expire in accordance with the terms of each award and the shares subject to the award are added back to the 2017 Plan upon expiration of the award. The contractual term of stock options granted are substantially the same as described above for the 2007 Plan and 2010 Plan. As of December 31, 2018, there were stock option awards outstanding, net of awards expired, for an aggregate of 0.5 million shares of the Company's common stock.

Cash-Settled Plans

The Company adopted a performance incentive plan effective July 1, 2015 (the "Fiscal 2016 Performance Plan"). The Fiscal 2016 Performance Plan is intended to provide selected employees an opportunity to earn performance-based cash bonuses whose value is based upon the Company's stock value and to encourage such employees to provide services to the Company and to attract new individuals with outstanding qualifications. The Fiscal 2016 Performance Plan seeks to achieve this purpose by providing for awards in the form of performance share units (the "Units"). No shares will be issued under the Fiscal 2016 Performance Plan. Awards may be settled only with cash and will be paid subsequent to award vesting. The fair value of share-based compensation awards, that include performance shares, are accounted for as liabilities. Vesting for the Units is subject to achievement of both service-based and performance-based vesting requirements. Performance-based vesting occurs in three installments if the Company meets certain performance criteria generally set for each year of a three-year

performance period. The service-based vesting criteria occurs in a single installment at the end of the third fiscal year after the awards are granted if the participant has continuously remained in service from the date of award through the end of the third fiscal year. The fair value of these awards is based on the trading price of the Company's common stock and is remeasured at each reporting period date until settlement. The Company adopted separate performance incentive plans effective July 1, 2016 (the "Fiscal 2017 Performance Plan") and July 1, 2017 (the "Fiscal 2018 Performance Plan"). The Fiscal 2017 Performance Plan and Fiscal 2018 Performance Plan include performance-based and service-based vesting requirements and payment terms that are substantially the same as described above for the Fiscal 2016 Performance Plan.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("ESPP") was adopted on September 20, 2018, and subsequently approved by the shareholders on November 15, 2019. The purpose of the ESPP is to provide the Company's employees with the ability to acquire shares of the Company's common stock at a discount to the purchase date fair market value through payroll deductions. During the three and six months ended December 31, 2018, no payroll deductions were made and no shares of common stock were purchased under the ESPP. The first six-month offering period will begin in March 2019.

Stock-Based Compensation

In accordance with accounting guidance for stock-based compensation, payments in equity instruments for goods or services are accounted for by the fair value method. For the three and six months ended December 31, 2018, stock-based compensation of \$1.0 million and \$1.6 million, respectively, was reflected as an increase to additional paid-in capital and an increase of \$0.7 million and \$1.4 million, respectively, was included in other accrued expenses, all of which was employee related. For the three and six months ended December 31, 2017, stock-based compensation of \$0.6 million and \$1.0 million, respectively, was reflected as an increase to additional paid-in capital and an increase of \$0.2 million and \$0.4 million, respectively, was included in other accrued expenses, all of which was employee related.

Note 7 — Commitments and Contingencies

Contingencies

The Company accounts for contingent liabilities in accordance with Accounting Standards Codification ("ASC") Topic 450, *Contingencies*. This guidance requires management to assess potential contingent liabilities that may exist as of the date of the financial statements to determine the probability and amount of loss that may have occurred, which inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed. For loss contingencies considered remote, no accrual or disclosures are generally made. Management has assessed potential contingent liabilities as of December 31, 2018, and based on the assessment, there are no probable loss contingencies requiring accrual or disclosures within its financial statements.

Legal Accruals

In addition to commitments and obligations in the ordinary course of business, from time to time, the Company is subject to various claims, pending and potential legal actions, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of its business. Management assesses contingencies to determine the degree of probability and range of possible loss for potential accrual in the consolidated financial statements. An estimated loss contingency is accrued in the consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because evaluating legal claims and litigation results are inherently unpredictable and unfavorable results could occur, assessing contingencies is highly subjective and requires judgments about future events. When evaluating contingencies, management may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters. In addition, damage amounts claimed or asserted against the Company may be unsupported, exaggerated or unrelated to possible outcomes, and as such are not meaningful indicators of a potential liability. Management regularly reviews contingencies to determine the adequacy of financial statement accruals and related disclosures. The amount of ultimate loss may differ from these estimates. It is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies. Whether any losses finally determined in any claim, action, investigation or proceeding could reasonably have a material effect on the Company's business, financial condition, results of operations or cash flows will depend on a number of variables, including: the timing and amount of such losses; the structure and type of any remedies; the significance of the

impact any such losses, damages or remedies may have on the consolidated financial statements; and the unique facts and circumstances of the particular matter that may give rise to additional factors.

Class Action Lawsuit (*Smith v. LifeVantage Corp.*): On January 24, 2018, a purported class action was filed in the United States District Court for the District of Connecticut, entitled *Smith v. LifeVantage Corp.*, Case No. 3:18-cv-a35 (D. Connecticut filed Jan. 24, 2018). In this action, plaintiff alleged that the Company, its Chief Executive Officer, Chief Sales Officer and Chief Marketing Officer operated a pyramid scheme in violation of a variety of federal and state statutes, including RICO and the Connecticut Unfair Trade Practices Act. On April 16, 2018, the Company filed motions with the court to dismiss the complaint against LifeVantage, dismiss the complaint against the Company's executives, transfer the venue of the case from the State of Connecticut to the State of Utah, and contest class certification. On July 23, 2018, the parties filed a stipulation with the Court agreeing to transfer the case to the Federal District Court for Utah. On September 20, 2018, Plaintiffs filed an amended complaint in Utah. As per the parties stipulated agreement, plaintiff's amended complaint dropped the RICO and Connecticut state law claims and removed the Company's Chief Sales Officer and Chief Marketing Officer as individual defendants (the Chief Executive Officer remains a defendant in the case). However, the amended complaint adds a new antitrust claim, alleging that the Company fraudulently obtained patents for its products and is attempting to use those patents in an anti-competitive manner. LifeVantage filed a Motion to Dismiss the amended complaint on November 5, 2018, Plaintiffs filed a response to LifeVantage's Motion to Dismiss on December 17, 2018, and LifeVantage filed a reply brief on January 10, 2019. With the matter now being fully briefed for the Court, the Court can issue a ruling based on the briefs submitted by the parties or schedule a hearing for oral argument before entering a decision on the motion. The Company has not established a loss contingency accrual for this lawsuit as it believes liability is not probable or estimable, and the Company plans to vigorously defend against this lawsuit. Nonetheless, an unfavorable resolution of this matter could have a material adverse effect on the Company's business, results of operations or financial condition.

Other Matters. In addition to the matters described above, the Company also may become involved in other litigation and regulatory matters incidental to its business and the matters disclosed in this quarterly report on Form 10-Q, including, but not limited to, product liability claims, regulatory actions, employment matters and commercial disputes. The Company intends to defend itself in any such matters and does not currently believe that the outcome of any such matters will have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Note 8 — Related Party Transactions

The Company contracted with GEG for outsourced software application development services pursuant to an agreement entered into between the Company and GEG, which included a convertible note. For discussion related to the convertible note between the Company and GEG, see Note 2. David Toole, who served as a member of the Company's board of directors until February 2, 2018, is a majority owner and an officer of GEG.

Note 9 — Subsequent Events

As previously disclosed in Note 4, on February 1, 2019, the Company made a principal payment of \$2.0 million under the 2016 Term Loan and amended the 2016 Credit Facility to increase the revolving loan facility from \$2.0 million to \$5.0 million. This amendment also included decreases in the required minimum working capital and fixed charge coverage ratio covenants.

As previously disclosed in Note 5, on February 1, 2019, the Board of Directors approved an amendment to the share repurchase program to increase the authorized share repurchase amount from \$5 million to \$15 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a company focused on biohacking the aging code through nutrigenomics, the study of how nutrition and naturally occurring compounds affect our genes. We are dedicated to helping people achieve their health, wellness and financial goals. We provide quality, scientifically-validated products and a financially rewarding direct sales business opportunity to customers and independent distributors. We engage in the identification, research, development and distribution of advanced nutraceutical dietary supplements and personal care products. We currently sell our products to customers and independent distributors in two geographic regions that we have classified as the Americas region and the Asia/Pacific & Europe region.

Our revenue depends on the number and productivity of our independent distributors and the number of our customers. When we are successful in attracting and retaining independent distributors and customers, it is largely because of:

- Our scientifically-validated products, including our Protandim[®] product line, the TrueScience[®] line of Nrf2-infused skin and hair care products, Petandim[™] for Dogs, Axio[®] Smart Energy Drink mixes, PhysIQ[™] Smart Weight Management System, and Omega+ sustainable fish oil supplement;
- Our compensation plan and other sales initiatives; and
- Our delivery of superior customer service.

As a result, it is vital to our success that we leverage our product development resources to develop and introduce compelling and innovative products and provide opportunities for our independent distributors to sell these products in a variety of markets. We sell our products in the United States, Japan, Hong Kong, Australia, Canada, Mexico, Thailand, the United Kingdom, the Netherlands, Germany, Austria and Taiwan. We also sell our products in a number of countries to customers for personal consumption only. In addition, we sell our products in China through our e-commerce business model. Entering a new market requires a considerable amount of time, resources and continued support. If we are unable to properly support an existing or new market, our revenue growth may be negatively impacted.

Our Products

Our products are the Protandim[®] product line, the TrueScience[®] line of Nrf2-infused skin and hair care products, Axio[®] Smart Energy Drink mixes, PhysIQ[™] Smart Weight Management System, Petandim[™] for Dogs, and Omega+, our sustainable fish oil supplement. The Protandim[®] product line includes Protandim[®] NRF1 and Nrf2 Synergizers[™]. The Protandim[®] NRF1 Synergizer is formulated to increase cellular energy and performance by boosting mitochondria production to improve cellular repair and slow cellular aging. The Protandim[®] Nrf2 Synergizer[™] contains a proprietary blend of ingredients and has been shown to combat oxidative stress and enhance energy production by increasing the body's natural antioxidant protection at the genetic level, inducing the production of naturally-occurring protective antioxidant enzymes including superoxide dismutase, catalase, and glutathione synthase. Our TrueScience[®] anti-aging skin care line includes TrueScience[®] Facial Cleanser, TrueScience[®] Perfecting Lotion, TrueScience[®] Eye Serum, TrueScience[®] Anti-Aging Cream, TrueScience[®] Micro-Lift Serum and TrueScience[®] Hand Cream. Our TrueScience[®] hair care line includes Shampoo, Conditioner and Scalp Serum. Axio[®] is our line of Smart Energy Drink mixes formulated to promote alertness and support mental performance. PhysIQ[™] is our Smart Weight Management System which includes PhysIQ[™] Fat Burn, PhysIQ[™] ProBio, PhysIQ[™] Cleanse and PhysIQ[™] Protein Shake mix, all formulated to aid in weight management. Petandim[™] for Dogs is a supplement specially formulated to combat oxidative stress in dogs through Nrf2 activation. Omega+ is a dietary supplement that combines DHA and EPA Omega-3 fatty acids, Omega-7 fatty acids, and Vitamin D3 to support cognitive health, cardiovascular health, skin health, and the immune system.

A stack consists of multiple products bundled together that are designed to achieve a specific result. The Vitality Stack includes four of our nutrigenomics products - Protandim[®] NRF1 and Nrf2 Synergizers[™], Omega+ and PhysIQ[™] ProBio. It was designed to provide a foundation for wellness, supporting healthy organs, including the brain, heart, eyes, and other vitals. Vitality Stack is our premier product bundle and we also offer stacks for our PhysIQ[™] and TrueScience[®] product lines.

We currently have additional products in development. Any delays or difficulties in introducing compelling products or attractive initiatives or tools into our markets may have a negative impact on our revenue and our ability to attract new independent distributors and customers.

Members

Because we utilize a direct selling model for the distribution of a majority of our products, the success and growth of our business is primarily based on the effectiveness of our independent distributors in selling our products and on our ability to attract new and retain existing independent distributors. Changes in our product sales typically are the result of variations in product sales volume relating to fluctuations in the number of active independent distributors and customers purchasing our products. The number of active independent distributors and customers is, therefore, used by management as a key non-financial measure.

The following tables summarize the changes in our active customer base by geographic region. These numbers have been rounded to the nearest thousand as of the dates indicated. For purposes of this report, we only count as active members those independent distributors and customers who have purchased from us at any time during the most recent three-month period, either for personal use or for resale.

| Active Customers By Region | | | | | | |
|----------------------------|----------------|---------------|----------------|---------------|------------------------|----------------|
| As of December 31, | | | | | | |
| | 2018 | | 2017 | | Change from Prior Year | Percent Change |
| Americas | 95,000 | 80.5% | 86,000 | 79.6% | 9,000 | 10.5% |
| Asia/Pacific & Europe | 23,000 | 19.5% | 22,000 | 20.4% | 1,000 | 4.5% |
| | <u>118,000</u> | <u>100.0%</u> | <u>108,000</u> | <u>100.0%</u> | <u>10,000</u> | <u>9.3%</u> |

| Active Independent Distributors By Region | | | | | | |
|---|---------------|---------------|---------------|---------------|------------------------|----------------|
| As of December 31, | | | | | | |
| | 2018 | | 2017 | | Change from Prior Year | Percent Change |
| Americas | 45,000 | 68.2% | 44,000 | 71.0% | 1,000 | 2.3% |
| Asia/Pacific & Europe | 21,000 | 31.8% | 18,000 | 29.0% | 3,000 | 16.7% |
| | <u>66,000</u> | <u>100.0%</u> | <u>62,000</u> | <u>100.0%</u> | <u>4,000</u> | <u>6.5%</u> |

Results of Operations

Three and Six Months Ended December 31, 2018 compared to the Three and Six Months Ended December 31, 2017

Revenue. We generated net revenue of \$58.2 million and \$49.5 million during the three months ended December 31, 2018 and 2017, respectively. We generated net revenue of \$113.8 million and \$98.6 million during the six months ended December 31, 2018 and 2017, respectively. Foreign currency fluctuations negatively impacted our revenue \$0.3 million or 0.6% and \$0.6 million or 0.6% during the three and six months ended December 31, 2018, respectively.

Americas. The following table sets forth revenue for the three and six months ended December 31, 2018 and 2017 for the Americas region (in thousands):

| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|----------------|---------------------------------|------------------|--------------|-------------------------------|------------------|--------------|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| United States | \$ 39,652 | \$ 34,814 | 13.9% | \$ 77,976 | \$ 68,929 | 13.1% |
| Other | 2,788 | 2,089 | 33.5% | 5,543 | 4,137 | 34.0% |
| Americas Total | <u>\$ 42,440</u> | <u>\$ 36,903</u> | <u>15.0%</u> | <u>\$ 83,519</u> | <u>\$ 73,066</u> | <u>14.3%</u> |

Revenue in the Americas region for the three and six months ended December 31, 2018 increased \$5.5 million or 15.0% and \$10.5 million or 14.3%, respectively, from the prior year same periods. Revenue in the United States increased due to our continued investment in our red carpet program, the introduction of our new TrueScience® hair care product line and an overall increase in active members during the current year period. Revenues in Canada and Mexico continue to grow due to increased active member count and further expansion of our product lines in those markets.

Asia/Pacific & Europe. The following table sets forth revenue for the three and six months ended December 31, 2018 and 2017 for the Asia/Pacific & Europe region and its principal markets (in thousands):

| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|-----------------------------|---------------------------------|------------------|---------------|-------------------------------|------------------|---------------|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| Japan | \$ 10,028 | \$ 10,383 | (3.4)% | \$ 20,085 | \$ 21,240 | (5.4)% |
| Other | 5,699 | 2,196 | 159.5 % | 10,172 | 4,303 | 136.4 % |
| Asia/Pacific & Europe Total | <u>\$ 15,727</u> | <u>\$ 12,579</u> | <u>25.0 %</u> | <u>\$ 30,257</u> | <u>\$ 25,543</u> | <u>18.5 %</u> |

Revenue in the Asia/Pacific & Europe region increased \$3.1 million or 25.0% and \$4.7 million or 18.5% for the three and six months ended December 31, 2018, respectively, as compared to the prior year period. The year over year increase in this region was mainly due to increased revenues in our recently launched Taiwan market and substantial increases in our Europe and Australia markets as we continue to focus on growth in these regions. Revenue in the Asia/Pacific & Europe region was negatively impacted approximately \$0.2 million or 1.4% and \$0.3 million or 1.3% during the three and six months ended December 31, 2018, respectively, as compared to the prior year periods, by foreign currency exchange rate fluctuations. Foreign currency fluctuations had a minimal impact on our Japan market during the quarter. On a constant currency basis, revenue in Japan decreased 3.6% and 5.2% for the three and six months ended December 31, 2018, respectively, as compared to the prior year periods. Revenue in Japan decreased mainly due to an overall decrease in active members.

Globally, we continue to focus on strengthening our core business through our fiscal 2019 initiatives, which include continued investment in our red carpet program, expanding our global footprint, including the roll out of our product lines to international markets, and the continued development and enhancement of compelling distributor training tools and technologies that will help our independent distributors grow their businesses. During the six months ended December 31, 2018, we completed our first two full fiscal quarters of operations in Taiwan, opened full on-the-ground business operations in Austria, further expanded our product offerings with the introduction of our TrueScience® hair care product line and held large events for our independent distributors in the U.S. and Japan, including Global Convention that was held during the second quarter of fiscal 2019. We continue working on refining our mainland China e-commerce business model and remain committed to pursuing growth in each of our markets and operating our business in accordance with our strengthened business practices.

Gross Margin. Our gross profit percentage for the three months ended December 31, 2018 and 2017 was 83.2% and 81.6%, respectively. Our gross profit percentage for the six months ended December 31, 2018 and 2017 was 83.3% and 81.9%, respectively.

As a percentage of total revenues, cost of sales for the three months ended December 31, 2018 decreased to 16.8% compared to 18.4% for the three months ended December 31, 2017. As a percentage of total revenues, cost of sales for the six months ended December 31, 2018 decreased to 16.7% compared to 18.1% for the six months ended December 31, 2017. The decrease in cost of sales as a percentage of revenue is primarily due to benefits of a price increase and changes to our product sales mix.

Commissions and Incentives. Commissions and incentives expenses during the three months ended December 31, 2018 were \$28.2 million or 48.4% of revenues as compared to commissions and incentives expenses of \$23.4 million or 47.3% of revenues for the three months ended December 31, 2017. Commissions and incentives expenses during the six months ended December 31, 2018 were \$56.0 million or 49.2% of revenues as compared to commissions and incentives expenses of \$46.8 million or 47.5% of revenues for the six months ended December 31, 2017.

The increase in commissions and incentives expenses as a percentage of revenues for the three and six months ended December 31, 2018 as compared to the prior year period is due to the continued investment in our red carpet program and other promotional programs and incentives designed to increase revenues. We also held several incentive events during the first half of fiscal 2019 which contributed to the increased percentage. Distributor commissions as a percentage of commissionable revenues generated remained consistent during the comparable periods.

We expect commissions and incentives expenses for the remainder of fiscal 2019 to decrease slightly as a percentage of revenue as we continue to refine our investments in our incentive and promotional activities. We anticipate that there will continue to be fluctuations from quarter to quarter caused by the timing and magnitude of compensation, incentive and promotional programs.

Selling, General and Administrative. Selling, general and administrative expenses during the three months ended December 31, 2018 were \$19.6 million as compared to selling, general and administrative expenses of \$14.6 million for the three months ended December 31, 2017. Selling, general and administrative expenses during the six months ended December 31, 2018 were \$36.9 million as compared to selling, general and administrative expenses of \$30.2 million for the six months ended December 31, 2017.

The increase in selling, general and administrative expenses during the three and six months ended December 31, 2018 compared to the prior year same period primarily was due to expenses associated with Global Convention and other events, including both our U.S. Elite Academy and our Japan convention held during the first half of fiscal 2019. Expenses associated with stock and other employee incentive compensation programs increased as a result of improved revenue performance and increases in our share price as compared to the prior year period.

We expect selling, general and administrative expenses, as a percent of revenue, to decrease for the remainder of the fiscal year due to decreased event spending and as we leverage current spending and execute on our strategic investments and

initiatives designed to increase revenue. We also anticipate that there will be fluctuations from period to period due to the timing of product and market launches and other planned events.

Total Other Expense. During the three and six months ended December 31, 2018, we recognized net other expenses of \$0.2 million and \$0.3 million, respectively, as compared to net other expenses of \$0.3 million and \$0.4 million, respectively, for the three and six months ended December 31, 2017. Total other expense for the three and six months ended December 31, 2018 consisted primarily of interest expense and foreign currency gains and losses.

The following table sets forth interest expense for the three and six months ended December 31, 2018 and 2017 (in thousands):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|---------------------------------|---------------|-------------------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Contractual interest expense: | | | | |
| 2016 Term Loan | \$ 73 | \$ 88 | \$ 153 | \$ 183 |
| Amortization of deferred financing fees: | | | | |
| 2016 Term Loan | 1 | 3 | 2 | 6 |
| Amortization of debt discount: | | | | |
| 2016 Term Loan | 5 | 5 | 13 | 10 |
| Other | 21 | 7 | 41 | 66 |
| Total interest expense | <u>\$ 100</u> | <u>\$ 103</u> | <u>\$ 209</u> | <u>\$ 265</u> |

Income Tax Benefit (Expense). We recognized an income tax benefit of \$0.4 million and \$0.2 million, respectively, for the three and six months ended December 31, 2018 as compared to income tax expense of \$1.7 million and \$2.2 million, respectively, for the three and six months ended December 31, 2017.

The effective tax rate was (10.5)% of pre-tax income during the six months ended December 31, 2018, compared to 65.8% for the same prior year period. The tax rate for the second quarter of fiscal 2019 was favorably benefited by discrete book to tax differences resulting from the vesting of performance restricted stock units that occurred during the quarter. In addition, the effective tax rate was benefited by the federal tax reform legislation enacted during December 2017 that reduced the corporate tax rate from 35% to 21%.

We expect that our effective tax rate will increase during the remainder of fiscal 2019 as the impact of the discrete benefit mentioned above is diluted as our pre-tax income increases; however, our tax rate can be significantly impacted by various book to tax differences and fluctuations in our stock price that occur during the year which are difficult to forecast.

Liquidity and Capital Resources

Liquidity

Our primary liquidity and capital resource requirements are to service our debt and finance the cost of our planned operating expenses and working capital (principally inventory purchases), as well as capital expenditures. We have generally relied on cash flow from operations to fund operating activities and we have, at times, incurred long-term debt in order to fund stock repurchases and strategic transactions.

As of December 31, 2018, our available liquidity was \$19.0 million, which consisted of available cash and cash equivalents. This represents an increase of \$2.3 million from the \$16.7 million in cash and cash equivalents as of June 30, 2018.

During the six months ended December 31, 2018, our net cash provided by operating activities was \$6.9 million as compared to net cash provided by operating activities of \$4.7 million during the six months ended December 31, 2017.

During the six months ended December 31, 2018, our net cash used in investing activities was \$2.3 million, as a result of investments in a convertible note receivable and the purchase of fixed assets. During the six months ended December 31, 2017, our net cash used in investing activities was \$2.1 million, as a result of the purchase of fixed assets.

Cash used in financing activities during the six months ended December 31, 2018 was \$2.3 million as a result of our quarterly principal payments on the 2016 Term Loan and repurchase of company stock, partially offset by proceeds from stock

option exercises. Cash used in financing activities during the six months ended December 31, 2017 was \$1.3 million as a result of our quarterly principal payments on the 2016 Term Loan and repurchase of company stock.

At December 31, 2018 and June 30, 2018, the total amount of our foreign subsidiary cash was \$5.9 million and \$4.3 million, respectively. The December 2017 tax reform previously mentioned enacted a 100% dividend deduction for > 10% owned foreign corporations. Therefore, in the future, if needed, we can repatriate cash from foreign subsidiaries without paying additional U.S. taxes.

At December 31, 2018, we had working capital (current assets minus current liabilities) of \$14.9 million, compared to working capital of \$15.1 million at June 30, 2018. We believe that our cash and cash equivalents balances and our ongoing cash flow from operations will be sufficient to satisfy our cash requirements for at least the next 12 months. The majority of our historical expenses have been variable in nature and as such, a potential reduction in the level of revenue would reduce our cash flow needs. In the event that our current cash balances and future cash flow from operations are not sufficient to meet our obligations or strategic needs, we would consider raising additional funds, which may not be available on terms that are acceptable to us, or at all. Our credit facility, however, contains covenants that restrict our ability to raise additional funds in the debt markets and repurchase our equity securities without prior approval from the lender. Additionally, our credit facility provides for a revolving loan facility in an aggregate principal amount up to \$5.0 million, as amended on February 1, 2019. We would also consider realigning our strategic plans including a reduction in capital spending and expenses.

Capital Resources

On March 30, 2016, we entered into a Loan Agreement (the “2016 Loan Agreement”) to refinance our outstanding debt. In connection with the 2016 Loan Agreement and on the same date, we entered into a security agreement (the “Security Agreement”). The 2016 Loan Agreement provides for a term loan in an aggregate principal amount of \$10.0 million (the “2016 Term Loan”) and a revolving loan facility in an aggregate principal amount not to exceed \$2.0 million (the “2016 Revolving Loan,” and collectively with the 2016 Term Loan, the 2016 Loan Agreement and the Security Agreement, the “2016 Credit Facility”).

The principal amount of the 2016 Term Loan is payable in consecutive quarterly installments in the amount of \$0.5 million plus accrued interest beginning with the fiscal quarter ended June 30, 2016. If we borrow under the 2016 Revolving Loan, interest will be payable quarterly in arrears on the last day of each fiscal quarter.

On May 4, 2018, the Company entered into a loan modification agreement, which amended its 2016 Credit Facility (“Amendment No. 1”). Amendment No. 1 revised the maturity date from March 30, 2019 to March 31, 2021 (the “Maturity Date”) and increased the fixed interest rate for the term loan from 4.93% to 5.68%. Amendment No. 1 also revised certain financial covenants. The minimum fixed charge coverage ratio (as defined in Amendment No. 1) was revised from a minimum of 1.50 to 1.00 to 1.25 to 1.00, measured on a trailing twelve-month basis, at the end of each fiscal quarter. The minimum working capital was increased from \$5.0 million to \$8.0 million. The funded debt to EBITDA ratio was replaced with the total liabilities to tangible net worth ratio (as defined in Amendment No. 1) of not greater than 3.00 to 1.00 at the end of each quarter. The minimum tangible net worth measure was removed from the financial covenants.

The 2016 Credit Facility, as amended, contains customary covenants, including affirmative and negative covenants that, among other things, restrict our ability to create certain types of liens, incur additional indebtedness, declare or pay dividends on or redeem capital stock, make other payments to holders of our equity interests, make certain investments, purchase or otherwise acquire all or substantially all the assets or equity interests of other companies, sell assets or enter into consolidations, mergers or transfers of all or any substantial part of our assets. As of December 31, 2018, we were in compliance with all applicable non-financial and restrictive covenants under the 2016 Credit Facility, as amended.

The 2016 Credit Facility, as amended, also contains various financial covenants that require us to maintain certain consolidated working capital amounts, total liabilities to tangible net worth ratios and fixed charge coverage ratios. Specifically, we must:

- Maintain a minimum fixed charge coverage ratio (as defined in the 2016 Loan Agreement, as amended) of at least 1.25 to 1.00 at the end of each fiscal quarter, measured on a trailing twelve month basis;
- Maintain minimum consolidated working capital (as defined in the 2016 Loan Agreement, as amended) at the end of each fiscal quarter of at least \$8.0 million; and
- Maintain a ratio of total liabilities to tangible net worth (as defined in the 2016 Loan Agreement, as amended) of not greater than 3.00 to 1.00 at the end of each quarter, measured on a trailing twelve month basis.

As of December 31, 2018, we were in compliance with all applicable financial covenants under the 2016 Credit Facility, as amended. Additionally, management anticipates that in the normal course of operations we will be in compliance with the financial covenants during the ensuing year.

Commitments and Obligations

The following table summarizes our contractual payment obligations and commitments as of December 31, 2018 (in thousands):

| Contractual Obligations | Total | Payments due by period | | | |
|--|------------------|------------------------|------------------|-----------------|-------------|
| | | Less than 1 year | 1-3 years | 3-5 years | Thereafter |
| Long-term debt obligations | \$ 4,500 | \$ 2,000 | \$ 2,500 | \$ — | \$ — |
| Interest on long-term debt obligations | 326 | 216 | 110 | — | — |
| Operating lease obligations | 9,627 | 2,847 | 5,093 | 1,687 | — |
| Other operating obligations ⁽¹⁾ | 24,654 | 12,429 | 9,134 | 3,091 | — |
| Total | \$ 39,107 | \$ 17,492 | \$ 16,837 | \$ 4,778 | \$ — |

(1) Other operating obligations represent non-cancelable contractual obligations primarily related to marketing and sponsorship commitments and purchases of inventory.

Off-Balance Sheet Arrangements

As of December 31, 2018, we did not have any off-balance sheet arrangements.

Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments, and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates. Our significant accounting policies are described in Note 2 to our unaudited condensed consolidated financial statements. Certain of these significant accounting policies require us to make difficult, subjective, or complex judgments or estimates. We consider an accounting estimate to be critical if (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

There are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements. Management has discussed the development and selection of these critical accounting estimates with our board of directors, and the audit committee has reviewed the disclosures noted below.

Allowances for Product Returns

We record allowances for product returns at the time we ship the product based on estimated return rates. Subject to some exceptions based on local regulations, customers may return unopened product to us within 30 days of purchase for a refund of the purchase price less shipping and handling. As of December 31, 2018, our shipments of products sold totaling approximately \$18.4 million were subject to the return policy. In addition, we allow terminating independent distributors to return up to 30% of unopened, unexpired product they purchased within the prior twelve months.

We monitor our product returns estimate on an ongoing basis and revise the allowances to reflect our experience. Our allowance for product returns was \$0.3 million at December 31, 2018, compared with \$0.4 million at June 30, 2018. To date, product expiration dates have not played any role in product returns, and we do not expect that they will in the future as it is unlikely that we will ship product with an expiration date earlier than the latest allowable product return date.

Inventory Valuation

We value our inventory at the lower of cost or net realizable value on a first-in first-out basis. Accordingly, we reduce our inventories for the diminution of value resulting from product obsolescence, damage or other issues affecting marketability equal to the difference between the cost of the inventory and its estimated market value. Factors utilized in the determination of

estimated market value include (i) current sales data and historical return rates, (ii) estimates of future demand, (iii) competitive pricing pressures, (iv) new production introductions, (v) product expiration dates, and (vi) component and packaging obsolescence.

During the three months ended December 31, 2018 and 2017, we recognized expenses of \$0.3 million and \$0.5 million, respectively, related to obsolete and slow-moving inventory.

Revenue Recognition

We ship the majority of our product directly to the consumer and receive substantially all payment for these sales in the form of credit card receipts. Revenue from direct product sales to customers is recognized upon shipment, which is when passage of title and risk of loss occurs.

Stock-Based Compensation

We use the fair value approach to account for stock-based compensation in accordance with current accounting guidance. We recognize compensation costs for awards with performance conditions when we conclude it is probable that the performance conditions will be achieved. We reassess the probability of vesting at each balance sheet date and adjust compensation costs based on our probability assessment. For awards with market-based performance conditions, the cost of the awards is recognized as the requisite service is rendered by the employees, regardless of when, if ever, the market-based performance conditions are satisfied.

Research and Development Costs

We expense all of our payments related to research and development activities as incurred.

Legal Accruals

We are occasionally involved in lawsuits and disputes arising in the normal course of business. Management regularly reviews all pending litigation matters in which we are involved and establishes accruals as we deem appropriate for these litigation matters when a probable loss estimate can be made. Estimated accruals require management judgment about future events. The results of lawsuits are inherently unpredictable and unfavorable resolutions could occur. As such, the amount of loss may differ from management estimates.

Recently Issued Accounting Standards

See Note 2 to our unaudited condensed consolidated financial statements for a discussion of recently issued accounting standards.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We conduct business in several countries and intend to continue to grow our international operations. Net revenue, operating income and net income are affected by fluctuations in currency exchange rates and other uncertainties in doing business and selling products in more than one currency. In addition, our operations are exposed to risks associated with changes in social, political and economic conditions inherent in international operations, including changes in the laws and policies that govern international investment in countries where we have operations, as well as, to a lesser extent, changes in U.S. laws and regulations relating to international trade and investment.

Foreign Currency Risk

During the six months ended December 31, 2018, approximately 31.5% of our net revenue was realized outside of the United States. The local currency of each international subsidiary is generally the functional currency. All revenues and expenses are translated at weighted-average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Currency fluctuations, however, have the opposite effect on our expenses incurred outside the United States. Given the large portion of our business derived from Japan, any weakening of the Japanese yen will negatively impact our reported revenue and profits, whereas a strengthening of the Japanese yen will positively impact our reported revenue and profits. Because of the uncertainty of exchange rate fluctuations, it is difficult to predict the effect of these fluctuations on our future business, product pricing and results of operations or financial condition. Changes in various currency exchange rates affect the relative prices at which we sell our products. We regularly monitor our foreign currency risks and periodically take measures to reduce the risk of foreign exchange rate fluctuations on our operating results. Additionally, we may seek to reduce our exposure to fluctuations in foreign currency exchange rates through the use of foreign currency exchange contracts. We do

not use derivative financial instruments for trading or speculative purposes. At December 31, 2018, we did not have any derivative instruments. A 10% strengthening of the U.S. dollar compared to all of the foreign currencies in which we transact business would have resulted in a 2.8% decrease of our six months ended December 31, 2018 revenue, in the amount of \$3.2 million.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) that are designed to ensure that the information required to be disclosed in the reports we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and (b) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this quarterly report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness and design and operation of such disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were designed and operating effectively as of December 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2018 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

An evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 of the Exchange Act was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter. That evaluation did not identify any changes in our internal control over financial reporting during the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Control Over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. Other Information

Item 1. Legal Proceedings

See Note 7 to our unaudited condensed consolidated financial statements contained within this quarterly report on Form 10-Q for a discussion of our legal proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in “Part I. Item 1A — Risk Factors” in our annual report on Form 10-K for the fiscal year ended June 30, 2018, filed on August 15, 2018. The risks and uncertainties described in such risk factors and elsewhere in this report have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results and future prospects. We do not believe that there have been any material changes to the risk factors previously disclosed in our recent SEC filings, including our most recently filed Form 10-K, as referenced above.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 27, 2017, our Board of Directors approved a stock repurchase plan. Under the plan, which became effective on November 27, 2017, we are authorized to repurchase up to \$5.0 million of our outstanding shares through November 27, 2020. The repurchase program permits us to purchase shares from time to time through a variety of methods, including in the open market, through privately negotiated transactions or other means as determined by our management, in accordance with applicable securities laws. As part of the repurchase program, we may enter into a pre-arranged stock

repurchase plan which will operate in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934. Accordingly, transactions, if any, under the pre-arranged repurchase plan would be completed in accordance with the terms of the stock repurchase plan, including specified price, volume and timing conditions. The authorization may be suspended or discontinued at any time and expires on November 27, 2020. During the three months ended December 31, 2018, we repurchased 128,541 shares of our common stock on the open market at an aggregate purchase price of \$1.5 million under this repurchase program.

The following table provides information with respect to all purchases made by the Company during the three months ended December 31, 2018. All purchases listed below were made in the open market at prevailing market prices and pursuant to trading plans adopted by us pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------|---|-------------------------------------|---|---|
| October 1 - October 31 | — | \$ — | — | \$ — |
| November 1 - November 30 | 128,541 | \$ 11.67 | 128,541 | \$ 2,000,000 |
| December 1 - December 31 | — | \$ — | — | \$ — |
| Total | 128,541 | | 128,541 | |

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

| Exhibit No. | Document Description | Filed Herewith or Incorporate by Reference From |
|-------------|---|--|
| 2.1 | Plan of Conversion, dated March 9, 2018 | Exhibit 2.1 to the Current Report on Form 8-K filed on March 13, 2018. |
| 3.1 | Certificate of Incorporation, as filed with the Delaware Secretary of State on March 9, 2018 | Exhibit 3.1 to the Current Report on Form 8-K filed on March 13, 2018. |
| 3.2 | Bylaws, effective March 9, 2018 | Exhibit 3.2 to the Current Report on Form 8-K filed on March 13, 2018. |
| 3.3 | Certificate of Conversion as filed with the Delaware Secretary of State on March 9, 2018 | Exhibit 3.3 to the Current Report on Form 8-K filed on March 13, 2018. |
| 3.4 | Statement of Conversion as filed with the Colorado Secretary of State on March 9, 2018 | Exhibit 3.4 to the Current Report on Form 8-K filed on March 13, 2018. |
| 10.1# | LifeVantage Corporation 2017 Long-Term Incentive Plan, as amended | Exhibit 10.1 to Current Report on Form 8-K filed on November 19, 2018. |
| 10.2# | LifeVantage Corporation 2019 Employee Stock Purchase Plan | Exhibit 10.2 to Current Report on Form 8-K filed on November 19, 2018. |
| 10.3# | Amended and Restated LifeVantage Corporation 2019 Employee Stock Purchase Plan | Filed herewith |
| 10.4# | Amended and Restated Employment Agreement, dated January 8, 2019, by and between Darren Jensen and LifeVantage Corporation | Filed herewith |
| 31.1 | Certification of principal executive officer pursuant to Rule 13a-14(a)/15d-14(a) | Filed herewith |
| 31.2 | Certification of principal financial officer pursuant to Rule 13a-14(a)/15d-14(a) | Filed herewith |
| 32.1* | Certification of principal executive officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 32.2* | Certification of principal financial officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 101 | The following financial information from the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2018 formatted in XBRL (extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets at December 31, 2018 and June 30, 2018; (ii) Unaudited Condensed Consolidated Statements of Operations and Other Comprehensive Income for the three and six months ended December 31, 2018 and 2017; (iii) Unaudited Condensed Consolidated Statement of Stockholders' Equity for the six months ended December 31, 2018; (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2018 and 2017; and (v) Notes to Unaudited Condensed Consolidated Financial Statements, tagged as blocks of text | Filed herewith |

* This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Exchange Act and is not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing

Management contract or compensatory plan.

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.

LIFEVANTAGE CORPORATION

Date: February 4, 2019

/s/ Darren Jensen

Darren Jensen
Chief Executive Officer
(Principal Executive Officer)

Date: February 4, 2019

/s/ Steven R. Fife

Steven R. Fife
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

LIFEVANTAGE CORPORATION
2019 EMPLOYEE STOCK PURCHASE PLAN
(As Adopted Effective on November 15, 2018
and Amended on January 24, 2019)

SECTION 1. PURPOSE OF THE PLAN

The Board adopted the Plan on September 20, 2018, and it became effective upon its approval by the Company's stockholders on November 15, 2018. The Plan was amended on January 24, 2019. The purpose of the Plan is to provide Eligible Employees with an opportunity to increase their proprietary interest in the success of the Company by purchasing Stock from the Company on favorable terms and to pay for such purchases through payroll deductions or other approved contributions.

SECTION 2. ADMINISTRATION OF THE PLAN

(a) General. The Plan may be administered by the Board or one or more Committees. Each Committee shall comply with rules and regulations applicable to it, including under the rules of any exchange on which the Stock is traded, and shall have the authority and be responsible for such functions as have been assigned to it.

(b) Powers of the Administrator. Subject to the terms of the Plan, and in the case of a Committee, subject to the specific duties delegated to the Committee, the Administrator shall interpret the Plan and make all other policy decisions relating to the operation of the Plan. The Administrator may adopt such rules, guidelines and forms as it deems appropriate to implement the Plan.

(c) Effects of Administrator's Decisions. The Administrator's decisions, determinations and interpretations shall be final and binding on all interested parties.

(d) Governing Law. The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice of law provisions).

SECTION 3. STOCK OFFERED UNDER THE PLAN

(a) Authorized Shares. The number of shares of Stock available for purchase under the Plan shall be 400,000 shares of the Company's Stock (subject to adjustment pursuant to Subsection (b) below). Shares of Stock issued pursuant to the Plan may be authorized but unissued shares or treasury shares.

(b) Anti-Dilution Adjustments. In the event that any dividend or other distribution (whether in the form of cash, stock or other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, reclassification, repurchase, or exchange of Stock or other securities of the Company, or other similar change in the corporate structure of the Company affecting the Stock and effected without receipt or payment of consideration by the Company occurs, then in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, there will be a proportionate adjustment of the number and class of Stock that may be delivered under the Plan, the Purchase Price per share and the number of shares and class of Stock covered by each option under the Plan which has not yet been exercised, and the numerical limits of Sections 3(a) and 9(c).

(c) Reorganizations. In the event of a Corporate Reorganization, the outstanding rights to purchase Stock under any Offering Period then in progress may be continued, assumed or substituted by the surviving entity or its parent. If such acquirer refuses to continue, assume or substitute for any such Offering Period, then a new Purchase Date shall be set prior to the effective time of the Corporate Reorganization, the Participants' accumulated contributions will be applied to purchase Stock on such date, and any such Offering Periods shall terminate immediately after such purchase. In the event a new Purchase Date is set under this Section 3(c), Participants will be given notice of the new Purchase Date. The Plan shall in no event be construed to restrict in any way the Company's right to undertake a dissolution, liquidation, merger, consolidation or other reorganization.

SECTION 4. ENROLLMENT AND PARTICIPATION

(a) Offering Periods and Purchase Periods

(i) **Base Offering Periods**. The Committee may establish Offering Periods of such frequency and duration as it may from time to time determine as appropriate (the "**Base Offering Periods**"); provided that a Base Offering Period shall in no event be longer than 27 months (or such other period as may be imposed under applicable tax law). The Base Offering Periods are intended

to qualify under Code Section 423. Unless changed by the Committee, the Plan shall operate such that two Base Offering Periods, each of six months' duration and each including a single six-month Purchase Period, will commence at such time and under such conditions as the Committee may determine.

- (ii) **Additional Offering Periods.** At the discretion of the Administrator, additional Offering Periods (the "**Additional Offering Periods**") may be conducted under the Plan including, if necessary or advisable in the sole discretion of the Administrator, under a separate sub-plan or sub-plans, permitting grants to Eligible Employees of certain Participating Companies (each, a "**Sub-Plan**"). Such Additional Offering Periods may be designed to achieve desired tax objectives in particular locations outside the United States or to comply with local laws applicable to offerings in such foreign jurisdictions and will not be intended to qualify under Code Section 423. Additional Offering Periods may run concurrent to the Base Offering Periods. Alternatively, the Administrator may determine a different commencement and duration of an Additional Offering Period, and Additional Offering Periods may be consecutive or overlapping. The other terms and conditions of each Additional Offering Period shall be those set forth in this Plan document or in terms and conditions approved by the Administrator with respect to such Additional Offering Period (whether or not set forth in a written Sub-Plan), with such changes or additional features as the Administrator determines. Each Additional Offering Period (whether or not set forth in a written Sub-Plan) shall be considered a separate plan from the Plan (the "**Statutory Plan**"). The total number of Shares authorized to be issued under the Plan as provided in Section 3 above applies in the aggregate to the Statutory Plan and any Additional Offering Period. Unless otherwise superseded by the terms and conditions approved by the Administrator with respect to an Additional Offering Period, the provisions of this Plan document shall govern the operation of any offering conducted hereunder.
- (iii) **Separate Offerings.** Each Base Offering Period and each Additional Offering Period conducted under the Plan is intended to constitute a separate "offering" for purposes of Code Section 423.
- (iv) **Equal Rights and Privileges.** To the extent an Offering Period is intended to qualify under Code Section 423, all participants in such Offering Period shall have the same rights and privileges with respect to their participation in such Offering Period in accordance with Code Section 423 and the regulations thereunder except for differences that may be mandated by local law and are consistent with the requirements of Code Section 423(b)(5).

(b) **Enrollment.** In the case of any individual who qualifies as an Eligible Employee on the last day of any Enrollment Period, he or she may elect to become a Participant on such day by filing the prescribed enrollment form with the Company. The enrollment form shall be filed in the prescribed manner during the applicable Enrollment Period for such Offering Period.

(c) **Duration of Participation.** Once enrolled in the Plan, a Participant shall continue to participate in the Plan until he or she:

- (i) Reaches the end of the Offering Period or Purchase Period, as applicable, in which his or her employee contributions were discontinued under Section 5(c) or 9(b);
- (ii) Withdraws from the Plan under Section 6(a); or
- (iii) Ceases to be an Eligible Employee.

A Participant whose employee contributions were discontinued automatically under Section 9(b) shall automatically resume participation as described therein. In all other cases, a former Participant may again become a Participant, if he or she then is an Eligible Employee, by following the procedure described in Subsection (b) above.

(d) **Applicable Offering Period.** For purposes of calculating the Purchase Price under Section 8(b), the applicable Offering Period shall be determined as follows:

- (i) Once a Participant is enrolled in the Plan for an Offering Period, such Offering Period shall continue to apply to him or her until the earliest of (A) the end of such Offering Period, (B) the end of his or her participation under Subsection (d) above, or (C) re-enrollment for a subsequent Offering Period under Paragraph (ii) or (iii) below.
- (ii) Any other provision of the Plan notwithstanding, the Administrator (at its sole discretion) may determine prior to the commencement of any new Offering Period that all Participants shall be re-enrolled for such new Offering Period.

- (iii) When a Participant reaches the end of an Offering Period but his or her participation is to continue, then such Participant shall automatically be re-enrolled for the Offering Period that commences immediately after the end of the prior Offering Period.

SECTION 5.

EMPLOYEE CONTRIBUTIONS

(a) Commencement of Payroll Deductions. A Participant may purchase shares of Stock under the Plan by means of payroll deductions or (if so approved by the Administrator with respect to all Participants in an Offering Period) other approved contributions in form and substance satisfactory to the Administrator. Payroll deductions or other approved contributions shall commence as soon as reasonably practicable after the Company has received the prescribed enrollment form. In jurisdictions where payroll deductions are not permitted under local law, Participants may purchase shares of Stock by making contributions in the form that is acceptable and approved by the Administrator.

(b) Amount of Payroll Deductions. An Eligible Employee shall designate on the prescribed enrollment form the portion of his or her Compensation that he or she elects to have withheld for the purchase of Stock. Such portion shall be a whole percentage of the Eligible Employee's Compensation, but not less than 1% nor more than 15%.

(c) Reducing Withholding Rate or Discontinuing Payroll Deductions. If a Participant wishes to reduce his or her rate of payroll withholding, such Participant may do so by filing a new enrollment form with the Company during the applicable Enrollment Period. The new withholding rate shall be effective as soon as reasonably practicable after the Company has received such form. The new withholding rate may be 0% or any whole percentage of the Participant's Compensation, but not more than his or her old withholding rate. No Participant shall make more than one election under this Subsection (c) during any Purchase Period. (In addition, employee contributions may be discontinued automatically pursuant to Section 9(b).)

(d) Increasing Withholding Rate. If a Participant wishes to increase his or her rate of payroll withholding, such Participant may do so by filing a new enrollment form with the Company during the applicable Enrollment Period. The new withholding rate may be effective on the first day of the next-upcoming Offering Period in which the Participant participates. The new withholding rate may be any whole percentage of the Participant's Compensation, but not less than 1% nor more than 15%. An increase in a Participant's rate of payroll withholding may not take effect during an Offering Period.

SECTION 6.

WITHDRAWAL FROM THE PLAN

(a) Withdrawal. A Participant may elect to withdraw from the Plan (or, if applicable, from an Offering Period) by filing the prescribed form with the Company in the prescribed manner at least fifteen (15) calendar days prior to a Purchase Date (or such other time as is specified by the Administrator). As soon as reasonably practicable thereafter, payroll deductions or other approved contributions shall cease and the entire amount credited to the Participant's Plan Account with respect to such Offering Period shall be refunded to him or her in cash, without interest (except as otherwise required by the laws of the local jurisdiction). No partial withdrawals from an Offering Period shall be permitted.

(b) Re-Enrollment After Withdrawal. A former Participant who has withdrawn from the Plan shall not be a Participant until he or she re-enrolls in the Plan under Section 4(b) during an Enrollment Period. Re-enrollment may be effective only at the commencement of an Offering Period.

SECTION 7.

CHANGE IN EMPLOYMENT STATUS

(a) Termination of Employment. Termination of employment as an Eligible Employee for any reason, including death, shall be treated as an automatic withdrawal from the Plan under Section 6(a).

(b) Transfers of Employment. If a Participant transfers employment from a Participating Company that is participating in a Base Offering Period to a Participating Company that is participating in an Additional Offering Period, he or she will immediately cease to participate in the Base Offering Period as applicable; however, such Participant's Plan Account will be transferred to the Additional Offering Period, and such Participant will immediately join such Additional Offering Period on the terms and conditions applicable to such Additional Offering Period, except for any modifications required by applicable law. If a Participant transfers employment from a Participating Company that is participating in an Additional Offering Period to a Participating Company that is participating in a Base Offering Period, he or she will continue to participate in the Additional Offering Period until the earlier of (i) the end of such Additional Offering Period, or (ii) the commencement of the first Base Offering Period in which he or she is eligible. If a Participant transfers employment from

a Participating Company to a Related Corporation that is not a Participating Company, he or she shall be deemed to have withdrawn from the Plan pursuant to Section 6(a).

(c) Leave of Absence. For purposes of the Plan, employment shall not be deemed to terminate when the Participant goes on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing. Employment, however, shall be deemed to terminate on the first day following three months after the Participant goes on a leave, unless a contract or statute guarantees his or her right to return to work. Employment shall be deemed to terminate in any event when the approved leave ends, unless the Participant immediately returns to work.

(d) Death. In the event of the Participant's death, the amount credited to his or her Plan Account shall be paid in cash, without interest (unless otherwise required by the laws of the local jurisdiction), to a beneficiary designated by him or her for this purpose on the prescribed form or, if none, to the Participant's estate. Such form shall be valid only if it was filed with the Company at the prescribed location before the Participant's death.

SECTION 8. PLAN ACCOUNTS AND PURCHASE OF SHARES

(a) Plan Accounts. The Company shall maintain a Plan Account on its books in the name of each Participant. Whenever an amount is deducted from the Participant's Compensation under the Plan, such amount shall be credited to the Participant's Plan Account. Unless otherwise required by the laws of the local jurisdiction, (i) amounts credited to Plan Accounts shall not be trust funds and may be commingled with the Company's general assets and applied to general corporate purposes, and (ii) no interest shall be credited to Plan Accounts.

(b) Purchase Price. The Purchase Price for each share of Stock purchased on a Purchase Date shall be the lower of:

(i) 85% of the Fair Market Value of such share on the first trading day of such Offering Period; or

(ii) 85% of the Fair Market Value of such share on the Purchase Date.

(c) Number of Shares Purchased. On each Purchase Date, each Participant shall be deemed to have elected to purchase the number of shares of Stock calculated in accordance with this Subsection (c), unless the Participant has previously elected to withdraw from the Offering Period in accordance with Section 6(a). The amount then in the Participant's Plan Account shall be divided by the Purchase Price, and the number of shares that results shall be purchased from the Company with the funds in the Participant's Plan Account. The foregoing number of shares of Stock purchasable by a Participant are subject to the limitations set forth in Subsection (d) below and in Section 9. The Administrator may determine with respect to all Participants that any fractional share, as calculated under this Subsection (c), shall be (i) rounded down to the next lower whole share or (ii) credited as a fractional share.

(d) Available Shares Insufficient. In the event that the aggregate number of shares that all Participants elect to purchase with respect to a particular Purchase Period exceeds (i) the number of shares of Stock that were available under Section 3 above for sale under the Plan on the first day of the applicable Offering Period, or (ii) the number of shares that were available under Section 3 above for sale under the Plan on the applicable Purchase Date, then the number of shares to which each Participant is entitled shall be determined by multiplying the number of shares available for issuance by a fraction. The numerator of such fraction is the number of shares that such Participant has elected to purchase, and the denominator of such fraction is the number of shares that all Participants have elected to purchase. The Company may make a pro rata allocation of the shares available on the first day of an applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's stockholders subsequent to such date. In the event of a pro-rata allocation under this Section (d), the Administrator may determine in its discretion to continue all Offering Periods then in effect or terminate all Offering Periods then in effect pursuant to Section 14.

(e) Issuance of Stock. The shares of Stock purchased by a Participant under the Plan may be registered in the name of such Participant, or jointly in the name of such Participant and his or her spouse as joint tenants with the right of survivorship or as community property (with or without the right of survivorship). The Company may permit or require that shares be deposited directly with a broker designated by the Company or to a designated agent of the Company, and the Company may utilize electronic or automated methods of share transfer. The Company may require that shares be retained with such broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. (The two preceding sentences shall apply whether or not the Participant is required to pay income tax in the United States.)

(f) Tax Withholding. To the extent required by applicable federal, state, local or foreign law, a Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in

connection with the Plan. The Company shall not be required to issue any shares of Stock under the Plan until such obligations, if any, are satisfied.

(g) Unused Cash Balances. Subject to the final sentence of Section 8(c), any amount remaining in the Participant's Plan Account at the end of a Purchase Period solely by reason of the inability to purchase a fractional share will be carried over to the next Purchase Period. Any balance remaining in a Participant's Plan Account for any other reason will be promptly refunded to the Participant in cash, without interest (except as otherwise required by the laws of the local jurisdiction).

(h) Stockholder Approval. Any other provision of the Plan notwithstanding, no shares of Stock shall be purchased under the Plan unless and until the Company's stockholders have approved the adoption of the Plan.

SECTION 9. **PLAN LIMITATIONS**

(a) Five Percent Limit. Any other provision of the Plan notwithstanding, no Participant shall be granted a right to purchase Stock under the Plan if, immediately after such right is granted, such Participant would own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any Related Corporation, applying the stock attribution rules of Code Section 424(d), and including any stock in which the Participant may purchase under outstanding options as stock owned by such Participant. LFVN will want to determine if this limitation excludes any employees from participating in the Plan.

(b) Dollar Limit. As specified by Code Section 423(b)(8), no Participant shall be entitled to accrue rights to purchase Stock pursuant to any such rights outstanding under the Plan if and to the extent such accrual, when aggregated with (i) rights to purchase Stock accrued under any other right to purchase Stock under the Plan, and (ii) similar rights accrued under other employee stock purchase plans (within the meaning of Code Section 423) of the Company or any Related Corporation, would otherwise permit such Participant to purchase more than \$25,000 worth of Stock of the Company or any Related Corporation (determined on the basis of the Fair Market Value per share on the date such rights are granted, and which, with respect to the Plan, will be determined as of the beginning of the respective Offering Period) for each calendar year such rights are at any time outstanding.

If a Participant is precluded by this Subsection (b) from purchasing additional Stock under the Plan, then his or her employee contributions shall automatically be discontinued and shall automatically resume at the beginning of the next Purchase Period with a scheduled Purchase Date in the next calendar year, provided that he or she is an Eligible Employee at the beginning of such Purchase Period.

(c) Purchase Period Share Purchase Limit. Any other provision of the Plan notwithstanding, no Participant shall purchase more than 3,000 shares of Stock with respect to any Purchase Period; provided that the Administrator may, for future Offering Periods, increase or decrease in its absolute discretion, the maximum number of shares of Stock that a Participant may purchase during each Purchase Period.

SECTION 10. **RIGHTS NOT TRANSFERABLE**

The rights of any Participant under the Plan, or any Participant's interest in any Stock or moneys to which he or she may be entitled under the Plan, shall not be transferable by voluntary or involuntary assignment or by operation of law, or in any other manner other than by beneficiary designation or the laws of descent and distribution. If a Participant in any manner attempts to transfer, assign or otherwise encumber his or her rights or interest under the Plan, other than by beneficiary designation or the laws of descent and distribution, then such act shall be treated as an election by the Participant to withdraw from the Plan under Section 6(a).

SECTION 11. **NO RIGHTS AS AN EMPLOYEE**

Nothing in the Plan or in any right granted under the Plan shall confer upon the Participant any right to continue in the employ of a Participating Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Participating Companies or of the Participant, which rights are hereby expressly reserved by each, to terminate his or her employment at any time and for any reason, with or without cause.

SECTION 12. **NO RIGHTS AS A STOCKHOLDER**

A Participant shall have no rights as a stockholder with respect to any shares of Stock that he or she may have a right to purchase under the Plan until such shares have been purchased on the applicable Purchase Date.

SECTION 13. **SECURITIES LAW REQUIREMENTS**

Shares of Stock shall not be issued, and the Company shall have no liability for failure to issue shares of Stock, under the Plan unless the issuance and delivery of such shares comply with (or are exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated

thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded.

SECTION 14. **AMENDMENT OR DISCONTINUANCE**

(a) **General Rule.** The Administrator, in its sole discretion, may amend, suspend, or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Administrator, in its discretion, may elect to terminate all outstanding Offering Periods either immediately or upon completion of the purchase of shares of Stock on the next Purchase Date, or may elect to permit Offering Periods to expire in accordance with their terms (and subject to any adjustment pursuant to Section 3(c)). If the Offering Periods are terminated prior to expiration, all amounts then credited to Participants' accounts which have not been used to purchase shares of Stock will be returned to the Participants (without interest thereon, except as otherwise required by the laws of the local jurisdiction) as soon as administratively practicable.

(b) **Administrator's Discretion.** Without stockholder consent and without limiting Subsection (a) above, the Administrator will be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Stock for each Participant properly correspond with amounts withheld from the Participant's Compensation, amend any outstanding purchase rights or clarify any ambiguities regarding the terms of any Offering Period to enable the purchase rights to qualify under and/or comply with Section 423 of the Code, and establish such other limitations or procedures as it determines in its sole discretion advisable which are consistent with the Plan. The actions of the Board and the Committee pursuant to this paragraph will not be considered to alter or impair the purchase rights granted under an Offering Period as they are to be deemed part of the initial terms of such Offering Period and purchase rights.

(c) **Accounting Considerations.** In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Administrator may, in its discretion and, to the extent necessary or desirable, modify, amend or terminate the Plan to reduce or eliminate such accounting consequence including, but not limited to:

- (i) Amending the Plan to conform with the safe harbor definition under Financial Accounting Standards Board Accounting Standards Codification Topic 718, including with respect to an Offering Period underway at the time;
- (ii) Altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;
- (iii) Shortening any Offering Period (and any Purchase Periods encompassed by such Offering Period) by setting a new Purchase Date, including with respect to an Offering Period underway at the time of the Administrator's action;
- (iv) Reducing the maximum percentage of Compensation a Participant may elect to set aside as payroll deductions; and
- (v) Reducing the maximum number of shares of Stock a Participant may purchase during any Purchase Period.

Such modifications or amendments will not require stockholder approval or the consent of any Plan Participants. The actions of the Board and the Committee pursuant to this paragraph will not be considered to alter or impair the purchase rights granted under an Offering Period as they are to be deemed part of the initial terms of such Offering Period and purchase rights.

(d) **Stockholder Approval.** Except as provided in Section 3, any increase in the aggregate number of shares of Stock that may be issued under the Plan shall be subject to the approval of the Company's stockholders. In addition, any other amendment of the Plan shall be subject to the approval of the Company's stockholders to the extent required under Section 14(e) or by any applicable law or regulation.

(e) **Plan Termination.** The Plan shall terminate automatically 20 years after its adoption by the Board, unless (i) the Plan is extended by the Board and (ii) the extension is approved within 12 months by a vote of the stockholders of the Company.

SECTION 15. **DEFINITIONS**

(a) "**Administrator**" means the Board or any Committee administering the Plan in accordance with Section 2.

- (b) “**Board**” means the Board of Directors of the Company, as constituted from time to time.
- (c) “**Code**” means the Internal Revenue Code of 1986, as amended.
- (d) “**Committee**” means a committee of one or more members of the Board, or of other individuals satisfying applicable laws, appointed by the Board to administer the Plan.
- (e) “**Company**” means LifeVantage Corporation, a Delaware corporation.
- (f) “**Compensation**” means, unless otherwise determined by the Administrator in its discretion, all regular base salary and overtime wages paid to a Participant by a Participating Company, excluding all bonuses and non-cash compensation, including allowances or reimbursements, such as moving or relocation allowances, cost-of-living equalization payments, car allowances, tuition reimbursements, imputed income attributable to cars or life insurance, severance pay, fringe benefits, contributions or benefits received under employee benefit plans, income attributable to equity compensation awards of the Company, and similar items. The Administrator shall determine whether a particular item is included in Compensation.
- (g) “**Corporate Reorganization**” means:
- (i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization; or
 - (ii) The sale, transfer or other disposition of all or substantially all of the Company’s assets or the complete liquidation or dissolution of the Company.
- (h) “**Eligible Employee**” means, unless otherwise determined by the Administrator prior to the last day of an Enrollment Period, a common law employee of a Participating Company. The foregoing notwithstanding, an individual shall not be considered an Eligible Employee if his or her participation in the Plan is prohibited by the law of any country that has jurisdiction over him or her.
- (i) “**Enrollment Period**” means a period prior to the start of an Offering Period during which Eligible Employees must submit the required enrollment forms to participate in such Offering Period, which period shall end at least five (5) business days (or such other date as may be specified in advance by the Administrator) prior to the start of the Offering Period.
- (j) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.
- (k) “**Fair Market Value**” means the price at which Stock was last sold in the principal U.S. market for the Stock on the applicable date or, if the applicable date was not a trading day, on the last trading day prior to the applicable date. If Stock is no longer traded on a public U.S. securities market, the Fair Market Value shall be determined by the Administrator in good faith on such basis as it deems appropriate. The Administrator’s determination shall be conclusive and binding on all persons.
- (l) “**Offering Period**” means any period, including as the context requires Base Offering Periods and Additional Offering Periods, with respect to which the right to purchase Stock may be granted under the Plan, as determined pursuant to Section 4(a).
- (m) “**Participant**” means an Eligible Employee who participates in the Plan or any Sub-Plan, as provided in Section 4.
- (n) “**Participating Company**” means (i) the Company and (ii) each present or future Subsidiary designated by the Administrator as a Participating Company.
- (o) “**Plan**” means this LifeVantage Corporation 2019 Employee Stock Purchase Plan, as it may be amended from time to time.
- (p) “**Plan Account**” means the account established for each Participant pursuant to Section 8(a).
- (q) “**Purchase Date**” means the last trading day of a Purchase Period.
- (r) “**Purchase Period**” means a period within an Offering Period (which for an Offering Period with only a single Purchase Period would be coterminous with the Offering Period) during which contributions may be made toward the purchase of Stock under the Plan, as determined pursuant to Section 4(a).
- (s) “**Purchase Price**” means the price at which Participants may purchase Stock under the Plan, as determined pursuant to Section 8(b).
- (t) “**Related Corporation**” means any “parent corporation” of the Company as defined in Code Section 424(e) or any Subsidiary.

(u) “**Stock**” means the common stock of the Company.

(v) “**Subsidiary**” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This amended and restated employment agreement (the “**Agreement**”) is entered into by and between Darren Jensen (“**you**” or “**your**”) and LifeVantage Corporation, a Colorado corporation, (the “**Company**”). This Agreement amends, restates and supersedes that certain Amended and Restated Employment Agreement between you and the Company dated December 6, 2016 (the “**Prior Agreement**”). This Agreement has an effective date of January 8, 2019 (the “**Effective Date**”) and will automatically terminate on the ninetieth (90th) day following the close of the first fiscal year of the Company in which Net Revenue (as defined on Addendum A hereto) exceeds \$500 million (the “**Expiration Date**”) unless extended by mutual written agreement of the Company and you on or prior to the Expiration Date. In consideration of the mutual covenants and promises made in this Agreement, you and the Company agree as follows:

1. **Position and Responsibilities.** As of the Effective Date, you will continue serving as a full-time employee of the Company as the Company’s President and Chief Executive Officer (“**PCEO**”). You shall report directly to the Company’s Board of Directors (the “**Board**”). You shall have the duties, responsibilities and authority that are customarily associated with such position and such other senior management duties as may reasonably be assigned by the Board. You will devote your full-time efforts, abilities, and energies to promote the general welfare and interests of the Company and any related enterprises of the Company. You will loyally, conscientiously and professionally do and perform all duties and responsibilities of this position, as well as any other duties and responsibilities as will be reasonably assigned by the Board. At the request of the Company, you will also serve as an officer and/or member of the board of directors of any Company affiliate, without additional compensation. Your primary workplace will be located at the Company’s Utah office, currently located at 9785 S. Monroe Street, Suite 400, Sandy, Utah 84070. Nothing herein shall preclude you from (i) serving, with the prior consent of the Board, as a member of the board of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of non-competing businesses and charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing your personal investments and affairs; provided, however, that the activities set out in clauses (i), (ii) and (iii) shall be limited by you so as not to materially interfere, individually or in the aggregate, with the performance of your duties and responsibilities hereunder.

2. **Base Salary.** During your employment as PCEO and while this Agreement is in effect, you will be paid an annual base salary of \$550,000 (the “**Base Salary**”) for your services as PCEO, payable in the time and manner that the Company customarily pays its employees and subject to increase or decrease at the discretion of the Board.

3. **Bonuses.** During your employment as PCEO and while this Agreement is in effect, you will be eligible to participate in the Annual Incentive Compensation (“**AIC**”) bonus plan as approved by the Board for each fiscal year of the Company. Bonus opportunities awarded under the AIC plan will be earned based on the achievement of objective or subjective criteria established and approved by the Board, which will be communicated to you within sixty (60) days of the start of each fiscal year, and will be measured at the end of each fiscal year (the “**Performance Objectives**”). Any such bonus shall be paid to you during the first three (3) months of the fiscal year that follows the applicable performance fiscal year. The bonus will be deemed to have been earned on the date of payment of such bonus and you must remain an employee of the Company through the date of payment in order to receive the bonus. Your target bonus and maximum bonus under the AIC plan will be equal to 82% and 150%, respectively, of your Base Salary as in effect on the last day of each fiscal year. The AIC plan does not provide for any minimum guaranteed payout amount. The determinations of the Board with respect to the AIC plan will be final, binding and conclusive on all parties.

4. **Long-Term Incentive Compensation Plan.** While you are an employee of the Company, you will be eligible to receive grants of restricted stock units, restricted stock awards, or other grants of Company equity. Except as otherwise set forth in this Section 4, such equity grants, if any, will be made in the sole discretion of the Board (or its compensation committee) and will be subject to the terms and conditions specified by the Board, the Company’s stock plan, the award agreement that you must execute as a condition of any grant and applicable Company policies including its insider trading policy and its clawback policy. If required by applicable law with respect to transactions involving Company equity securities, you agree

that you shall use your best efforts to comply with any duty that you may have to (i) timely report any such transactions and (ii) to refrain from engaging in certain transactions from time to time. The Company has no duty to register under (or otherwise obtain an exemption from) the Securities Act of 1933 (or applicable state securities laws) with respect to any Company equity securities that may be issued to you.

In consideration of your entering into this Agreement, and in addition to equity awards comprising your fiscal 2019 compensation, within 3 days of the Effective Date of this Agreement, the Board will grant you a restricted stock unit (“**RSU**”) award covering 128,000 Number of shares to be determined at the date of grant based upon the Company’s standard methodology. shares of common stock. This RSU award will vest, subject to your continuing to serve as the Company’s PCEO, over a three-year period from the date of grant as follows: 1/3 of the grant will vest on the first one year anniversary of the grant[The remaining 2/3 of the grant will vest in equal quarterly installments over the next two years.]. This RSU award will be granted under the Company’s 2017 Long-Term Incentive Plan (the “**Plan**”) and will be subject to the standard terms and conditions of the RSU award agreement used with respect to time-based vesting RSUs under the Plan.

5. **Cash Incentive Awards.** In consideration of the grant of new and additional cash incentive awards contemporaneously with or after execution of this Agreement, you agree to waive, and hereby waive, any rights provided to you pursuant to Attachment A of the Prior Agreement. You agree and acknowledge that, upon the Effective Date of this Agreement, the bonus incentive arrangements described on Addendum A to this Agreement, together with your participation in the Company’s AIC program as set forth in Section 3 above, constitute the Company’s only obligation to you with regard to bonus incentive awards during and with respect to fiscal year 2019 and thereafter.

6. **Professional Development.** In order to support and invest in your professional development and leadership skillset growth during your tenure as PCEO, the Company intends as in the best interests of the Company’s stockholders, employees and other stakeholders to reimburse you for reasonable expenses you incur in pursuing such development and growth, such as the cost of an executive education program, provided that you will work with the Board to identify an appropriate program and the timing thereof, and that such program does not conflict with the duties and obligations of your role with the Company. The reimbursement value of such program shall be treated as taxable income to you to the extent required by applicable law.

7. **Expense Reimbursement; Financial Planning and Compliance.** During your employment and while this Agreement is in effect, you will be reimbursed for all reasonable business expenses (including, but without limitation, travel expenses) upon the properly completed submission of requisite forms and receipts to the Company in accordance with the Company’s expense reimbursement policy. In addition, during your employment and while this Agreement is in effect, the Company will pay up to \$20,000 annually to cover costs incurred by you for professional assistance with respect to personal financial and tax planning and compliance. In addition, the Company will pay reasonable travel expenses pursuant to standard Company policy for your spouse to accompany you on up to six business trips or events per year (with the value of such benefits to be treated as income to you).

8. **Employee Benefit Programs.** During your employment with the Company, and except as may be provided under an employee stock purchase plan, you will be eligible to participate, on the same terms as generally provided to senior executives, in all Company employee benefit plans and programs at the time or thereafter made available to Company senior executive officers including, without limitation, any savings or profit sharing plans, deferred compensation plans, equity incentive plans, group life insurance, accidental death and dismemberment insurance, hospitalization, surgical, major medical and dental coverage, vacation, sick leave (including salary continuation arrangements), long-term disability, holidays and other employee benefit programs sponsored by the Company. The Company may amend, modify or terminate these benefits at any time and for any reason. Any change in any employee benefit program or programs applicable to all covered employees shall not constitute a material breach of the terms of the Agreement or constitute Good Reason as defined below.

9. **Termination of Employment.** Unless the Company requests otherwise in writing, upon termination of your employment for any reason, you understand and agree that you shall be deemed to have also immediately resigned from all positions as an officer (and/or director, if applicable) with the Company (and

its affiliates) as of your last day of employment (the “**Termination Date**”). Upon termination of your employment for any reason, you shall receive payment or benefits from the Company covering the following: (i) all unpaid salary and unpaid vacation accrued pursuant to the paid time off policy through the Termination Date, (ii) any payments/benefits to which you are entitled under the express terms of any applicable Company employee benefit plan, (iii) any unreimbursed valid business expenses for which you have submitted properly documented reimbursement requests, and (iv) your then outstanding equity compensation awards as governed by their applicable terms (collectively, (i) through (iv) are the “**Accrued Pay**”). You may also be eligible for other post-employment payments and benefits as provided in this Agreement. To the extent needed to comply with Internal Revenue Code (the “**Code**”) Section 409A, you must as a condition of payment have experienced a “separation from service” within the meaning of Code Section 409A with respect to certain payments to be made to you on or after your Termination Date.

(a) **At-Will Employment.** Your employment with the Company is at-will and either you or the Company may terminate your employment at any time upon written notice to the other party (except that your employment shall automatically be terminated without notice upon your death) and for any reason (or no reason), with or without Cause or Good Reason (as each are defined below), in each case subject to the terms and provisions of this Agreement.

(b) **For Cause.** For purposes of this Agreement, your employment may be terminated by the Company for “**Cause**” as a result of the occurrence of one or more of the following:

(i) a charge, through indictment or criminal complaint, entry of pretrial diversion or sentencing agreement, or your conviction of, or a plea of guilty or *nolo contendere* to, a felony or other crime involving moral turpitude, dishonesty or fraud, or any other criminal arrest (for example D.U.I.) which the Company, in its discretion considers inappropriate or harmful to its interests;

(ii) your refusal to perform in any material respect your duties and responsibilities for the Company or a Company affiliate or your failure to comply in any material respect with the terms of this Agreement and the Confidentiality Agreement and the policies and procedures of the Company or a Company affiliate;

(iii) fraud or deceptive or illegal conduct in your performance of duties for the Company or a Company affiliate;

(iv) your material breach of any material term of this Agreement; or

(v) any conduct by you which materially injurious to the Company or a Company affiliate or materially injurious to the business reputation of the Company or a Company affiliate.

In the event your employment is terminated by the Company for Cause you will be entitled only to your Accrued Pay and you will be entitled to no other compensation from the Company.

(c) **Without Cause.** The Company may terminate your employment without Cause at any time and for any reason with notice. If your employment is terminated without Cause and while this Agreement is in effect then, in addition to your Accrued Pay, you will be eligible to receive payments equal in the aggregate to six (6) months of your then Base Salary. The payments shall be paid to you in cash, in substantially equal monthly installments payable over the twelve (12) month period following your Termination Date, provided, however, the first payment (in an amount equal to two (2) months of such severance payments) shall be made on the sixtieth (60th) day following the Termination Date. As a condition to receiving (and continuing to receive) the payments provided in this Section 9(c) you must: (i) within not later than forty-five (45) days after your Termination Date, execute and deliver to the Company a Separation Agreement in a form prescribed by the Company and such Separation Agreement shall include without limitation a release of all claims against the Company and its affiliates along with a covenant not to sue and (ii) not revoke, and remain in full compliance with, such Separation Agreement.

(d) **Voluntary Termination.** In the event you voluntarily terminate your employment with the Company, you will be entitled to receive only your Accrued Pay. You will be entitled to no other compensation from the Company.

(e) **Death or Disability.** In the event your employment with the Company is terminated while this Agreement is in effect due to your Disability, death or presumed death, then you or your estate will be entitled to receive your Accrued Pay. For purposes of this Agreement, “**Disability**” is defined to occur when you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

(f) **Resignation for Good Reason.** You may resign your employment from the Company for “Good Reason” subject to the terms and conditions set forth below. Your resignation for Good Reason will only be effective if the Company has not cured or remedied the Good Reason event within thirty (30) days after its receipt of your written notice (such notice shall describe in detail the basis and underlying facts supporting your belief that a Good Reason event has occurred). Such notice of your intention to resign for Good Reason must be provided to the Company within forty-five (45) days following the initial existence of a Good Reason event. Failure to timely provide such written notice to the Company or failure to timely resign your employment for Good Reason means that you will be deemed to have consented to and waived the Good Reason event. If the Company does timely cure or remedy the Good Reason event, then you may either resign your employment without Good Reason or you may continue to remain employed subject to the terms of this Agreement. Termination for Good Reason shall consist of the following reasons:

- (i) You have incurred a material diminution in your responsibilities, duties or authority;
- (ii) You have incurred a material diminution in your Base Salary; or
- (iii) The Company has materially breached a material term of this Agreement.

The foregoing Good Reason provisions in this Section 9(f) are intended to (and shall be interpreted to) comply with the Good Reason safe harbor afforded by Treasury Regulation Section 1.409A-1(n)(2)(ii).

If you resign your employment for Good Reason, then in addition to your Accrued Pay, you will be eligible to receive payments equal in the aggregate to six (6) months of your then Base Salary. The payments shall be paid to you in cash, in substantially equal monthly installments payable over the twelve (12) month period following your Termination Date, provided, however, the first payment (in an amount equal to two (2) months of such severance payments) shall be made on the sixtieth (60th) day following the Termination Date. As a condition to receiving (and continuing to receive) the payments provided in this Section 9(f) you must: (1) within not later than forty-five (45) days after your Termination Date, execute and deliver to the Company a Separation Agreement in a form prescribed by the Company and such Separation Agreement shall include without limitation a release of all claims against the Company and its affiliates along with a covenant not to sue and (2) not revoke, and remain in full compliance with, such Separation Agreement.

(g) **Termination Within Twelve (12) Months after a Change in Control.** The provisions of this Section 9(g) set forth certain terms of an agreement reached between you and the Company regarding your rights and obligations upon the occurrence of a Change in Control of the Company while this Agreement is in effect. These provisions are intended to assure and encourage in advance your continued attention and dedication to your assigned duties and your objectivity during the pendency and after the occurrence of any such event. Except if a termination of your employment by the Company without Cause or a Good Reason event has occurred during the twelve (12) month period after a Change in Control, these provisions shall terminate and be of no further force or effect beginning on the first anniversary of the occurrence of a Change in Control. As a condition to receiving (and continuing to receive) any of the payments and benefits provided in this Section 9(g) you must: (i) within not later than forty-five (45) days after your Termination Date, execute and deliver to the Company a Separation Agreement in a form prescribed by the Company and such Separation Agreement shall include without limitation a release of all claims against the Company and its affiliates along with a covenant not to sue and (ii) not revoke, and remain in full compliance with, such Separation Agreement. For avoidance of doubt, the severance payments and benefits in this Section 9(g) are not intended to be cumulative with the severance benefits provided in Sections 9(c) or 9(f), and you are not entitled to collect severance benefits under both this Section 9(g) and Sections 9(c) or 9(f).

(i) “**Change in Control**” shall mean the occurrence of any one or more of the following: (A) any merger, consolidation or business combination in which the shareholders of the Company immediately

prior to the merger, consolidation or business combination do not own at least a majority of the outstanding equity interests of the surviving parent entity, (B) the sale or other disposition of all or substantially all of the Company's assets, (C) the acquisition of beneficial ownership or control of (including, without limitation, power to vote) a majority of the outstanding shares of the Company's capital stock by any person or entity (including a "group" as defined by or under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")), (D) the dissolution or liquidation of the Company, (E) a contested election of directors, as a result of which or in connection with which the persons who were directors of the Company before such election or their nominees cease to constitute a majority of the Board, or (F) any other event specified by the Board.

(ii) If within twelve (12) months after a Change in Control, your employment is terminated by the Company without Cause, then in addition to your Accrued Pay, you will be eligible to receive payments equal in the aggregate to twelve (12) months of your then Base Salary. The payments shall be paid to you in cash, in substantially equal monthly installments payable over the twelve (12) month period following your Termination Date, provided, however, the first payment (in an amount equal to two (2) months of Base Salary) shall be made on the sixtieth (60th) day following the Termination Date.

(iii) If within twelve (12) months after a Change in Control, a Good Reason event has occurred and you resign your employment for Good Reason, then in addition to your Accrued Pay, you will be eligible to receive payments equal in the aggregate to twelve (12) months of your then Base Salary. The payments shall be paid to you in cash, in substantially equal monthly installments payable over the twelve (12) month period following your Termination Date, provided, however, the first payment (in an amount equal to two (2) months of Base Salary) shall be made on the sixtieth (60th) day following the Termination Date.

(iv) Unless otherwise provided in the applicable award agreement, if, within twelve (12) months after a Change in Control, either (A) your employment is terminated by the Company without Cause, or (B) a Good Reason event has occurred and you resign your employment for Good Reason, all restricted stock awards and other equity-based awards granted to you by the Company shall be entitled to receive full service-based vesting credit and deemed attainment at target of all performance-based vesting milestones as of the date of the employment termination date, and the performance period with respect to all performance-based RSUs shall be deemed to have ended as of the date of the Change in Control, and the performance over such shortened performance period shall be measured as of that date, and you shall be entitled to any other rights and benefits with respect to stock-related awards, to the extent and upon the terms provided in the equity incentive plan or any agreement or other instrument attendant thereto pursuant to which such awards were granted. Notwithstanding the foregoing, in the event acceleration of the settlement or distribution date of an award would result in additional taxes and penalties under Code Section 409A, then the vesting of such award shall accelerate but settlement or distribution of award shares (or cash, if applicable) shall occur on the date(s) specified in the agreement governing the award.

(h) **Transition Period.** At such time as you eventually transition from the position of PCEO, the Company desires as being in the best interests of its stockholders, and you have indicated your agreement, to ensure a continuous and smooth transition process. Accordingly, you and the Company agree that upon termination of your position as PCEO during the term of this Agreement, you will remain as a consultant to the Company for up to, as mutually agreed, a twelve-month period (the "Transition Period") and will provide during that period such services related to the transition process as the Board may request. During the Transition Period, and subject to any obligations the Company has under Sections 9(c) and 9(f) above, the Company will not be obligated to pay you cash compensation; *provided* that your consulting relationship will constitute continuous service only for purposes of any Company equity compensation awards granted pursuant to Addendum A attached hereto that you hold as of your Termination Date. For the avoidance of doubt, the consulting relationship reflected in this paragraph will not, on its own, constitute "service" for purposes of any other Company equity awards that you hold. Notwithstanding anything to the contrary contained herein, the Company shall have no obligation under this paragraph if (i) your termination as PCEO is as a result of your conviction of a felony under the laws of the United States or any political subdivision thereof, (ii) following your termination as PCEO you engage in conduct that constitutes a breach of your

obligations under Section 17(c) below, or (iii) you refuse, or make yourself unavailable, to provide the services contemplated by this paragraph.

10. **Limitation on Golden Parachute Payments.** Notwithstanding any other provision of this Agreement or any such other agreement or plan, if any portion of the Total Payments (as defined below) would constitute an Excess Parachute Payment (as defined below) and therefore would be nondeductible to the Company by reason of the operation of Code Section 280G relating to golden parachute payments and/or would be subject to the golden parachute excise tax (“**Excise Tax**”) by reason of Code Section 4999, then the full amount of the Total Payments shall not be provided to you and you shall instead receive the Reduced Total Payments (as defined below).

If the Total Payments must be reduced to the Reduced Total Payments, the reduction shall occur in the following order: (1) reduction of cash payments for which the full amount is treated as a Parachute Payment; (2) cancellation of accelerated vesting (or, if necessary, payment) of cash awards for which the full amount is not treated as a parachute payment; (3) cancellation of any accelerated vesting of equity awards; and (4) reduction of any continued employee benefits. In selecting the equity awards (if any) for which vesting will be reduced under clause (3) of the preceding sentence, awards shall be selected in a manner that maximizes the after-tax aggregate amount of Reduced Total Payments provided to you, provided that if (and only if) necessary in order to avoid the imposition of an additional tax under Code Section 409A, awards instead shall be selected in the reverse order of the date of grant.

For the avoidance of doubt, for purposes of measuring an equity compensation award’s value to you when performing the determinations under the preceding paragraph, such award’s value shall equal the then aggregate fair market value of the vested shares underlying the award less any aggregate exercise price less applicable taxes. Also, if two or more equity awards are granted on the same date, each award will be reduced on a pro-rata basis. In no event shall (i) you have any discretion with respect to the ordering of payment reductions or (ii) the Company be required to gross up any payment or benefit to you to avoid the effects of the Excise Tax or to pay any regular or excise taxes arising from the application of the Excise Tax.

All mathematical determinations and all determinations of whether any of the Total Payments are Parachute Payments that are required to be made under this Section 10 shall be made by a nationally recognized independent audit firm selected by the Company (the “**Accountants**”), who shall provide their determination, together with detailed supporting calculations regarding the amount of any relevant matters, both to the Company and to you. Such determination shall be made by the Accountants using reasonable good faith interpretations of the Code. The Company shall pay the fees and costs of the Accountants which are incurred in connection with this Section 10.

“**Excess Parachute Payment**” has the same meaning provided to such term by Treasury Regulation Section 1.280G-1 Q/A-3.

“**Parachute Payment**” has the same meaning provided to such term by Treasury Regulation Section 1.280G-1 Q/A-2.

“**Reduced Total Payments**” means the lesser portion of the Total Payments that may be provided to you instead of the Total Payments. The Reduced Total Payments shall be the maximum amount from the Total Payments that can be provided to you without incurring Excess Parachute Payments.

“**Total Payments**” means collectively the benefits or payments provided by the Company (or by any person who acquires ownership or effective control of the Company or ownership of a substantial portion of the Company’s assets within the meaning of Code Section 280G and the regulations thereunder) to or for the benefit of you under this Agreement or any other agreement or plan.

11. **Proprietary Information and Inventions Agreement; Confidentiality.** You will be required, as a condition of your employment with the Company, to timely execute and comply with the Company’s form of proprietary information and inventions agreement as may be amended from time to time by the Company (“**Confidentiality Agreement**”).

12. **Corporate Policies.** In addition to the Company’s insider trading policy (referenced above in Section 4), you are subject to other Company policies, as in effect from time to time, including without limitation:

(a) During your employment, you will be subject to the Company's executive equity ownership policy, which currently requires the Company's Chief Executive Officer to own a minimum number of shares of the Company's common stock having a value equal to six times such officer's annual base salary, subject to a buy-in period of five years; and

(b) The Company intends to adopt a clawback policy, as and when required by applicable law and/or stock exchange listing standards, governing the Company's obligation to recoup from you incentive compensation paid or provided to you by the Company under specified events and circumstances including upon a restatement of Company financial statements. The Company anticipates that this policy will apply to you while you continue to serve as PCEO and for some period following termination of your position as an executive officer of the Company. You acknowledge that it is a condition of your position as PCEO that you be subject to the Company's clawback policy as in effect from time to time.

13. **Assignability; Binding Nature.** Commencing on the Effective Date, this Agreement will be binding upon you and the Company and your respective successors, heirs, and assigns. This Agreement may not be assigned by you except that your rights to compensation and benefits hereunder, subject to the limitations of this Agreement, may be transferred by will or operation of law. No rights or obligations of the Company under this Agreement may be assigned or transferred except in the event of a merger or consolidation in which the Company is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Company provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and assumes the Company's obligations under this Agreement contractually or as a matter of law. The Company will require any such purchaser, successor or assignee to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such purchase, succession or assignment had taken place. Your rights and obligations under this Agreement shall not be transferable by you by assignment or otherwise provided, however, that if you die, all amounts then payable to you hereunder shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there be no such designee, to your estate.

14. **Governing Law; Arbitration.** To the extent not preempted by federal law, this Agreement will be deemed a contract made under, and for all purposes shall be construed in accordance with, the laws of Utah. Any controversy or claim relating to this Agreement or any breach thereof, and any claims you may have arising from or relating to your employment with the Company, will be settled solely and finally by arbitration in Salt Lake City, Utah before a single arbitrator and judgment upon such award rendered by the arbitrator may be entered in any court having jurisdiction thereof, provided that this Section 14 shall not be construed to eliminate or reduce any right the Company or you may otherwise have to obtain a temporary restraining order or a preliminary or permanent injunction to enforce any of the covenants contained in this Agreement before the matter can be heard in arbitration.

15. **Taxes.** The Company shall have the right to withhold and deduct from any payment hereunder any federal, state or local taxes of any kind required by law to be withheld with respect to any such payment. The Company shall not be liable to you or other persons as to any unexpected or adverse tax consequence realized by you and you shall be solely responsible for the timely payment of all taxes arising from this Agreement that are imposed on you. This Agreement is intended to comply with the applicable requirements of Code Section 409A and shall be limited, construed and interpreted in a manner so as to comply therewith. Each payment made pursuant to any provision of this Agreement shall be considered a separate payment and not one of a series of payments for purposes of Code Section 409A. While it is intended that all payments and benefits provided under this Agreement to you will be exempt from or comply with Code Section 409A, the Company makes no representation or covenant to ensure that the payments under this Agreement are exempt from or compliant with Code Section 409A. The Company will have no liability to you or any other party if a payment or benefit under this Agreement is challenged by any taxing authority or is ultimately determined not to be exempt or compliant. In addition, if upon your Termination Date, you are then a "specified employee" (as defined in Code Section 409A), then solely to the extent necessary to comply with Code Section 409A and avoid the imposition of taxes under Code Section 409A, the Company shall defer payment of "nonqualified deferred compensation" subject to Code Section 409A payable as a result of and

within six (6) months following your Termination Date until the earlier of (i) the first business day of the seventh (7th) month following your Termination Date or (ii) ten (10) days after the Company receives written confirmation of your death. Any such delayed payments shall be made without interest. Additionally, the reimbursement of expenses or in-kind benefits provided pursuant to this Agreement shall be subject to the following conditions: (1) the expenses eligible for reimbursement or in-kind benefits in one taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits in any other taxable year; (2) the reimbursement of eligible expenses or in-kind benefits shall be made promptly, subject to the Company's applicable policies, but in no event later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

16. **Entire Agreement.** Except as otherwise specifically provided in this Agreement, this Agreement (and the agreements referenced herein) contains all the legally binding understandings and agreements between you and the Company pertaining to the subject matter of this Agreement and supersedes all such agreements, whether oral or in writing, previously discussed or entered into between the parties including without limitation the Prior Agreement and any term sheets regarding the terms and conditions of your continued employment with the Company. For clarity, your existing Confidentiality Agreement (and/or any similar agreements) and awards granted to you under the Company's 2010 Long-Term Incentive Plan shall remain in effect in accordance with their respective terms. As a material condition of this Agreement, you represent that by entering into this Agreement or by continuing as a Company employee you are not violating the terms of any other contract or agreement or other legal obligations that would prohibit you from performing your duties for the Company. You further agree and represent that in providing your services to the Company you will not utilize or disclose any other entity's trade secrets or confidential information or proprietary information. You represent that you are not resigning employment or relocating any residence in reliance on any promise or representation by the Company regarding the kind, character, or existence of such work, or the length of time such work will last, or the compensation therefor.

17. **Non-Solicitation.**

(a) **Non-Solicitation of Employees, Independent Distributors and Other Consultants.** In consideration of this Agreement, during your employment and for a period of two years after your employment terminates, you will not directly or indirectly, solicit, influence, encourage, entice, or induce, or attempt to solicit, influence, encourage, entice, or induce, any employee, independent distributor or other consultant of the Company to:

- (i) quit their employment with the Company;
- (ii) enroll for or into another direct selling / network marketing / multi-level marketing (collectively "MLM") company or opportunity. This includes, but is not limited to, presenting or assisting in the presentation of another MLM company or opportunity;
- (iii) associate with another MLM company or opportunity;
- (iv) become a distributor with another MLM company or opportunity; or
- (v) cease rendering services to the Company;

The above apply regardless of who initiates such contact between you and regardless of whether the employee, independent distributor or other consultant actually leaves employment or ceases rendering services to the Company, unless you are specifically authorized to do so by the Company.

(b) **Non-Solicitation of Customers.** In consideration of this Agreement and to the extent permitted under applicable law, and in order to protect the Confidential Information and preserve the Company's relationships with its prospects and customers, you agree that for a period of two (2) years after your employment with the Company ends for any reason, you will not directly or indirectly, solicit business, divert business, or accept business, or attempt to solicit business, divert business or accept business, related to nutritional supplements or any other product or service of the Company, from any person or entity that was a prospect or customer of the Company at the time of your termination regardless of who initiates such

contact between you and regardless of whether the prospect or customer actually ceases doing business with the Company.

(c) **Non-Competition.** In consideration of this Agreement, you shall not, during your employment and for a period of one (1) year after your employment with the Company ends for any reason, engage in, advise or consult with, or accept employment with any company, business or any entity, or contribute your knowledge to any work or activity, that: (a) involves an MLM company or opportunity, (b) involves a product, process, provision of services or distribution channel (MLM) as offered by, similar to, or competitive with the Company, or (c) consists of the development and/or sales of nutritional supplements, or any other product or service provided or offered by the Company. You recognize that the Company's business reaches throughout the United States and in many countries throughout the world, and that Company provides business, services, and products throughout the world. You also recognize that your position with the Company necessarily provides you with business related relationships, confidential information, and goodwill throughout the United States and the world as it relates to the Company's business and that your work for the Company is conducted throughout the world. As a result, the geographic scope of the foregoing non-competition covenant means anywhere within the United States and anywhere throughout the world where the Company operated, provided services or products, or had business relationships at the time your employment with the Company ends for any reason. Following expiration of said one-year period, you shall continue to be obligated under the confidentiality provisions of this Agreement and of your Confidentiality Agreement not to disclose and/or use confidential information or trade secrets so long as it shall remain proprietary or protectable as confidential or trade secret information. You acknowledge that this restraint is reasonable as to time and geographic limits and is necessary to protect the Company's confidential information, and that it will not unduly restrict your ability to secure suitable employment after leaving the Company.

(d) **Modification By Court.** If any court or arbitrator determines that any post-employment restrictive covenant is unreasonable in any respect, you agree that the Court shall modify any term found to be unreasonable and shall revise such term to be enforceable to the broadest extent permitted by law and consistent with the intent of this Agreement.

(e) **Extension of Non-Compete.** For any period of time in which you are found to be in violation of any of the above non-compete or non-solicitation agreements, that period of time shall be added on to the length of the restriction or period of protection for the Company.

(f) **Notice to Subsequent Employers.** You agree that the Company may provide notice of your obligations under any provision of this Agreement to any company or future employer of yours should the Company consider it necessary for the enforcement of those obligations.

(g) **Relief from Further Payments.** You agree that if you violate, breach or challenge the validity of any of the provisions of this Section 17, the Company may immediately cease any further payments that may be forthcoming under the provisions of this Agreement, and the Company shall be immediately relieved from any further payment obligations whatsoever under this Agreement. This remedy is in addition to any other rights or damages that the Company may seek related to such breach.

(h) **Acknowledgments.** You acknowledge that the restrictive covenants in this Section 17 are reasonable and necessary to protect the legitimate interests of the Company, that the duration and geographic scope of the restrictive covenants are reasonable given the nature of this Agreement and the position PCEO holds within the Company, that the restrictive covenants do not prohibit you from finding employment, and that the Company would not enter into this Agreement or otherwise employ or continue to employ you as the PCEO unless you agree to be bound by the restrictive covenants set forth in this Section 17.

(i) **Remedies.** You acknowledge that any breach, willfully or otherwise, of the restrictive covenants will cause continuing and irreparable injury to the Company for which monetary damages would not be an adequate remedy. In the event of any such breach or threatened breach by you of any of the restrictive covenants, the Company shall be entitled to injunctive or other similar equitable relief in any court, without any requirement that a bond or other security be posted, and this Agreement shall not in any way limit remedies of law or in equity otherwise available to the Company.

18. **Covenants.**

(a) As a condition of this Agreement and to your receipt of any post-employment benefits, you agree that you will fully and timely comply with all of the covenants set forth in this subsection (which shall survive your termination of employment and termination or expiration of this Agreement):

(i) You will fully comply with all obligations under the Confidentiality Agreement and further agree that the provisions of the Confidentiality Agreement shall survive any termination or expiration of this Agreement or termination of your employment or any subsequent service relationship with the Company;

(ii) Within five (5) days of the Termination Date, you shall return to the Company all Company confidential information including, but not limited to, intellectual property, etc., and you shall not retain any copies, facsimiles or summaries of any Company proprietary information;

(iii) You will not at any time make (or direct anyone to make) any disparaging statements (oral or written) about the Company, or any of its affiliated entities, officers, directors, employees, stockholders, representatives or agents, or any of the Company's products or services or work-in-progress, that are harmful to their businesses, business reputations or personal reputations;

(iv) You agree that during the period of your employment with the Company and thereafter, you will not utilize or disclose any trade secrets of the Company in order to solicit, either on behalf of yourself or any other person or entity, the business of any client or customer of the Company, whether past, present or prospective. The Company considers the following, without limitation, to be its trade secrets: Financial information, administrative and business records, analysis, studies, governmental licenses, employee records (including but not limited to counts and goals), prices, discounts, financials, electronic and written files of Company policies, procedures, training, and forms, independent distributor compensation plans and information, written or electronic work product that was authored, developed, edited, reviewed or received from or on behalf of the Company during period of employment, Company developed technology, software, computer programs or mobile applications, process manuals, products, business and marketing plans and/or projections, Company sales and marketing data, Company technical information, Company strategic plans, Company financials, vendor affiliations, proprietary information, technical data, trade secrets, know-how, copyrights, patents, trademarks, intellectual property, and all documentation related to or including any of the foregoing; and

(v) You agree that, upon the Company's request and without any payment therefore, you shall reasonably cooperate with the Company (and be available as necessary) after the Termination Date in connection with any matters involving events that occurred during your period of employment with the Company.

(b) You also agree that you will fully and timely comply with all of the covenants set forth in this subsection (which shall survive your termination of employment and termination or expiration of this Agreement):

(i) You will fully pay off any outstanding amounts owed to the Company no later than their applicable due date or within thirty (30) days of your Termination Date (if no other due date has been previously established);

(ii) Within five (5) days of the Termination Date, you shall return to the Company all Company property including, but not limited to, computers, cell phones, pagers, keys, business cards, etc.;

(iii) Within thirty (30) days of the Termination Date, you will submit any outstanding expense reports to the Company on or prior to the Termination Date; and

(iv) As of the Termination Date, you will no longer represent that you are an officer, director or employee of the Company and you will immediately discontinue using your Company mailing address, telephone, facsimile machines, voice mail and e-mail.

(c) You agree that you will strictly adhere to and obey all Company rules, policies, procedures, regulations and guidelines, including but not limited to those contained in the Company's employee

handbook, as well any others that the Company may establish including without limitation any policy the Company adopts on the recoupment of compensation.

19. **Offset.** Any severance or other payments or benefits made to you under this Agreement may be reduced, in the Company's discretion, by any amounts you owe to the Company provided that any such offsets do not violate Code Section 409A.

20. **Notice.** Any notice that the Company is required to or may desire to give you shall be given by personal delivery, recognized overnight courier service, email, telecopy or registered or certified mail, return receipt requested, addressed to you at your address of record with the Company, or at such other place as you may from time to time designate in writing. Any notice that you are required or may desire to give to the Company hereunder shall be given by personal delivery, recognized overnight courier service, email, telecopy or by registered or certified mail, return receipt requested, addressed to the Company's Senior Vice President of Human Resources at its principal office, or at such other office as the Company may from time to time designate in writing. The date of actual delivery of any notice under this Section 20 shall be deemed to be the date of delivery thereof.

21. **Waiver; Severability.** No provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to by you and the Company in writing and such amendment or waiver expressly references this Section 21. No waiver by you or the Company of the breach of any condition or provision of this Agreement will be deemed a waiver of a similar or dissimilar provision or condition at the same or any prior or subsequent time. Except as expressly provided herein to the contrary, failure or delay on the part of either party hereto to enforce any right, power, or privilege hereunder will not be deemed to constitute a waiver thereof. In the event any portion of this Agreement is determined to be invalid or unenforceable for any reason, the remaining portions shall be unaffected thereby and will remain in full force and effect to the fullest extent permitted by law.

22. **Voluntary Agreement.** You acknowledge that you have been advised to review this Agreement with your own legal counsel and other advisors of your choosing and that prior to entering into this Agreement, you have had the opportunity to review this Agreement with your attorney and other advisors and have not asked (or relied upon) the Company or its counsel to represent you or your counsel in this matter. You further represent that you have carefully read and understand the scope and effect of the provisions of this Agreement and that you are fully aware of the legal and binding effect of this Agreement. This Agreement is executed voluntarily by you and without any duress or undue influence on the part or behalf of the Company.

23. **Key-Man Insurance.** The Company shall have the right to insure your life for the sole benefit of the Company, in such amounts, and with such terms, as it may determine. All premiums payable thereon shall be the obligation of the Company. You shall have no interest in any such policy, but you agree to cooperate with the Company in taking out such insurance by submitting to physical examinations, supplying all information required by the insurance company, and executing all necessary documents, provided that no financial obligation is imposed on you by any such documents.

ACKNOWLEDGED AND AGREED:

This __ day of January, 2019.

LIFEVANTAGE CORPORATION

By: Michael Beindorff

Title: Chairman of the Compensation Committee of the Board of
Directors

Darren Jensen

Signature Page to Amended and Restated Employment Agreement

ADDENDUM A
To Amended and Restated Employment Agreement

CEO Revenue-Based Incentive Award Program
Effective January 8, 2019

The following describes your revenue-based incentive awards. Capitalized terms used but not defined herein have the meanings ascribed to them in the Amended and Restated Employment Agreement to which this Addendum is attached.

1. ***Annual Revenue Incentive Arrangement.***

For fiscal year 2019 and each fiscal year thereafter (the applicable fiscal year, the “**Measurement Year**”) ending at the end of the fiscal year during which the Company first achieves annual Net Revenue (as defined below) of at least \$500 million (such period, the “**Incentive Period**”) and provided you continue to serve as the Company’s PCEO as of the applicable payment date, you will be eligible to earn an annual incentive bonus (the “**Revenue Increase Award**”), the value of which will be based upon the increase in the Company’s “Revenue, net” (as set forth on the face of the consolidated statements of operations and comprehensive income for the Company and its subsidiaries) (“**Net Revenue**”) achievement for the Measurement Year relative to Net Revenue achieved in a specified prior fiscal year as described below. The value of the Revenue Increase Award will be: (a) based upon the final “Revenue, net” number disclosed in the Company’s applicable Form 10-K filing, with the determination of such number deemed to occur on the date of such filing (the “**Determination Date**”); and (b) equal to two percent (2%) of the increase in Net Revenue (the value of such 2%, the “**Bonus Amount**”) achieved for the Measurement Year (the “**Net Revenue Achievement**”) relative to that prior fiscal year in which the Company’s Net Revenue Achievement was the greatest. For the sake of clarity, (1) if Net Revenue Achievement was \$100XX in Year 1 (the highest ever achieved to date), \$99XX in Year 2 and \$110XX in Year 3, then there would be no payment with respect to the award for Year 2 and the prior fiscal year against which Year 3 Net Revenue would be compared would be Year 1; and (2) if Net Revenue Achievement for a Measurement Year is less than the greatest annual Net Revenue the Company achieved in a prior fiscal year, you will not be entitled to payment of any Revenue Increase Award with respect to that Measurement Year.

The Board intends that each Revenue Increase Award will be satisfied by the grant to you, within 10 business days of the Determination Date, of a RSU award having a grant date value equal to 105% of the Bonus Amount, on the terms described below; *provided however* that the Board in its discretion may instead determine that the Revenue Increase Award will be settled in cash in an amount equal to 100% of the Bonus Amount, payable within 10 business days following the Determination Date. The date of payment for a Revenue Increase Award shall be the award grant date if the award is satisfied through the grant of RSUs and the date of receipt of funds if it is satisfied in cash.

If the Board or Compensation Committee, as applicable, determines to satisfy its obligation with respect to an earned Revenue Increase Award through the issuance of RSUs (such award, “**Revenue Increase RSUs**”), then the Bonus Amount shall be multiplied by 1.05, the product of which will then be divided by the weighted average closing price of the Company’s common stock over the final twenty (20) trading days of the Measurement Year to determine the number of Revenue Increase RSUs. The Revenue Increase RSUs shall be subject to forfeiture, and shall vest, in full at the end of the 12-month period following the grant date thereof, subject to your continued service with the Company through such date.

Notwithstanding anything to the contrary above, if the Company’s overall gross profit margin for a Measurement Year falls below the overall gross profit margin for the prior fiscal year, then the Bonus Amount otherwise payable with respect to the Revenue Increase Award for such Measurement Year shall be reduced by twenty-five percent (25%) for each ten percent (10%) reduction in overall gross profit margin (with straight line interpolation applied to any decline in overall gross margin of other than ten percent (10%)).

2. ***Cash Incentives for Growth in Overall Revenue.*** You will continue during the remainder of the Incentive Period during which you serve as the Company’s PCEO to be eligible to earn up to the following bonus amounts if the Board or Compensation Committee determine and certify that the specified Net Revenue

goal is achieved: (a) a one-time bonus of \$300,000 when annual Net Revenue for the Company exceeds \$300 million; (b) a one-time bonus of \$400,000 when annual Net Revenue for the Company exceeds \$400 million; and (c) a one-time bonus of \$500,000 when annual Net Revenue for the Company exceeds \$500 million (each of \$300 million, \$400 million and \$500 million, a “**Revenue Milestone**,” each of the bonus amounts, a “**Bonus**,” and each of these awards referred to as an “**Overall Revenue Award**”). Whether a Revenue Milestone has been achieved shall be determined and certified by the Board or Compensation Committee based upon the final “Revenue, net” number disclosed in the Company’s applicable Form 10-K filing, with the determination of such number deemed to occur on the date of such filing (such date, the “**Milestone Date**”). If two (or more) annual Revenue Milestones are first achieved during a single fiscal year, you will be paid the sum of the Bonuses that relate to each Revenue Milestone achieved during such year. Once the performance objective of a particular Overall Revenue Award is achieved and you receive payment of the Bonus related to that award, that particular award terminates. For the sake of clarity, you must continue to serve as the Company’s PCEO as of the applicable payment date with respect to an Overall Revenue Award.

The Board intends that each Overall Revenue Award will be satisfied by the grant to you, within 10 business days of the Milestone Date, of a RSU award having a grant date value equal to 105% of the applicable Bonus, on the terms described below; *provided however* that the Board in its discretion may instead determine that the Overall Revenue Award will be settled in cash in an amount equal to 100% of the Bonus, payable within 10 business days following the Milestone Date. The date of payment for a Overall Revenue Award shall be the award grant date if the award is satisfied through the grant of RSUs and the date of receipt of funds if it is satisfied in cash.

The date of payment of cash under (1) above or the grant date of a RSU under (2) above is the “payment date” with respect to an Overall Revenue Award.

If the Board or Compensation Committee, as applicable, determines to satisfy its obligation with respect to an earned Overall Revenue Award through the issuance of Milestone RSUs, then the applicable Bonus shall be multiplied by 1.05, the product of which will then be divided by the weighted average closing price of the Company’s common stock over the final twenty (20) trading days immediately prior to the end of the applicable fiscal year to determine the number of shares subject to the Overall Revenue RSUs. The Overall Revenue RSUs shall be subject to forfeiture, and shall vest, in full at the end of the 12-month period following the grant date thereof, subject to your continued service with the Company through such date.

In addition, if any increase in Net Revenue specified above is the result of the Company’s acquisition of another company or business, then such additional Net Revenue shall be disregarded in making, as applicable, the Net Revenue Achievement determination or the Revenue Milestone determination.

Any RSUs granted in the manner described above will be subject to required withholdings and will be granted under, and subject to the standard terms and conditions of the Plan, including any applicable limit on the total number of awards that may be granted during a specified period. For the avoidance of doubt, employment/payroll tax withholding will be due at the time of grant of such RSUs and income tax withholding shall be due at the time of vesting/settlement.

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Darren Jensen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LifeVantage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2019

/s/ Darren Jensen

Darren Jensen
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Steven R. Fife, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LifeVantage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2019

/s/ Steven R. Fife

Steven R. Fife

Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of this quarterly report on Form 10-Q of LifeVantage Corporation (the “Company”) for the period ended December 31, 2018, with the Securities and Exchange Commission on the date hereof (the “report”), I, Darren Jensen, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the report or as a separate disclosure document.

Date: February 4, 2019

/s/ Darren Jensen

Darren Jensen

President and Chief Executive Officer

(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of this quarterly report on Form 10-Q of LifeVantage Corporation (the “Company”) for the period ended December 31, 2018, with the Securities and Exchange Commission on the date hereof (the “report”), I, Steven R. Fife, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the report or as a separate disclosure document.

Date: February 4, 2019

/s/ Steven R. Fife

Steven R. Fife

Chief Financial Officer

(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.