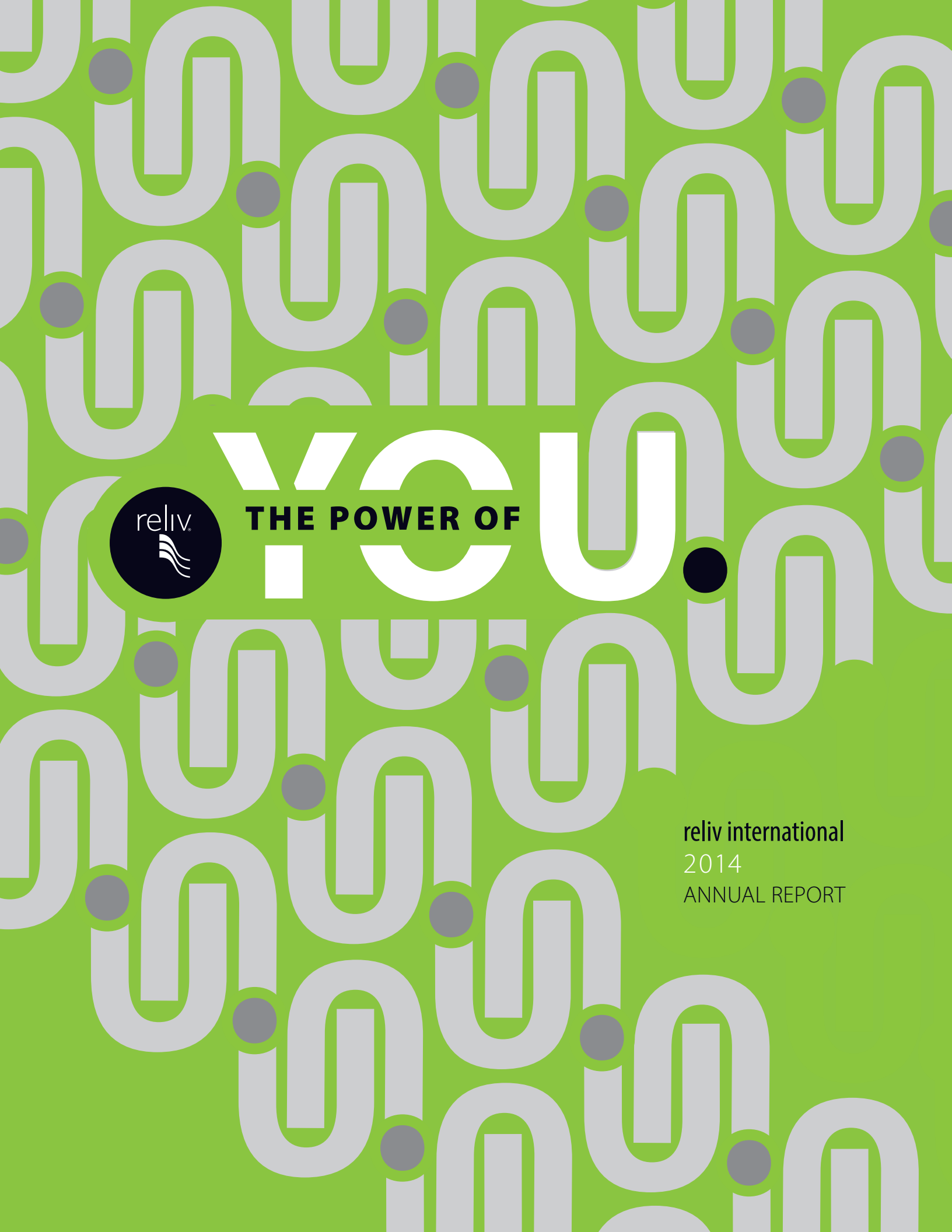


# reliv international
2014
ANNUAL REPORT

## 2014 Financial Highlights

(In thousands, except per share amounts)

| At December 31 | 2014 | % change | 2013 |
|---|---|---|---|
| Net sales | $ 57,345 | (15.9) | $ 68,207 |
| Net income | 725 | (6.7) | 777 |
| Earnings per share | | | |
| Basic | 0.06 | — | 0.06 |
| Diluted | 0.06 | — | 0.06 |
| Total assets | 26,848 | (2.7) | 27,599 |
| Long-term debt, less current maturities | 3,547 | (6.2) | 3,782 |
| Stockholders' equity | 16,997 | 5.4 | 16,130 |
| Return on net sales | 1.3% | | 1.1% |
| Return on average total assets | 2.7% | | 3.0% |
| Return on equity | 4.5% | | 5.0% |
| Current ratio | 1.96 | | 1.98 |

For people of all backgrounds who want to lead healthy, self-directed and meaningful lives, Reliv International offers exceptionally effective nutritional products, a simple and profitable business opportunity and the chance to change lives and provide hope to people around the world. Reliv operates in 15 countries worldwide: United States, Australia, New Zealand, Canada, Mexico, United Kingdom, Ireland, the Philippines, Malaysia, Singapore, Germany, Austria, the Netherlands, Indonesia and France.

## Dear Fellow Reliv Shareholder

In 2014 Reliv established a clear direction for the company. We re-focused on what distinguishes Reliv both as a nutritional supplements manufacturer and as a network marketing business opportunity. Reliv developed and adopted focused product and business strategies with one goal in mind: **growth.**

On the product side, Reliv solidified its position as the **Nutritional Epigenetics Company** as our exclusive LunaRich® line of products continued to carve out an increasing share of total net sales. To accelerate this momentum, in March we launched the Reliv Super Pack, a packaged-to-move LunaRich product kit. Reliv also installed a new state-of-the-art encapsulation line to bring production of LunaRich X capsules in house, providing operational efficiencies and allowing Reliv to control and ensure quality of the LunaRich X capsules from start to finish.

On the business side, we placed a renewed emphasis on distributor training and marketing of **the Reliv business opportunity.** Having focused in recent years on product development and consumer education following our acquisition of the LunaRich technology, we will highlight the business opportunity that our products make possible. Based on company history, we believe this balance, at this time, will lead to growth in the months and years ahead.

This letter will go into greater detail on the many exciting initiatives now underway at Reliv. First, I'll report on our 2014 financial results.

# 2014 Results

In 2014 Reliv completed a series of critical transitions — in our distributor compensation plan, our corporate leadership, and our product line — to better position the company for future growth. We realized this process would entail an adjustment period for our field. Yet after recording net losses in each of the first two quarters of 2014, we achieved profitability in both the third and fourth quarters. We believe the return to profitability in the third and fourth quarters is evidence that the transitions initiated by Reliv are gaining traction.

Reliv reported net income of $725,000 for 2014, a decrease of 6.7% compared with 2013 net income. Earnings per diluted share were $0.06 for both 2014 and 2013. We recorded net sales of $57.3 million in 2014, compared with net sales of $68.2 in 2013, a decrease of 15.9%. Net income for 2014 was favorably impacted by an income tax benefit related to net operating loss carryforwards in our European subsidiary.

U.S. net sales decreased 19.3% in 2014 compared with U.S. net sales in 2013. Much of that decline can be attributed to a promotion launched in fall 2013 that lowered the sales volume level needed to qualify as a Master Affiliate in the United States. This resulted in a shifting of requalification orders to the fourth quarter of 2013 that would normally have been received in January 2014.

Europe once again led all foreign markets with a 4.4% increase in net sales from 2013 to 2014. This marks **five straight years of sustained growth in Europe.**

Our financial condition remains solid. We had $5.0 million in cash and cash equivalents as of December 31, 2014, compared to $6.7 million a year ago, and our long-term debt remains at a manageable level. At the end of 2014, our long-term debt was $3.5 million, compared to $3.8 million at the end of the prior year.

# Launching a Super Strategy

Reliv started 2014 by announcing that reduced profit level qualifications for distributors would remain in place in Reliv's compensation plan. First introduced as a promotion in the final months of 2013, the lower qualifications were embraced by Distributors.

We believe as the strategy to increase focus and promotion of the Reliv business opportunity gains traction, the ability for Distributors to access the highest profit level at these qualification levels will result in an increase in new Distributors. Marketing and promotional strategies have been developed consistent with this goal.

One of these strategies is the **Reliv Super Pack**, launched at the end of the first quarter. The Super Pack leverages both our new qualification level structure and our exclusive rights to LunaRich technology to create an efficient new way for distributors to quickly move product. The Super Pack includes a four-month supply of our two most popular products, Reliv Now® and LunaRich X™, and offers an immediate 25% discount on the retail price of the Super Pack for those who sign up as distributors. (The Reliv Classic® Super Pack, featuring our original nutritional formula, was introduced in December.) Ordering additional Super Packs provides additional incentives. We integrated the Super Pack into Reliv's marketing materials and are now training distributors on how to use them to build business.

The Super Pack is a key element in an overall product strategy aimed at simplifying the business for distributors. An additional step — announced in February 2015 — includes discontinuing Reliv's r skincare line and other non-core products. Reliv is dedicated to continuing to advance our position in the industry by refocusing our efforts on our core nutritional products. **This product strategy begins and ends with a singular goal: distributor success.**



# Back to Business

With the acquisition of the LunaRich technology, Reliv's marketing efforts in recent years focused on consumer education and establishing Reliv as the Nutritional Epigenetics Company. With our product and science messaging in place and our competitive advantage established, we are focused on the Reliv business opportunity. We believe we have all elements in place — field development, corporate leadership, product focus and business plan — for this strategy to take hold and be embraced by our field.

Reliv introduced a new online business success training program for distributors on May 31. The training program walks distributors through every step in the business-building process, from identifying prospects to getting new distributors started. Short videos featuring Reliv's top leaders provide instruction and direct viewers to Reliv's most popular sales tools. The training program represents a new level of online engagement for distributors and a new means for Reliv to communicate and install sales initiatives. We believe this will lead to increased business activity.

**Business initiatives started in 2014 reaching the field in the first quarter of 2015 include:**

- **Master Affiliate Training Schools (MATS)** — quarterly two-day business training events for distributors at Reliv's top profit level. Active business builders learn specific, practical skills from Reliv's top distributor leaders to increase sales and recruitment. The first round of MATS takes place in March in 11 cities across North America.
- **Updated Reliv business opportunity presentation suite**, including slides, video and print materials. The new tools present Reliv as an ideal solution to thrive in today's financial reality and have been enthusiastically embraced by the field.
- **New distributor online business portal** — password-protected web pages make it easier and quicker for distributors to access online tools, track their business and build their organizations.

Our strategic initiative to upgrade web-based technology will continue in 2015, with a focus on enhancing our distributors' online presence and facilitating new online sales opportunities. We believe these and other technology upgrades in development will help fuel sales growth in the months and years ahead.

In the network marketing industry product consumers form the foundation, but it is the expansion of distribution networks that drives growth. Reliv's product foundation is stronger than ever and, with distributor-focused business initiatives now taking hold, we are ready to build a thriving network of active entrepreneurs on top of it.

# Back to Business

Europe continued its four-year run as Reliv's strongest international region, as net sales increased to $8.3 million in 2014, an increase of 4.4%. Reliv Europe also had more Distributors reach Reliv's highest Distributor ranks, Ambassador and Presidential Director, in 2014 than any market — including the United States. In October in Paris, at the most well-attended event in Reliv Europe history, we launched LunaRich C™ (LunaRich X in the United States). We expect LunaRich C to enhance the momentum in Europe and sustain growth in 2015.

Reliv held an official launch event for the market of Indonesia on September 7. Although we had engaged in limited distribution of one product — Innergize!® — previously, at our launch in September, we expanded our product line in this market to four products, including Reliv Now, our essential nutrition formula and top seller worldwide. With over $1 billion in direct sales annually, Indonesia is a market we believe offers Reliv an opportunity for growth in this region.

**More international happenings:**

- Moved offices from Mexico City to Guadalajara in January to reduce expenses and be closer to our distributor base.
- Launched LunaRich X and Super Packs in Canada, Mexico, Philippines, Singapore and Indonesia. (Coming to Australia/New Zealand in March 2015.)
- Introduced mobile app technology in Reliv Asia Pacific to facilitate business on the go.




# RKF in 2014: Be the Change

Donations to the Reliv Kalogris Foundation for 2014 totaled $965,000. A portion of this annual revenue — $50,000 — resulted directly from the Foundation's "Be the Change" fundraising challenge during the first six months of the year. The distributor winner of this challenge joined the Foundation's staff in Haiti for the annual Papa Noel trip in December.

The Reliv Kalogris Foundation, created in 1995, has provided more than $42 million in free nutritional supplements to malnourished people since its founding. Today, it feeds more than 42,000 people, mostly children, daily through 270 feeding centers in nine countries. For further information on the Reliv Kalogris Foundation, please visit relivkalogrisfoundation.org.

# Additional Highlights from 2014

- In February the U.S. Patent and Trademark Office issued an expanded composition of matter patent for Reliv's LunaRich technology. The updated patent further protects LunaRich technology as it relates to enhancing lunasin bioactivity and its superior ability to deliver bioactive lunasin to the body.
- Dr. Alfredo Galvez, Chief Scientific Officer at SL Technology, Inc., a Reliv company, in May presented the science of LunaRich at the VitaFoods Conference in Geneva, the nutraceuticals industry's premier nutritional research event.
- In July Reliv launched Reliv Your Life, an online personal and professional growth program for distributors.
- Reliv President Ryan Montgomery was featured on the cover of the fall 2014 issue of *Smart Business* magazine as part of a feature article on Reliv's growth strategy.
- Major technology upgrades continued throughout 2014, both within operations at Reliv HQ and online, including a new reliv.com homepage, new online training program and new distributor business portal.

**RELIV YOUR LIFE!**

# The Power of YOU

Following a transformative 2014, our message to Reliv distributors moving forward is simple: **"It's all about YOU!"** Our principal focus in 2015 is to leverage the Reliv business opportunity and the income potential available through LunaRich and the Reliv product line to empower our distributor field like never before.

Key elements of Reliv's strategic plan for growth:

- Strengthening of Reliv's position as the Nutritional Epigenetics Company;
- Focused product strategy with Reliv Now, LunaRich X and the Reliv Super Pack;
- Renewed focus on the business opportunity for distributors with a strong emphasis on training;
- Sweeping technology upgrades, including new online business tools for distributors;
- Increased manufacturing capabilities with a new encapsulation line;
- Continued growth in Reliv's European markets;
- Company-wide cost containment initiatives; and
- Investment in clinical studies of Reliv products and additional research.

More than ever we have the tools and talents needed to expand quickly. We have the products, the marketing plan and the people to make it all work — at Reliv HQ and in the distributor field.

We've taken the complex science behind nutritional epigenetics and Reliv's LunaRich products and made it simple with the Reliv Super Pack. The Super Pack also simplifies the Reliv business, making it easier to move product and duplicate success from level to level throughout distributor networks. Business training and tools focused on taking simple, effective action every day are in place to fuel the product-moving machine.

**Reliv today is an agile, focused and innovative company, ready to take the next great leap forward.** We have created the ideal business opportunity for anyone seeking to take control of their lives.

Here's to a profitable and prosperous 2015,

Robert L. Montgomery
Chairman and Chief Executive Officer

## Board of Directors

**Robert L. Montgomery**
Chairman and
Chief Executive Officer
Reliv International, Inc.

**Carl W. Hastings, Ph.D.**
Vice Chairman and
Chief Scientific Officer
Reliv International, Inc.

**Stephen M. Merrick**
Senior Vice President,
General Counsel and Secretary
Reliv International, Inc.

**Robert M. Henry**
Private Investor and Consultant

**John B. Akin**
Retired Vice President,
A. G. Edwards, Inc.

**John M. Klimek**
President
HFR Asset Management, LLC

**David T. Thibodeau**
Managing Director
Wellvest Capital, LLC

## Corporate Officers

**Robert L. Montgomery**
Chairman and
Chief Executive Officer

**Carl W. Hastings, Ph.D.**
Vice Chairman and
Chief Scientific Officer

**Ryan A. Montgomery**
President, Reliv International, Inc.

**R. Scott Montgomery**
President, Reliv Asia-Pacific

**Steven G. Hastings**
Executive Vice President
Sales & Marketing

**Steven D. Albright**
Senior Vice President, Finance
and Chief Financial Officer

**Brett M. Hastings**
Senior Vice President and
Chief Operating Officer

**Stephen M. Merrick**
Senior Vice President,
General Counsel and Secretary

**Donald E. Gibbons, Jr.**
Senior Vice President of U.S. Sales

**Debra P. Hellweg**
Vice President, Operations

**Kurt C. Wulff**
Vice President, Marketing

# Five-Year Financial Summary

| *(In thousands, except per share amounts)* | *2014* | *2013* | *2012* | *2011* | *2010* |
|---|---|---|---|---|---|
| Net sales | $ 57,345 | $ 68,207 | $ 68,710 | $ 73,880 | $ 78,748 |
| Net income | 725 | 777 | 1,359 | 1,048 | 1,683 |
| Earnings per common share: | | | | | |
| Basic | 0.06 | 0.06 | 0.11 | 0.08 | 0.14 |
| Diluted | 0.06 | 0.06 | 0.11 | 0.08 | 0.14 |
| Cash dividends per share of common stock | — | 0.03 | 0.03 | 0.04 | 0.04 |
| Total assets | 26,848 | 27,599 | 25,259 | 24,419 | 24,844 |
| Long-term debt, less current maturities | 3,547 | 3,782 | 2,401 | 3,566 | 4,151 |

# Stock Price & Dividend Summary

| *2014* | *High* | *Low* | *Close* | *Dividend* |
|---|---|---|---|---|
| First Quarter | $ 2.82 | $ 1.75 | $ 2.62 | $ — |
| Second Quarter | 2.68 | 1.51 | 1.60 | — |
| Third Quarter | 1.93 | 1.14 | 1.20 | — |
| Fourth Quarter | 1.71 | 1.15 | 1.17 | — |

| *2013* | *High* | *Low* | *Close* | *Dividend* |
|---|---|---|---|---|
| First Quarter | $ 1.40 | $ 1.15 | $ 1.34 | $ — |
| Second Quarter | 1.44 | 1.23 | 1.26 | 0.02 |
| Third Quarter | 3.98 | 1.25 | 2.62 | — |
| Fourth Quarter | 3.50 | 2.11 | 2.81 | 0.01 |

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

# FORM 10-K
# ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the Fiscal Year Ended December 31, 2014**

**(Mark One)**

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

**For the fiscal year ended December 31, 2014**

**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 incorporation or organization) | (I.R.S. Employer Identification Number) |
| 136 Chesterfield Industrial Boulevard Chesterfield, Missouri | 63005 |
| (Address of principal executive offices) | (Zip Code) |

(636) 537-9715
Registrant's telephone number, including area code

Securities registered pursuant to Sections 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $0.001 | NASDAQ Global Select Market |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the

registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition 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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

Based upon the closing price of $1.60 per share of the registrant's common stock as reported on the NASDAQ Global Select Market on June 30, 2014, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $12.9 million. (The determination of stock ownership by non-affiliates was made solely for the purpose of responding to the requirements of the Form and the registrant is not bound by this determination for any other purpose.)

The number of shares outstanding of the registrant's common stock as of March 6, 2015 was 12,819,110 (excluding treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

| Document | Part of Form 10-K into Which Document Is Incorporated |
|---|---|
| Sections of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 21, 2015, which is expected to be filed no later than 120 days after December 31, 2014 | Part III |

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## FORWARD-LOOKING STATEMENTS

This annual 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 annual report. 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.

## PART I

### Item No. 1 - Business

### 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 sell our products through an international network marketing system using independent distributors. We have sold products in the United States since 1988 and in selected international markets since 1991.

We currently offer 18 nutritional supplements, a line of 5 skin care products and a sweetener. We have selectively evolved our product offering over our history. Traditionally, our core line of nutritional supplements, which represented 51.1% of net product sales for the year ended December 31, 2014, included the following four products:

- Reliv Classic and Reliv NOW — two basic nutritional supplements containing a full and balanced blend of vitamins, minerals, protein and herbs
- Innergize! — an isotonic sports supplement in two flavors
- FibRestore — a high-fiber and antioxidant supplement

Following the introduction of our LunaRich X capsules in 2013, we experienced a gradual shift in our product sales mix reflecting an increasing emphasis on Reliv NOW and LunaRich X capsules. Historically, Reliv Classic had been our best-selling product but for the year ended December 31, 2012, for the first time in our history, Reliv NOW became our best-selling product as a result of adding LunaRich soy flour to Reliv NOW. For the year ended December 31, 2014, Reliv NOW constituted 20.7% of net product sales, LunaRich X capsules represented 13.2% and Reliv Classic constituted only 10.4%. The combination of Reliv NOW and LunaRich X capsules have increasingly become the focus of our product strategy. As a result of this strategy, in March 2014 we launched our Super Pack product kit that contains four cans of Reliv NOW and two bottles of LunaRich X each containing 120 capsules. The Super Pack was designed as a simple, focused approach that capitalizes on our two most popular products and provides an entry point at a 25% discount for new distributors who want to build a business. Super Packs constituted 4.6% of net sales in 2014. Because of the success of the Super Pack, in December 2014 we launched a second Super Pack containing Reliv Classic and LunaRich X for our distributors and customers that prefer Reliv Classic.

We periodically refine our products and introduce related new products and product categories. Our internal research and development team has developed most of our products, and we hold U.S. patents on six of these products —Arthaffect, ReversAge, Cellebrate, GlucAffect, ProVantage and 24K. In addition, we have applied for a U.S. patent on our CardioSentials product. We also hold the exclusive license to patents and patent applications related to lunasin through a Technology License Agreement we entered into in July 2013.

We believe that our network marketing model is the best method for the marketing and sale of our products because it utilizes ongoing personal contact among our distributors and their retail customers. This enables our distributors to communicate directly regarding the products, the business opportunity we offer and their personal

experiences with both. We provide our distributors with a financially rewarding and entrepreneurial business opportunity, affording them the ability to earn compensation both from the direct sale of products and from sales volume generated by distributors they sponsor. We actively support our distributors by providing marketing materials, a dependable product fulfillment system and frequent educational, training and motivational programs.

The majority of our sales traditionally has been, and is expected to continue to be, made through our distributors in the United States. We also currently generate sales through distributor networks in Australia, Austria, Canada, France, Germany, Indonesia, Ireland, Malaysia, Mexico, the Netherlands, New Zealand, the Philippines, Singapore and the United Kingdom. In each country in which we conduct business, our distributors operate under a uniform business and compensation model that maintains consistent marketing, sales, fulfillment, and compliance procedures. As of December 31, 2014, our network consisted of approximately 47,970 distributors —34,650 in the United States and 13,320 across our international markets.

We manufacture all of our powdered nutritional supplements at our facility in Chesterfield, Missouri. We believe our ability to formulate and manufacture all but two of our own nutritional supplements enables us to produce our products efficiently while maintaining our high standards of quality assurance and proprietary product composition.

**Industry Overview**

***Nutritional Supplement Market***

We operate primarily in the $34.8 billion U.S. nutritional supplement market, which is part of the broader $140 billion U.S. nutrition industry according to data published by the *Nutrition Business Journal*, or NBJ, and an estimated $320.0 billion global nutrition industry, also according to the NBJ. Additionally, more than 150 million Americans, or 68% of all U.S. adults, take dietary supplements annually according to the Council for Responsible Nutrition.

A combination of demographic, healthcare and lifestyle trends are expected to drive continued growth in the nutritional supplement market. These trends include:

- *Aging Population:* The older population (persons 65 years or older) numbered 41.3 million in 2011 according to latest information from the Department of Health and Human Services. They represented 13.25% of the U.S. population, about one in every eight Americans. By 2050, there will be approximately 89 million older persons living in the United States, more than twice their number in 2011. Recent data from the Council for Responsible Nutrition shows that 74% of adults aged 55 and over take dietary supplements. We believe this ever-growing population, living longer lives than in previous decades, will continue to focus on their nutritional needs as they age.

- *Rising Healthcare Costs and Commitment to Health:* The cost of healthcare in the United States continues to increase rapidly each year and grew at an annual rate of 5% in 2014 according to the Alatrum Institute. In 2013, U.S. healthcare spending reached 2.9 trillion or $9,255 per person according to the Centers for Medicare and Medicaid Services (CMS). As reported from Frost and Sullivan, approximately 75% of total U.S. health care expenditures are spent on preventable health issues. Many studies have demonstrated that dietary supplements have a positive effect on reducing the potential for health issues and consumers are reacting to this by taking charge of their personal health. In a new survey conducted by Harris Poll, taking vitamins was in the top five commitments to health and wellness habits. We believe more consumers will seek the use of nutritional supplements to maintain quality of life as well as reduce medical costs.

- *Continued Focus on Weight Management:* According to a report published by the National Center for Health Statistics in January 2012, more than 35%, or more than one-third of U.S. men and women were obese in 2009-2010, as were almost 17% of U.S. children. It is estimated that 86.3% of Americans will be overweight or obese by 2030. Health care costs related to obesity are expected to grow, from $860.7 billion to $956.9 billion by 2030 and currently account for almost 21% of U.S. health care costs according to a report by Cornell University. Being overweight is linked to more than 60 chronic diseases and can lead to more serious health concerns such as diabetes, heart disease and

other chronic illnesses. According to the Nutrition Business Journal, weight loss supplement sales totaled $2 billion in 2013 which is up 11.6% from 2012. Bearing these facts in mind, we believe that there will be a continual need not only for weight loss products but also for wellness products.

***Direct Selling Market***

Health and nutrition products are distributed through various market means, including retailers such as supermarkets, drugstores, mass merchants and specialty retailers; direct marketers such as mail order companies and Internet retailers; and direct sellers such as network marketers and healthcare practitioners. We distribute our products through the direct selling channel via our network marketers.

Direct selling involves the marketing of products and services directly to consumers in a person-to-person manner. Direct selling is a significant global industry largely utilized for the sale of a wide range of consumer products from companies such as Avon Products Inc., Alticor Inc. (Amway Corp.) and Tupperware Brands Corporation. According to the World Federation of Direct Selling Associations, or WFDSA, the 2013 global direct selling market (for all product categories) was estimated to be $178.5 billion, an increase from $169 billion in 2012. The WFDSA estimates that the number of individuals engaged in direct selling more than doubled between 1999 and 2013, from 35.9 million sellers to 96.2 million in 2013. The United States had 16.8 million direct sellers in 2013, the most of any country. Globally, wellness products came in as the 2$^{nd}$ top selling category, just a mere 10% behind cosmetics and personal care.

While the United States is currently the largest direct selling market with $32.6 billion in annual sales in 2013, international markets account for 80% of the entire industry, according to the WFDSA. Twenty-three countries (including the United States) have annual direct sales revenue of at least $1 billion and another thirty countries have annual direct sales revenue of at least $100 million, according to the WFDSA.

We believe that we are well positioned to capitalize on the world-wide growth trends in direct sales, as both a developer and manufacturer of proprietary nutritional products, utilizing our network marketing distribution system.

**Our Competitive Strengths**

We believe that we possess a number of competitive strengths that are our key to growth and profitability in the future.

*Leading Marketer of Bioavailable Lunasin-Containing Products*. As a result of our Technology License Agreement with Soy Labs LLC, we control certain technology and proprietary testing and manufacturing processes that allow us to produce LunaRich X, to our knowledge, the only commercial source of soy concentrate with elevated levels of bioactive lunasin. One 125 mg capsule of LunaRich X contains an amount of lunasin equivalent to 25 grams of high quality soy protein. In addition to our LunaRich X capsules, we fortified six other nutritional supplements with LunaRich X so that a serving of those products yields an amount of lunasin equivalent to consuming 25 grams of soy protein. The products fortified with LunaRich X are Reliv NOW, Reliv NOW for Kids, ProVantage, GlucAffect, SoySentials, and Slimplicity.

*Complete, Simple Nutrition.* We focus on the completeness, balance and simplicity of our basic nutritional supplements — Reliv Classic or Reliv NOW — combined with LunaRich X. Our recommended daily regimen for any new distributor or customer is one shake of either Reliv NOW or Reliv Classic and two capsules of LunaRich X. Our two basic nutritional supplements each contain a full and balanced blend of vitamins, minerals, proteins and herbs supporting an individual's daily nutritional needs and our LunaRich X capsules support an individual's wellness at the epigenetic level. The combination of Reliv NOW or Reliv Classic and LunaRich X makes supplementation simple and effective for the consumer. Consistent with this focus, in 2014 we launched Reliv Super Packs containing a four-month supply of Reliv NOW or Reliv Classic and LunaRich X based on the one shake and two capsules per day regimen. For more specific individual needs, we provide 15 additional supplements. We believe that our two basic nutritional supplements, together with LunaRich X and our additional supplements and other products, enhance the ability of our distributors to build their businesses by providing a comprehensive, simple product offering.

*Nutritional Supplements Consumed in Liquid Form.* We believe that our nutritional supplements which are consumed in liquid form, except for our LunaRich X capsules, provide a competitive advantage over other supplements such as vitamins, minerals and herbs in pill or tablet form. Our powder-based nutritional products are consumed with water, milk or juice and 24K is a ready-to-drink product. Our products provide an effective means of delivering nutrients to the body. We believe nutrients taken orally in liquid form lead to better absorption at the cellular level, or "bioavailability." Where serving sizes mandate, as with our LunaRich X capsules, we will use easily digestible capsules as a convenient and effective way of delivering small serving sizes of our powdered nutritional supplements.

*In-House Development and Production.* We have developed substantially all of our nutritional supplement and food products utilizing nutrition science as the basis for product formulation. We maintain an ongoing research and development effort led by Carl W. Hastings, Ph.D., our Chief Scientific Officer and Vice Chairman. In addition, we consult regularly with other industry professionals with respect to developments in nutritional science, product enhancements and new products. Since 1993, we have manufactured substantially all of our nutritional products at our facility in Chesterfield, Missouri. We outsource two nutritional supplement products, our 24K and LunaRich X capsules. We believe our ability to formulate and manufacture all but two of our own nutritional supplement products enables us to maintain our high standards of quality assurance and proprietary product composition.

*Experienced Ambassador Team.* Our Ambassador corps consists of distributors who have achieved the level of Master Director, have earned royalty payments of at least $4,000 in consecutive months and meet our leadership and character criteria necessary to garner our invitation to be an Ambassador. Our Ambassadors generally are our most productive distributors and are essential in recruiting, motivating and training our entire distributor network. We, and our Ambassadors, lead hundreds of annual events throughout all of our markets to motivate and train distributors, including regular recruiting meetings, trainings, conference calls, training schools for Master Affiliates and higher levels and regional, national and international distributor conferences. As of December 31, 2014, we had approximately 372 Ambassadors. The top 10 distributors at the Ambassador level have been with us for an average of 20 years, which provides consistency in training new distributors and contributes to a stable salesforce.

*Experienced and Incentivized Management Team.* Our management team is led by our founder, Robert L. Montgomery, who has been our Chief Executive Officer since the inception of our company in 1985. Our executive officers have been employed by our company for an average of 19 years and are experienced in their areas of focus, which include manufacturing, sales, finance, marketing and operations. As of March 6, 2015, our directors and executive officers beneficially own approximately 37.1% of our common stock.

**Our Business Strategy**

Our basic objective is to increase our net sales by increasing the number and productivity of our distributors and by periodically improving our existing products and introducing new products. We also intend to invest in our infrastructure to improve our operating efficiencies, provide better service to our distributors and leverage our current operating facilities to improve our profitability. We seek to accomplish these objectives by employing the following strategic initiatives:

*Leverage and Expand our Existing Distributor Base Throughout the United States.* The United States has been and will continue to be our largest market. Our growth strategy in the United States involves multiple initiatives, such as continued investment in company-sponsored events and distributor training and better utilization of our upper-level distributors across different geographical areas to increase our distributor base.

*Increase Appeal to Broader Demographic.* Traditionally, our customer and distributor demographic has skewed towards baby boomers and older individuals searching for nutritional solutions to supplement their diet and support overall wellness. While continuing to maintain our focus on the needs of this important segment, we believe there is an opportunity to expand our sales and distributor base by increasing our appeal to younger generations interested in nutrition and an active healthy lifestyle. We believe the nutritional aspects and convenience of 24K, our healthy energy and mental focus drink, will attract health conscious on-the-go individuals, many of whom fall within the under-40 demographic. Further, we maintain an active presence on popular social media sites including Facebook, Twitter, YouTube and several other social networks that are popular with younger generations. Our

internal social media team is comprised of Gen X and Gen Y staffers who regularly interact with distributors, customers and prospects. We plan to continue to develop products and program and expand our technology offerings in an effort to further appeal to younger generations interested in healthy active lifestyles and a vibrant evolving business opportunity.

*Expand in Existing and New International Markets.* We believe there is a significant opportunity to increase our net sales in international markets. We have a business model that is compatible across all of our markets and encourage our distributors to pursue their business in multiple markets. We believe this business model will encourage expansion of our distributors in our existing international markets and will provide a framework that facilitates our entry into new international markets. To that end, we continue to monitor business conditions in potential new markets and will selectively expand as timing and conditions are appropriate.

*Invest in Improved and New Products.* As a developer of nutritional supplements, it is vital to continue to invest in the research and development of new and innovative products. For example, in January 2013 we launched LunaRich X to support heart health and overall wellness and in February 2011 we launched 24K, our first ready-to-drink product, to support energy production and mental focus. Additionally, we will continue to improve and validate the efficacy of our existing product line. These types of investments should facilitate customer and distributor retention, as well as the recruitment of new distributors.

*Expand and Improve our Manufacturing and Distribution Capabilities.* We currently manufacture all of our powdered nutritional supplements at our facility in Chesterfield, Missouri. This allows us to precisely control product composition and quality assurance as well as better manage inventory levels. Periodically, we make appropriate investments that enhance our manufacturing capabilities and capacity to further leverage our existing facilities and trained production staff. In the second half of 2014, we purchased and installed an encapsulation production line in our facility in Chesterfield, Missouri. We anticipate that LunaRich X capsule production will begin in the first quarter of 2015. We expect to continue to make appropriate investments in our manufacturing and fulfillment facilities.

## Our Products

### *Product Overview*

Our product line includes nutritional supplements that address basic nutrition, specific wellness needs, weight management and sports nutrition. We combine ingredients from science and nature in targeted, well-balanced, easy-to-use formulas that are specifically designed to enhance wellness and increase performance and energy in specific applications. All but two of our supplements are in powdered form that the consumer mixes with water, juice or other liquid. 24K is a ready-to-drink nutritional supplement and LunaRich X is available in capsule form.

We currently offer 18 nutritional supplements. In addition, we offer 5 skin care products and a sweetener. Our basic nutritional supplements are formulated to provide a balanced and complete level of supplementation for the consumer. For more specific needs, we provide other focused product formulations. We have purposely been selective in the number and types of products that we offer. By providing a line of targeted products, we make it simple for our distributors and consumers to choose products appropriate for their objectives. We consider four of our oldest and best selling products — Reliv Classic, Reliv NOW, Innergize!, and FibRestore — along with LunaRich X capsules, our newest product, to be our primary or “core” products.

The following table summarizes our product categories as of December 31, 2014. The net sales figures are for the year ended December 31, 2014:

| Product Category | Product Name | % of 2014 Net Sales[1] | Year Introduced |
|---|---|---|---|
| **Basic Nutrition** | Reliv NOW | 20.7 | 1988 |
| | Reliv Classic | 10.4 | 1988 |
| | NOW for Kids | 4.3 | 2000 |
| **Specific Wellness** | FibRestore | 11.3 | 1993 |
| | Arthaffect | 6.0 | 1996 |
| | ReversAge | 3.3 | 2000 |
| | SoySentials | 1.6 | 1998 |
| | CardioSentials | 1.2 | 2005 |
| | GlucAffect | 1.2 | 2008 |
| | 24K | 2.0 | 2011 |
| | LunaRich X capsules | 13.2 | 2013 |
| **Weight Management** | Meal Replacements[2] | 1.2 | Various |
| | Cellebrate | 0.6 | 1995 |
| **Sports Nutrition** | Innergize! | 8.7 | 1991 |
| | ProVantage | 2.7 | 1997 |
| **Other** | Skin Care and Sweetener | 0.7 | 2001 |
| | Reliv Delight | 0.1 | 2001 |

(1) This table does not include net sales for the year ended December 31, 2014 related to freight and handling and sales of marketing materials, which represented approximately 10.8% of net sales for the year ended December 31, 2014.

(2) Since its introduction in February 2007, our Slimplicity Meal Replacement formula has replaced Reliv Ultrim-Plus (available since 1988) in all but our Canadian and Mexican markets. Upon introduction of our Slimplicity products in a particular market, our Reliv Ultrim-Plus line was discontinued in that market. In October 2013, Reliv ReShape was launched in our Australian and New Zealand markets, at which time Slimsimply was discontinued in those markets.

***Basic Nutrition Supplements***

Our three basic nutrition supplements provide consumers with a broad spectrum of essential nutrients. Every formulation is specifically designed to optimize and enhance the benefits of the nutrients it contains.

- Reliv NOW is a nutritional supplement containing a variety of vitamins and minerals, soy and various herbs. Reliv NOW is available in every country where we operate.

- Reliv Classic is a nutritional supplement containing a variety of vitamins and minerals, soy and various herbs. It is a vegetarian product that contains no animal compounds, artificial preservatives, artificial flavors or added simple sugars. Reliv Classic is available in the United States, Canada, France, Germany, Austria, the Netherlands, the United Kingdom and Ireland.

- NOW for Kids is a product designed to provide a balanced nutritional supplement for a child's diet and contains a variety of vitamins and minerals. NOW for Kids is available in Australia, New Zealand, the United States, the United Kingdom, France, Germany, Ireland, Austria, the Netherlands, Mexico, Malaysia and the Philippines.

***Specific Wellness Supplements***

Our line of eight specific wellness supplements contains specific compounds that target certain conditions and promote health. Each product is intended to work in conjunction with our basic nutritional supplement formulas to provide an effective, balanced and natural method for sustaining health and well-being.

- ReversAge is a patented youth-promoting nutritional supplement designed to slow down the effects of the aging process. Three proprietary complexes form the foundation of the supplement: longevity complex, antioxidant complex and herbal complex. The longevity complex is restorative and designed to replenish key hormones while creating balance within the body's major systems; the antioxidant complex is designed to slow aging at the cellular level and the herbal complex delivers a variety of herbs, including Ginkgo Biloba and Maca. ReversAge is available in every country where we operate except Germany, the United Kingdom, France, the Netherlands and Ireland. In Canada, the product is marketed as Nutriversal.

- SoySentials is a nutritional supplement containing soy as well as other vitamins, minerals and herbs designed for use by women. SoySentials provides a woman with key nutrients targeted to promote women's health and ease the symptoms of menopause and PMS. SoySentials is available in the United States and Mexico.

- CardioSentials is a berry-flavored nutritional supplement introduced in February 2005 that promotes heart health. The product contains 1,500 mg of phytosterols per serving, policosanol and several powerful antioxidants. In a clinical study of this product, participants experienced meaningful reductions in cholesterol as well as improvement in their high-density lipoprotein, or HDL, and low-density lipoprotein, or LDL, ratios. We have applied for a U.S. patent on CardioSentials. CardioSentials is available only in the United States.

- Arthaffect is a patented nutritional supplement containing Arthred, a form of hydrolyzed collagen protein, which is clinically reported to support healthy joint function. The product is available in the United States, Australia, New Zealand, Mexico, the Philippines, Malaysia, Singapore, and Canada. The product is marketed as A-Affect in Australia, New Zealand and Canada due to local product regulations.

- FibRestore is a nutritional supplement containing fiber, vitamins, minerals and herbs. A modified version of the FibRestore formula is marketed in Canada under the name Herbal Harmony to comply with Canada's nutritional regulations. FibRestore is available in all of the countries in which we operate.

- GlucAffect is a patented cinnamon cream flavored nutritional supplement launched in November 2008. GlucAffect contains Pycnogenol® and other clinically supported active ingredients. GlucAffect has been clinically proven to assist in healthy blood sugar management and support weight loss. We received a U.S. patent on GlucAffect in February 2012. GlucAffect is available in the United States and Canada.

- 24K is a patented ready-to-drink product that was introduced in February 2011. 24K is our first ready-to-drink nutritional supplement available in a multi-serving 30-ounce bottle and in a two-ounce double serving bottle. 24K is formulated with a synergistic blend of 24 active ingredients designed to enhance the body's natural vitality and provide energy, focus and stress relief. It contains no caffeine and only 5 calories per serving. 24K is available only in the United States.

- LunaRich X, our newest product, was introduced in January 2013. LunaRich X is our only nutritional supplement available in capsule form and comes in a bottle of 30 or 120 capsules. LunaRich X is a soy concentrate with elevated levels of lunasin, a soy peptide shown to have heart health and wellness benefits. LunaRich X is currently available in the United States, Canada, Mexico, the United Kingdom, France, Germany, Ireland, Austria, the Netherlands, Indonesia, the Philippines and Singapore. The product is marketed as LunaRich C in Germany, Austria, the United Kingdom, France, the Netherlands and Ireland due to local regulations.

***Weight Management Supplements***

Our four weight management supplements combine advanced weight loss promoting complexes with scientifically balanced nutrition and health enhancing soy protein. Our ingredients are designed to work together, along with proper diet and exercise, to turn unwanted fat into energy without sacrificing muscle mass.

- Slimplicity is a meal replacement intended for use in an overall program that includes proper diet and exercise and is focused on facilitating weight loss and developing healthier lifestyle choices. Slimplicity is currently available in the United States, France, Germany, Austria, the Netherlands, Ireland and the United Kingdom.

- Reliv Ultrim-Plus is designed as a meal replacement (for a maximum of two meals per day) for use in a weight loss program. Reliv Ultrim-Plus is only sold in Canada and Mexico. Reliv Ultrim-Plus is no longer available in our other markets due to the introduction of our Slimplicity meal replacement product.

- Reliv ReShape is designed as a meal replacement or a nutritious snack delivering 12 grams of protein. Reliv ReShape was introduced in October 2013 and is only sold in Australia and New Zealand. Reliv ReShape replaced Slimsimply in Australia and New Zealand upon its introduction.

- Cellebrate is a patented weight loss aid designed to suppress appetite, curb the storage of body fat, and facilitate the body's fat burning process. Cellebrate is available in the United States and Canada.

***Sports Nutrition Supplements***

Our two sports nutrition supplements contain a balance of nutrients scientifically designed to improve athletic performance and endurance, as well as muscle recovery and repair.

- Innergize! is a sports supplement, containing vitamins and minerals designed for performance enhancement. Innergize! is available in every country where we operate. In Canada, the product is marketed as Optain due to local product regulations.

- ProVantage is a patented nutritional supplement containing soy designed to enhance athletic performance with a balance of nutrients needed to improve endurance, muscle recovery and repair. ProVantage is designed to increase muscle recovery, muscle mass and function, reduce fatigue and burn excess body fat for extra energy. The product also benefits those seeking to increase their soy intake. We received a U.S. patent on ProVantage in May 2012. ProVantage is available in the United States and Canada.

***Skin Care and other products***

We offer for sale a limited line of skin care products and a sweetener. The skin care products, marketed as the "r" skin care collection, are designed to create healthier, more youthful looking skin. Each product in our r collection contains the exclusive RA7 complex, an array of antioxidants, anti-inflammatory and anti-aging nutrients. These nutrients work together to slow the aging process and improve the skin's appearance. The "r" collection includes a cleansing facial wash, eye cream, daytime facial moisturizer with SPF 15, a nighttime facial moisturizer, and a body lotion. The "r" products are available in the United States, Australia and New Zealand.

Our Reliv Sweetener is derived from the stevia plant, has no sugar and contains one gram of fiber. It is to be used in place of sugar or other artificial sweeteners.

Reliv Delight is a powdered nutritional supplement marketed as a milk replacement. Reliv Delight is available in Mexico and the United States.

**Research and Development**

We maintain an ongoing research and development effort, led by Carl W. Hastings, Ph.D., and consult with other industry professionals with respect to developments in nutritional science, product enhancements and new products. Since 2005, we have introduced four nutritional supplement products, including CardioSentials, Slimplicity meal replacement, 24K, and LunaRich X. From time to time, we have also reformulated and enhanced our products, including the addition of LunaRich soy powder to Reliv NOW, Reliv NOW for Kids, ProVantage, SoySentials, GlucAffect and Slimplicity in 2012. Our research and development team consistently evaluates product advancements in the marketplace and advancements in raw materials and ingredients available for new product ideas and developments.

For the years ended December 31, 2014 and 2013, our research and development expenses were $618,000 and $565,000, respectively.

**SL Technology, Inc.**

On July 23, 2013, SL Technology, Inc. ("SLTI"), our new wholly-owned subsidiary, and Soy Labs, LLC ("Soy Labs") entered into a Technology License Agreement (the "License Agreement") pursuant to which Soy Labs granted SLTI an exclusive license for its intellectual property related to its soy concentrate with elevated levels of bioactive lunasin and other soy-related ingredients. The license covers an issued patent and several patent applications related to lunasin and soy-related peptides, proprietary information and manufacturing processes of Soy Labs. See Note 6 to our Consolidated Financial Statements for more information on the terms of the License Agreement.

SLTI has agreed to use reasonable commercial efforts to market the products covered by the License Agreement. In addition, SLTI hired Soy Labs staff and we agreed, subject to certain conditions, to purchase all of our requirements of soy concentrate from SLTI.

**Network Marketing Program**

***General Overview***

We market and sell our products through a network marketing system of independent distributors, who purchase our products from us, or from other distributors, and who then sell our products directly to consumers. In addition to selling our products, our distributors also recruit others to distribute our products. Distributors receive compensation from both the sale of the products they have purchased at wholesale and, in the case of Master Affiliates and above, commissions on the volume of products sold by their downline organization. We believe network marketing is an effective way to distribute our products because it allows and relies on personal contact, education and endorsement of products which are not as readily available through other distribution channels.

We recognize that our sales growth is based on the continued development and growth of our independent distributor force and we strive to maintain an active and motivated distributor network through a combination of quality products, and a business opportunity with distributor discounts, commissions and bonus payments, sales conventions, training, personal recognition and a variety of publications and promotional materials.

***Program Structure***

Individuals who desire to market and sell our products may become distributors by being sponsored into the program by an existing distributor, and becoming part of that distributor's "downline." We offer a tiered discount and commission, or royalty, format that consists of four principal levels and several sub-levels, which are designed to compensate and motivate distributors to increase their networks and sales volumes.

Our distributors consist principally of individuals, although we also permit entities such as corporations, partnerships, limited liability companies and trusts to become distributors. A new distributor is required to complete a distributor application and, in most areas, to purchase a package of distributor materials (for $25 plus shipping in the United States) consisting of a Distributor Guide and CD, business forms and promotional materials. The Distributor Agreement, when accepted by us, becomes the contract between us and the distributor and obligates the

distributor to the terms of the agreement, which includes our Policies and Procedures for conduct of their business. All distributors are independent contractors and are not our employees.

In each country in which we conduct business, distributors operate under a uniform compensation system pursuant to which distributors generally are compensated based on their sales volumes. On the basis of sales volume or commission volume, distributors may achieve the following successive levels of achievement and compensation:

| **Designation** | **Discount** |
|---|---|
| Retail Distributor | 20% |
| Affiliate | 25% |
| Key Affiliate | 30% |
| Senior Affiliate | 35% |
| Master Affiliate | 40% [(1)] |
| Director | 40% [(1)] |
| Key Director | 40% [(1)] |
| Senior Director | 40% [(1)] |
| Master Director/Ambassador | 40% [(1)] |
| Presidential Director/Ambassador | 40% [(1)] |

(1) In addition to discounts, these levels also receive commissions based on sales in their downline organization.

Distributors purchase products from us at a discount from the suggested retail price for the products and then may sell the product at retail to customers, sell the product to other distributors at wholesale or consume the product. The amount of the discount varies depending on the distributor's level of achievement, as indicated above.

Distributors generate income equal to the difference between the price at which they sell the product to customers and the discounted price they pay for the product. Distributors also earn wholesale commissions on products purchased by downline distributors in the distributor's sponsored group equal to the difference between the price at which the distributor is entitled to purchase product and the price at which downline distributors purchase product. We calculate payments and issue a check directly to the qualified distributor once a month. For example, assume Distributor A is a 40% discount Master Affiliate who signs up Distributor B, a 30% discount Key Affiliate, who signs up Distributor C, a 20% discount Retail Distributor. If Distributor C purchases directly from us, a 10% wholesale profit check will be sent to Distributor A and B.

Upon achieving the level of Master Affiliate, distributors begin to receive additional compensation — "generation royalty" — payments of 8%, 6%, 4%, 3% and 2% of the retail volume of product purchased from us by Master Affiliates and above (and their personal groups) whom they have sponsored, and for each of five downline levels of sponsorship. To qualify for these additional compensation payments, Master Affiliates and above are required to maintain certain monthly sales volumes.

Master Affiliates who sponsor other distributors that achieve the level of Master Affiliate are entitled to become part of the Director Program. Advancement at the Director level is based upon achieving increasing levels of royalties based on sales generated by other distributors in the Director's downline organization. Distributors achieving each level receive recognition for their achievements at our company-sponsored events and in our publications. We also have a Star Director Program under which distributors achieving the level of Director and above receive additional compensation based on the number of Master Affiliates they have sponsored into the program. Directors receive an additional 1% to 3% royalty on the retail sales volume of Master Affiliates in their downline organization for an unlimited number of levels of sponsorship, until reaching a level that includes a Master Affiliate who also has achieved Star Director status.

Master Directors and Presidential Directors may also be invited to participate in the Ambassador Program. As of December 31, 2014, we had approximately 372 Ambassadors. Qualifications to be invited by us to participate in the Ambassador Program include demonstrated competence and leadership qualities. Ambassadors receive recognition and awards for achieving Ambassador status and can then achieve additional levels of accomplishment. We utilize our Ambassadors to lead meetings and conferences, and to provide training and education to our distributors. Ambassadors achieving the level of Silver and higher also participate in the "Reliv

Inner Circle," which may entitle them to receive additional compensation, paid participation in our sponsored events, health insurance and car allowances.

In addition to the levels of compensation described, we also provide a variety of incentives, bonuses, awards and trips to distributors who achieve high sales volumes and who advance in the distributor ranks.

***Distributor Training, Motivation and Management***

Our marketing efforts are focused on the development, training, motivation and support of our independent distributors. We support an active training program for our distributors in which our representatives and experienced distributors, usually Ambassadors, lead group training sessions. We provide distributors with manuals, brochures and other promotional, training and informational publications. We encourage distributors to hold regular weekly recruiting meetings and training sessions. We sponsor weekly training conference calls in which a significant number of distributors participate.

Our sponsorship generally includes the following:

- During 2014, we sponsored numerous special events in cities across all of our markets led by corporate executives and/or experienced Ambassadors;
- For each market in which we operate, we sponsor an annual conference for distributors; and
- In the United States, we sponsor an annual International Conference in the summer for all worldwide distributors and winter conferences on each coast for U.S. distributors.

During 2014, we invested approximately $1.97 million in training, conferences and promotional events for our distributors worldwide compared with $2.49 million in 2013.

***Distributor Compliance***

Our distributor organization and business model are designed and intended to promote the sale of our products to consumers by distributors. Sales training and promotional efforts emphasize that intention. To that end, we monitor purchases by distributors to identify potentially excessive individual purchases and keep detailed information regarding customer purchases through our corporate shopping cart and as part of our autoship program. Distributors are not required at any time to purchase product, although Master Affiliates and above are required to maintain certain minimum sales levels in their personal groups to continue receiving generation royalty compensation payments.

Distributors may create their own advertising provided that it is within our advertising rules. Unless a distributor is using our designed and approved advertisements, the distributor must submit for approval in writing all advertising (e.g. brochures, flyers, audio tapes, classified or display ads, radio scripts) to our Compliance Department before placing it or arranging for placement.

Pursuant to our Policies and Procedures, which are incorporated by reference into our Distributor Agreement, distributors are permitted to make only those claims about our products that have been approved by us and/or provided in sales and training materials. Distributors acknowledge that our products are not represented as drugs and they are not authorized to make any diagnosis of any medical condition, make drug-type claims for, or prescribe our products to treat or cure, any disease or condition. We do not authorize or permit our distributors to make any express or implied references with regard to our products that they cure, prevent or relieve disease, replace or augment medication, provide therapy, promote healing, alleviate illnesses or symptoms of illnesses, or make any other medical claims for specific ailments.

In order to comply with regulations that apply to both us and our distributors, we conduct considerable research into the applicable regulatory framework prior to entering any new market to identify all necessary licenses and approvals and applicable limitations on operations in that market. We devote substantial resources to obtaining the necessary licenses and approvals and maintaining operations that are in compliance with the applicable

limitations. We also research laws applicable to distributor operations and revise or alter distributor materials and products, as required by applicable regulations in each market.

Regulations in existing and new markets often are ambiguous and subject to considerable interpretive and enforcement discretion by the responsible regulators. In addition, regulations affecting our business often change and are subject to varying interpretation and application. We make every effort to monitor and comply with changes in laws and regulations as they occur.

We have a Compliance Department that receives and reviews allegations of distributor misconduct. If we determine that a distributor has violated our Policies and Procedures, we may take a number of disciplinary actions. For example, we may impose sanctions such as warnings or suspensions until specific conditions are satisfied, or take other appropriate actions at our discretion, including termination of the distributor's agreement.

**Geographic Presence**

***Markets***

We currently sell our products throughout the United States and in 14 other countries around the world. We have sold products in the United States since 1988 and our first product outside of the United States in 1991 when we entered Australia. In 2014, approximately 24.5% of our net sales were generated outside of the United States.

The table below shows the countries in which we operate and the year we commenced selling products:

| Country | Year Entered | Country | Year Entered |
|---|---|---|---|
| United States | 1988 | Ireland | 2003 |
| Australia | 1991 | Singapore | 2004 |
| New Zealand | 1992 | Germany | 2005 |
| Canada | 1992 | Austria | 2006 |
| Mexico | 1993 | Netherlands | 2006 |
| United Kingdom[(1)] | 1995 | Indonesia | 2009 |
| Philippines | 2000 | France | 2013 |
| Malaysia | 2003 | | |

(1) Includes Great Britain, Scotland, Wales and Northern Ireland.

Within the United States, we sell our products to distributors in all 50 states. We derived 44.9% of our domestic net sales in 2014 in California, Pennsylvania, Illinois, Michigan, Texas, Ohio, Florida and Kansas, with each state contributing at least 4% of net sales. We believe that there is the opportunity to increase the number of our distributors in all markets where we sell our products.

We organize all of our international operations under our wholly owned subsidiary, Reliv' World. As of December 31, 2014, Reliv' World consisted of the following market-specific entities: Reliv' Australia, Reliv' New Zealand, Reliv' Canada, Reliv' Mexico, Reliv' Europe, Reliv' Philippines, Reliv' Malaysia, Reliv' Singapore, and PT Reliv' Indonesia. We have utilized this method of separate corporations in most of our markets, as local business licensing and product approvals require a local legal entity.

We believe that there is a significant opportunity to increase sales in our current international markets, as a whole. We have established a uniform business model and compensation plan across all of our markets, and we continue to support our international markets with additional marketing programs and materials.

In addition to increasing sales in current international markets, our expansion strategy targets selected new foreign markets. Our presence in the UK, France, Germany, Austria and the Netherlands, as well as market performance, regional interest and distributor activity, have led to an increased focus on expansion in the European Union. We opened for business in France in 2013 and are evaluating other expansion opportunities within the European Union.

***New Market Entry Process***

When conditions warrant, we evaluate new markets for our products. In order to do so, we perform an analysis of synergies between new and existing countries and distributor presence or interest in new markets, market conditions, regulatory conditions, product approval procedures and competition before selecting markets to enter. Once we decide to enter a new market, we first hire local legal counsel and/or a consultant with appropriate expertise to:

- help ensure that our network marketing system and products comply with all applicable regulations;
- help establish favorable public relations in the new market by acting as an intermediary between us and local regulatory authorities, public officials and business people; and
- explain our products and product ingredients to appropriate regulators and, when necessary, to arrange for local technicians to conduct required ingredient analysis tests of the products.

Where regulatory approval in a foreign market is required, local counsel and/or consultants work with regulatory agencies to confirm that all of the ingredients in our products are permissible within the new market. Where reformulation of one or more of our products is required, we attempt to obtain substitute or replacement ingredients. During the regulatory compliance process, we may alter the formulation, packaging, branding or labeling of our products to conform to applicable regulations as well as local variations in customs and consumer habits, and we may modify some aspects of our network marketing system as necessary to comply with applicable regulations.

Following completion of the regulatory compliance phase, we undertake the steps necessary to meet the operations requirements of the new market. In the majority of our new markets, we establish a sales center in a major city and provide for product purchases by telephone and/or pick up. Product is shipped to the purchaser from a warehouse located in the general geographic market or the distributor may walk in to the local office and purchase products, if a pick up center is available. In addition, we initiate plans to satisfy inventory, personnel and transportation requirements of the new market, and we modify our distributor materials, recordings, videos and other training materials as necessary to be suitable for the new market.

In some countries, regulations applicable to the activities of our distributors also may affect our business because in some countries we are, or regulators may assert that we are, responsible for our distributors' conduct. In these countries, regulators may request or require that we take steps to ensure that our distributors comply with local regulations.

**Manufacturing**

We established a manufacturing line at our headquarters facility in Chesterfield, Missouri and began to manufacture all of our nutritional supplements in early 1993. We expanded our Chesterfield facility in 1997 to now include 126,000 square feet of total space. At this facility, we manufacture all of our powdered nutritional supplements for distribution both domestically and internationally. Our 24K and LunaRich X capsules are manufactured by a third party, as well as our skin care line.

Our ability to manufacture our powdered nutritional supplements is a competitive advantage over competitors not engaged in manufacturing and contributes to our ability to provide high-quality products. Our product manufacturing includes identifying suppliers of raw materials, acquiring the finest quality raw materials, blending exact amounts of raw materials into batches, and canning and labeling the finished products. Since we carefully select our ingredient suppliers, we are able to control the quality of raw materials and our finished products. We have not experienced any significant difficulty in obtaining supplies of raw materials for our nutritional supplements or finished product of our 24K or LunaRich X. By monitoring and testing products at all stages of the manufacturing process, we precisely control product composition. In addition, we can control costs by manufacturing our own powdered nutritional supplements.

In 1996, we received approval from the Australian Therapeutic Goods Administration, or TGA, to manufacture products sold in Australia at our Chesterfield plant. The certification of our Chesterfield site by the

Australian TGA also satisfied Canadian requirements. In 2013, our Chesterfield plant was audited by the Australian TGA. Our current certification is valid until April 2017.

**Fulfillment**

Distributors order product in case lots of individual quantities and pay for the goods prior to shipment. We offer our Direct Advantage for distributors and their retail customers to order product in less than case lots directly from us by phone. Direct Advantage, an automatic monthly reorder program available for distributors and customers, provides a simple and convenient ordering process for consumers as well as distributors wanting to satisfy maintenance requirements. Product is shipped directly to the distributor or customer and upline distributors earn wholesale profits or, if applicable, a commission on all Direct Advantage sales.

In the United States, our products are warehoused at our Chesterfield facility and shipped by common carrier to distributors upon order. Our facility in Chesterfield, Missouri serves all parts of the country. Our products are also warehoused in, and shipped to local distributors from: Sydney, Australia; Auckland, New Zealand; Oakville, Canada; Guadalajara, Mexico; Redditch (Birmingham), England; Makati (Manila), Philippines; Subang Jaya (Kuala Lumpur), Malaysia; Singapore; and Jakarta, Indonesia. With the exception of our Canada, New Zealand, and Singapore subsidiaries, each of our subsidiaries maintains an office and personnel to receive, record, and fill orders from distributors. Distributors in Ireland, France, Germany, Austria, and the Netherlands order and receive product from our UK-based subsidiary.

We maintain a policy that unused product may be returned by a customer to the selling distributor for a full refund or exchange within 30 days after purchase. We also maintain a policy that any distributor who terminates his or her distributorship may return saleable product which was purchased from us within twelve months of the termination for a refund of 90% of the purchase price less any compensation received relating to the purchase of the products. We believe this buyback policy addresses and satisfies a number of regulatory compliance issues pertaining to network marketing systems.

Historically, product returns and buy backs have not been significant. Product returns and buy backs have been approximately 0.25% and 0.57% of net sales in 2014 and 2013, respectively.

**Information Technology Systems**

In order to facilitate growth in the future and support our distributor activities, we continually upgrade our management information and telecommunication systems, along with increasing our internet-based capabilities. These systems include: (1) a centralized host computer in our Chesterfield headquarters, which is linked to our international offices via secure data connections that provide real-time order entry and information to respond to distributor inquiries, as well as financial and inventory management systems; (2) local area networks of personal computers within our markets, serving our local administrative staffs; (3) an international e-mail system through which our employees communicate; and (4) internet capabilities that provide a variety of online services to distributors, including product ordering, product information, event information and other related announcements, and tools to assist distributor leaders in managing their downline distributor group. We continue to pursue initiatives to increase the percentage of distributor orders placed via the internet. To accomplish this goal, we continue to make improvements to our shopping cart platform, and we have run periodic incentives to encourage distributors to place their orders via the internet. As a result of these initiatives, approximately 50% of our order volume in the United States is placed via internet.

These systems are designed to provide financial and operating data for management, timely and accurate product ordering, generation royalty payment calculation and processing, inventory management, and detailed distributor records. We intend to continue to invest in our systems in order to help meet our business strategies.

**Intellectual Property**

Our formulas are protected as trade secrets and, to the extent necessary, by confidentiality agreements. In addition, we have obtained U.S. patents on six products as set forth below:

| Product | Patent Expiration Date |
|---|---|
| Cellebrate | June 2015 |
| Arthaffect | March 2018 |
| ReversAge | May 2021 |
| ProVantage | April 2025 |
| GlucAffect | November 2029 |
| 24K | February 2032 |

Currently, we have 22 trademarks registered with the U.S. Patent and Trademark Office, or USPTO, including Reliv and the names of 15 of our 18 nutritional products. Reliv NOW for Kids, LunaRich X and ReShape are not registered with the USPTO. Trademark registrations for selected marks have been issued or applied for in Australia, New Zealand, Canada, Mexico, the United Kingdom, Ireland, the Philippines, Malaysia, Singapore, Germany and several other foreign countries that offer network marketing opportunities. We consider our trademarks to be an important asset of our business.

**Regulation**

***Product Regulation***

The formulation, manufacturing, labeling and advertising or promotion of our products are subject to regulation by the Food and Drug Administration, or FDA, which regulates our products under the federal Food, Drug and Cosmetic Act, or FDCA, the Federal Trade Commission, or FTC, and various agencies of the states or countries into which our products are shipped or sold. FDA regulations include requirements and limitations with respect to the labeling of our food and cosmetic products and also with respect to the formulation of those products. FDA regulations also limit and control the extent to which health or other claims can be made with respect to the efficacy of any food or cosmetic. The FDCA has been amended several times with respect to dietary supplements, most recently by the Nutrition Labeling and Education Act of 1990, or NLEA, and the Dietary Supplement Health and Education Act of 1994, or DSHEA, and related regulations. Such legislation governs the formulation, manufacturing, marketing and sale of nutritional supplements, including the content and presentation of health-related information included on the labels or labeling of nutritional supplements.

The majority of the products we market are classified as dietary supplements under the FDCA. Dietary supplements such as those we manufacture and sell, for which no “drug” claim is made, are not subject to FDA approval prior to their sale. However, DSHEA established a pre-market notification process for dietary supplements that contain a “new dietary ingredient,” or NDI, a term that is defined as “a dietary ingredient that was not marketed in the United States before October 15, 1994,” the date on which DSHEA was signed into law. Certain NDIs that have been “present in the food supply” are exempt from the notification requirement. For those NDIs that are not exempt, DSHEA requires the manufacturer or distributor of a dietary supplement containing an NDI to submit to the FDA, at least 75 days prior to marketing, a notification containing the basis for concluding that the dietary supplement containing the NDI will “reasonably be expected to be safe.” Dietary supplement products can be removed from the market if shown to be unsafe, or if the FDA determines, based on the labeling of products, that the intended use of the product is for the diagnosis, cure, mitigation, treatment or prevention of disease. The FDA can regulate those products as “drugs” and require premarket approval of a “new drug application.” Manufacturers of dietary supplements that make any claims for dietary supplements, including product performance and health benefit claims, must have substantiation that the statements are truthful and not misleading.

In January 2000, the FDA published a final rule that defines the types of statements that can be made concerning the effect of a dietary supplement on the structure or function of the body pursuant to DSHEA. Under DSHEA, dietary supplement labeling may bear “structure/function” claims, which are claims that the products affect the structure or function of the body, without prior FDA approval. They may not, without prior FDA approval, bear a claim that they can prevent, treat, cure, mitigate or diagnose disease, otherwise known as a “drug claim.” The final

rule describes how the FDA will distinguish drug claims from structure/function claims. Dietary supplements, like conventional foods, are also permitted to make "health claims," which are claims that are exempt from regulation as "drug" claims pursuant to the amendments to the FDCA established by the NLEA in 1990. A "health claim" is a claim, ordinarily approved by FDA regulation, on a food or dietary supplement product's labeling that "characterizes the relationship of any substance to a disease or health-related condition." To help assure that foods, dietary supplements and cosmetics comply with the provisions of the FDCA and FDA's regulations, the FDA has numerous enforcement tools, including the ability to issue warning letters, initiate product seizures and injunctions and pursue criminal penalties.

The manufacture of dietary supplements is subject to existing FDA current good manufacturing practice, or cGMP, regulations for food. In June 2007, the FDA issued regulations relating to more detailed cGMP specifically for dietary supplements. Under these regulations, we qualify as a small business and became subject to the regulations in June 2009. We believe our systems and facilities in Chesterfield are in full compliance with cGMP.

Advertisements for our products are subject to regulation by the FTC. The FTC prohibits unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce and provides that the dissemination of any false advertisement pertaining to drugs, cosmetics or foods, including dietary supplements, is an unfair or deceptive practice. Under the FTC's substantiation doctrine, an advertiser must have a "reasonable basis" for all claims made about a product. The failure to be able to adequately substantiate claims may be considered either deceptive or unfair practices. In order to avoid a violation of the FTC standards, we endeavor to assure that we have adequate substantiation for all advertising claims made for our products. In addition, the FTC has increased its scrutiny of the use of distributor testimonials. Although it is impossible for us to monitor all the product claims made by our independent distributors, we make efforts to monitor distributor testimonials and restrict inappropriate distributor claims. The FTC has been more aggressive in pursuing enforcement against dietary supplement products since the passage of DSHEA in 1994, and has brought numerous actions against dietary supplement companies, some resulting in several million dollar civil penalties and/or restitution as well as court-ordered injunctions.

We are aware that there is adverse publicity in many markets, including the United States, concerning foods that are grown from genetically modified organisms, or GMOs. In some markets, the possibility of health risks thought to be associated with GMOs has prompted proposed or actual governmental regulation. Nearly all ingredients in our formulas are non-GMO. We use non-GMO ingredients when required by governmental regulations and strive to use non-GMO ingredients in every other instance when commercially feasible and available. We believe compliance with regulatory requirements in this area should not have a material adverse effect on our business.

***Sales Program Regulation***

Our distribution and sales program is subject to regulation by the FTC and other federal and state regulation as well as regulations in several countries in which we conduct business. Various state agencies regulate multi-level distribution services. We are required to register with, and submit information to, certain of such agencies and we believe we have complied fully with such requirements. We actively strive to comply with all applicable state and federal laws and regulations affecting our products and our sales and distribution programs. The Attorneys General of several states have taken an active role in investigating and prosecuting companies whose compensation plans they claim violate local anti-pyramid and/or consumer protection statutes. We are unable to predict the effect such increased activity will have on our business in the future nor are we able to predict the probability of future laws, regulations or interpretations which may be passed by state or federal regulatory authorities.

Federal and state laws directed at network marketing programs have been adopted throughout the years to prevent the use of fraudulent practices often characterized as "pyramid schemes." Illegal pyramid schemes compensate participants primarily for the introduction or enrollment of additional participants into the program. Often these schemes are characterized by large up-front entry or sign-up fees, over-priced products of low value, little or no emphasis on the sale or use of products, high-pressure recruiting tactics and claims of huge and quick financial rewards with little or no effort. Generally, these laws are directed at ensuring that product sales ultimately are made to consumers and that advancement within such sales organizations is based on sales of products.

We believe that our network marketing system satisfies the standards and case law defining a legal marketing system. It is an ongoing part of our business to monitor and respond to regulatory and legal developments, including those that may affect our network marketing system. However, the regulatory and legal requirements concerning network marketing systems do not include "bright line" rules and are inherently fact-based.

**Competition**

The business of developing and distributing nutritional and skin care products such as those we offer is highly competitive. Numerous manufacturers, distributors and retailers compete for consumers and, in the case of other network marketing companies, for distributors. Our competitors include both network marketing companies such as Alticor Inc. (Amway Corp.), Avon Products Inc., Herbalife Ltd., Mary Kay Inc., Melaleuca, Inc., Mannatech, Inc., Nature's Sunshine Products Inc., NuSkin Enterprises Inc. and USANA Health Sciences Inc., as well as specialty and mass retail establishments. Our ability to remain competitive depends on the underlying science and high quality of our products and our success in recruiting and retaining distributors. The pool of individuals interested in network marketing tends to be limited in each market and may be reduced to the extent other network marketing companies successfully recruit these individuals into their businesses. We believe that we offer a rewarding compensation plan with attractive financial benefits to compete for the time, attention and commitment of distributors. Our compensation plan is seamless, permitting international expansion.

Reliv NOW and Reliv Classic compete with numerous supplements that offer multi-vitamin benefits. The Reliv Ultrim-Plus, Slimplicity, ReShape and Cellebrate products compete with other products in the weight loss market, including nationally advertised products such as SlimFast. Many companies have entered, or have plans to enter, the sports drink market in which Innergize! and ProVantage compete, a market led by Gatorade. 24K competes with 5-Hour Energy and numerous other liquid energy shots and drinks. With Arthaffect, FibRestore, ReversAge, GlucAffect, CardioSentials, SoySentials, LunaRich X and our skin care products, we are in the specific wellness needs, food and anti-aging markets, which are extremely competitive and led by the major food and skin care companies.

**Employees**

As of December 31, 2014, we and all of our subsidiaries had approximately 195 full-time employees compared with 208 such employees at the end of 2013.

**Additional Available Information**

We make available, free of charge, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports as soon as reasonably practicable after such material is electronically filed with, or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. This information is available on our corporate web site at www.reliv.com under the "Investor Relations" section. This information may also be obtained from the SEC's on-line database located at www.sec.gov.

## Item No. 2 – Properties

We own approximately six acres of land and a building containing approximately 126,000 square feet of office, manufacturing and warehouse space located in Chesterfield, Missouri, where we maintain our corporate headquarters and sole manufacturing facility. We believe that our worldwide facilities are suitable and adequate in relation to our present and immediate future needs.

The following table summarizes information related to our worldwide facilities as of March 6, 2015:

| Location | Nature of Use | Square Feet | Owned/Leased |
|---|---|---|---|
| Chesterfield, MO, USA | corporate headquarters/call center/manufacturing/warehouse | 126,000 | Owned |
| Seven Hills (Sydney), Australia | central office/ warehouse/distribution | 5,740 | Leased |
| Oakville, Ontario, Canada | warehouse/distribution | 2,100 | Leased |
| Guadalajara, Mexico | central office/warehouse/call center | 3,120 | Leased |
| Makati City (Manila), Philippines | central office/ warehouse/distribution | 2,700 | Leased |
| Redditch (Birmingham), England, UK | central office/ warehouse/distribution | 11,500 | Leased |
| Subang Jaya (Kuala Lumpur), Malaysia | central office/call center | 1,200 | Leased |
| Jakarta, Indonesia | central office/ warehouse/distribution | 1,600 | Leased |

**Item No. 3 - Legal Proceedings**

From time to time, we are involved in litigation incidental to the conduct of our business. We do not believe that any current proceedings will have a material adverse effect on our business, financial condition, results of operations or cash flows.

**Item No. 4 – Mine Safety Disclosures**

Not applicable.

**PART II**

**Item No. 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the NASDAQ Global Select Market under the symbol: RELV. The following table sets forth the high and low sales prices of our common stock and the quarterly dividends per share paid on our common stock during the years ended December 31, 2014 and 2013.

| | High | Low | Dividend |
|---|---|---|---|
| **Year Ending December 31, 2014** | | | |
| Fourth Quarter | $ 1.71 | $ 1.15 | $ - |
| Third Quarter | 1.93 | 1.14 | - |
| Second Quarter | 2.68 | 1.51 | - |
| First Quarter | 2.82 | 1.75 | - |
| **Year Ending December 31, 2013** | | | |
| Fourth Quarter | $ 3.50 | $ 2.11 | $ 0.01 |
| Third Quarter | 3.98 | 1.25 | - |
| Second Quarter | 1.44 | 1.23 | 0.02 |
| First Quarter | 1.40 | 1.15 | - |

As of March 6, 2015, there were approximately 1,569 holders of record of our common stock and an additional 2,997 beneficial owners, including shares of common stock held in street name.

**Item No. 7 - 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 Annual Report on Form 10-K. 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 a sweetener. We sell our products through an international network marketing system utilizing independent distributors. Sales in the United States represented approximately 75.5% of worldwide net sales for the year ended December 31, 2014 compared to approximately 78.7% for the year ended December 31, 2013. 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 on a limited basis 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 December 31, 2014, consisted of approximately 47,970 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. 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 typically approximate 23% of sales at suggested retail. In the United States, effective March 1, 2013, we implemented a retail price increase, offset by a reduced shipping charge. After the price change, 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 was generally equal to the retail price of each product prior to the price increase. 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. We have implemented similar pricing structures in all of our international markets, except Europe.

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**

***Year Ended December 31, 2014 Compared to Year Ended December 31, 2013***

Net sales decreased by 15.9% worldwide, as sales in the United States decreased by 19.3% in the year ended December 31, 2014 compared with 2013. During 2014, our international sales decreased by 3.7% over the prior year. An increase in net sales in Europe was offset by declines in all other international markets.

The following table summarizes net sales by geographic market for the years ended December 31, 2014 and 2013.

| **Net Sales by Market** | **Year Ended December 31,** | | | | | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **2014** | | **2013** | | **Change from prior year** | |
| | **Amount** | **% of Net Sales** | **Amount** | **% of Net Sales** | **Amount** | **%** |
| | | | **(dollars in thousands)** | | | |
| United States | $ 43,323 | 75.5% | $ 53,651 | 78.7% | $ (10,328) | (19.3)% |
| Australia/New Zealand | 1,642 | 2.9 | 1,859 | 2.7 | (217) | (11.7) |
| Canada | 1,367 | 2.4 | 1,777 | 2.6 | (410) | (23.1) |
| Mexico | 796 | 1.4 | 977 | 1.4 | (181) | (18.5) |
| Europe | 8,301 | 14.5 | 7,953 | 11.7 | 348 | 4.4 |
| Asia | 1,916 | 3.3 | 1,990 | 2.9 | (74) | (3.7) |
| Consolidated total | $ 57,345 | 100.0% | $ 68,207 | 100.0% | $ (10,862) | (15.9)% |

The following table sets forth, as of December 31, 2014 and 2013, 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 its 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 Affiliates and above in their downline organization. For the December 31, 2014 and 2013 data, 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 December 31, 2014 and 2013 includes 2,945 and 1,500 preferred customers, respectively.

| **Active Distributors/Master Affiliates by Market** | **December 31, 2014** | | **December 31, 2013** | | **% Change** | |
|---|---|---|---|---|---|---|
| | **Active Distributors** | **Master Affiliates and Above** | **Active Distributors** | **Master Affiliates and Above** | **Active Distributors** | **Master Affiliates and Above** |
| United States | 34,650 | 5,360 | 39,270 | 5,590 | (11.8)% | (4.1)% |
| Australia/New Zealand | 1,300 | 150 | 1,470 | 200 | (11.6) | (25.0) |
| Canada | 1,200 | 250 | 1,340 | 250 | (10.4) | 0.0 |
| Mexico | 1,130 | 140 | 1,100 | 160 | 2.7 | (12.5) |
| Europe | 7,640 | 890 | 6,790 | 940 | 12.5 | (5.3) |
| Asia | 2,050 | 340 | 3,100 | 400 | (33.9) | (15.0) |
| Consolidated total | 47,970 | 7,130 | 53,070 | 7,540 | (9.6)% | (5.4)% |

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** | United States | AUS/NZ | Canada | Mexico | Europe | Asia | International -- Total |
|---|---|---|---|---|---|---|---|
| Sales in 2014 in USD (in 000's) | $ 43,323 | $ 1,642 | $ 1,367 | $ 796 | $ 8,301 | $ 1,916 | $ 14,022 |
| % change in sales-2014 vs. 2013: | | | | | | | |
| In USD | -19.3% | -11.7% | -23.1% | -18.5% | 4.4% | -3.7% | -3.7% |
| Due to currency fluctuation | - | -4.9% | -5.6% | -3.4% | 5.3% | -4.8% | 0.7% |
| Sales in local currency | -19.3% | -6.8% | -17.5% | -15.1% | -0.9% | 1.1% | -4.4% |
| # of new distributors-2014 | 8,338 | 367 | 344 | 531 | 4,785 | 927 | 6,954 |
| # of new distributors-2013 | 11,130 | 263 | 466 | 525 | 4,382 | 1,683 | 7,319 |
| % change | -25.1% | 39.5% | -26.2% | 1.1% | 9.2% | -44.9% | -5.0% |
| # of new Master Affiliates-2014 | 1,085 | 30 | 72 | 39 | 373 | 93 | 607 |
| # of new Master Affiliates-2013 | 2,049 | 52 | 109 | 88 | 483 | 112 | 844 |
| % change | -47.0% | -42.3% | -33.9% | -55.7% | -22.8% | -17.0% | -28.1% |
| # of Product orders-2014 | 182,200 | 8,829 | 4,720 | 3,843 | 26,221 | 13,170 | 56,783 |
| # of Product orders-2013 | 204,000 | 8,236 | 5,074 | 3,821 | 22,891 | 12,039 | 52,061 |
| % change | -10.7% | 7.2% | -7.0% | 0.6% | 14.5% | 9.4% | 9.1% |

(1) The new distributor totals in Europe for 2014 and 2013 include 2,200 and 888, respectively, new preferred customers in France. The preferred customer program began in mid-2013.

*United States*

- Net sales declined in the United States in 2014 compared to 2013 as the result of a shift in sales into the fourth quarter of 2013 from the first quarter of 2014 due to a promotion. In August 2013, we launched a promotion under which new distributors could qualify as a Master Affiliate at 60% of the sales volume previously required, the "Ignition Master Affiliate promotion." This promotion ran through the end of 2013, and the reduced volume requirement became a permanent feature of our compensation plan in January 2014. This promotion increased sales and the number of distributors that reached the level of Master Affiliate in the latter portion of 2013; however, this promotion negatively impacted sales in 2014, with much of this decline occurring in the first quarter of 2014, as the Ignition Master Affiliate promotion incentivized many Master Affiliates to accelerate their requalification orders to the fourth quarter of 2013.
- Net sales were also negatively affected by the severe winter weather in the eastern half of the United States in the first quarter of 2014.
- Flagship products in the LunaRich line, including Reliv Now® and LunaRich X™, made up 16.5% and 13.4% of net sales in the U.S., respectively, as our marketing focuses around these two products.
- We introduced a Super Pack during 2014 that currently consists of four cans of Reliv NOW or Classic and four 60-count bottles of LunaRich X. This provides a distributor a simple initial selling proposition to potential new distributors and customers.
- Sales were also negatively impacted by the decline in new distributor enrollments. Distributor enrollments declined as activity and momentum slowed subsequent to the end of the Ignition Master Affiliate promotion.
- Distributor retention was 65.9% in 2014 compared to 68.2% in 2013. Distributor retention is determined by the percentage of active distributors from 2013 that renewed their distributorships in 2014.
- Decline in new Master Affiliate qualifications was the result of the large number of new Master Affiliates that qualified during the fourth quarter of 2013 promotion and distorted a meaningful year-over-year comparison. In comparison to 2012, we had 1,331 new Master Affiliate qualifications in 2012, so the

promotion did not have the long-term impact on new Master Affiliate qualifications as was anticipated. The Master Affiliate requalification rate in 2014 was 76.5% compared to 68.8% in 2013.

- Our average order size in 2014 decreased by 9.4% to $328 at suggested retail value. This decrease is consistent with the decline in new Master Affiliate qualifications, as new Master Affiliates have larger average orders.

*International Operations*

- The average foreign exchange rate for the U.S. dollar for all of 2014 was stronger versus the various local currencies in which we conduct business, except for the British pound and the Euro, when compared with the average exchange rates for all of 2013.

*Canada*

- Similar to our U.S. operations, results in Canada in both net sales and distributor activity in 2014 were negatively impacted by the Ignition Master Affiliate promotion. Canada follows the same marketing plan as the U.S.

*Mexico*

- The office was moved from Mexico City to Guadalajara in December 2013, with transition work continuing into early 2014. The process of setting up our new office, along with training an entirely new staff, had a negative impact on our 2014 performance as transition of administrative tasks used internal resources normally focused on sales and marketing.
- We have introduced similar products and marketing programs as in the United States, such as the LunaRich X capsules and Super Packs in an effort to improve sales.

*Europe*

- Our European region includes sales from operations in the United Kingdom, Ireland, France, Germany, Austria, and the Netherlands.
- Sales of LunaRich X began in the EU in October 2014.
- Sales in the fourth quarter of 2014 compared to the prior-year quarter dropped by 19.9% in local currency due to the departure of certain key distributors in the UK.

*Asia Pacific*

- Our Asia Pacific region includes Australia/New Zealand, as well as the Asian markets of the Philippines, Malaysia, Singapore, and Indonesia. These markets share much of the same management team and marketing strategies.
- The growth strategy in Asia Pacific is focused on new customer entry points that were created in late 2013 or early 2014, depending on the country. Not shown in the new distributor statistics were the new customer signups in 2014 of 364 in Australia/New Zealand and 731 in Asia.
- This strategy results in a higher order count in 2014, but a smaller average order.
- We formally launched sales in Indonesia in September 2014, as we obtained approvals for five of our products, including Reliv Now and LunaRich X.

***Costs and Expenses***

The following table sets forth selected results of our operations expressed as a percentage of net sales for the years ended December 31, 2014 and 2013. 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) | 2014 | | 2013 | |
|---|---|---|---|---|
| | Amount | % of net sales | Amount | % of net sales |
| Net sales | $ 57,345 | 100.0 % | $ 68,207 | 100.0 % |
| Costs and expenses: | | | | |
| Cost of products sold | 11,658 | 20.3 | 14,023 | 20.6 |
| Distributor royalties and commissions | 20,543 | 35.8 | 24,926 | 36.5 |
| Selling, general and adminstrative | 25,048 | 43.7 | 27,755 | 40.7 |
| Income from operations | 96 | 0.2 | 1,503 | 2.2 |
| Interest income | 132 | 0.2 | 149 | 0.2 |
| Interest expense | (100) | (0.2) | (82) | (0.1) |
| Other income/(expense) | (151) | (0.2) | (138) | (0.2) |
| Income (loss) before income taxes | (23) | 0.0 | 1,432 | 2.1 |
| Provision (benefit) for income taxes | (748) | (1.3) | 655 | 1.0 |
| Net income | $ 725 | 1.3 % | $ 777 | 1.1 % |
| Earnings per common share-Basic | $ 0.06 | | $ 0.06 | |
| Earnings per common share-Diluted | $ 0.06 | | $ 0.06 | |

*Cost of Products Sold:*

- Gross margins in 2014 improved slightly compared to the prior-year period. Margin improvements from the sales price increase implemented in the first quarter of 2013, along with improved LunaRich X product margins resulting from our acquisition of the lunasin technology license in July 2013, more than offset the negative impact of the reduction in production levels.

*Distributor Royalties and Commissions:*

- The decrease in distributor royalties and commissions as a percentage of net sales for 2014 compared to the prior-year period is the result of the retail price increase and commission restructuring that became effective March 1, 2013 in the United States and later in 2013 for other markets. After the price change, wholesale 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, which is generally equal to the retail price of each product prior to the price increase.

*Selling, General and Administrative Expenses:*

- Selling, general and administrative ("SGA") expenses declined by $2.71 million in 2014 compared to 2013.
- The increase in SGA expenses as a percentage of net sales in 2014 is a function of the decline in consolidated net sales.
- Sales and marketing expenses decreased by $1.58 million in 2014 vs. 2013. Components of the decrease include:
    - $846,000 decrease in expenses directly related to sales volume, such as star director bonuses, other sales production bonuses, and credit card fees.

    - $422,000 decrease in distributor conferences and meeting expenses. The decrease in conference and meeting expenses was partially due to the weather-related cancellation of the national distributor conference in Charlotte in February 2014, coupled with a reduction in the cost of our International distributor conference held during the third quarter 2014 versus the cost of the prior-year conference.
    - Advertising/public relations expenses decreased by $172,000 in 2014 vs. 2013. The year-over-year decrease was the result of a first half of 2013 public relations campaign to bring greater awareness to the LunaRich product line.
- Salaries, other staffing expenses, benefits, and incentive compensation decreased in the aggregate by $291,000 in 2014, compared to the prior-year period.
    - Incentive compensation expense decreased by $197,000 in 2014 vs. 2013 commensurate to the decrease in income from operations.
    - Decrease of $125,000 as no contribution was made to our Employee Stock Ownership Plan in 2014.
    - Decrease of $46,000 in our 401(k) employer expense as we reduced our matching contribution in the U.S. effective October 1, 2014.
    - These declines were offset by an increase in salaries and other staffing expenses by approximately $124,000 in 2014 vs. 2013.
- Distribution and warehouse expenses decreased by $98,000 in 2014 vs. 2013 as shipping supply expenses declined relative to sales and we reduced our facility rental expense in certain foreign locations.
- Other general and administrative expenses decreased by $738,000 in 2014 vs. 2013.
    - Significant changes in our other general and administrative expenses include a reduction in our property tax expense of $78,000 in 2014 compared to the prior-year period, as the result of successful appeals of the real estate taxes on our Chesterfield headquarters property for several prior years.
    - Consulting and legal fees were reduced by $192,000.
    - Compensation expense recognized as part of a long-term incentive agreement with our management team in our European subsidiary in 2014 was $303,000 less than the expense recognized in the prior-year period. This incentive agreement is described in Note 13 of the Consolidated Financial Statements.

*Interest Income/Expense:*

- Interest income decreased slightly in 2014 as the result of lower investable cash balances worldwide. Our interest income is primarily interest earned on the note receivable due from a distributor that was entered into in March 2012.
- Interest expense increased slightly in 2014 as the result of additional average debt levels throughout 2014 vs. 2013.

*Other Income/Expense:*

- The net expense in both 2014 and 2013 is primarily the result of foreign currency exchange losses in certain of our subsidiaries.

*Income Taxes/Benefit:*

- We reported an income tax benefit of $748,000 for 2014 as the result of a deferred tax benefit of $758,000 recorded in the fourth quarter of 2014. The deferred tax benefit related to the release of valuation allowance pertains to net operating loss carryforwards in our European subsidiary that were previously fully reserved.
- We recorded income tax expense of $655,000 for 2013, representing an effective rate of 45.8%.
- See Note 11 of the 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 year.

*Net Income:*

- Net income for 2014 was primarily the result of the deferred tax benefit recorded on the European net operating loss carryforwards. Income before income taxes declined as the result of the decrease in net sales worldwide, but particularly in the United States, partially offset by the reduction in selling, general and

administrative expenses. The components of income/loss before income taxes are outlined in Note 11 of the Consolidated Financial Statements.

**Liquidity and Capital Resources**

We used $392,000 of net cash during 2014 in operating activities, $1.07 million was used in investing activities, and $133,000 was used in financing activities. This compares with $2.52 million of net cash provided by operating activities, $1.70 million used in investing activities, and $149,000 provided by financing activities in 2013. Cash and cash equivalents decreased by $1.67 million to $5.00 million as of December 31, 2014 compared to December 31, 2013.

Significant changes in working capital items consisted of an increase in accounts receivable of $117,000, an increase in refundable income taxes of $258,000, a decrease in income taxes payable of $200,000, and a decrease in accounts payable, accrued expenses and other non-current liabilities of $914,000 in 2014. The increase in accounts receivable is the result of a refund due from a travel promotion company for an incentive trip in the fourth quarter of 2014. The increase in refundable income taxes and decrease in income taxes payable is the result of our reduction in taxable income in the United States. The decrease in accounts payable, accrued expenses, and other non-current liabilities is primarily the result of a lower balance of trade payables and accrued distributor commission expense as of December 31, 2014 compared to the prior year-end.

Our net investing activities included $908,000 and $379,000 in net capital expenditures for the years ended December 31, 2014 and 2013, respectively. Payments for key-man life insurance were $252,000 in both 2014 and 2013. Investing activities in 2013 also included a payment of $1.15 million related to the acquisition of the lunasin technology licensing agreement.

Financing activities in 2014 consisted of $500,000 in proceeds from the revolving line of credit and principal payments of $633,000 on long-term borrowings. No common stock dividends were paid in 2014. Financing activities in 2013 consisted of $1.15 million in proceeds from the revolving line of credit, principal payments of $630,000 on long-term borrowings, $379,000 in cash dividends paid, $14,000 in proceeds on the exercise of stock warrants, and $5,000 in treasury stock purchased.

Stockholders' equity increased to $17.00 million at December 31, 2014 compared with $16.13 million at December 31, 2013. The increase is primarily the result of our net income of $725,000 for 2014. Other changes to equity include an unfavorable adjustment in our cumulative foreign currency translation adjustment of $78,000, $176,000 of common stock issued to a consultant that was previously accrued for, and other transactions related to equity-based compensation with a net increase in equity of $44,000.

Our working capital balance was $5.65 million at December 31, 2014 compared to $6.51 million at December 31, 2013. The current ratio at December 31, 2014 was 1.96 compared with 1.98 at the previous year-end.

On February 28, 2014, we re-financed our 2012 term loan agreement (and its 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 credit agreement has a maturity date of July 1, 2016.

The new 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 December 31, 2014.

The new credit agreement is secured by all our tangible and intangible assets and also by a mortgage on the real estate of our headquarters. These agreements also include 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 December 31, 2014, 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, the Bank 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 reduces 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 revises the net tangible worth covenant minimum to $9.5 million and re-defines 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. We have been in compliance with the net tangible worth covenant, and we expect to continue to be in compliance after the Second Amendment. The terms of this new credit agreement and the related amendments are described in Note 6 of the Consolidated Financial Statements.

Furthermore, 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 has 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**

Our financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. We believe that the following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

***Revenue***

We receive payment by credit card, personal check, or guaranteed funds for orders from independent distributors and make related commission payments in the following month. Net sales reflect product sales at suggested retail price less the distributor discount of 20% to 40%. Sales revenue and commission expenses are recorded when the merchandise is shipped, as this is the point title and risk of loss pass. In accordance with FASB ASC, Topic 650-50, "Revenue Recognition-Customer Payments and Incentives," we present distributor royalty and commission expense as an operating expense, rather than a reduction to net sales, as these payments are not made to the purchasing distributor.

Actual and estimated returns are classified as a reduction of net sales. We estimate and accrue a reserve for product returns based on our return policy and historical experience. Our return policy allows for a distributor to return product only upon termination of his or her distributorship. Allowable returns are limited to saleable product which was purchased within twelve months of the termination for a refund of 90% of the original purchase price less any distributor royalties and commission received relating to the original purchase of the returned products. Total returns have been approximately 0.25% and 0.57% of net sales in 2014 and 2013, respectively. We record handling and freight income as a component of net sales and record handling and freight costs as a component of cost of

products sold. Total revenues do not include sales tax as we consider ourselves a pass-through conduit for collecting and remitting applicable sales taxes.

***Inventories***

Inventories are valued at the lower of cost or market. Product cost includes raw material, labor and overhead costs and is accounted for using the first-in, first-out basis. On a periodic basis, we review our inventory levels in each country for estimated obsolescence or unmarketable items, as compared to future demand requirements and the shelf life of the various products. Based on this review, we record inventory write-downs when costs exceed expected net realizable value. Historically, our estimates of obsolete or unmarketable items have been materially accurate.

Sales aids and promotional materials inventories represent distributor kits, product brochures, and other sales and business development materials which are held for sale to distributors. Costs of the sales aids and promotional materials held for sale are capitalized as inventories and subsequently recorded to cost of goods sold upon recognition of revenue when sold to distributors. All other advertising and promotional costs are expensed when incurred.

***Legal Proceedings***

In the ordinary course of business, we are subject to various legal proceedings, including lawsuits and other claims related to labor, product and other matters. We are required to assess the likelihood of adverse judgments and outcomes to these matters as well as the range of potential loss. Such assessments are required to determine whether a loss contingency reserve is required under the provisions of FASB ASC Topic 450, "Contingencies," and to determine the amount of required reserves, if any. These assessments are subjective in nature. Management makes these assessments for each individual matter based on consultation with outside counsel and based on prior experience with similar claims. To the extent additional information becomes available or our strategies or assessments change, our estimates of potential liability for a given matter may change. Changes to estimates of liability would result in a corresponding additional charge or benefit recognized in the statement of operations in the period in which such changes become known. We recognize the costs associated with legal defense in the periods incurred. Accordingly, the future costs of defending claims are not included in our estimated liability.

***Income Tax Matters***

We account for income taxes in accordance with FASB ASC Topic 740, "Income Taxes," (ASC Topic 740) which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. ASC Topic 740 also requires that deferred tax assets be reduced by a valuation allowance if it is "more likely than not" that some portion or the entire deferred tax asset will not be realized. In our quarterly evaluation of the need for a valuation allowance, we consider and weigh both positive and negative factors, including the expected level of future taxable income and available tax planning strategies. If actual results differ from the assumptions made in our previous evaluation of our valuation allowance, we may record a change in valuation allowance through income tax expense in the period this determination is made.

The calculations of our tax liabilities involve dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on the two-step process prescribed in the guidance under ASC Topic 740. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, or new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

At December 31, 2014, we had deferred tax assets related to net operating loss carryforwards and other income tax credits with a tax value of $3.1 million. These net operating loss carryforwards have various expiration dates, depending on the country and period in which they occurred. A valuation allowance of $2.4 million has been established for these deferred tax assets based on the weight of positive and negative evidence was considered, including history of income or loss, projected future taxable income, availability of tax planning strategies and the expiration dates of these carryforwards. In 2014, the Company recorded a net income tax benefit of $758,000 due to a reduction of the valuation allowance related to deferred tax assets for net operating losses of approximately $3.6 million in our United Kingdom subsidiary. Based on our assessment, we reduced the United Kingdom's NOL valuation allowance because the weight of evidence regarding the future realizability of the deferred tax assets had become predominantly positive and realization of the deferred tax assets was more likely than not. The positive evidence considered primarily related to three years of consistent profitability while the only negative evidence was historical losses prior to 2012 for this subsidiary.

**Item No. 8 - Financial Statements and Supplementary Data**

Reference is made to the Consolidated Financial Statements contained in Part IV hereof.

**Item No. 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

**Item No. 9A - Controls and Procedures**

Evaluation of Disclosure 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 December 31, 2014. 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 December 31, 2014, 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.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 2013 framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Although there are inherent limitations in the effectiveness of any system of internal control over financial reporting, based on our evaluation, management has concluded our internal controls over financial reporting were effective as of December 31, 2014.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm as the company is classified as a "Smaller Reporting Company."

Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting during the fourth quarter of 2014 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

**Item No. 9B - Other Information**

None

**PART III**

**Item No. 10 - Directors, Executive Officers and Corporate Governance**

Information called for by Item 10 of Part III is incorporated by reference to the definitive Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2015, which is expected to be filed with the Commission within 120 days after December 31, 2014.

**Item No. 11 - Executive Compensation**

Information called for by Item 11 of Part III is incorporated by reference to the definitive Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2014, which is expected to be filed with the Commission within 120 days after December 31, 2014.

**Item No. 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information called for by Item 12 of Part III is incorporated by reference to the definitive Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2015, which is expected to be filed with the Commission within 120 days after December 31, 2014.

**Item No. 13 - Certain Relationships and Related Transactions, and Director Independence**

Information called for by Item 13 of Part III is incorporated by reference to the definitive Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2015, which is expected to be filed with the Commission within 120 days after December 31, 2014.

**Item No. 14 - Principal Accountant Fees and Services**

Information called for by Item 14 of Part III is incorporated by reference to the definitive Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2015, which is expected to be filed with the Commission within 120 days after December 31, 2014.

**PART IV**

**Item No. 15 - Exhibits and Financial Statement Schedules**

(a) 1. The Consolidated Financial Statements filed as part of this report on Form 10-K are listed on the accompanying Index to Consolidated Financial Statements and Consolidated Financial Statement Schedules.

2. Financial schedules required to be filed by Item 8 of this form, and by Item 15(d) below:

All other financial schedules are not required under the related instructions or are inapplicable and therefore have been omitted.

3. Exhibits: See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: March 24, 2015

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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

Date: March 24, 2015

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

Date: March 24, 2015

By: /s/ Carl W. Hastings
Carl W. Hastings, Vice Chairman, Chief Scientific Officer, Director

Date: March 24, 2015

By: /s/ Stephen M. Merrick
Stephen M. Merrick, Senior Vice-President, Secretary, Director

Date: March 24, 2015

By: /s/ John B. Akin
John B. Akin, Director

Date: March 24, 2015

By: /s/ Robert M. Henry
Robert M. Henry, Director

Date: March 24, 2015

By: /s/ John M. Klimek
John M. Klimek, Director

Date: March 24, 2015

By: /s/ David T. Thibodeau
David T. Thibodeau, Director

Date: March 24, 2015

**Exhibit Index**

| Exhibit Number | Document |
|---|---|
| 3.1 | Second Amended and Restated Certificate of Incorporation (incorporated by reference to Appendix B of Schedule 14A of the Registrant filed on April 17, 2003). |
| 3.2 | By-Laws (incorporated by reference to the Registration Statement on Form S-3 of the Registrant filed on February 21, 2006). |
| 3.3 | Amendment to By-Laws dated March 22, 2001 (incorporated by reference to the Registration Statement on Form S-3 of the Registrant filed on February 21, 2006). |
| 3.4 | Certificate of Designation to Create a Class of Series A Preferred Stock for Reliv' International, Inc. (incorporated by reference to Exhibit 3.1 to the Form 10-Q of the Registrant for quarter ended March 31, 2003). |
| 4.1 | Form of Reliv International, Inc. common stock certificate (incorporated by reference to the Registration Statement on Form S-3 of the Registrant filed on February 21, 2006). |
| 10.1 | Amended Exclusive License Agreement with Theodore P. Kalogris dated December 1, 1991 (incorporated by reference to Exhibit 10.1 to the Form 10-K of the Registrant for the year ended December 31, 1992). |
| 10.2* | Robert L. Montgomery Employment Agreement dated June 19, 2007 (incorporated by reference to Exhibit 10.1 to the Form 8-K of the Registrant filed June 25, 2007). |
| 10.3* | Carl W. Hastings Employment Agreement dated March 31, 2014 (incorporated by reference to Exhibit 10.1 to the Form 8-K of the Registrant filed April 3, 2014). |
| 10.4* | Reliv' International, Inc. Supplemental Executive Retirement Plan dated June 1, 1998 (incorporated by reference to Exhibit 10.19 to the Form10-K of the Registrant for year ended December 31, 1998). |
| 10.5* | Reliv International, Inc. Employee Stock Ownership Plan and Trust dated August 24, 2006 (incorporated by reference to Exhibit 10.1 to the Form 8-K of the Registrant filed August 30, 2006). |
| 10.6* | 2009 Distributor Stock Purchase Plan (incorporated by reference to Appendix 1 of Form S-3 Registration Statement the Registrant filed July 1, 2009). |
| 10.7* | 2003 Stock Option Plan (incorporated by reference to Exhibit 4 to the Form S-8 Registration Statement the Registrant filed August 13, 2003). |
| 10.8* | 2009 Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to the Form S-8 Registration Statement the Registrant filed December 2, 2010). |
| 10.9* | 2014 Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to the Form S-8 Registration Statement the Registrant filed November 19, 2014). |
| 10.10* | Reliv International, Inc. Incentive Compensation Plan effective January 1, 2007 (incorporated by reference to Exhibit 10.1 to the Form 8-K of the Registrant filed May 31, 2007). |
| 10.11* | R. Scott Montgomery Employment Agreement dated January 2, 2008 (incorporated by reference to Exhibit 10.1 to the Form 8-K of the Registrant filed January 4, 2008). |

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|---|---|
| 10.12* | Ryan A. Montgomery Employment Agreement dated January 2, 2008 (incorporated by reference to Exhibit 10.2 to the Form 8-K of the Registrant filed January 4, 2008). |
| 10.13* | Steven G. Hastings Employment Agreement dated January 2, 2008 (incorporated by reference to Exhibit 10.3 to the Form 8-K of the Registrant filed January 4, 2008). |
| 10.14* | Steven D. Albright Employment Agreement dated January 2, 2008 (incorporated by reference to Exhibit 10.4 to the Form 8-K of the Registrant filed January 4, 2008). |
| 10.15* | Brett M. Hastings Employment Agreement dated January 2, 2008 (incorporated by reference to Exhibit 10.5 to the Form 8-K of the Registrant filed January 4, 2008). |
| 10.16 | Loan Sale Agreement between 2010-1 RADC/CADC Venture, LLC and Reliv International, Inc. dated March 16, 2012 (incorporated by reference to Exhibit 10.1 to the Form 10-Q of the Registrant for the quarter ended March 31, 2012). |
| 10.17 | Technology License Agreement by and between SL Technology, Inc. and Soy Labs, LLC dated July 23, 2013 (incorporated by reference to Exhibit 10.1 to the Form 8-K of the Registrant filed July 25, 2013). |
| 10.18 | Agreement by and among Reliv International, Inc., SL Technology, Inc., Soy Labs, LLC and 1Soy, Inc. dated July 23, 2013 (incorporated by reference to Exhibit 10.2 to the Form 8-K of the Registrant filed July 25, 2013). |
| 10.19 | Credit Agreement dated February 28, 2014 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, 2014). |
| 10.20 | First Amendment to Credit Agreement dated October 29, 2014 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 October 30, 2014) |
| 10.21 | 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) |
| 10.22 | 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) |
| 11 | Statement re: computation of per share earnings (incorporated by reference to Note 8 of the Consolidated Financial Statements contained in Part IV). |
| 21 | Subsidiaries of the Registrant (filed herewith). |
| 23 | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm (filed herewith). |
| 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 Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Net Income and Comprehensive Income, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements. |

*Indicates management compensation plan, contract or arrangement.

Reliv' International, Inc.
and Subsidiaries

Consolidated Financial Statements

Years ended December 31, 2014 and 2013

## Contents

# Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Reliv' International, Inc.

We have audited the accompanying consolidated balance sheets of Reliv' International, Inc. and Subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of net income and comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Reliv' International, Inc. and Subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

St. Louis, Missouri
March 24, 2015

Reliv' International, Inc. and Subsidiaries

Consolidated Balance Sheets

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 4,989,392** | $ 6,656,798 |
| Accounts receivable, less allowances of $26,300 in 2014 and $31,800 in 2013 | **265,530** | 148,630 |
| Accounts due from employees and distributors | **121,208** | 129,852 |
| Inventories: | | |
| Finished goods | **3,782,171** | 3,516,079 |
| Raw materials | **1,216,031** | 1,501,522 |
| Sales aids and promotional materials | **179,263** | 197,089 |
| Total inventories | **5,177,465** | 5,214,690 |
| Refundable income taxes | **257,577** | - |
| Prepaid expenses and other current assets | **661,038** | 697,099 |
| Deferred income taxes | **61,000** | 309,000 |
| Total current assets | **11,533,210** | 13,156,069 |
| Other assets | **295,929** | 277,770 |
| Cash surrender value of life insurance | **2,747,944** | 2,403,763 |
| Note receivable due from distributor | **1,732,982** | 1,829,827 |
| Deferred income taxes | **686,000** | - |
| Intangible assets, net | **2,925,775** | 3,195,903 |
| Property, plant, and equipment | **18,945,772** | 18,541,296 |
| Less accumulated depreciation | **12,019,802** | 11,805,877 |
| Property, plant, and equipment, net | **6,925,970** | 6,735,419 |
| Total assets | **$ 26,847,810** | $ 27,598,751 |

Reliv' International, Inc. and Subsidiaries

Consolidated Balance Sheets (continued)

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 5,187,057** | $ 5,868,783 |
| Income taxes payable | **-** | 199,558 |
| Current maturities of long-term debt | **697,423** | 581,004 |
| Total current liabilities | **5,884,480** | 6,649,345 |
| Noncurrent liabilities: | | |
| Revolving line of credit | **500,000** | 1,150,000 |
| Long-term debt, less current maturities | **3,047,267** | 2,631,607 |
| Noncurrent deferred income taxes | **-** | 127,000 |
| Other noncurrent liabilities | **418,785** | 910,327 |
| Total noncurrent liabilities | **3,966,052** | 4,818,934 |
| Stockholders' equity: | | |
| Preferred stock, par value $0.001 per share; 3,000,000 shares authorized; -0- shares issued and outstanding in 2014 and 2013 | **-** | - |
| Common stock, par value $0.001 per share; 30,000,000 shares authorized, 14,673,083 shares issued and 12,819,110 shares outstanding in 2014; 14,519,605 shares issued and 12,665,632 shares outstanding in 2013 | **14,673** | 14,520 |
| Additional paid-in capital | **30,321,598** | 30,101,069 |
| Accumulated deficit | **(7,434,595)** | (8,159,164) |
| Accumulated other comprehensive loss: | | |
| Foreign currency translation adjustment | **(565,838)** | (487,393) |
| Treasury stock | **(5,338,560)** | (5,338,560) |
| Total stockholders' equity | **16,997,278** | 16,130,472 |
| Total liabilities and stockholders' equity | **$ 26,847,810** | $ 27,598,751 |

*See accompanying notes.*

Reliv' International, Inc. and Subsidiaries

Consolidated Statements of Net Income and Comprehensive Income

| | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Product sales | **$ 52,902,254** | $ 62,379,450 |
| Handling & freight income | **4,442,705** | 5,827,288 |
| Net sales | **57,344,959** | 68,206,738 |
| Costs and expenses: | | |
| Cost of products sold | **11,657,728** | 14,022,996 |
| Distributor royalties and commissions | **20,542,905** | 24,926,014 |
| Selling, general, and administrative | **25,048,596** | 27,755,483 |
| Income from operations | **95,730** | 1,502,245 |
| Other income (expense): | | |
| Interest income | **131,503** | 149,402 |
| Interest expense | **(100,142)** | (82,461) |
| Other income (expense) | **(150,522)** | (137,596) |
| Income (loss) before income taxes | **(23,431)** | 1,431,590 |
| Provision (benefit) for income taxes | **(748,000)** | 655,000 |
| Net income available to common shareholders | **$ 724,569** | $ 776,590 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment | **(78,445)** | 7,157 |
| Comprehensive income | **$ 646,124** | $ 783,747 |
| Earnings per common share - Basic | **$0.06** | $0.06 |
| Weighted average shares | **12,666,000** | 12,619,000 |
| Earnings per common share - Diluted | **$0.06** | $0.06 |
| Weighted average shares | **12,811,000** | 12,816,000 |

*See accompanying notes.*

# Reliv' International, Inc. and Subsidiaries
# Consolidated Statements of Stockholders' Equity

| | Common Stock | | Additional Paid-In | Accumulated | Accumulated Other Comprehensive | Treasury Stock | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Loss | Shares | Amount | Total |
| Balance at December 31, 2012 | 14,511,816 | $ 14,512 | $ 30,074,801 | $ (8,557,178) | $ (494,550) | 1,892,176 | $ (5,455,715) | $ 15,581,870 |
| Net income | - | - | - | 776,590 | - | - | - | 776,590 |
| Other comprehensive income (loss): | | | | | | | | |
| Foreign currency translation adjustment | - | - | - | - | 7,157 | - | - | 7,157 |
| Total comprehensive income | | | | | | | | 783,747 |
| Common stock dividends paid, $0.03 per share | - | - | - | (378,576) | - | - | - | (378,576) |
| Stock-based compensation | - | - | 41,745 | - | - | - | - | 41,745 |
| Expired stock options & warrants; deferred tax effect | - | - | (31,618) | - | - | - | - | (31,618) |
| Contribution of treasury shares to ESOP | - | - | 2,481 | - | - | (42,248) | 122,519 | 125,000 |
| Warrants exercised | 7,789 | 8 | 13,660 | - | - | - | - | 13,668 |
| Common stock purchased for treasury | - | - | - | - | - | 4,045 | (5,364) | (5,364) |
| Balance at December 31, 2013 | 14,519,605 | 14,520 | 30,101,069 | (8,159,164) | (487,393) | 1,853,973 | (5,338,560) | 16,130,472 |
| Net income | - | - | - | **724,569** | - | - | - | **724,569** |
| Other comprehensive income (loss): | | | | | | | | |
| Foreign currency translation adjustment | - | - | - | - | **(78,445)** | - | - | **(78,445)** |
| Total comprehensive income | | | | | | | | **646,124** |
| Common stock issued to consultant | **153,478** | **153** | **176,346** | - | - | - | - | **176,499** |
| Stock-based compensation | **-** | **-** | **46,370** | - | - | - | - | **46,370** |
| Expired stock options & warrants; deferred tax effect | - | - | **(2,187)** | - | - | - | - | **(2,187)** |
| Balance at December 31, 2014 | **14,673,083** | **$ 14,673** | **$ 30,321,598** | **$ (7,434,595)** | **$ (565,838)** | **1,853,973** | **$ (5,338,560)** | **$ 16,997,278** |

*See accompanying notes.*

# Reliv' International, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

| | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| **Operating activities** | | |
| Net income | **$ 724,569** | $ 776,590 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | **961,731** | 952,660 |
| Stock-based compensation | **46,370** | 41,745 |
| Non-cash life insurance policy accretion | **(91,932)** | (68,093) |
| Contribution of treasury shares to ESOP | **-** | 125,000 |
| Deferred income taxes | **(615,000)** | (137,000) |
| Foreign currency transaction (gain)/loss | **136,999** | 126,188 |
| (Increase) decrease in accounts receivable and accounts due from employees and distributors | **(117,064)** | 84,248 |
| (Increase) decrease in inventories | **(76,392)** | (3,500) |
| (Increase) decrease in refundable income taxes | **(257,533)** | 11,151 |
| (Increase) decrease in prepaid expenses and other current assets | **28,130** | (23,393) |
| (Increase) decrease in other assets | **(18,159)** | (71,748) |
| Increase (decrease) in income taxes payable | **(199,558)** | 199,558 |
| Increase (decrease) in accounts payable & accrued expenses and other non-current liabilities | **(913,885)** | 508,761 |
| Net cash (used in) provided by operating activities | **(391,724)** | 2,522,167 |
| **Investing activities** | | |
| Proceeds from sale of property, plant, and equipment | **1,186** | 3,231 |
| Purchase of property, plant, and equipment | **(909,403)** | (382,580) |
| Payments received on distributor note receivable | **91,219** | 78,954 |
| Acquisition of lunasin technology license | **-** | (1,150,000) |
| Payment of life insurance premiums | **(252,250)** | (252,250) |
| Net cash used in investing activities | **(1,069,248)** | (1,702,645) |
| **Financing activities** | | |
| Proceeds from revolving line of credit borrowings | **500,000** | 1,150,000 |
| Principal payments on long-term borrowings | **(633,257)** | (630,246) |
| Common stock dividends paid | **-** | (378,576) |
| Proceeds from warrants exercised | **-** | 13,668 |
| Purchase of stock for treasury | **-** | (5,364) |
| Net cash (used in) provided by financing activities | **(133,257)** | 149,482 |
| Effect of exchange rate changes on cash and cash equivalents | **(73,177)** | (113,248) |
| Increase (decrease) in cash and cash equivalents | **(1,667,406)** | 855,756 |
| Cash and cash equivalents at beginning of year | **6,656,798** | 5,801,042 |
| Cash and cash equivalents at end of year | **$ 4,989,392** | $ 6,656,798 |

Reliv' International, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

| | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | **$ 82,768** | $ 74,767 |
| Income taxes | **$ 320,000** | $ 579,000 |
| Noncash investing and financing transactions: | | |
| Obligation for acquisition of lunasin technology license | **$ -** | $ 850,000 |

*See accompanying notes.*

## 1. Nature of Business and Significant Accounting Policies

### *Nature of Business*

Reliv' International, Inc. (the Company) produces a proprietary line of nutritional supplements addressing basic nutrition, specific wellness needs, weight management, and sports nutrition. These products are sold by subsidiaries of the Company to a sales force of independent distributors of the Company that sell products directly to consumers. The Company and its subsidiaries sell products to distributors throughout the United States and in Australia, Austria, Canada, France, Germany, Indonesia, Ireland, Malaysia, Mexico, the Netherlands, New Zealand, the Philippines, Singapore, and the United Kingdom.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its foreign and domestic subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

### *Cash Equivalents*

The Company's policy is to consider the following as cash and cash equivalents: demand deposits and short-term investments with a maturity of three months or less when purchased.

### *Inventories*

Inventories are valued at the lower of cost or market. Product cost includes raw materials, labor, and overhead costs and is accounted for on a first-in, first-out basis. On a periodic basis, the Company reviews its inventory levels, as compared to future demand requirements and the shelf life of the various products. Based on this review, the Company records inventory write-downs when necessary.

Sales aids and promotional materials inventories represent distributor kits, product brochures, and other sales and business development materials which are held for sale to distributors. Cost of the sales aids and promotional materials held for sale are capitalized as inventories and subsequently recorded to cost of goods sold upon recognition of revenue when sold to distributors. All other advertising and promotional costs are expensed when incurred.

### *Property, Plant, and Equipment*

Property, plant, and equipment are stated on the cost basis. Depreciation is computed using the straight-line or an accelerated method over the useful life of the related assets. Generally, computer equipment and software are depreciated over 5 years, office equipment and machinery over 7 years, and real property over 39 years.

**1. Nature of Business and Significant Accounting Policies (continued)**

***Foreign Currency Translation and Transaction Gains or Losses***

All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statements of income amounts have been translated using the average exchange rate for the year. The gains and losses resulting from the changes in exchange rates from year to year have been reported in other comprehensive income (loss). The foreign currency translation adjustment is the only component of accumulated other comprehensive loss. If applicable, foreign currency translation adjustments exclude income tax expense (benefit) as certain of the Company's investments in non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time. Transaction losses were $136,999 and $126,188 for 2014 and 2013, respectively.

***Revenue Recognition***

The Company receives payment by credit card, personal check, or guaranteed funds for orders from independent distributors and makes related commission payments in the following month. Generally, net sales reflect product sales less the distributor discount of 20 percent to 40 percent of the suggested retail price. Sales revenue and commission expenses are recorded when the merchandise is shipped, as this is the point title and risk of loss pass to the distributor. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 605-50, "Revenue Recognition – Customer Payments and Incentives," the Company presents distributor royalty and commission expense as an operating expense, rather than a reduction to net sales, as these payments are not made to the purchasing distributor.

Actual and estimated sales returns are classified as a reduction of net sales. The Company estimates and accrues a reserve for product returns based on the Company's return policy and historical experience. The Company's return policy allows for distributors to return product only upon termination of his or her distributorship. Allowable returns are limited to saleable product which was purchased within twelve months of the termination for a refund of 90% of the original purchase price less any distributor royalties and commission received relating to the original purchase of the returned products. For the years ended December 31, 2014 and 2013, total returns as a percent of net sales were approximately 0.25 % and 0.57%, respectively.

The Company records handling and freight income as a component of net sales and records handling and freight costs as a component of cost of products sold. Total revenues do not include sales tax as the Company considers itself a pass-through conduit for collecting and remitting applicable sales taxes.

***Fair Value Measurements***

FASB ASC Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements required under other accounting pronouncements. See Note 5 for further discussion.

**1. Nature of Business and Significant Accounting Policies (continued)**

***Basic and Diluted Earnings per Share***

Basic earnings per common share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings per common share are 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. See Note 8 for additional information regarding earnings per share.

***Stock-Based Compensation***

The Company has stock-based incentive plans under which it may grant stock option, restricted stock, and unrestricted stock awards. The Company recognizes stock-based compensation expense based on the grant date fair value of the award and the related vesting terms. The fair value of stock-based awards is primarily determined using the Black-Scholes model, which incorporates assumptions regarding the risk-free interest rate, expected volatility, expected option life, and dividend yield. See Note 7 for additional information.

The Company accounts for options granted to non-employees and warrants granted to distributors under the fair value approach required by FASB ASC Topic 505-50, "Equity Based Payments to Non-Employees."

***Income Taxes***

The provision for income taxes is computed using the liability method. The primary differences between financial statement and taxable income result from financial statement accruals and reserves and differences between depreciation and stock options for book and tax purposes.

Unrecognized tax benefits are accounted for as required by FASB ASC Topic 740 which prescribes a more likely than not threshold for financial statement presentation and measurement of a tax position taken or expected to be taken in a tax return. See Note 11 for further discussion.

***Advertising***

Costs of sales aids and promotional materials are capitalized as inventories. All other advertising and promotional costs are expensed when incurred. The Company recorded $19,400 and $191,800 of advertising expense in 2014 and 2013, respectively.

***Research and Development Expenses***

Research and development expenses, which are charged to selling, general, and administrative expenses as incurred, were $618,000 and $565,000 in 2014 and 2013, respectively.

**1. Nature of Business and Significant Accounting Policies (continued)**

***Amortizable Intangible Assets***

The Company records intangible assets based on management's determination of the fair value of the respective assets at the time of acquisition. Determining the fair value of intangible assets is judgmental and involves the use of significant estimates and assumptions of future company operations. The Company bases its fair value estimates and related asset lives on assumptions it believes to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from these estimates.

Intangible assets estimated to have finite estimable lives are amortized over their estimated economic life under the straight-line method; such method correlates to management's estimate of the assets' economic benefit. Based on management's estimates at origination, these lives range from two to seventeen years. Related amortization expense is presented within Selling, General, and Administrative in the accompanying consolidated statements of net income and comprehensive income. As of December 31, 2014, remaining lives of intangible assets range from two to sixteen years.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

***Recent Accounting Standards 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 U.S. GAAP revenue recognition guidance and becomes effective for the Company on January 1, 2017. Early application is not permitted. 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 as its adoption of either the retrospective or modified retrospective 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.

## 2. Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2014 and 2013, consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Land and land improvements | **$ 883,563** | $ 883,563 |
| Building | **9,966,748** | 9,945,187 |
| Machinery and equipment | **4,355,040** | 3,785,949 |
| Office equipment | **1,235,192** | 1,236,303 |
| Computer equipment and software | **2,505,229** | 2,690,294 |
| | **18,945,772** | 18,541,296 |
| Less accumulated depreciation | **12,019,802** | 11,805,877 |
| | **$ 6,925,970** | $ 6,735,419 |

For the years ended December 31, 2014 and 2013, depreciation expense was $691,603 and $750,267, respectively.

## 3. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2014 and 2013, consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Trade payables | **$ 2,026,198** | $ 2,968,814 |
| Distributors' commissions | **1,753,908** | 2,033,727 |
| Sales taxes | **292,188** | 311,049 |
| Payroll, payroll taxes, and incentive compensation | **1,114,763** | 555,193 |
| | **$ 5,187,057** | $ 5,868,783 |

## 4. Amortizable Intangible Assets

The Company had amortizable intangible assets as follows as of December 31, 2014 and 2013:

| | Gross Carrying Amount | | Accumulated Amortization | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Distributorship and related agreements | **$2,060,000** | $2,060,000 | **$924,385** | $770,375 |
| Lunasin technology license | **1,954,661** | 1,954,661 | **164,501** | 48,383 |
| | **$4,014,661** | $4,014,661 | **$1,088,886** | $818,758 |

**4. Amortizable Intangible Assets (continued)**

Amortization expense for intangible assets totaled $270,128 and $202,393 in 2014 and 2013, respectively. Amortization expense for amortizable intangible assets over the next five years is estimated to be:

| | Intangible Amortization |
|---|---|
| 2015 | $270,000 |
| 2016 | 255,000 |
| 2017 | 226,000 |
| 2018 | 226,000 |
| 2019 | 226,000 |

**5. Fair Value of Financial Instruments**

The carrying amount and fair value of financial instruments at December 31, 2014 and 2013 were approximately as follows:

| Description | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| ***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** | **-** | **-** |
| *December 31, 2013* | | | | | |
| Long-term debt | $4,362,611 | $4,362,611 | - | $4,362,611 | |
| Note receivable | 1,921,046 | 2,365,000 | - | 2,365,000 | - |
| Marketable securities | 278,000 | 278,000 | $278,000 | - | - |

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.

**5. Fair Value of Financial Instruments (continued)**

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

*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 that 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 of 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 the respective balances.

**6. Debt**

Debt at December 31, 2014 and 2013 consists of the following:

| | **2014** | **2013** |
|---|---|---|
| Term loan | **$ 3,067,442** | $ 2,400,697 |
| Revolving line of credit | **500,000** | 1,150,000 |
| Obligation for acquisition of technology license, net | **677,248** | 811,914 |
| | **4,244,690** | 4,362,611 |
| Less current maturities | **697,423** | 581,004 |
| Long-term portion | **$ 3,547,267** | $ 3,781,607 |

**6. Debt (continued)**

Principal maturities of debt at December 31, 2014, are as follows:

| | |
|---|---|
| 2015 | $ 697,423 |
| 2016 | 3,320,019 |
| 2017 | 227,248 |
| 2018 | - |
| 2019 | - |
| Thereafter | - |
| | $ 4,244,690 |

***Revolving loan agreements***

Effective September 30, 2012, the Company entered into a new one-year $5 million revolving loan agreement (2012) with its primary lender. Similar to the previous agreements, any advances under the revolver accrue interest at a variable interest rate based on 30-day LIBOR + 1.85%. Interest, if any, is payable monthly. In August 2013, in conjunction with its acquisition of a technology license, the Company borrowed $1.15 million under its revolving line of credit and this balance remained outstanding at December 31, 2013.

On February 28, 2014, the Company and its primary lender amended the revolving line of credit agreement and the term loan agreement (collectively, the "Credit Agreement"). As part of the amendment, the $5 million revolving line of credit agreement was extended to July 1, 2016 and the outstanding revolving loan balance of $1.15 million was re-financed into the term loan balance.

In September 2014, the Company borrowed $500,000 under its revolving line of credit to finance the purchase of machinery and equipment. On October 29, 2014, in conjunction with its amendment to the Credit Agreement, the Company and its primary lender amended the maximum borrowing capacity of the revolving line of credit from $5 million to $3.5 million. At December 31, 2014, the revolver's interest rate was 2.008% and $3 million remains available for additional borrowings under the revolving line of credit.

***Term Loan***

On September 30, 2012, the Company re-financed a prior loan agreement with its primary lender. The 2012 re-financed term loan was for a period of thirty-eight months with interest accruing at a floating interest rate based on the 30-day LIBOR plus 2%. Monthly principal and interest payments were based on approximately a seven-year amortization with the aggregate outstanding balance of principal and interest due and payable on November 30, 2015.

**6. Debt (continued)**

***Term Loan (continued)***

On February 28, 2014, the Company re-financed the 2012 term loan agreement and its revolving line of credit agreement with its 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. The total borrowings on the new 2014 term loan was approximately $3.5 million and consisted of the summation of the outstanding balance of the 2012 term loan plus the February 28, 2014 revolving line of credit loan balance of $1.15 million. Monthly term loan payments consist of principal of $41,452 plus interest with a balloon payment for the outstanding balance due and payable on July 1, 2016. At December 31, 2014, the term loan's interest rate was 2.158%.

The Credit Agreement is 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 Credit Agreement also includes loan covenants requiring the Company 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 fixed charges by a ratio of at least 1.15 to 1. Fixed charges, as defined, include unfinanced capital expenditures, dividends and other distributions, cash taxes paid, and principal and interest due on all debt obligations. At September 30, 2014, the Company's fixed charge coverage ratio was less than the loan covenant's minimum ratio of 1.15 to 1. On October 29, 2014, the Company and its primary lender agreed to amend the Credit Agreement whereby the primary lender waived the Company's non-compliance with the fixed charge coverage ratio for the September 30, 2014 reporting period.

In addition to the aforementioned loan covenant waiver and the reduction in the maximum borrowing capacity of the revolver, the October 29, 2014 amendment restricts the Company from the declaration and cash payment of common stock dividends and the repurchase of company common stock.

At December 31, 2014, the Company's fixed charge coverage ratio was less than the loan covenant's minimum ratio of 1.15 to 1. On February 27, 2015, the Company's primary lender waived the Company's non-compliance with the fixed charge coverage ratio for the December 31, 2014 reporting period. On March 3, 2015, the Company and its primary lender entered into the Second Amendment to the Credit Agreement whereby the parties agreed to adjust the minimum fixed coverage ratio to 1.0 for the March 31, 2015 reporting period, only. Quarterly loan covenant reporting periods subsequent to March 31, 2015 remain at a minimum fixed coverage ratio of 1.15 to 1.0.

In addition, the Second Amendment revises the net tangible worth covenant to a covenant minimum of $9.5 million and re-defines net tangible worth as actual stockholders' equity reduced by the sum of net intangible assets, accounts due from employees and distributors, and note receivable due from distributor.

**6. Debt (continued)**

***Obligation for Acquisition of Technology License, net***

In July 2013, a newly-formed, wholly-owned subsidiary of the Company entered into a Technology License Agreement (TLA) with a privately-held company. The TLA provides the Company the exclusive license for certain intellectual property related to the nutritional ingredient lunasin and other soy-related peptides and proteins. In consideration for the TLA, the Company agreed to pay the licensor a purchase price of $2 million; $1.15 million paid at closing, with the remaining obligation (non-interest bearing) paid over the next four years in a series of annual payments ranging from $150,000 to $250,000 as stated in the agreement. Subject to certain minimum and maximum thresholds, the Company may also pay the licensor royalties of 5% of sales during the first five years of the TLA and royalties ranging from 1% to 3% of sales during the remaining life of the TLA. As of December 31, 2014, management's estimate of earned but unpaid royalties is zero. The Company has accounted for the TLA as an asset purchase acquisition consisting of a long-term finite-lived asset to be amortized over the life of the associated intellectual property (approximately seventeen years at origination).

**7. Stockholders' Equity**

***Stock Options***

*Incentive Stock Plans*

The Company sponsors two incentive stock plans (a "2014 Plan" and a "2009 Plan") each allowing for a maximum of 1,000,000 shares to be granted in the form of either incentive stock options, non-qualified stock options, restricted stock awards, or unrestricted stock awards. Employees, directors, advisors, and consultants of the Company are eligible to receive the grants. These plans have been approved by the stockholders of the Company. The Compensation Committee of the Board of Directors administers the plans.

The 2014 Plan and the 2009 Plan provide that options may be issued under the plan(s) at an option price not less than fair market value of the stock at the time the option is granted. Under these plans, restricted stock of the Company may be granted at no cost to the grantee. The grantees are entitled to dividends and voting rights for their respective shares. Restrictions limit the sale or transfer of these shares during the requisite service period. In addition, the committee may grant or sell unrestricted stock at a purchase price to be determined by the committee.

Vesting terms and restrictions, if applicable, under the plans, are set by the committee and will be 10 years or less. The 2014 Plan expires in 2024 and the 2009 Plan expires in 2019. As of December 31, 2014, there have not been any awards under the 2014 Plan.

**7. Stockholders' Equity (continued)**

***Stock Options (continued)***

In March 2013, under the 2009 Plan, the Company issued performance-based stock option grants totaling 230,000 shares. These option grants have an exercise price of $1.17 per share with a five-year term. The options' vesting provisions are contingent upon the Company achieving certain financial performance measurements. The aggregate estimated compensation cost related to the performance based options is $110,400; however, recognition is contingent upon performance vesting. The grant-date fair value of the options was $0.48 per share and was determined using a binomial lattice option pricing model using an average risk-free rate of 0.90%, an average dividend yield of 1.60%, and an average volatility of 52.7%.

Compensation cost for all of the stock option plans was approximately $32,737 ($32,000 net of tax) and $36,772 ($35,000 net of tax) for the years ended December 31, 2014 and 2013, respectively, and has been recorded in selling, general, and administrative expense. As of December 31, 2014, the total remaining unrecognized compensation cost related to the non-vested portion of time vesting stock options totaled $60,000 ($58,000 net of tax), which will be amortized over the weighted remaining requisite service period of two years.

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Options | Weighted Avg. Exercise Price | Options | Weighted Avg. Exercise Price |
| Outstanding beginning of the year | **1,465,000** | **$3.42** | 1,313,500 | $3.95 |
| Granted | **-** | | 230,000 | 1.17 |
| Exercised | **-** | | - | |
| Expired and forfeited | **(83,000)** | **2.40** | (78,500) | 5.57 |
| Outstanding at end of year | **1,382,000** | **$3.49** | 1,465,000 | $3.42 |
| Exercisable at end of year | **608,000** | **$6.39** | 555,500 | $7.05 |

| | As of December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Options Outstanding | | | Options Exercisable | | |
| Range of Exercise Prices | Number Outstanding | Weighted Avg. Remaining Life | Weighted Avg. Exercise Price | Number Exercisable | Weighted Avg. Remaining Life | Weighted Avg. Exercise Price |
| $1.17 | 202,000 | 3.17 | $1.17 | - | - | $ - |
| $1.20 - $1.32 | 715,000 | 2.00 | 1.22 | 143,000 | 2.00 | 1.23 |
| $7.92 | 435,000 | 0.01 | 7.92 | 435,000 | 0.01 | 7.92 |
| $8.68 | 30,000 | 0.79 | 8.68 | 30,000 | 0.79 | 8.68 |
| $1.17 - $8.68 | 1,382,000 | 1.52 | $3.49 | 608,000 | 0.52 | $6.39 |

**7. Stockholders' Equity (continued)**

***Stock Options (continued)***

The aggregate intrinsic value of stock options outstanding and currently exercisable at December 31, 2014 was $-0-. Intrinsic value for stock options is calculated based on the exercise price of the underlying awards as compared to the quoted price of the Company's common stock as of the reporting date.

For the years ended December 31, 2014 and 2013, no stock options were exercised.

***Distributor Stock Purchase Plan***

In July 2009, the Company established a Distributor Stock Purchase Plan (2009 Plan) which replaced a similar plan which had expired. Since inception, a total of 68,263 warrants have been issued under the 2009 Plan.

The plan allows distributors who have reached the "Ambassador" status the opportunity to allocate up to 10% of their monthly compensation into the plan to be used to purchase the Company's common stock at the current market value. The plan also states that at the end of each year, the Company will grant warrants to purchase additional shares of the Company's common stock based on the number of shares purchased by the distributors under the plan during the year. The warrant exercise price will equal the market price for the Company's common stock at the date of issuance. The warrants issued shall be in the amount of 25% of the total shares purchased under the plan during the year and the warrants are fully vested upon grant.

The Company records expense under the fair value method for warrants granted to distributors. Total expense recorded for these warrants was $13,633 and $4,973 in 2014 and 2013, respectively.

The fair value of the warrants was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

| | **Year ended December 31** | |
|---|---|---|
| | **2014** | **2013** |
| Expected warrant life (years) | **3.0** | 3.0 |
| Risk-free weighted average interest rate | **1.10%** | 0.78% |
| Stock price volatility | **64.1%** | 62.8% |
| Dividend yield | **0.0%** | 0.8% |

**7. Stockholders' Equity (continued)**

***Distributor Stock Purchase Plan (continued)***

A summary of the Company's warrant activity and related information for the years ended December 31 follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Warrants | Weighted Avg. Exercise Price | Warrants | Weighted Avg. Exercise Price |
| Outstanding beginning of the year | **37,987** | **$1.76** | 41,827 | $1.49 |
| Granted | **11,192** | **1.17** | 12,065 | 2.81 |
| Exercised | **-** | | (7,789) | 1.76 |
| Expired | **(14,154)** | **1.23** | (8,116) | 1.94 |
| Outstanding at end of year | **35,025** | **$1.78** | 37,987 | $1.76 |
| Exercisable at end of year | **35,025** | | 37,987 | |

| | As of December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Warrants Outstanding | | | Warrants Exercisable | |
| Range of Exercise Prices | Number Outstanding | Weighted Avg. Remaining Life | Weighted Avg. Exercise Price | Number Exercisable | Weighted Avg. Exercise Price |
| $ 1.17 | 11,192 | 3.00 | $1.17 | 11,192 | $1.17 |
| $ 1.31 | 11,768 | 1.00 | 1.31 | 11,768 | 1.31 |
| $ 2.81 | 12,065 | 2.00 | 2.81 | 12,065 | 2.81 |
| $1.17 - $2.81 | 35,025 | 1.98 | $1.78 | 35,025 | $1.78 |

The intrinsic value for stock warrants outstanding at December 31, 2014 was $-0-. A summary of the total intrinsic value, actual tax benefit realized, and cash received for stock warrants exercised for the years ended December 31 follows:

| | Year ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Stock Warrants Exercised: | | |
| Intrinsic value | **$ -** | $ 9,548 |
| Actual tax benefit realized | - | 2,045 |
| Cash received | - | 13,668 |

**7. Stockholders' Equity (continued)**

***Other equity transaction***

For the years ended December 31, 2014 and 2013, the Company recorded expense and a corresponding liability for certain consulting services of $70,499 and $106,000, respectively. In December 2014, based upon the fair market value of the Company's common stock on issuance date, the Company issued 153,478 shares of Company common stock at a fair market value of $176,499 to this consultant for services rendered.

**8. Earnings per Share**

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

| | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Numerator: | | |
| Net income | **$724,569** | $776,590 |
| Denominator: | | |
| Denominator for basic earnings per share – weighted average shares | **12,666,000** | 12,619,000 |
| Dilutive effect of employee stock options and other warrants | **145,000** | 197,000 |
| Denominator for diluted earnings per share – adjusted weighted average shares | **12,811,000** | 12,816,000 |
| Basic earnings per share | **$0.06** | $0.06 |
| Diluted earnings per share | **$0.06** | $0.06 |

For the years ended December 31, 2014 and 2013, options and warrants totaling 1,036,565 and 1,099,565, respectively, shares of common stock were not included in the denominator for diluted earnings per share because their effect would be anti-dilutive or because the shares were deemed contingently issuable.

**9. Leases**

The Company leases certain office facilities, storage, and equipment. These leases have varying terms, and certain leases have renewal and/or purchase options. Future minimum payments under non-cancelable leases with initial or remaining terms in excess of one year consist of the following at December 31, 2014:

| | |
|---|---|
| 2015 | $ 378,841 |
| 2016 | 218,665 |
| 2017 | 150,478 |
| 2018 | 34,764 |
| 2019 | 10,272 |
| Thereafter | 5,136 |
| | $ 798,156 |

Rent expense for operating leases was $471,066 and $479,862 for the years ended December 31, 2014 and 2013, respectively.

**10. Note Receivable Due From Distributor**

In March 2012, the Company purchased a note and mortgage ("Note") from a real estate investment management firm on certain properties in Wyoming and Idaho for $2 million. In May 2012, the Company entered into a Loan Modification Agreement ("LMA") with the Note's original and present borrower ("Borrower") to restructure the Note's principal amount due and related terms. The LMA terms are for a principal balance due of $2 million with interest only payments made monthly in 2012. The LMA's interest rate is the greater of 6% or prime and there is no prepayment penalty for voluntary principal payments. Concurrently, with the execution of the LMA, the Company and the Borrower also entered into a Security Agreement in which repayment of the LMA is secured by the Borrower's Reliv distributorship business.

As originally structured, beginning in 2013, the LMA was to require monthly payment of principal and interest under a five-year amortization period. In February 2013, while retaining the Company's right to require Borrower's compliance with the LMA's terms, the Company and the Borrower agreed to a verbal modification in the payment schedule in which the Company agreed to accept monthly payments of principal and interest under a fifteen-year amortization period. The outstanding balance of the note receivable was $1,829,827 and $1,921,046 as of December 31, 2014 and 2013, respectively.

**11. Income Taxes**

| Compenents of income (loss) before income taxes: | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| United States | **$49,757** | $2,974,655 |
| Foreign | **(73,188)** | (1,543,065) |
| | **($23,431)** | $1,431,590 |

| Compenents of provision (benefit) for income taxes: | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Current: | | |
| Federal | **($37,000)** | $652,000 |
| State | **(122,000)** | 117,000 |
| Foreign | **26,000** | 23,000 |
| Total current | **(133,000)** | 792,000 |
| Deferred: | | |
| Federal | **131,000** | (126,000) |
| State | **24,000** | (23,000) |
| Foreign | **(770,000)** | 12,000 |
| Total deferred | **(615,000)** | (137,000) |
| | **($748,000)** | $655,000 |

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

| | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Income taxes at U.S. statutory rate | **($8,000)** | $487,000 |
| State income taxes, net of federal benefit | **19,000** | 70,000 |
| Higher/(lower) effective taxes on earnings in foreign countries | **37,000** | 116,000 |
| Foreign corporate income taxes | **14,000** | 35,000 |
| Nondeductible meals and entertainment expense | **23,000** | 27,000 |
| Qualified production activities income - AJCA | **-** | (52,000) |
| State tax planning strategy | **(97,000)** | - |
| Release of valuation allowance, net | **(714,000)** | - |
| Other | **(22,000)** | (28,000) |
| | **($748,000)** | $655,000 |

**11. Income Taxes (continued)**

The Company has a deferred tax asset of $3,147,000 as of December 31, 2014, and $3,640,000 as of December 31, 2013, relating to foreign net operating loss carryforwards (NOLs) in various jurisdictions which expire in a range of years from one to unlimited. In 2014, the Company recorded a net income tax benefit of $758,000 due to a reduction of the valuation allowance related to deferred tax assets for net operating losses of approximately $3.6 million in the Company's United Kingdom subsidiary. Based on management's assessment, the Company reduced the United Kingdom's NOL valuation allowance because the weight of evidence regarding the future realizability of the deferred tax assets had become predominantly positive and realization of the deferred tax assets was more likely than not. The positive evidence considered primarily related to three years of consistent profitability while the only negative evidence was historical losses prior to 2012 for this subsidiary. The additional change in the valuation allowance balance presented below represents the impact from foreign currency translation.

The components of the deferred tax assets and liabilities, and the related tax effects of each temporary difference at December 31, 2014 and 2013, are as follows:

| | 2014 | 2013 |
|---|---|---|
| Deferred tax assets: | | |
| Product refund reserve | **$ 13,000** | $ 26,000 |
| Inventory obsolescence reserve | **24,000** | 28,000 |
| Vacation accrual | **17,000** | 28,000 |
| Stock-based compensation | **10,000** | 6,000 |
| Organization costs | **208,000** | 207,000 |
| Deferred compensation | **98,000** | 284,000 |
| Miscellaneous accrued expenses | **8,000** | 16,000 |
| Foreign net operating loss carryforwards | **3,147,000** | 3,640,000 |
| Valuation allowance - NOL carryforwards | **(2,432,000)** | (3,640,000) |
| | **1,093,000** | 595,000 |
| Deferred tax liabilities: | | |
| Depreciation and amortization | **213,000** | 272,000 |
| Foreign currency exchange | **133,000** | 141,000 |
| | **346,000** | 413,000 |
| Net deferred tax assets (liabilities) | **$ 747,000** | $ 182,000 |
| Reported as: | | |
| Current deferred tax assets | **$ 61,000** | $ 309,000 |
| Non-current deferred tax assets | **686,000** | - |
| Non-current deferred tax liabilities | **-** | 127,000 |
| Net deferred tax assets | **$ 747,000** | $ 182,000 |

**11. Income Taxes (continued)**

Through December 31, 2014, the cumulative amount of unremitted earnings on which the Company has not recognized United States income tax was $57,000 as the Company plans to indefinitely reinvest these earnings outside the United States.

The Company applied applicable accounting guidance relating to accounting for uncertainty in income taxes. Reserves for uncertainty in income taxes are adjusted quarterly in light of changing facts and circumstances, such as the progress of tax audits, case law, and emerging legislation. The primary difference between gross unrecognized tax benefits and net unrecognized tax benefits is the U.S. federal tax benefit from state tax deductions. It is the Company's practice to recognize interest and / or penalties related to income tax matters in income tax expense.

At December 31, 2014 and 2013, the Company had $48,000 and $91,000, respectively, of cumulative unrecognized tax benefits, of which only the net amount of 48,000 would impact the effective income tax rate if recognized.

The aggregate changes in the balance of gross unrecognized tax benefits were as follows:

| | | |
|---|---|---|
| Beginning balance as of January 1, 2013 | $ | 56,000 |
| Settlements and effective settlements with tax authorities | | - |
| Lapse of statute of limitations | | (7,000) |
| Increases in balances related to tax positions taken during prior periods | | 40,000 |
| Decreases in balances related to tax positions taken during prior periods | | (11,000) |
| Increases in balances related to tax positions taken during current period | | 13,000 |
| Balance as of December 31, 2013 | $ | 91,000 |
| Settlements and effective settlements with tax authorities | | - |
| Lapse of statute of limitations | | (6,000) |
| Increases in balances related to tax positions taken during prior periods | | - |
| Decreases in balances related to tax positions taken during prior periods | | (46,000) |
| Increases in balances related to tax positions taken during current period | | 9,000 |
| Balance as of December 31, 2014 | $ | 48,000 |

The Company's unrecognized tax benefits balance is included within other noncurrent liabilities on the consolidated balance sheets.

The Company, including its domestic and foreign subsidiaries, is subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. federal income tax matters for years through 2010 and concluded years through 2010 with its primary state jurisdiction.

**11. Income Taxes (continued)**

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 should not be liable to pay the majority of the alleged tax deficiencies. As of December 31, 2010, management estimated and reserved approximately $185,000 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 December 31, 2014, management's estimated reserve (net of deposits) for this matter is approximately $122,000.

**12. Employee Benefit Plans**

The Company sponsors a 401(k) employee savings plan which covers substantially all employees. Employees can contribute up to 15% of their gross income to the plan. The Company matched a percentage of the employee's contribution at a rate of 25% for 2013 and the first nine months of 2014 and at a rate of 10% for the last 3 months of 2014. Company contributions under the 401(k) plan totaled $98,300 and $144,600 in 2014 and 2013, respectively.

On September 1, 2006, the Company established an employee stock ownership plan ("ESOP") which covers substantially all U.S. employees. Contributions to the ESOP are funded by the Company on a discretionary basis. In 2014, the Company elected to not make a contribution to the ESOP. In 2013, the Company's contribution consisted of shares of common stock from treasury measured by the fair value of the stock on date of contribution. Company contributions under the ESOP plan totaled approximately $-0- and $125,000 for each of the years ended December 31, 2014 and 2013, respectively.

**13. Incentive Compensation Plans**

In May 2007, the Board of Directors approved the adoption of a new incentive compensation plan. This new plan was effective for fiscal year 2007 and replaced a previous plan. Under the plan, bonuses are payable quarterly in an amount not to exceed 18% of the Company's Income from Operations for any period, subject to the Company achieving a minimum quarterly Income from Operations of at least $500,000. For fiscal years 2014 and 2013, the Board determined that the aggregate amount of incentive compensation available under the Plan shall be equal to 16% of the Company's Income from Operations. The bonus pool is allocated to executives according to a specified formula, with a portion allocated to a middle management group determined by the Executive Committee of the Board of Directors.

The Company expensed a total of $89,000 and $286,000 to the participants of the bonus pool for 2014 and 2013, respectively.

**13. Incentive Compensation Plans (continued)**

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, varies 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. In the fourth quarter of 2012, the subsidiary's 24-month financial performance became positive, and remained positive throughout 2013 and 2014, resulting in the recognition of compensation expense of $137,000 and $440,500 for 2014 and 2013, respectively, as presented within Selling, General, and Administrative in the accompanying consolidated statements of net income and comprehensive income. At December 31, 2013, accrued compensation was $529,000 and was included in "Other Non-Current Liabilities" in the accompanying consolidated balance sheets.

Beginning April 2015, the Company may exercise a call option on one or more of the manager's 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. At December 31, 2014, it is management's estimate that it will exercise within one year the Company's call option for all of the vested incentive balance at time of exercise. Accordingly, the December 31, 2014, accrued incentive compensation of $666,000 was presented in "Payroll, Payroll Taxes, and Incentive Compensation Payable", a component of Accounts Payable and Accrued Expenses, as presented in the accompanying consolidated balance sheets.

The Company sponsors a Supplemental Executive Retirement Plan (SERP) to allow certain executives to defer a portion of their annual salary and bonus into a grantor trust. A grantor trust was established to hold the assets of the SERP. The Company funds the grantor trust by paying the amount deferred by the participant into the trust at the time of deferral. Investment earnings and losses accrue to the benefit or detriment of the participants. The SERP also provides for a discretionary matching contribution by the Company not to exceed 100% of the participant's annual contribution. In 2014 and 2013, the Company did not provide a match. The participants fully vest in the deferred compensation three years from the date they enter the SERP. The participants are not eligible to receive distribution under the SERP until retirement, death, or disability of the participant. At December 31, 2014 and 2013, SERP assets were $284,000 and $278,000, respectively, and are included in "Other Assets" in the accompanying consolidated balance sheets. At December 31, 2014 and 2013, SERP liabilities were $288,000 and $287,000, respectively, and are included in "Other Non-Current Liabilities" in the accompanying consolidated balance sheets. The changes in the balances of SERP assets and SERP liabilities during 2014 and 2013 were due to net realized and unrealized investment gains/losses incurred by the plan.

## 14. Segment Information

***Description of Products and Services by Segment***

The Company operates in one reportable segment, a network marketing segment consisting of six operating units that sell nutritional and dietary products to a sales force of independent distributors that sell the products directly to customers. These operating units are based on geographic regions.

Geographic area data for the years ended December 31, 2014 and 2013 follow:

| | 2014 | 2013 |
|---|---|---|
| **Net sales to external customers** | | |
| United States | **$43,323,190** | $53,650,647 |
| Australia/New Zealand | **1,641,492** | 1,858,983 |
| Canada | **1,367,294** | 1,776,375 |
| Mexico | **796,208** | 977,358 |
| Europe [(1)] | **8,300,520** | 7,953,221 |
| Asia [(2)] | **1,916,255** | 1,990,154 |
| Total net sales | **$57,344,959** | $68,206,738 |
| **Assets by area** | | |
| United States | **$22,414,373** | $22,966,040 |
| Australia/New Zealand | **609,933** | 807,336 |
| Canada | **485,544** | 753,035 |
| Mexico | **456,601** | 531,854 |
| Europe [(1)] | **2,244,738** | 1,665,194 |
| Asia [(2)] | **636,621** | 875,292 |
| Total consolidated assets | **$26,847,810** | $27,598,751 |

*(1) Europe consists of United Kingdom, Ireland, France, Germany, Austria, and the Netherlands.*

*(2) Asia consists of Philippines, Malaysia, Singapore, and Indonesia.*

**14. Segment Information (continued)**

***Description of Products and Services by Segment (continued)***

The Company classifies its sales into three categories of sales products plus handling & freight income. Net sales by product category data for the years ended December 31, 2014 and 2013, follow:

| | 2014 | 2013 |
|---|---|---|
| **Net sales by product category** | | |
| Nutritional and dietary supplements | **$51,144,929** | $60,049,651 |
| Skin care products | **344,325** | 417,688 |
| Sales aids and other | **1,413,000** | 1,912,111 |
| Handling & freight income | **4,442,705** | 5,827,288 |
| Total net sales | **$57,344,959** | $68,206,738 |

## Corporate Headquarters

Reliv International, Inc.
136 Chesterfield Industrial Blvd.
Chesterfield, Missouri 63005
Phone: 636.537.9715
Fax: 636.537.9753

## State & Date of Incorporation

Delaware, February 11, 1985

## Independent Auditors

Ernst & Young LLP

## Fiscal Year-End

December 31

## Dividend Reinvestment, Share Purchase & Sale Program

This Program is available to the general public and current shareholders of the Company. If you would like to receive information on this Program, please call American Stock Transfer & Trust Co., toll free, at 888.333.0203.

## Stock Exchange Listing

Nasdaq Stock Market® under the symbol RELV.

## Annual Meeting

The annual meeting of shareholders will be held at 9:00 a.m. on Thursday, May 21, 2015, at Reliv Corporate Headquarters, 136 Chesterfield Industrial Blvd. Chesterfield, Missouri 63005

## Transfer Agent

American Stock Transfer & Trust Co.
6201 15th Avenue
Brooklyn, NY 11219
800.937.5449

## Number of Shareholders of Record

1,569 as of March 6, 2015

## Shareholder Questions

Communications concerning stock transfer requirements, lost certificates, change of address or dividends should be addressed to American Stock Transfer & Trust Co. at 800.937.5449.

## Financial Information

Reliv International maintains a website at www.reliv.com.

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