

RELIV INTERNATIONAL INC  
Form 10-Q  
May 15, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended March 31, 2015**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number

**000-19932**

**RELIV' INTERNATIONAL, INC.**

(Exact name of Registrant as specified in its charter)

Delaware

371172197

(State or other jurisdiction of (I.R.S. Employer Identification Number)  
incorporation or organization)

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136 Chesterfield Industrial Boulevard  
Chesterfield, Missouri 63005  
(Address of principal executive offices) (Zip Code)

(636) 537-9715

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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 Registrant's common stock as of May 1, 2015 was 12,819,110 (excluding treasury shares).

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## PART I -- FINANCIAL INFORMATION

Item No. 1 - Financial Statements

Reliv International, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	March 31 2015 (unaudited)	December 31 2014
Assets		
Current assets:		
Cash and cash equivalents	\$5,845,823	\$4,989,392
Accounts receivable, less allowances of \$25,600 in 2015 and \$26,300 in 2014	170,652	265,530
Accounts and note due from employees and distributors	121,290	121,208
Inventories		
Finished goods	3,487,752	3,782,171
Raw materials	1,582,605	1,216,031
Sales aids and promotional materials	161,999	179,263
Total inventories	5,232,356	5,177,465
Refundable income taxes	126,619	257,577
Prepaid expenses and other current assets	963,772	661,038
Deferred income taxes	67,000	61,000
Total current assets	12,527,512	11,533,210
Other assets	306,562	295,929
Cash surrender value of life insurance	2,773,016	2,747,944
Note receivable due from distributor	1,707,852	1,732,982
Deferred income taxes	598,000	686,000
Intangible assets, net	2,858,243	2,925,775
Property, plant and equipment:		
Land and land improvements	883,563	883,563
Building	9,967,154	9,966,748
Machinery & equipment	4,361,357	4,355,040
Office equipment	1,222,781	1,235,192
Computer equipment & software	2,549,257	2,505,229
	18,984,112	18,945,772
Less: Accumulated depreciation	12,132,088	12,019,802
Net property, plant and equipment	6,852,024	6,925,970
Total assets	\$27,623,209	\$26,847,810

See notes to financial statements.



## Reliv International, Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

## Liabilities and stockholders' equity

	March 31 2015 (unaudited)	December 31 2014
Current liabilities:		
Accounts payable and accrued expenses:		
Trade accounts payable and other accrued expenses	\$3,005,527	\$2,026,198
Distributors' commissions payable	1,822,888	1,753,908
Sales taxes payable	241,664	292,188
Payroll, payroll taxes, and incentive compensation payable	899,654	1,114,763
Total accounts payable and accrued expenses	5,969,733	5,187,057
Current maturities of long-term debt	697,423	697,423
Total current liabilities	6,667,156	5,884,480
Noncurrent liabilities:		
Revolving line of credit	500,000	500,000
Long-term debt, less current maturities	2,926,317	3,047,267
Other noncurrent liabilities	429,814	418,785
Total noncurrent liabilities	3,856,131	3,966,052
Stockholders' equity:		
Preferred stock, par value \$.001 per share; 3,000,000 shares authorized; -0- shares issued and outstanding in 2015 and 2014	-	-
Common stock, par value \$.001 per share; 30,000,000 authorized; 14,673,083 shares issued and 12,819,110 shares outstanding as of 3/31/2015; 14,673,083 shares issued and 12,819,110 shares outstanding as of 12/31/2014	14,673	14,673
Additional paid-in capital	30,331,182	30,321,598
Accumulated deficit	(7,318,148 )	(7,434,595 )
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	(589,225 )	(565,838 )
Treasury stock	(5,338,560 )	(5,338,560 )
Total stockholders' equity	17,099,922	16,997,278
Total liabilities and stockholders' equity	\$27,623,209	\$26,847,810

See notes to financial statements.

## Reliv International, Inc. and Subsidiaries

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

(unaudited)	Three months ended March	
	2015	2014
Product sales	\$13,708,123	\$ 13,305,781
Handling & freight income	1,126,240	1,159,108
Net sales	14,834,363	14,464,889
Costs and expenses:		
Cost of products sold	2,994,949	2,886,851
Distributor royalties and commissions	5,280,747	5,207,287
Selling, general and administrative	6,129,949	6,540,867
Total costs and expenses	14,405,645	14,635,005
Income (loss) from operations	428,718	(170,116 )
Other income (expense):		
Interest income	30,382	36,124
Interest expense	(23,939 )	(24,268 )
Other income / (expense)	(170,714 )	(24,690 )
Income (loss) before income taxes	264,447	(182,950 )
Provision (benefit) for income taxes	148,000	(32,000 )
Net income (loss)	\$116,447	(\$150,950 )
Other comprehensive income (loss):		
Foreign currency translation adjustment	(23,387 )	32,743
Comprehensive income (loss)	\$93,060	(\$118,207 )
Earnings (loss) per common share - Basic	\$0.01	(\$0.01 )
Weighted average shares	12,819,000	12,666,000
Earnings (loss) per common share - Diluted	\$0.01	(\$0.01 )
Weighted average shares	12,822,000	12,666,000



Cash dividends declared per common share	\$-	\$ -
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See notes to financial statements.

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## Reliv International, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows  
(unaudited)

Three months ended  
March 31  
2015                  2014

## Operating activities:

Net income (loss)	\$ 116,447	(\$ 150,950 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	255,382	242,067
Stock-based compensation	9,583	12,059
Non-cash life insurance policy accretion	(25,072 )	(22,083 )
Deferred income taxes	18,000	(32,000 )
Foreign currency transaction (gain)/loss	145,311	28,597
(Increase) decrease in accounts receivable and accounts due from employees and distributors	92,150	3,062
(Increase) decrease in inventories	(127,096 )	(563,699 )
(Increase) decrease in refundable income taxes	130,978	(35,857 )
(Increase) decrease in prepaid expenses and other current assets	(308,882 )	(481,735 )
(Increase) decrease in other assets	(10,633 )	(7,236 )
Increase (decrease) in income taxes payable	-	(199,558 )
Increase (decrease) in accounts payable & accrued expenses and other noncurrent liabilities	849,385	(178,684 )
Net cash provided by (used in) operating activities	1,145,553	(1,386,017)
Investing activities:		
Proceeds from the sale of property, plant and equipment	5,657	87
Purchase of property, plant and equipment	(127,561 )	(53,831 )
Payments received on distributor note receivable	23,671	22,295
Payment of life insurance premiums	-	(252,250 )
Net cash used in investing activities	(98,233 )	(283,699 )
Financing activities:		
Principal payments on long-term borrowings	(124,356 )	(110,190 )
Net cash used in financing activities	(124,356 )	(110,190 )
Effect of exchange rate changes on cash and cash equivalents	(66,533 )	5,636
Increase (decrease) in cash and cash equivalents	856,431	(1,774,270)

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Cash and cash equivalents at beginning of period	4,989,392	6,656,798
Cash and cash equivalents at end of period	\$5,845,823	\$ 4,882,528

See notes to financial statements.

Reliv International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2015

**Note 1-- Accounting Policies**

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements and notes thereto have been prepared in accordance with the instructions to Form 10-Q and reflect all adjustments (which primarily include normal recurring accruals) which management believes are necessary to present fairly the financial position, results of operations and cash flows. These statements, however, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. Interim results may not necessarily be indicative of results that may be expected for any other interim period or for the year as a whole. These financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the annual report on Form 10-K for the year ended December 31, 2014, filed March 24, 2015 with the Securities and Exchange Commission.

Certain reclassifications have been made to 2014 year amounts within the condensed consolidated statements of cash flows in order to conform to the current year presentation.

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

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

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

	Three months ended March	
	2015	2014
Numerator:		
Net income (loss)	\$116,447	(\$150,950 )
Denominator:		
Denominator for basic earnings (loss) per share--weighted average shares	12,819,000	12,666,000
Dilutive effect of employee stock options and other warrants	3,000	-
Denominator for diluted earnings (loss) per share--adjusted weighted average shares	12,822,000	12,666,000
Basic earnings (loss) per share	\$0.01	(\$0.01 )
Diluted earnings (loss) per share	\$0.01	(\$0.01 )

Option and warrants to purchase 1,622,525 shares and 1,502,987 shares of common stock for the three months March 31, 2015 and 2014, respectively, were not included in the denominator for diluted earnings (loss) per share because their effect would be antidilutive or because the shares were deemed contingently issuable.

**Note 3-- Fair Value of Financial Instruments**

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

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

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

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

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

Description	Carrying Value	Fair Value	Level 1	Level 2	Level 3
March 31, 2015					
Long-term debt	\$4,123,740	\$4,123,740	-	\$4,123,740	-
Note receivable	1,806,157	2,071,000	-	2,071,000	-
Marketable securities	295,000	295,000	\$295,000	-	-
December 31, 2014					
Long-term debt	\$4,244,690	\$4,244,690	-	\$4,244,690	-
Note receivable	1,829,827	2,098,000	-	2,098,000	-
Marketable securities	284,000	284,000	\$284,000	-	-

Long-term debt: The fair value of the Company's term and revolver loans approximate carrying value as these loans have variable market-based interest rates which reset every thirty days. The fair value of the Company's obligation for

the acquisition of its lunasin technology license approximates carrying value as this obligation is a zero-interest based obligation discounted utilizing an interest rate factor comparable to the Company's market-based interest rate for its term and revolver loans.

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

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

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

**Note 4-- Debt**

	March 31 2015	December 31 2014
Term loan	\$2,943,086	\$3,067,442
Revolving line of credit	500,000	500,000
Obligation for acquisition of technology license, net	680,654	677,248
	4,123,740	4,244,690
Less current maturities	697,423	697,423
Total long-term debt	\$3,426,317	\$3,547,267

Principal maturities of debt at March 31, 2015 are as follows:

Twelve months ending March 31,	
2016	\$697,423
2017	3,195,663
2018	230,654
2019	-
2020	-
Thereafter	-
	\$4,123,740

The Company has outstanding borrowings from its primary lender under a revolving line of credit agreement and a term loan agreement (collectively, "Credit Agreement"). As amended, the \$3.5 million revolving line of credit agreement accrues interest at a floating interest rate based on the 30-day LIBOR plus 1.85%. As of March 31, 2015, the revolver's interest rate was 2.023% and \$3.0 million remains available for additional borrowings under the revolving line of credit.

As amended, the term loan agreement requires monthly term loan payments consisting of principal of \$41,452 plus interest with a balloon payment for the outstanding balance due and payable on July 1, 2016. The term loan's interest rate is based on the 30-day LIBOR plus 2.0% and was 2.173% at March 31, 2015.

As amended in 2014 and on March 4, 2015, borrowings under the Credit Agreement are secured by all tangible and intangible assets of the Company and also by a mortgage on the real estate of the Company's headquarters. The amended Credit Agreement restricts the Company from the declaration and cash payment of common stock dividends



and the repurchase of company common stock.

A loan covenant under the amended Credit Agreement requires the Company to maintain a fixed charge coverage ratio in which EBITDA adjusted for certain non-cash expenses shall exceed fixed charges by a ratio of 1.0 to 1 at March 31, 2015 and a ratio of 1.15 to 1 for all subsequent quarterly reporting periods. Fixed charges, as defined, include unfinanced capital expenditures, dividends and other distributions, cash taxes paid, and principal and interest due on all debt obligations.

The amended Credit Agreement also includes a loan covenant which requires the Company to maintain net tangible worth of not less than \$9.5 million. Net tangible worth is defined as actual stockholders' equity reduced by the sum of net intangible assets, accounts due from employees and distributors, and note receivable due from distributor. At March 31, 2015, the Company was in compliance with its loan covenants.

**Note 5-- Long-Term Incentive Compensation Plan**

In July 2010, the Company's Reliv Europe subsidiary entered into a long-term performance-based incentive compensation agreement with the subsidiary's senior managers. The valuation of the compensation agreement is an EBITDA-based formula derived from the subsidiary's financial performance and vests in 20% annual increments which began in April 2011. The amount of the incentive, if any, can increase or decrease each quarter in accordance with a 24-month look-back of the subsidiary's financial performance and the vesting provisions. Upon initial vesting, a manager may elect to exercise his/her put option to receive in cash some or all of his/her respective share of the incentive. For the three months ended March 31, 2015 and 2014, decreases in compensation expense associated with this incentive plan were \$(74,300) and \$(12,000), respectively. This decrease to compensation expense is presented in Selling, General and Administrative in the accompanying condensed consolidated statements of net income (loss) and comprehensive income (loss). At March 31, 2015 and December 31, 2014, accrued compensation for this incentive plan was \$591,700 and \$666,000, respectively, and was presented in "Payroll, Payroll Taxes, and Incentive Compensation Payable" in the accompanying condensed consolidated balance sheets.

Beginning April 2015, the Company may exercise a call option on one or more of the managers' incentive amount; redeeming such amount in cash or a combination of cash and the Company's common stock, depending upon the amount of the vested incentive. On April 1, 2015, the incentive amount became 100% vested, and concurrently, each of the subsidiary's senior managers exercised 100% of his/her put option. The managers' exercise of their incentive and related payout will be recorded in the Company's second quarter 2015 condensed consolidated financial statements.

**Note 6-- Taxes**

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

	Three months ended March 31	
	2015	2014
Income taxes (benefit) at U.S. statutory rate	\$90,000	(\$62,000)
State income taxes, net of federal benefit	14,000	18,000
Higher / (lower) effective taxes on earnings/losses in certain foreign countries	11,000	6,000
Foreign corporate income taxes	27,000	(5,000)
Other, net	6,000	11,000

\$148,000 (\$32,000)

One of the company's foreign subsidiaries is presently under local country audit for alleged deficiencies (totaling approximately \$800,000 plus interest at 20% per annum) in value-added tax (VAT) and withholding tax for the years 2004 through 2006. The Company, in consultation with its legal counsel, believes that there are strong legal grounds that it is not liable to pay the majority of the alleged tax deficiencies. As of December 31, 2010, management estimated and reserved approximately \$185,000 in taxes and interest for resolution of this matter and recorded this amount within Selling, General, and Administrative expense in the 2010 Consolidated Statement of Income. In 2011, the Company made good faith deposits to the local tax authority under the tax agency's administrative judicial resolution process. As of March 31, 2015 and December 31, 2014, management's estimated reserve (net of deposits) for this matter is approximately \$128,000 and \$122,000, respectively. There has been no change in this matter during the first three months of 2015.

**Note 7-- Recent Accounting Standard Pending Adoption**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The original standard was effective for fiscal years beginning after December 15, 2016; however, in April 2015, the FASB proposed a one-year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2017. The new standard permits the use of either the retrospective or modified retrospective transition method. The Company is currently evaluating the effect, if any, that the updated standard will have on its consolidated financial statements and related disclosures, as well its planned transition method.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management to assess, at each annual and interim reporting period, the entity's ability to continue as a going concern within one year from the date the financial statements are issued and provide related disclosures. The new standard will be effective for the company for the annual reporting period ending December 31, 2016, with early adoption permitted. This standard is not currently expected to have a material effect on the Company's financial statement disclosures upon adoption, though the ultimate impact will be dependent on the Company's financial condition and expected operating outlook at such time.

## **FORWARD-LOOKING STATEMENTS**

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

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

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

#### **Overview**

We are a developer, manufacturer and marketer of a proprietary line of nutritional supplements addressing basic nutrition, specific wellness needs, weight management and sports nutrition. We also offer a line of skin care products and an all-natural sweetener. We sell our products through an international network marketing system utilizing independent distributors. Sales in the United States represented approximately 77.4% of worldwide net sales for the three months ended March 31, 2015 and 73.9% of worldwide net sales for the three months ended March 31, 2014. Our international operations currently generate sales through distributor networks with facilities in Australia, Canada, Indonesia, Malaysia, Mexico, the Philippines, and the United Kingdom. We also operate in Ireland, France, Germany, Austria and the Netherlands from our United Kingdom distribution center, in New Zealand from our Australia office, and in Singapore from our Malaysia office.

We derive our revenues principally through product sales made by our global independent distributor base, which, as of March 31, 2015, consisted of approximately 47,960 distributors. Our sales can be affected by several factors, including our ability to attract new distributors and retain our existing distributor base, our ability to properly train and

motivate our distributor base and our ability to develop new products and successfully maintain our current product line.

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

### **Components of Net Sales and Expense**

Product sales represent the actual product purchase price typically paid by our distributors, after giving effect to distributor allowances, which can range from 20% to 40% of suggested retail price, depending on the rank of a particular distributor. Handling and freight income represents the amounts billed to distributors for shipping costs. We record net sales and the related commission expense when the merchandise is shipped.

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

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

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

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

## Results of Operations

*Net Sales.* Overall net sales increased by 2.6% in the three months ended March 31, 2015 compared to the same period in 2014. During the first quarter of 2015 ("Q1 2015"), sales in the United States increased by 7.4%, and international sales decreased by 11.1% over the prior-year period. International sales, when reported in U.S. dollars, were negatively impacted by a stronger U.S. dollar versus all of the currencies of the markets where we do business. Excluding the impact of currency exchange fluctuation, international sales decreased by 3.1%.

The following table summarizes net sales by geographic market for the three months ended March 31, 2015 and 2014.

Three months ended March 31,				Change from prior year	
2015	2014			Amount	%
Amount	Amount	% of Net			

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	% of Net Sales		Sales					
	(dollars in thousands)							
United States	\$11,480	77.4	% \$10,693	73.9	% \$ 787	7.4	%	
Australia/New Zealand	372	2.5	432	3.0	(60 )	(13.9	)	
Canada	433	2.9	290	2.0	143	49.3		
Mexico	197	1.3	224	1.5	(27 )	(12.1	)	
Europe	1,793	12.1	2,329	16.1	(536 )	(23.0	)	
Asia	559	3.8	497	3.5	62	12.5		
Consolidated total	\$14,834	100.0	% \$14,465	100.0	% \$ 369	2.6	%	



The following table sets forth, as of March 31, 2015 and 2014, the number of our active distributors and Master Affiliates and above. The total number of active distributors includes Master Affiliates and above. We define an active distributor as one that enrolls as a distributor or renews his or her distributorship during the prior twelve months. Master Affiliates and above are distributors that have attained the highest level of discount and are eligible for royalties generated by Master Affiliate groups in their downline organization. The active distributor count for Europe includes our preferred customers in France. This program began in mid-2013 and the Europe active distributor count as of March 31, 2015 and 2014 includes 3,185 and 2,120 preferred customers, respectively.

	March 31, 2015		March 31, 2014		% Change	
	Active Distributors	Master Affiliates and Above	Active Distributors	Master Affiliates and Above	Active Distributors	Master Affiliates and Above
United States	34,570	4,080	38,290	4,980	(9.7 )%	(18.1 )%
Australia/New Zealand	1,260	120	1,440	150	(12.5 )	(20.0 )
Canada	1,250	210	1,280	230	(2.3 )	(8.7 )
Mexico	1,150	90	1,170	140	(1.7 )	(35.7 )
Europe	7,490	640	7,790	820	(3.9 )	(22.0 )
Asia	2,240	230	2,650	310	(15.5 )	(25.8 )
Consolidated total	47,960	5,370	52,620	6,630	(8.9 )%	(19.0 )%

The following table provides key statistics related to distributor activity by market and should be read in conjunction with the following discussion.

Distributor Activity by Market								International
	United States	AUS/NZ	Canada	Mexico	Europe	Asia	— Total	
Sales in Q1 2015 in USD (in 000's)	\$ 11,480	\$ 372	\$ 433	\$ 197	\$ 1,793	\$ 559	\$ 3,354	
% change in sales-Q1 2015 vs. Q1 2014:								
in USD	7.4	% -13.9	% 49.3	% -12.1	% -23.0	% 12.5	% -11.1	
due to currency fluctuation	-	-11.3	-18.2	-11.7	-7.1	-1.7	-8.0	
Sales in local currency	7.4	% -2.6	% 67.5	% -0.4	% -15.9	% 14.2	% -3.1	
# of new distributors-Q1 2015 <sup>(1)</sup>	2,212	60	139	164	1,050	324	1,737	
# of new distributors-Q1 2014	1,956	82	68	170	1,461	177	1,958	
% change	13.1	% -26.8	% 104.4	% -3.5	% -28.1	% 83.1	% -11.3	
# of new Master Affiliates-Q1 2015	366	11	28	8	70	36	153	
# of new Master Affiliates-Q1 2014	236	9	16	21	139	14	199	
% change	55.1	% 22.2	% 75.0	% -61.9	% -49.6	% 157.1	% -23.1	

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# of Product orders-Q1 2015	44,472	2,090	1,364	1,043	6,667	2,848	14,012							
# of Product orders-Q1 2014	46,444	2,182	1,106	1,005	7,155	3,565	15,013							
% change	-4.2	%	-4.2	%	23.3	%	3.8	%	-6.8	%	-20.1	%	-6.7	%

(1) The new distributor totals in Europe for Q1 2015 and Q1 2014 include 664 and 557, respectively, new preferred customers in France.

*United States*

Net sales improved in the United States in Q1 2015 compared to the prior-year quarter. Sales in the first quarter of 2014 were negatively impacted by a shift in sales into the fourth quarter of 2013 from the first quarter of 2014 due to a promotion in late 2013.

Flagship products in the LunaRich line, including Reliv Now® and LunaRich X™, constituted 18.6% and 14.9% of net sales in the United States, respectively, in Q1 2015 as our marketing focuses on these two products.

Distributor enrollments and new Master Affiliate qualifications increased by 13.1% and 55.1%, respectively, in Q1 2015 as we continue to increase the focus on the business opportunity in 2015.

Distributor retention was 72.6% in Q1 2015 compared to 65.9% for all of 2014. Distributor retention is determined by the percentage of active distributors from 2014 that renewed their distributorships in 2015.

Our average order size in Q1 2015 increased by 13.2% to \$359 at suggested retail value compared to the prior-year quarter. This increase is consistent with the increase in new Master Affiliate qualifications, as new Master Affiliates typically have larger average orders.

*International Operations*

The average foreign exchange rate for the U.S. dollar for Q1 2015 was stronger versus the various local currencies in which we conduct business when compared with the average exchange rates for the same period in 2014.

Canadian sales in Q1 2015 increased as the result of increased efforts of key distributors in the market, coupled with an increased focus on the business opportunity.

Sales in Europe decreased by 15.9% in local currency in Q1 2015 compared to the prior-year quarter. The decline was primarily in the UK as the result of the departure of certain key distributors.

Sales in Asia increased by 14.2% in local currency in Q1 2015 compared to the prior-year quarter. Sales improved in response to a trip promotion held in the region that concluded in the first quarter of 2015.

**Costs and Expenses**

The following table sets forth selected results of our operations expressed as a percentage of net sales for the three-month periods ended March 31, 2015 and 2014. Our results of operations for the periods described below are not necessarily indicative of results of operations for future periods.

Income statement data (amounts in thousands)	Q1 2015		Q1 2014			
	Amount	% of net sales	Amount	% of net sales		
Net sales	\$14,834	100.0	% \$14,465	100.0	%	
Costs and expenses:						
Cost of products sold	2,995	20.2	2,887	20.0		
Distributor royalties and commissions	5,280	35.6	5,207	36.0		
Selling, general and administrative	6,130	41.3	6,541	45.2		
Income (loss) from operations	429	2.9	(170 )	(1.2	)	
Interest income	30	0.2	36	0.3		
Interest expense	(24 )	(0.2	)	(24 )	(0.2	)
Other income/(expense)	(171 )	(1.1	)	(25 )	(0.2	)
Income (loss) before income taxes	264	1.8	(183 )	(1.3	)	
Provision (benefit) for income taxes	148	1.0	(32 )	(0.3	)	
Net income (loss)	116	0.8	% \$(151 )	(1.0	)%	
Earnings (loss) per common share-Basic	\$0.01			\$(0.01 )		
Earnings (loss) per common share-Diluted	\$0.01			\$(0.01 )		

*Cost of Products Sold:*

Gross margins in 2015 declined slightly compared to the prior-year period. The cost of shipping distributor orders in the United States increased slightly in Q1 2015 compared to the prior-year quarter.

*Distributor Royalties and Commissions:*

The decrease in distributor royalties and commissions as a percentage of net sales for Q1 2015 compared to the prior-year period is the result of a lower payout of wholesale commissions as a percentage of net sales. The average order size of U.S. orders increased by 13.2%, indicating that distributor orders were placed at a higher discount level in the first quarter of 2015. Under our compensation plan, this results in a smaller wholesale commission payout.

*Selling, General and Administrative Expenses:*

· Selling, general and administrative expenses declined by \$411,000 in Q1 2015 compared to the same period in 2014. Salaries, other staffing expenses, benefits, and incentive compensation decreased in the aggregate by \$165,000 in Q1 2015, compared to the prior-year period. Salaries decreased as the result of headcount reductions in the United States in the latter half of 2014 due to attrition and a voluntary retirement incentive.

- Other general and administrative expenses decreased by \$295,000 in Q1 2015 vs. the prior-year period.
  - o Consulting and legal fees decreased by \$96,000 in Q1 2015 compared to the prior-year period.
- o Compensation expense recognized as part of a long-term incentive agreement with our management team in our European subsidiary in Q1 2015 was reduced by \$62,000 compared to the valuation in the prior-year period. This incentive agreement is described in Note 5 of the Condensed Consolidated Financial Statements.
- Sales and marketing expenses increased by \$54,000 in Q1 2015 vs. 2014. Components of the increase include:
  - o \$103,000 increase in distributor conferences and meeting expenses. In Q1 2015, we held two regional distributor conferences, and we also resumed our quarterly Master Affiliate Training School program for distributors after a two year absence.
  - o This increase was partially offset by decreases in newsletter expenses and other marketing production/development expenses.

*Other Income/Expense:*

The net expense in Q1 2015 is primarily the result of foreign currency exchange losses on intercompany debt denominated in U.S. dollars in certain of our subsidiaries.

*Income Taxes/Benefit:*

We reported income tax expense of \$148,000 for Q1 2015, an effective rate of 56.0%. In addition to the impact of state income taxes, our effective rate was higher than the U.S. statutory rate of 34% due to deferred income tax expense recognized on our income in Europe, coupled with the impact of the non-deductible operating loss in the Philippines. See Note 6 of the Condensed Consolidated Financial Statements for additional detail regarding income taxes, including a reconciliation of the income tax expense/benefit to the U.S. statutory rate for each period.

*Net Income:*

We returned to profitability in the first quarter of 2015 with the increase in net sales in the United States, coupled with the reduction in selling, general and administrative expenses.

**Financial Condition, Liquidity and Capital Resources**

During the first three months of 2015, we generated \$1.15 million of net cash from operating activities, \$98,000 was used in investing activities, and we used \$124,000 in financing activities. This compares to \$1.39 million of net cash used in operating activities, \$284,000 used in investing activities, and \$110,000 used in financing activities in the same period of 2014. Cash and cash equivalents increased by \$856,000 to \$5.85 million as of March 31, 2015 compared to December 31, 2014.

Significant changes in working capital items consisted of an increase in inventory of \$127,000, an increase in prepaid expenses/other current assets of \$309,000, an increase in accounts payable and accrued expenses of \$849,000, and a decrease in refundable income taxes of \$131,000 in the first three months of 2015. The increase in inventory is the result of planned increases in our safety stock levels, and the increase in prepaid expenses/other current assets represents the annual premium payments made in the first quarter on most of the corporate business insurance policies. The increase in accounts payable and accrued expenses is partially related to a financing arrangement for our annual corporate insurance policy renewals, coupled with the increase in inventory. The decrease in refundable income taxes is the result of estimated taxes due for our first quarter 2015 net income being applied against the refundable balance due.

Investing activities during the first three months of 2015 consisted of a net investment of \$122,000 for capital expenditures, offset by payments received on a distributor note receivable of \$24,000. Financing activities during the first three months of 2015 consisted of principal payments of \$124,000 on long-term borrowings.

Stockholders' equity increased to \$17.10 million at March 31, 2015 compared to \$17.00 million at December 31, 2014. The increase is due to our net income during the first three months of 2015 of \$116,000 offset by an unfavorable adjustment in foreign currency translation of \$23,000 due to a stronger U.S. dollar. Our working capital balance was \$5.86 million at March 31, 2015 compared to \$5.65 million at December 31, 2014. The current ratio at March 31, 2015 was 1.88 compared to 1.96 at December 31, 2014.

On February 28, 2014, we re-financed our 2012 term loan agreement (and the revolving line of credit agreement) with our primary lender. The 2014 re-financed term loan is for a period of twenty-eight months with the same floating interest rate pricing as the 2012 term loan of 30-day LIBOR plus 2.0%. The total amount of the new 2014 term loan was approximately \$3.48 million and consisted of the February 28, 2014 outstanding balances of the 2012 term loan and the revolving line of credit loan balance of \$1.15 million. Upon the completion of the re-financing, the revolving line of credit loan balance was zero. The 2014 credit agreement has a maturity date of July 1, 2016.

The 2014 credit agreement includes a revolving credit facility for \$3.5 million, as amended. The credit facility accrues interest on the outstanding principal balance at a floating interest rate based on 30-day LIBOR plus 1.85% and has the same maturity date as the 2014 term loan of July 1, 2016. There are borrowings of \$500,000 on the revolving credit facility as of March 31, 2015.

As originally structured, the 2014 credit agreement was secured by all our tangible and intangible assets and also by a mortgage on the real estate of our headquarters. These agreements also included loan covenants requiring us to maintain net tangible worth of not less than \$11 million, and a fixed charge coverage ratio under which EBITDA adjusted for certain non-cash expenses shall exceed the fixed charges, including unfinanced capital expenditures, dividends and other distributions, cash taxes paid, and principal and interest due on all debt obligations, by a ratio of at least 1.15 to 1. At the quarters ended September 30 and December 31, 2014, our fixed charge coverage ratio was less than the minimum required ratio.

On October 29, 2014, we entered into an amendment to the Credit Agreement ("First Amendment") whereby our primary lender waived our non-compliance with the fixed charge coverage ratio for the September 30, 2014 reporting period. In addition to the aforementioned loan covenant waiver, the First Amendment restricts us from the declaration and cash payment of common stock dividends and the repurchase of company common stock. The First Amendment also reduced the maximum borrowing limit from \$5 million to \$3.5 million under our revolving line of credit agreement. At March 31, 2015, as adjusted for the First Amendment, \$3 million remains available for additional borrowings under the revolving line of credit.

In a letter agreement dated February 27, 2015, our primary lender waived our non-compliance with the fixed charge ratio covenant as of December 31, 2014, and on March 4, 2015, we entered into a second amendment to the Credit Agreement ("Second Amendment"). The Second Amendment reduced the ratio required under the fixed charge ratio covenant to 1.0 for the reporting period ending March 31, 2015, but subsequent quarterly reporting periods remain at a



minimum fixed coverage ratio of 1.15 to 1. In addition, the Second Amendment revised the net tangible worth covenant minimum to \$9.5 million and re-defined net tangible worth as actual stockholders' equity reduced by the sum of net intangible assets, accounts due from employees and distributors, and note receivable from distributor. As of March 31, 2015, we are in compliance with both the fixed charge ratio and the net tangible worth covenants. The terms of this new credit agreement and the Second Amendment are described in Note 4 of the Condensed Consolidated Financial Statements.

We must remain in compliance with the terms of our credit agreement, including the tangible net worth and fixed charge coverage ratio. We must also comply with the terms of our indenture. Although our primary lender waived our non-compliance with the fixed charge coverage ratio for the December 31, 2014 reporting period, we can make no assurance that we will remain in compliance nor can we make any assurance that we could obtain waivers in the future, if deemed necessary.

Management believes that our cash on hand, cash generated from operating activities and availability of credit under the bank loan facilities will be sufficient to meet working capital requirements for the remainder of 2015.

### **Critical Accounting Policies**

A summary of our critical accounting policies and estimates is presented on pages 26-28 of our 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 24, 2015. Our critical accounting policies remain unchanged as of March 31, 2015.

#### Item No. 4 - Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has reviewed and evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2015. Based on such review and evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of March 31, 2015, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, (a) is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms and (b) is accumulated and communicated to our management, including the officers, as appropriate to allow timely decisions regarding required disclosure. There were no material changes in our internal control over financial reporting during the first quarter of 2015 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

## PART II – OTHER INFORMATION

### **Item No. 6 – Exhibits**

#### Exhibit

#### Number Document

- |      |  |
|------|--|
| 3.2  | Amended and Restated Bylaws of Reliv International, Inc., effective March 31, 2015 (filed herewith).   |
| 10.1 | Second Amendment to Credit Agreement dated March 4, 2015 among Reliv International, Inc., Reliv, Inc., Reliv World Corporation, and SL Technology, Inc., as Borrowers and BMO Harris Bank N.A. (incorporated by reference to Exhibit 10.1 to the Form 8-K of the Registrant filed March 6, 2015) |
| 10.2 | Letter Agreement dated February 27, 2015 among Reliv International, Inc., Reliv, Inc., Reliv World Corporation, and SL Technology, Inc., as Borrowers and BMO Harris Bank N.A. (incorporated by reference to Exhibit 10.2 to the Form 8-K of the Registrant filed March 6, 2015)                 |

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- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended (filed herewith).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended (filed herewith).
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

101 Interactive Data Files, including the following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss), (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements.

**SIGNATURES**

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

**RELIV' INTERNATIONAL, INC.**

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

Date: May 15, 2015

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

Date: May 15, 2015