

Lifevantage Corp  
Form 10-Q  
November 14, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011**

.. **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 000-30489**

**LIFEVANTAGE CORPORATION**

**(Exact name of Registrant as specified in its charter)**

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**COLORADO**  
(State or other jurisdiction of

**90-0224471**  
(IRS Employer

incorporation or organization)

Identification No.)

**10813 S. River Front Parkway, Ste. 500, South Jordan, UT 84095**

(Address of principal executive offices)

**(858) 312-8000**

(Registrant's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of November 1, 2011 was 99,296,293.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this report and the information incorporated by reference herein may contain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended). These statements, which involve risks and uncertainties, reflect our current expectations, intentions, or strategies regarding our possible future results of operations, performance, and achievements. Forward-looking statements include, without limitation: statements regarding future products or product development; statements regarding future selling, general and administrative costs and research and development spending; statements regarding our product development strategy; statements regarding the future performance of our network marketing sales channel; and statements regarding future financial performance, results of operations, capital expenditures and sufficiency of capital resources to fund our operating requirements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and applicable rules of the Securities and Exchange Commission and common law.

These forward-looking statements may be identified in this report and the information incorporated by reference by words such as anticipate, believe, could, estimate, expect, intend, plan, predict, project, should and similar terms and expressions, including references to strategies. These statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties, and contingencies, which could cause our actual results, performance, or achievements to differ materially from those expressed in, or implied by, such statements.

The following factors are among those that may cause actual results to differ materially from our forward-looking statements:

Limited operating history;

Our ability to successfully expand our operations and manage our future growth;

Difficulty in managing growth and expansion;

We reported material weaknesses in our internal control over financial reporting, and if we are unable to improve our internal control over financial reporting, our financial results may not be accurately reported;

Reliance on information technology systems;

We may need to raise additional capital;

The deterioration of global economic conditions and the decline of consumer confidence and spending;

Environmental liabilities stemming from past operations and property ownership;

Significant dependence upon a single product;

Competition in the dietary supplement market;

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The potential failure or unintended negative consequences of our network marketing sales channel;

Our ability to retain independent distributors or to hire new independent distributors on an ongoing basis;

The potential for government or third party actions against us resulting from independent distributor activities that violate applicable laws or regulations;

Our business is subject to strict government regulations;

Our ability to continue to innovate and provide products that are useful to consumers;

Our ability to protect our intellectual property rights and the value of our product;

The effect of current and future government regulations of the network marketing and dietary supplement industries on our business;

The effect of unfavorable publicity on our business;

We are subject to the risk of investigatory and enforcement action by the FTC;

The potential for third party and governmental actions involving our network marketing sales channel;

The potential for product liability claims against us;

Our dependence on third party manufacturers to manufacture our product;

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The ability to obtain raw material for our product;

Product returns may adversely affect our business;

Loss of key personnel could negatively impact our business;

We may not succeed in growing existing markets or opening new markets;

Economic, political and other risks associated with international operations could adversely affect our business;

Our stock is classified as a penny stock;

If we need additional financings in the future it could result in additional dilution;

If holders of our existing warrants and options exercise their securities it would materially dilute the outstanding voting shares and could cause our stock price to decline;

The market price of our securities could be adversely affected by the sales of restricted securities;

Our stock price may experience future volatility;

The illiquidity of our common stock;

Substantial sales of shares of our common stock;

Dilutive effects of outstanding warrants and options;

We have not nor do we intend to issue dividends;

Other factors not specifically described above, including the other risks, uncertainties, and contingencies described under Description of Business, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in Items 1 and 7 of our Annual Report on Form 10-K for the year ended June 30, 2011.

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



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## LIFEVANTAGE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

|   | As of,               |                      |
|---|----------------------|----------------------|
|   | September 30, 2011   | June 30, 2011        |
| <b>ASSETS</b>   |                      |                      |
| Current assets  |                      |                      |
| Cash and cash equivalents   | \$ 9,437,418         | \$ 6,370,974         |
| Marketable securities, available for sale   | 350,000              | 350,000              |
| Accounts receivable, net  | 1,315,996            | 941,802              |
| Inventory   | 2,756,298            | 2,124,663            |
| Prepaid expenses and deposits   | 655,386              | 487,812              |
| Total current assets  | 14,515,098           | 10,275,251           |
| Long-term assets  |                      |                      |
| Property and equipment, net   | 553,206              | 227,811              |
| Intangible assets, net  | 1,944,768            | 1,963,277            |
| Deposits  | 92,173               | 32,173               |
| <b>TOTAL ASSETS</b>   | <b>\$ 17,105,245</b> | <b>\$ 12,498,512</b> |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                      |                      |
| Current liabilities   |                      |                      |
| Accounts payable  | \$ 1,209,692         | \$ 799,210           |
| Commissions payable   | 2,398,011            | 1,999,969            |
| Reserve for sales returns   | 625,525              | 435,135              |
| Other accrued expenses  | 2,464,248            | 2,242,222            |
| Customer deposits   | 34,815               | 33,893               |
| Revolving line of credit and accrued interest   | 433,948              | 433,984              |
| Short-term derivative liabilities   | 6,846,205            | 7,435,883            |
| Total current liabilities   | 14,012,444           | 13,380,296           |
| Long-term liabilities   |                      |                      |
| Deferred rent   | 17,647               | 21,017               |
| Capital lease obligation  | 17,163               |                      |
| Derivative liabilities  | 19,262,075           | 19,905,401           |
| Total liabilities   | 33,309,329           | 33,306,714           |
| Commitments and contingencies   |                      |                      |
| Stockholders' deficit   |                      |                      |
| Preferred stock - par value \$0.001 per share, 50,000,000 shares authorized, no shares issued or outstanding  |                      |                      |
| Common stock - par value \$0.001 per share, 250,000,000 shares authorized and 99,281,084 and 98,794,499 issued and outstanding as of September 30, 2011 and June 30, 2011, respectively | 99,281               | 98,795               |
| Additional paid-in capital  | 68,401,642           | 67,606,293           |
| Accumulated deficit   | (84,729,440)         | (88,453,607)         |



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|  |                      |                      |
|--|----------------------|----------------------|
| Accumulated other comprehensive income/(loss)      | 24,433               | (59,683)             |
| Total stockholders' deficit                        | (16,204,084)         | (20,808,202)         |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b> | <b>\$ 17,105,245</b> | <b>\$ 12,498,512</b> |

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

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## LIFEVANTAGE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

|  | For the three months ended<br>September 30, |              |
|--|---|--------------|
|  | 2011  | 2010         |
| Sales, net                                     | \$ 20,083,299                               | \$ 6,443,349 |
| Cost of sales                                  | 2,956,779                                   | 1,020,135    |
| Gross profit                                   | 17,126,520                                  | 5,423,214    |
| Operating expenses:                            |   |              |
| Sales and marketing                            | 10,542,554                                  | 3,410,843    |
| General and administrative                     | 2,839,762                                   | 1,507,093    |
| Research and development                       | 234,556                                     | 109,793      |
| Depreciation and amortization                  | 79,855                                      | 50,716       |
| Total operating expenses                       | 13,696,727                                  | 5,078,445    |
| Operating income                               | 3,429,793                                   | 344,769      |
| Other income (expense):                        |   |              |
| Interest expense                               | (38,792)                                    | (1,464,623)  |
| Change in fair value of derivative liabilities | 804,766                                     | 1,835,047    |
| Total other income (expense)                   | 765,974                                     | 370,424      |
| Net income before income taxes                 | 4,195,767                                   | 715,193      |
| Income tax expense                             | (471,600)                                   |              |
| Net income                                     | \$ 3,724,167                                | 715,193      |
| Net income per share, basic                    | \$ 0.04                                     | \$ 0.01      |
| Net income (loss) per share, diluted           | \$ 0.02                                     | \$ (0.01)    |
| Weighted average shares, basic                 | 98,955,058                                  | 63,684,437   |
| Weighted average shares, diluted               | 121,958,618                                 | 89,693,864   |
| Currency translation adjustment                | 84,116                                      | (14,328)     |
| Other comprehensive income                     | \$ 3,808,283                                | \$ 700,865   |

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

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LIFEVANTAGE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
 (UNAUDITED)

|                                      | Common Stock      |                  | Additional<br>Paid In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other           | Total                  |
|--------------------------------------|-------------------|------------------|----------------------------------|------------------------|--------------------------------|------------------------|
|                                      | Shares            | Amount           |                                  |                        | Comprehensive<br>Income/(Loss) |                        |
| <b>Balances, June 30, 2011</b>       | <b>98,794,499</b> | <b>\$ 98,795</b> | <b>\$ 67,606,293</b>             | <b>\$ (88,453,607)</b> | <b>\$ (59,683)</b>             | <b>\$ (20,808,202)</b> |
| Options/Warrants issued for services |                   |                  | 355,221                          |                        |                                | 355,221                |
| Exercise of options and warrants     | 486,585           | 486              | 440,128                          |                        |                                | 440,614                |
| Currency translation adjustment      |                   |                  |                                  |                        | 84,116                         | 84,116                 |
| Net income                           |                   |                  |                                  | 3,724,167              |                                | 3,724,167              |
| <b>Balances, September 30, 2011</b>  | <b>99,281,084</b> | <b>\$ 99,281</b> | <b>\$ 68,401,642</b>             | <b>\$ (84,729,440)</b> | <b>\$ 24,433</b>               | <b>\$ (16,204,084)</b> |

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

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## LIFEVANTAGE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|   | <b>For the three months<br/>ended September 30,</b> |                  |
|---|---|------------------|
|   | <b>2011</b>   | <b>2010</b>      |
| <b>Cash Flows from Operating Activities:</b>                                |   |                  |
| Net income  | \$ 3,724,167  | \$ 715,193       |
| Adjustments to reconcile net loss to net cash used by operating activities: |   |                  |
| Depreciation and amortization   | 79,855  | 50,716           |
| Stock based compensation to employees                                       | 250,771   | 85,560           |
| Stock based compensation to non-employees                                   | 104,450   | 29,597           |
| Non-cash interest expense from convertible debentures                       |   | 1,063,858        |
| Non-cash interest expense from amortization of deferred offering costs      |   | 284,707          |
| Change in fair value of derivative liabilities                              | (804,766)   | (1,835,047)      |
| Changes in operating assets and liabilities:                                |   |                  |
| Increase in accounts receivable, net  | (374,194)   | (48,882)         |
| (Increase)/decrease in inventory  | (631,635)   | 9,965            |
| Increase in prepaid expenses and deposits                                   | (167,574)   | (227,874)        |
| Increase in long-term deposits  | (60,036)  |                  |
| Increase/(decrease) in accounts payable                                     | 410,482   | (36,293)         |
| Increase in customer deposits   | 922   |                  |
| Increase in accrued expenses  | 810,458   | 550,151          |
| Decrease in deferred rent   | (3,370)   |                  |
| <b>Net Cash Provided by Operating Activities</b>                            | <b>3,339,530</b>                                    | <b>641,651</b>   |
| <b>Cash Flows Provided by Investing Activities:</b>                         |   |                  |
| (Purchase) of equipment   | (354,807)   | (4,455)          |
| (Purchase) of intangible assets   | (14,381)  | (3,484)          |
| <b>Net Cash Used by Investing Activities</b>                                | <b>(369,188)</b>                                    | <b>(7,939)</b>   |
| <b>Cash Flows from Financing Activities:</b>                                |   |                  |
| Principal payments under capital lease obligation                           | (390)   |                  |
| Issuance of common stock and warrants                                       | 12,376  |                  |
| <b>Net Cash Provided by Financing Activities</b>                            | <b>11,986</b>                                       |                  |
| <b>Foreign Currency Effect on cash</b>                                      | <b>84,116</b>                                       | <b>(14,328)</b>  |
| <b>Increase in cash and cash equivalents</b>                                | <b>3,066,444</b>                                    | <b>619,384</b>   |
| Cash and Cash Equivalents beginning of period                               | 6,370,974   | 1,637,676        |
| <b>Cash and Cash Equivalents end of period</b>                              | <b>9,437,418</b>                                    | <b>2,257,060</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                     |   |                  |
| Conversion of long-term debt to common stock                                |   | \$ 1,629,175     |
| Conversion of derivative to common stock                                    |   | \$ 2,722,372     |
| Write down of deferred offering costs related to conversion of debt         |   | \$ 132,507       |
| Non-cash assets acquired under a capital lease                              | \$ 17,553   |                  |

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|                                |            |            |
|--------------------------------|------------|------------|
| Cash paid for interest expense | \$ 3,535   | \$ 116,058 |
| Cash paid for income taxes     | \$ 161,599 |            |

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

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LIFEVANTAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(UNAUDITED)

These unaudited Condensed Consolidated Financial Statements and Notes should be read in conjunction with the audited financial statements and notes of LifeVantage Corporation as of and for the year ended June 30, 2011 included in our annual report on Form 10-K.

**Note 1 Organization and Basis of Presentation:**

The condensed consolidated financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). In the opinion of the management of LifeVantage Corporation ( LifeVantage or the Company ), these interim Financial Statements include all adjustments, consisting of normal recurring adjustments, that are considered necessary for a fair presentation of our financial position as of September 30, 2011, and the results of operations for the three month periods ended September 30, 2011 and 2010 and the cash flows for the three month periods ended September 30, 2011 and 2010. Interim results are not necessarily indicative of results for a full year or for any future period.

The condensed consolidated financial statements and notes included herein are presented as required by Form 10-Q, and do not contain certain information included in our audited financial statements and notes for the fiscal year ended June 30, 2011 pursuant to the rules and regulations of the SEC. For further information, refer to the financial statements and notes thereto as of and for the year ended June 30, 2011, and included in the Annual report on Form 10-K on file with the SEC.

**Note 2 Summary of Significant Accounting Policies:**

**Consolidation**

The accompanying financial statements include the accounts of LifeVantage Corporation and our wholly-owned subsidiaries Lifeline Nutraceuticals Corporation ( LNC ), LifeVantage de México, S. de R.L. de C.V. (Limited Liability Company), Importadora LifeVantage, S. de R.L. de C.V. (Limited Liability Company), and Servicios Administrativos para la Importación de Productos Body & Skin, S.C. All inter-company accounts and transactions between the entities have been eliminated in consolidation.

**Translation of Foreign Currency Statements**

We translate the financial statements of our foreign entities by using the current exchange rate. For assets and liabilities, the exchange rate at the balance sheet date is used. For any investment in subsidiaries and retained earnings, the historical exchange rate is used. For revenue, expenses, gains, and losses, an appropriately weighted average exchange rate for the period is used.

**Use of Estimates**

Management has made a number of estimates and assumptions relating to the reporting of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates.

**Fair Value Measurements**

Fair value measurement requirements are embodied in certain accounting standards applied in the preparation of our financial statements. Significant fair value measurements include our embedded derivative liabilities. See Note 6 Stockholders Equity for disclosures related to our common stock and warrant financing arrangements. The fair value hierarchy is defined below:

Fair value hierarchy:

(1) Level 1 inputs are quoted prices in active markets for identical assets and liabilities.

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(2) Level 2 inputs are inputs which include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the assets or liabilities, either directly or indirectly, for substantially the full term of the financial instrument.

(3) Level 3 inputs are unobservable inputs and significant to the fair value measurement.

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The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The summary of fair values of financial instruments is as follows at September 30, 2011:

| <b>Instrument:</b>             | <b>Fair value</b> | <b>Carrying Value</b> | <b>Level</b> | <b>Valuation Methodology</b> |
|--------------------------------|-------------------|-----------------------|--------------|------------------------------|
| Investments                    | \$ 350,000        | \$ 350,000            | 2            | Market price                 |
| Derivative warrant liabilities | \$ 26,108,280     | \$ 26,108,280         | 3            | Black-Scholes                |

The summary of fair values of financial instruments is as follows at June 30, 2011:

| <b>Instrument:</b>             | <b>Fair value</b> | <b>Carrying Value</b> | <b>Level</b> | <b>Valuation Methodology</b> |
|--------------------------------|-------------------|-----------------------|--------------|------------------------------|
| Investments                    | \$ 350,000        | \$ 350,000            | 2            | Market price                 |
| Derivative warrant liabilities | \$ 27,341,284     | \$ 27,341,284         | 3            | Black-Scholes                |

The following represents a reconciliation of the changes in fair value of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended September 30, 2011 and the year ended June 30, 2011:

|  | <b>September 30, 2011</b> | <b>June 30, 2011</b> |
|--|---------------------------|----------------------|
| Beginning balance: Derivative liabilities        | \$ 27,341,284             | \$ 18,567,450        |
| Total (gains) losses                             | (804,766)                 | 48,454,271           |
| Purchases, sales, issuances and settlements, net | (428,238)                 | (39,680,437)         |
| Ending balance: Derivative liabilities           | \$ 26,108,280             | \$ 27,341,284        |

**Cash and Cash Equivalents**

We consider only our monetary liquid assets with original maturities of three months or less as cash and cash equivalents.

**Accounts Receivable**

Accounts receivable at September 30, 2011 consist primarily of credit card receivables including a percentage holdback by the credit card processor. The holdback balance at September 30, 2011 was \$1,039,001. Based on the Company's verification process for customer credit cards and historical information available, management has determined that an allowance for doubtful accounts on credit card sales related to its direct and independent distributor sales as of September 30, 2011 is not necessary. No bad debt expense has been recorded for the three months ended September 30, 2011 or the year ended June 30, 2011.

**Investments**

In 2008 we invested in auction rate preferred securities of closed-end funds ( ARPS ) to maximize interest income. We have classified these investments as available for sale in the balance sheet.

**Inventory**

Inventory is stated at the lower of cost or market value. Cost is determined using the first-in, first-out method. We have capitalized payments to our contract product manufacturer for the acquisition of raw materials and commencement of the manufacturing, bottling and labeling of our product. As of September 30, 2011 and June 30, 2011, inventory consisted of:



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|                        | <b>September 30,<br/>2011</b> | <b>June 30, 2011</b> |
|------------------------|-------------------------------|----------------------|
| Finished goods         | \$ 1,973,515                  | \$ 736,103           |
| Raw materials          | 782,783                       | 1,388,560            |
| <b>Total inventory</b> | <b>\$ 2,756,298</b>           | <b>\$ 2,124,663</b>  |

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We ship the majority of our product directly to the consumer via UPS and receive substantially all payment for these sales in the form of credit card charges. Revenue from direct product sales to customers is recognized upon passage of title and risk of loss to customers when product is shipped from the fulfillment facility. Sales revenue and estimated returns are recorded when product is shipped. Our return policy is to provide a 30-day money back guarantee on orders placed by customers. After 30 days, we do not issue refunds to direct sales customers for returned product. In the network marketing sales channel, we allow terminating distributors to return unopened unexpired product that they have purchased within the prior twelve months, subject to certain consumption limitations. To date, returns from terminating distributors have been negligible. Our return rate for sales directly to consumers and sales through our network channel are based on our historical experience which we analyze on a regular basis. As of September 30, 2011 and June 30, 2011, our reserve balance for returns and allowances was \$625,525 and \$435,135, respectively.

**Income/(Loss) per share**

Basic income or loss per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are computed by dividing net income by the weighted average common shares and potentially dilutive common share equivalents. For the three month period ended September 30, 2011 the effects of approximately 515,000 common shares, respectively, issuable upon exercise of options granted through our 2007 and 2010 Long-Term Incentive Plans are not included in computations because their effect was anti-dilutive. For the three month period ended September 30, 2010 the effects of approximately 3.5 million common shares issuable pursuant to options granted through our 2007 Long-Term Incentive Plan are not included in computations because their effect was anti-dilutive.

**Segment Information**

Our operations are aggregated into a single reportable operating segment based upon similar economic and operating characteristics as well as similar markets. Our operations are also subject to similar regulatory environments. We conduct our operations in the U.S., Japan and Mexico. Substantially all long-lived assets are located in the U.S. Revenues by geographic area are as follows:

|                                      | <b>Three months ended September 30,</b> |                     |
|--------------------------------------|---|---------------------|
|                                      | <b>2011</b>                             | <b>2010</b>         |
| Revenues from unaffiliated customers |   |                     |
| U.S. operations                      | \$ 15,220,945                           | \$ 5,148,078        |
| Japan operations                     | 4,765,951                               | 1,241,331           |
| Mexico operations                    | 96,403                                  | 53,940              |
| <b>Total revenues</b>                | <b>\$ 20,083,299</b>                    | <b>\$ 6,443,349</b> |

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### **Research and Development Costs**

We expense all costs related to research and development activities as incurred. Research and development expenses for the three month periods ended September 30, 2011 and 2010 were \$234,556 and \$109,793, respectively.

### **Shipping and Handling**

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

### **Stock-Based Compensation**

In certain circumstances, we issued common stock for invoiced services and in other similar situations to pay contractors and vendors. Payments in equity instruments to non-employees for goods or services are accounted for using the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued.

### **Derivative Financial Instruments**

We do not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. However, we have entered into certain other financial instruments and contracts, such as freestanding warrants and embedded conversion features on convertible debt instruments that are not afforded equity classification. These instruments are required to be carried as derivative liabilities, at fair value, in our consolidated financial statements.

Derivative financial instruments consist of financial instruments or other contracts that contain a notional amount and one or more underlying variables (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets.

We estimate fair values of derivative financial instruments using various techniques that are considered to be consistent with the objective measurement of fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as freestanding warrants, we generally use the Black Scholes Merton option valuation technique, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, and risk free rates) necessary to fairly value these instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in the trading market price of our common stock. Since derivative financial instruments are initially and subsequently carried at fair values, our income or loss will reflect the volatility in changes to these estimates and assumptions.

### **Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the effective date of the change. As of September 30, 2011 we have recognized income tax expense of \$471,600 which is our estimated Federal and state income tax liability for the three months ended September 30, 2011. Realization of our deferred tax asset is dependent upon future earnings in specific tax jurisdictions, the timing and amount of which are uncertain. We continue to evaluate the realizability of the deferred tax asset, based upon achieved and estimated future results. If it is determined that it is more likely than not that the deferred tax asset will be realized, we will reverse all or a portion of the allowance as deemed appropriate. The difference between the effective rate of 11.23% and the Federal statutory rate of 34% is due to the change in our valuation allowance account, state income taxes (net of federal benefit), and certain permanent differences between our taxable and book income.

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Effective January 1, 2009, we account for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We measure the tax benefits recognized in the financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. As such, we are required to make certain subjective assumptions and judgments regarding income tax exposures. The result of the reassessment of our tax positions did not have an impact on the consolidated financial statements.

### **Concentration of Credit Risk**

We disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments with significant credit risk include cash and investments. At September 30, 2011, we had \$8,723,977 in cash accounts at one financial institution, approximately \$480,794 in foreign bank accounts and \$232,647 in an investment management account at another financial institution. As of September 30 and June 30, 2011 the Company's cash balances exceeded federally insured limits.

### **Effect of New Accounting Pronouncements**

We have reviewed recently issued, but not yet effective, accounting pronouncements and do not believe any such pronouncements will have a material impact on our financial statements.

### **Note 3 Investments**

In 2008 we invested in auction rate preferred securities of closed-end funds ( ARPS ) to maximize interest income. We considered investments in these instruments as available for sale in accordance with relevant accounting guidance.

ARPS have historically been liquid but have been adversely affected by the broader national liquidity crisis. We entered into an agreement with our investment advisor, Stifel Nicolaus, to repurchase 100% of the remaining ARPS at par on or prior to June 30, 2012.

We have established a line of credit to borrow against 80% of these investments so that sales of these securities would not have to occur in order to fund our operating needs. The balance of the investments is classified as short-term as of September 30, 2011.

As of September 30, 2011, in light of the plan for repurchase and the repurchases made during the year, management has determined that there has not been a change in the fair value of the securities owned. We have not recorded any impairment related to these investments, as management does not believe that the underlying credit quality of the assets has been impacted by the reduced liquidity of these investments. In addition, no unrealized gain or loss has been recorded on these assets. We consider the inputs to valuation of these securities as level 2 inputs in the fair value hierarchy.

### **Note 4 Line of Credit**

We established a line of credit to borrow up to 80% of our investments with Stifel Nicolaus. As of September 30, 2011, we can borrow up to \$464,000. The line is collateralized by our auction rate securities. The interest rate charged through September 30, 2011, 3.00 percent, is 0.25 percentage points below the published Wall Street Journal Prime Rate, which was 3.25 percent as of September 30, 2011. At September 30, 2011, we have borrowed approximately \$433,948 including accrued interest, from the line.

### **Note 5 Stockholders Equity**

During the three months ended September 30, 2011 we issued 486,585 shares of common stock as a result of the exercise of warrants and options.

Our Articles of Incorporation authorize the issuance of preferred shares. However, as of September 30, 2011, none have been issued nor have any rights or preferences been assigned to the preferred shares by our Board of Directors.

### **Note 6 Stock-based Compensation**

We adopted and the shareholders approved the 2007 Long-Term Incentive Plan (the 2007 Plan ), effective November 21, 2006,



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to provide incentives to certain eligible employees, directors and consultants. A maximum of 10,000,000 shares of our common stock can be issued under the 2007 Plan in connection with the grant of awards. Awards to purchase common stock have been granted pursuant to the 2007 Plan and are outstanding to various employees, officers, directors, independent distributors and Scientific Advisory Board ( SAB ) members at prices between \$0.21 and \$0.76 per share, vesting over one- to three-year periods. Awards expire in accordance with the terms of each award and the shares subject to the award are added back to the 2007 Plan upon expiration of the award. As of September 30, 2011, awards for the purchase of an aggregate of 8,173,660 shares of our common stock are outstanding under the 2007 Plan.

We adopted and the shareholders approved the 2010 Long-Term Incentive Plan (the 2010 Plan ), effective September 27, 2010, to provide incentives to certain eligible employees, directors and consultants. A maximum of 3,500,000 shares of our common stock can be issued under the 2010 Plan in connection with the grant of awards. As of September 30, 2011 there were 2,412,000 awards outstanding under the 2010 Plan.

Payments in equity instruments for goods or services are accounted for under the guidance of share based payments, which require use of the fair value method. We have adjusted the expense for the anticipated forfeitures. Compensation based options totaling 87,500 and 58,000 were granted for the three month periods ended September 30, 2011 and 2010 respectively.

For the three months ended September 30, 2011, stock based compensation of \$355,221 was reflected as an increase to additional paid in capital. Of the stock based compensation for the three months ended September 30, 2011, \$250,771 was employee related and \$104,450 was non-employee related. For the three months ended September 30, 2010, stock based compensation of \$115,157 was reflected as an increase to additional paid in capital. Of the stock based compensation for the three months ended September 30, 2010, \$85,560 was employee related and \$29,597 was non-employee related.

Compensation expense was calculated using the fair value method during the three month periods ended September 30, 2011 and 2010 using the Black-Scholes option pricing model. The following assumptions were used for options and warrants granted during the three month periods ended September 30, 2011 and 2010:

1. risk-free interest rates of between 0.93 and 0.95 percent for the three months ended September 30, 2011 and 1.33 and 1.62 percent for the three months ended September 30, 2010;
2. dividend yield of -0- percent;
3. expected life of 3 to 6 years; and
4. a volatility factor of the expected market price of our common stock of 137 percent for the three months ended September 30, 2011 and between 128 and 129 percent for the three months ended September 30, 2010.

**Note 7 Subsequent Events**

On October 14, 2011, LifeVantage was sued in state court in Salt Lake County, Utah. The other named defendants are three LifeVantage executives President of LifeVantage Network David Brown, Vice President Compliance Eric Marchant, and Chief Operating Officer Kirby Zenger. The plaintiffs in the lawsuit are Backbone Worldwide, Inc. ( Backbone ), and Burke Hedges. Backbone was formerly an independent distributor with LifeVantage. Hedges is the principal of Backbone. The lawsuit alleges that LifeVantage breached and improperly terminated its distributor agreement with Backbone, and also that the defendants defamed Hedges. The lawsuit seeks over \$5 million in compensatory damages, and over \$3 million in punitive damages, as well as attorneys fees and costs. The Company believes the allegations are without merit and intends to vigorously defend the lawsuit.

On September 22, 2011, the Company signed a sixty-six month lease for approximately 20,805 square feet of office space at 9815 South Monroe Street, Sandy UT. The lease term commences upon the earlier of delivery of possession or opening of the Company for business at the premises.

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

*The following discussion and analysis contains forward-looking statements within the meaning of the federal securities laws. We urge you to carefully review our description and examples of forward-looking statements included in the section entitled "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this report. Forward-looking statements speak only as of the date of this report and we undertake no obligation to publicly update any forward-looking statements to reflect new information, events or circumstances after the date of this report. Actual events or results may differ materially from such statements. In evaluating such statements, we urge you to specifically consider various factors identified in this report, including the matters set forth below in Part II, Item 1A of this report, any of which could cause actual results to differ materially from those indicated by such forward-looking statements. The following discussion and analysis should be read in conjunction with the accompanying financial statements and related notes, as well as the Financial Statements and related notes in our Annual report on Form 10-K for the fiscal year ended June 30, 2011 and the risk factors discussed therein.*

#### **Overview**

The following discussion and analysis reviews the financial condition and results of operations of LifeVantage Corporation (the "Company", "LifeVantage", or "we", "us" or "our") and its wholly-owned subsidiaries Lifeline Nutraceuticals Corporation ("LNC"), LifeVantage de México, S. de C.V. (Limited Liability Company), Importadora LifeVantage, S. de R.L. de C.V. (Limited Liability Company), and Servicios Administrativos para la Importación de Productos Body & Skin, S.C.

We are a science-based company engaged in the identification, research, development, manufacture and distribution of an advanced nutraceutical dietary supplement, Protandim<sup>®</sup>, and an anti-aging skin care product, TrueScience<sup>®</sup>, to meet important health and wellness needs. We are focusing our ongoing research efforts on oxidative stress solutions, particularly the activation of Nuclear factor (erythroid-derived 2)-like 2, also known as Nrf2, as they relate to cardiovascular, central nervous system, inflammatory, metabolic diseases and other health related disorders.

We sell our products primarily through our network marketing sales channel utilizing independent distributors. Our revenue depends significantly upon the number and productivity of our independent distributors who market and sell our products and recruit new distributors based on the distinguishing benefits and innovative characteristics of our products. We have developed a distributor compensation plan and other incentives designed to motivate our independent distributors to market and sell our products and to build sales organizations. If we experience delays or difficulties in introducing compelling products or attractive initiatives to independent distributors, our revenue and our business may be adversely affected.

#### **Our Products**

Our products are Protandim<sup>®</sup> and LifeVantage TrueScience<sup>®</sup> Anti-Aging Cream, or LifeVantage TrueScience<sup>®</sup>, which incorporates ingredients in Protandim<sup>®</sup> and other proprietary ingredients. Protandim<sup>®</sup> is a proprietary blend of ingredients that has been shown to combat oxidative stress by increasing the body's natural antioxidant protection at the genetic level, inducing the production of naturally-occurring protective antioxidant enzymes including superoxide dismutase, catalase, and glutathione synthase.

We sell Protandim<sup>®</sup> and LifeVantage TrueScience<sup>®</sup> primarily through our network marketing sales channel to our direct independent distributors, preferred and retail customers.

To date, we have focused our research efforts on investigating various aspects and consequences of the imbalance of oxidants and antioxidants, an abnormality, which is a central underlying feature in many disorders. Specifically we have targeted the ability of Protandim<sup>®</sup> to activate Nrf2. Nrf2 is the master regulator of the antioxidant response, which is important for the amelioration of oxidative stress. We intend to continue our research, development, and documentation of the efficacy of Protandim<sup>®</sup> to provide credibility to the market. We also anticipate undertaking research, development, testing, and licensing efforts to be able to introduce additional products in the future, although we may not be successful in this endeavor.

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Protandim® has been, is currently, or is planned to be the subject of, approximately 25 independent scientific studies at various universities and research facilities. The nature and stages of the studies vary, as some are still in planning stages, while other studies are currently in progress or completed. The universities and institutions involved in this research include the University of Colorado; Colorado State University; Children's Hospital, Denver; Virginia Commonwealth University; Louisiana State University; Ohio State University; Northwestern University; the University of Utah; Harvard University; and VU University Medical Center, Amsterdam. The various studies deal with the alleviation of oxidative stress under the following conditions: altitude sickness, non-alcoholic steatohepatitis, lung antioxidant status in withdrawing alcoholics, autonomic physiology and aging, skin cancer, multiple sclerosis, HIV/AIDS-associated lipodystrophy, pulmonary hypertension, heart disease, coronary artery bypass graft failure, asthma, Duchenne muscular dystrophy, and experimental allergic encephalomyelitis.

Net revenue from Protandim®, TrueScience® and related marketing materials totaled \$20,083,299 and \$6,443,349 for the three months ended September 30, 2011 and 2010, respectively.

### **Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010**

**Revenue** We generated net sales of \$20,083,299 during the three months ended September 30, 2011, and generated net sales of \$6,443,349 during the three months ended September 30, 2010. The increase in sales of \$13,639,950 is due to increased volume through the network marketing sales channel in the U.S., Mexico and Japan. U.S. sales accounted for \$10,072,867 of the increase, Japan sales accounted for \$3,524,620 of the increase and Mexico sales accounted for \$42,463 of the increase. During the three month period ended September 31, 2011, substantially all of our sales and marketing effort was directed toward building this channel.

**Gross Margin** Our gross profit percentage for the three month periods ended September 30, 2011 and 2010 was 85% and 84%. The slightly higher gross margins we have experienced are primarily due to efficiencies and reductions in warehousing and distribution costs as a percentage of revenue. We expect the gross margin percentages for this sales channel to remain in this range for the foreseeable future.

**Operating Expenses** Total operating expenses for the three months ended September 30, 2011 were \$13,696,727 as compared to operating expenses of \$5,078,445 for the three months ended September 30, 2010. Operating expenses consist of sales and marketing expenses, general and administrative expenses, research and development, and depreciation and amortization expenses.

**Sales and Marketing Expenses** Sales and marketing expense increased from \$3,410,843 for the three months ended September 30, 2010 to \$10,542,554 for the three months ended September 30, 2011. This increase was due primarily to commissions paid to distributors due to the higher sales volume. We expect continued increases in sales and marketing expenses as our sales increase.

**General and Administrative Expenses** Our general and administrative expense increased from \$1,507,093 for the three months ended September 30, 2010 to \$2,839,762 for the three months ended September 30, 2011. The increase of \$1,332,669 is primarily due to increased headcount, bonus accruals, higher stock based compensation expense and legal expenses. We expect general and administrative expenses to remain relatively stable, however there will be some periodic increases associated with additional personnel required to support our growth.

**Research and Development** Our research and development expenses increased from \$109,793 for the three months ended September 30, 2010 to \$234,556 for the three months ended September 30, 2011. The increase of \$124,763 is primarily a result of an increase in salaries and benefits. Continued investment in research and development is a company priority and we intend to commit up to approximately 2% of our total net sales in future periods for research and development efforts. The recognition and timing of these expenses will be dependent upon entry into specific research and development projects, which are still in the planning stages.

**Depreciation and Amortization Expense** Depreciation and amortization expense increased from \$50,716 during the three months ended September 30, 2010 to \$79,855 during the three months ended September 30, 2011. The increase for the three month period was due primarily to assets purchased during the quarter ended September 30, 2011 to support our continuing growth.

**Net Other Income (Expense)** We recognized net other income of \$765,974 during the three months ended September 30, 2011 as compared to net other income of \$370,424 during the three months ended September 30, 2010. The increase of \$395,550 consists of \$1,425,831 decrease in interest expense due to the conversion of our convertible debentures in the prior year which is partially offset by a decrease in the income recognized from the change in fair value of derivative liabilities of \$1,030,281.

**Income Tax Expense** We recognized \$471,600 income tax expense for the three month period ended September 30, 2011 as





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compared to none for the three months ended September 2010. The income tax expense reflects our estimated liability for Federal and state income taxes for the three months ended September 30, 2011. We are analyzing the valuation allowance we maintain for our deferred tax asset. We anticipate releasing the valuation allowance when it is more likely than not that we will realize the asset.

**Net Income** We recorded net income of \$3,724,167 for the three month period ended September 30, 2011 compared to net income of \$715,193 for the three month period ended September 30, 2010.

## **Liquidity and Capital Resources**

Our primary liquidity and capital resource requirements are to finance our continued expansion into the network marketing sales channel. This includes the costs associated with additional support personnel, compensating our distributors, the manufacture and sale of our products, capital investments in systems and infrastructure and general and administrative expenses. In order to remain cash flow positive from operations, we must maintain or continue to increase sales and maintain or limit expense increases.

Our primary source of liquidity is cash generated from the sales of our products. As of September 30, 2011, our available liquidity was \$9,437,418, including available cash and cash equivalents. This represented an increase of \$3,066,444 from the \$6,370,974 in cash and cash equivalents as of June 30, 2011. Our cash provided by operating activities during the three month period ended September 30, 2011 increased to \$3,339,530 from \$641,651 for the three month period ended September 30, 2010 primarily as a result of increased revenues.

During the three months ended September 30, 2011, our net cash used by investing activities was \$369,188, due primarily to the purchase of fixed assets. During the three months ended September 30, 2010, our net cash used by investing activities was \$7,939 primarily due to the purchase of fixed and intangible assets.

Cash provided by financing activities during the three months ended September 30, 2011 was \$11,986 compared to cash provided by financing activities of \$0 during the three months ended September 30, 2010.

We maintain an investment portfolio of marketable securities that is managed by a professional financial institution. The portfolio includes auction rate private securities, or ARPS, of AA and AAA rated closed-end funds. These marketable securities which historically have been extremely liquid have been adversely affected by the broader national liquidity crisis.

We have a line of credit that is secured by the marketable securities that we hold, which allows us to borrow against 80% of the par value of these marketable securities. Marketable securities are classified as short term as they are due within one year.

At September 30, 2011, we had working capital (current assets minus current liabilities) of \$502,654, compared to negative working capital of \$(3,105,045) at June 30, 2011. The working capital as of September 30, 2011 is reduced by \$6,846,205 of short-term derivative warrant liabilities.

Our ability to finance future operations will depend on our existing liquidity and on our ability to generate continued revenues and profits from operations. We believe that existing cash on hand and future cash flow will be sufficient to allow us to continue operations for at least the next 12 months. A shortfall from projected sales levels would likely result in expense reductions, which could have a material adverse effect on our ability to continue operations at current levels. If we are unable to generate cash from operations at projected or otherwise sufficient levels, we may be required to seek additional funds through debt, equity or equity-based financing (such as convertible debt); however financing may not be available on favorable terms or at all. If we raise additional funds by selling additional shares of our capital stock, or securities convertible into shares of our capital stock, the ownership interest of our existing shareholders will be diluted. The amount of dilution could be increased by the issuance of warrants or securities with other dilutive characteristics, such as anti-dilution clauses or price resets.

## **Off-Balance Sheet Arrangements**

As of September 30, 2011, we did not have any off-balance sheet arrangements.

## **Critical Accounting Policies**

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments, and assumptions that we believe are reasonable based upon the



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

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

Allowances for Product Returns We record allowances for product returns at the time we ship the product based on estimated return rates. We base these accruals on the historical return rate since the inception of our selling activities, and the specific historical return patterns of the product.

We offer a 30-day, money back unconditional guarantee to all direct customers. As of September 30, 2011, approximately \$6,770,477 of our sales were subject to the money back guarantee. We replace product returned due to damage during shipment wholly at our cost, the total of which historically has been negligible. In addition, we allow terminating distributors to return 30% of unopened unexpired product that they purchased during the prior twelve months, subject to certain consumption limitations.

We monitor our return estimate on an ongoing basis and may revise the allowances to reflect our experience. Our allowance for product returns was \$625,525 at September 30, 2011, compared with \$435,135 at June 30, 2011. To date, product expiration dates have not played any role in product returns, and we do not expect product expiration dates to affect product returns in the foreseeable future because it is unlikely that we will ship product with an expiration date earlier than the latest allowable product return date.

Inventory Valuation We state inventories at the lower of cost or market on a first-in first-out basis. From time to time we maintain a reserve for inventory obsolescence and we base this reserve on assumptions about current and future product demand, inventory whose shelf life has expired and market conditions. From time to time, we may be required to make additional reserves in the event there is a change in any of these variables. We have recorded \$39,924 of reserve for obsolete inventory as of September 30, 2011 primarily for obsolete marketing materials.

Revenue Recognition We ship the majority of our product directly to the consumer through the direct to consumer and network marketing sales channels via United Parcel Service, ( UPS ), and receive substantially all payment for these shipments in the form of credit card charges. We recognize revenue from direct product sales to customers upon passage of title and risk of loss to customers when product is shipped from the fulfillment facility. Sales revenue and estimated returns are recorded when product is shipped.

Derivative Instruments In connection with the sale of debt or equity instruments, we may sell options or warrants to purchase our common stock. In certain circumstances, these options or warrants may be classified as derivative liabilities, rather than as equity. Additionally, the debt or equity instruments may contain embedded derivative instruments, such as conversion options, which in certain circumstances may be required to be bifurcated from the associated host instrument and accounted for separately as a derivative instrument liability.

The identification of, and accounting for, derivative instruments is complex. For options, warrants and any bifurcated conversion options that are accounted for as derivative instrument liabilities, we determine the fair value of these instruments using the Black-Scholes option pricing model. That model requires assumptions related to the remaining term of the instruments and risk-free rates of return, our current common stock price and expected dividend yield, and the expected volatility of our common stock price over the life of the instruments. Because of the limited trading history for our common stock, we have estimated the future volatility of our common stock price based on not only the history of our stock price but also the experience of other entities considered comparable to us. The identification of, and accounting for, derivative instruments and the assumptions used to value them can significantly affect our financial statements.

Intangible Assets Patent Costs We review the carrying value of our patent costs and compare to fair value at least annually to determine whether the patents have continuing value. In determining fair value, we consider undiscounted future cash flows and market capitalization.

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**Stock-Based Compensation** We use the fair value approach to account for stock-based compensation in accordance with the modified version of prospective application.

**Research and Development Costs** We have expensed all of our payments related to research and development activities.

## **Recently Issued Accounting Standards**

We have reviewed recently issued, but not yet effective, accounting pronouncements and do not believe any such pronouncements will have a material impact on our financial statements.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Under the rules and regulations of the SEC, as a smaller reporting company we are not required to provide the information required by this Item.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

As of September 30, 2011, we conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of September 30, 2011 at the reasonable assurance level due to the material weaknesses in our internal control over financial reporting discussed immediately below.

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### **Identified Material Weaknesses**

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of our financial statements would not be prevented or detected on a timely basis by our employees in the normal course of performing their assigned functions. Management identified material weaknesses during our assessment of our internal control over financial reporting as of September 30, 2011. In particular, we concluded that we did not maintain:

1. Sufficient personnel with an appropriate level of accounting knowledge, experience and training in the selection and application of technical accounting principles in accordance with GAAP to support our financial accounting and reporting functions given that we did not continue to hire sufficient personnel considering our rapid growth; and
2. Adequate oversight of certain accounting functions and did not maintain adequate documentation of management review and approval of accounting transactions and financial reporting processes.

In conclusion, our Chief Executive Officer and Chief Financial Officer determined that we did not maintain effective internal control over financial reporting as of September 30, 2011.

### **Management's Remediation Initiatives**

We are in the process of evaluating our material weaknesses. We have already begun to remediate the material weaknesses. In an effort to remediate the identified material weaknesses and other deficiencies and to enhance our internal control over financial reporting, we have initiated, or plan to initiate, the following series of measures:

1. Hire staff with experience managing and working in the corporate accounting department of a publicly traded company; and
2. Implement appropriate management oversight and approval activities.

During the quarter ended September 30, 2011 we hired a senior level controller with experience working in corporate accounting in a publicly traded company. We anticipate that the above initiatives will be at least partially, if not fully, implemented by March 2012. Additionally, we plan to test our updated controls and remediate our material weaknesses by June 30, 2012.

### **Conclusion**

The above identified material weaknesses resulted in material audit adjustments to our 2011 financial statements. If the identified material weaknesses are not remediated, one or more of the identified material weaknesses noted above could result in a material misstatement in our reported financial statements in a future interim or annual period.

In light of the identified material weaknesses, management performed (1) significant additional substantive review of those areas described above, and (2) additional analyses, including but not limited to a detailed balance sheet and statement of operations analytical review that compared changes from the prior period's financial statements and analyzed all significant differences. These procedures were completed so management could gain assurance that the financial statements and schedules included in this report fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

### **Changes in Internal Control over Financial Reporting**

We made no changes during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.



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**PART II Other Information**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I. Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011. The risks and uncertainties described in such risk factors and elsewhere in this report have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results and future prospects. As of the date of this report, we do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

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

During the period covered by this report, we issued 485,585 unregistered shares of our common stock upon the exercise of various warrants. The shares issued were exempt from registration under the Securities Act of 1933 pursuant to Section 3(a)(9) thereof.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

None.

**Item 5. Other Information**

On September 22, 2011, we entered into a lease agreement with Sandy Park I, L.L.C. for our new corporate headquarters in Sandy, Utah. The lease is for approximately 20,800 square feet, including rentable office space and our portion of common areas. The term will begin upon earlier of delivery of possession to us or our opening for business at the premises and will expire sixty six (66) months thereafter. Rent will be \$35,748.25 per month for the first eighteen (18) months of the term, with two percent (2%) escalations in rent upon the first day of the nineteenth (19th) month and every twelve (12) months thereafter.

The foregoing summary of the terms of the lease agreement is qualified in its entirety by reference to the lease, which is filed as an exhibit to this report.

On September 15, 2011, our board of directors, upon the recommendation of the nominating, corporate governance and compensation committee of our board of directors, approved the FY2012 Bonus Plan. The bonus plan was adopted to reward full time employees who are employed for at least six months prior to the end of the fiscal year ended June 30, 2012, for their performance in meeting corporate and personal goals. Our executive officers are eligible to participate under the bonus plan.

Under the terms of the bonus plan, our eligible executive officers will receive bonuses if our company meets certain corporate goals and they meet certain personal goals. The relative weight assigned to corporate goals and personal goals is 70% and 30%, respectively. The corporate goals relate to our revenue and our earnings before interest, taxes, depreciation and amortization, or EBITDA. The amount of bonus payable with respect to the achievement of corporate goals and personal goals will vary depending upon the percent of the respective goals that are achieved. The maximum bonus amount for each eligible executive officer is 75% of their base salary, which is as follows for each executive officer listed below:

| Executive Officer | Title | Maximum Eligible Bonus<br>Amount |
|-------------------|-------|----------------------------------|
|-------------------|-------|----------------------------------|



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|                     |                                       |    |         |
|---------------------|---------------------------------------|----|---------|
| Douglas C. Robinson | President and Chief Executive Officer | \$ | 262,500 |
| David W. Brown      | President, LifeVantage Network        | \$ | 225,000 |
| Dr. Joe M. McCord   | Chief Science Officer                 | \$ | 90,000  |
| Carrie E. McQueen   | Chief Financial Officer               | \$ | 150,000 |
| Kirby L. Zenger     | Chief Operating Officer               | \$ | 161,250 |

### Item 6. Exhibits

See the exhibit index immediately following the signature page of this report.

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SIGNATURES

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

LIFEVANTAGE CORPORATION

Date: November 14, 2011

*/s/ Douglas C. Robinson*  
Douglas C. Robinson  
President and Chief Executive Officer

(Principal Executive Officer)

Date: November 14, 2011

*/s/ Carrie E. McQueen*  
Carrie E. McQueen  
Chief Financial Officer

(Principal Financial Officer)

**Table of Contents****Exhibit Index**

| <b>Exhibit</b> | <b>Document Description</b>  | <b>Incorporation by Reference</b>                 |
|----------------|--|---|
| 10.1           | Agreement between Lifevantage Corporation and Donny Osmond Concerts, Inc., dated September 15, 2011 and effective as of September 1, 2011  | Filed herewith.                                   |
| 10.2#          | LifeVantage FY2012 Annual Incentive Plan   | Filed herewith.                                   |
| 10.3           | Sandy Park Office Complex Lease dated September 22, 2011   | Filed herewith.                                   |
| 10.4#          | Amendment to Employment Agreement with Dr. Joe McCord dated July 1, 2011.  | Exhibit to Form 10-K filed on September 28, 2011. |
| 10.5#          | Amendment of Scientific Advisory Board Agreement with Dr. Joe McCord dated July 21, 2011.  | Exhibit to Form 10-K filed on September 28, 2011. |
| 31.1           | Certification of principal executive officer pursuant to Rule 13a-14(a)/15d-14(a)  | Filed herewith.                                   |
| 31.2           | Certification of principal financial officer pursuant to Rule 13a-14(a)/15d-14(a)  | Filed herewith.                                   |
| 32.1*          | Certification of principal executive officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  | Filed herewith.                                   |
| 32.2*          | Certification of principal financial officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  | Filed herewith.                                   |
| 101**          | The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2011 and June 30, 2011; (ii) Unaudited Condensed Consolidated Statements of Operations and Other Comprehensive Income for the three month periods ended September 30, 2011 and 2010; (iii) Unaudited Condensed Consolidated Statement of Stockholders' Deficit for the three months ended September 30, 2011; (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the three month periods ended September 30, 2011 and 2010; and (v) Notes to Unaudited Condensed Consolidated Financial Statements, tagged as blocks of text. |   |

# Management contract or compensatory plan.

\* This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing

\*\* Users of this data are advised that pursuant to Rule 406T of Regulation S-T, this XBRL information is being furnished and not filed herewith for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and Sections 11 or 12 of the Securities Act of 1933, as amended, and is not to be incorporated by reference into any filing, or part of any registration statement or prospectus, of Outdoor Channel Holdings, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.