

Lifevantage Corp
Form 10QSB
May 14, 2007

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**U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-QSB**

**QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007**

**TRANSITION REPORT UNDER 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)**

COLORADO

90-0224471

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

6400 S. Fiddler s Green Circle, Suite 1970 Greenwood Village, Colorado 80111

(Address of principal executive offices)

(720) 488-1711

(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 Exchange Act 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

Check 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 May 7, 2007 was 22,118,034.

Transitional Small Business Disclosure Format (check one): Yes No

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report on Form 10-QSB contains certain forward-looking statements (as such term is defined in 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; and statements regarding future capital expenditures and financing requirements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and applicable common law and SEC rules. These forward-looking statements are identified in this report by using words such as anticipate, believe, could, estimate, expect, intend, plan, predict, project, should and similar terms and expressions, including references to assumptions and strategies. These statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties, and contingencies, which could cause our actual results, performance, or achievements to differ materially from those expressed in, or implied by, such statements.

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

Our short operating history and lack of significant revenues from operations;

Our dependence on a single product for our revenue;

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

The effect of current and future government regulations and regulators on our business;

The effect of unfavorable publicity on our business;

Competition in the dietary supplement market;

The potential for product liability claims against us;

Our dependence on third party manufacturers to manufacture our product;

The ability to obtain raw material for our product;

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

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

The significant control that our management and significant shareholders exercise over us;

The illiquidity of our common stock;

Our ability to access capital markets or other adverse effects to our business and financial position;

Our inability to generate sufficient cash from operations or raise financing to satisfy our liquidity requirements. Measures have been initiated to reduce cash outflows. There is, however, no assurance that these actions will be sufficient to satisfy liquidity requirements or that a reduction of scope will not harm our business, financial condition or operating results; and

Other factors, including the other risks, uncertainties, and contingencies under Risk Factors and Management's Discussion and Analysis or Plan of Operation in Item 6 of Part II of our report on Form 10-KSB/A for the year ended June 30, 2006.

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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Certification pursuant to Securities Exchange Act of 1934 and Sections 302 and 906 of the Sarbanes-Oxley Act of 2002	
<u>Confidential Termination Agreement and General Release of Claims</u>	
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LIFEVANTAGE CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 March 31, 2007 and June 30, 2006

	(Unaudited) March 31, 2007	(Audited) June 30, 2006 (Restated*)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 724,508	\$ 228,112
Marketable securities, available for sale		3,008,573
Accounts receivable, net	389,916	107,892
Inventory	44,056	45,001
Deferred expenses	114,811	152,677
Deposit with manufacturer	414,912	555,301
Prepaid expenses	113,144	316,659
 Total current assets	 1,801,347	 4,414,215
Property and equipment, net	130,626	245,000
Intangible assets, net	2,298,823	2,162,042
Deposits	320,440	316,621
 TOTAL ASSETS	 \$ 4,551,236	 \$ 7,137,878
 LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 333,404	\$ 613,833
Accrued expenses	403,916	399,305
Deferred revenue	802,958	1,144,950
Capital lease obligations, current portion	2,217	1,985
 Total current liabilities	 1,542,495	 2,160,073
Long-term liabilities		
Capital lease obligations, net of current portion	1,453	3,146
 Total liabilities	 1,543,948	 2,163,219
Stockholders equity		
Common stock, par value \$.001, 250,000,000 shares authorized; 22,118,034 issued and outstanding	22,118	22,118
Additional paid-in capital	15,163,056	14,018,487
Accumulated (deficit)	(12,177,886)	(9,010,339)
Unrealized (loss) on securities available for sale		(55,607)

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Total stockholders' equity	3,007,288	4,974,659
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,551,236	\$ 7,137,878

*See Note 2, Summary of Significant Accounting Policies
The accompanying notes are an integral part of these condensed consolidated statements.

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LIFEVANTAGE CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	For the three months ended March 31,		For the nine months ended March 31,	
	2007	2006	2007	2006
Sales, net	\$ 995,274	\$ 1,390,623	\$ 4,207,518	\$ 6,066,967
Cost of sales	213,529	296,089	838,244	1,255,691
Gross profit	781,745	1,094,534	3,369,274	4,811,276
Operating expenses:				
Marketing and customer service	504,616	697,644	2,605,616	2,672,031
General and administrative	806,878	997,339	3,606,824	3,103,982
Research and development	57,318	48,276	195,654	48,276
Depreciation and amortization	16,622	68,526	76,636	238,289
Total operating expenses	1,385,434	1,811,785	6,484,730	6,062,578
Operating (loss)	(603,689)	(717,251)	(3,115,456)	(1,251,302)
Other income and (expense):				
Interest income (expense)	15,403	50,924	46,110	106,172
Loss on disposal of assets			(95,654)	
Other (expense)	5,953	(4,584)	(2,547)	(16,512)
Net other income (expense)	21,356	46,340	(52,091)	89,660
Net income (loss)	\$ (582,333)	\$ (670,911)	\$ (3,167,547)	\$ (1,161,642)
Net income (loss) per share, basic and diluted	\$ (0.03)	\$ (0.03)	\$ (0.14)	\$ (0.05)
Weighted average shares outstanding, basic and fully diluted	22,118,034	22,117,992	22,118,034	22,117,992

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

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LIFEVANTAGE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended March 31,	
	2007	2006
Cash Flows from Operating Activities:		
Net income (loss)	\$(3,167,547)	\$(1,161,642)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:		
Depreciation and amortization	76,636	238,289
Loss on disposition of assets	95,654	4,661
Stock based compensation to employees	1,109,869	
Stock based compensation to non-employees	34,700	77,895
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	(282,024)	759,805
Decrease in inventory	945	35,666
Decrease in deferred expenses	37,866	
Decrease in deposits to manufacturer	140,389	405,497
Decrease/(increase) in prepaid expenses	203,515	(64,841)
(Increase) in other assets	(3,819)	(264,952)
(Decrease)/increase in accounts payable	(280,429)	217,778
Increase in accrued expenses	4,611	174,092
(Decrease)/increase in deferred revenue	(341,992)	993,750
Net Cash (Used) Provided by Operating Activities	(2,371,626)	1,415,998
Cash Flows from Investing Activities:		
Redemption of marketable securities	3,064,180	
(Purchase) of intangible assets	(136,781)	(20,906)
(Purchase) of equipment	(57,916)	(128,452)
Net Cash Provided (Used) by Investing Activities	2,869,483	(149,358)
Cash Flows from Financing Activities:		
Proceeds from margin debt	2,093,101	
Repayment on margin debt	(2,093,101)	
Principal payments under capital lease obligation	(1,461)	(717)
Net Cash (Used) by Financing Activities	(1,461)	(717)
Increase in Cash and Cash Equivalents	496,396	1,265,923
Cash and Cash Equivalents beginning of period	228,112	3,385,205
Cash and Cash Equivalents end of period	\$ 724,508	\$ 4,651,128

Non Cash Investing and Financing Activities:

Acquisition of asset through capital lease	\$	\$	6,300
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The accompanying notes are an integral part of these condensed consolidated statements.

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LIFEVANTAGE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE AND NINE MONTHS ENDED MARCH 31, 2007 AND 2006
(UNAUDITED)

These unaudited Condensed Consolidated Financial Statements and Notes should be read in conjunction with the audited financial statements and notes of Lifevantage Corporation, f/k/a Lifeline Therapeutics, Inc. as of and for the year ended June 30, 2006 included in our Annual Report on Form 10-KSB/A.

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 the Company s financial position as of March 31, 2007, and the results of operations for the three and nine month periods ended March 31, 2007 and 2006 and the cash flows for the nine month periods ended March 31, 2007 and 2006. Interim results are not necessarily indicative of results for a full year or for any future period. Certain prior period amounts have been reclassified to conform with our current period presentation.

The condensed consolidated financial statements and notes included herein are presented as required by Form 10-QSB, and do not contain certain information included in the Company s audited financial statements and notes for the fiscal year ended June 30, 2006 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, 2006, restated as discussed below and included in the Annual Report on Form 10-KSB/A on file with the SEC.

Note 2 Summary of Significant Accounting Policies:

Restatement of Financial Statements in Form 10-KSB

On March 10, 2005, the Company reached an agreement with the minority shareholder in the Company s 81% owned subsidiary, Lifeline Nutraceuticals Corporation (LNC). The minority shareholder was a former officer of LNC. In accordance with the terms of the agreement, the Company exchanged 1,000,000 shares of its Series A common stock (reclassified into common stock as of November 22, 2006) for the remaining 4,500,000 shares of LNC, representing 19% of the outstanding shares of LNC. The closing price of the Company s common stock on March 10, 2005 was \$9.00 per share. Since the Company s stock had historically been thinly traded, this 1,000,000-share issuance represented a significant block of the Company s total outstanding shares. The Company took a marketability discount to arrive at an estimated fair value of \$5.31 per share. The acquisition of the minority interest was previously accounted for utilizing the purchase method of accounting resulting in goodwill of \$5,310,000.

On November 10, 2006, in response to comments raised by the Staff of the Securities and Exchange Commission (SEC) concerning the Company s registration statement filed on Form SB-2 and the Company s valuation of goodwill and intangible assets on its financial statements, and to ensure that its financial reporting remains in accordance with Generally Accepted Accounting Principles, the Company s Board of Directors concluded that it was appropriate to restate the Company s consolidated financial statements included in the annual report on Form 10-KSB for the fiscal year ended June 30, 2006. The Board determined that, due to a concurrent private placement of the Company s common stock at \$2.00 per share at about the time of the acquisition, the acquisition cost of the minority interest in LNC should be recorded at \$2,000,000. In addition, since the Company s motivation in purchasing

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the minority interest in its subsidiary was to gain control over its intellectual property, the purchase price for the acquisition should be allocated entirely to intellectual property.

The Company has reflected these revisions on the Company's consolidated balance sheets as of June 30, 2006 and 2005 included in its restated Annual Report on Form 10-KSB/A for the fiscal year ended June 30, 2006. The balance sheet as of March 31, 2007 also reflects the Company's reduction of goodwill from \$5,310,000 to \$0, an increase of patent costs by \$2,000,000 and a reduction of additional paid-in capital by \$3,310,000.

Consolidation

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiary, LNC. All inter-company accounts and transactions between the entities have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

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. The Company ships the majority of its direct sales product by United Parcel Service (UPS) and receives substantially all payment for these sales in the form of credit card charges. Sales revenue and estimated returns are recorded when product is shipped. The Company's return policy is to provide a 30-day money back guarantee on orders placed by customers. To date, the Company has experienced monthly returns of approximately 2% of sales. As of March 31, 2007 and 2006, the Company's reserve balance for returns and allowances was approximately \$98,000 and \$25,000, respectively.

For retail customers, the Company analyzes its contracts to determine the appropriate accounting treatment for its recognition of revenue on a customer by customer basis.

In July 2005, the Company entered into an agreement with General Nutrition Distribution, LP (GNC) for the sale of Protandim®. Among other terms of the agreement, sales are subject to a provision whereby the seller and buyer agree that all products shall be sold on a sale or return basis whereby product can be returned by GNC for a full refund. The GNC Vendor Handbook pledges a 100-percent guarantee by GNC to the purchasers of its products and expects vendors to do the same. In July 2006, the Company began the recognition of revenue under the agreement with GNC due to the accumulation of historical data. The Company recognizes revenue and its related costs when it obtains sufficient information to reasonably estimate the amount of future returns. Accordingly, the Company recognizes revenue associated with sales to GNC when the product is sold by the distributor with an allowance for future returns based on historical product return information. Prior to July 2006, all revenue and related costs from GNC were deferred.

In July 2006, the Company entered into an agreement with CVS/pharmacy (CVS) for the sale of Protandim throughout the CVS store network. Among the terms of the agreement, one-half of the payment for all orders is withheld by CVS until certain sell-through parameters are met. To date, approximately \$358,000 has been withheld by CVS. Since the Company does not have sufficient history with CVS to reasonably estimate the sell-through of Protandim® within the CVS store network,

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50% of the revenue and related cost has been deferred under the agreement with CVS. The Company will recognize deferred revenue and related cost of sales under the agreement with CVS when it obtains sufficient sell-through information to reasonably estimate the amount of future returns.

The table below shows the effect of the change in the Company's deferred revenue and expense for the nine months ended March 31, 2007:

	Deferred Revenue	Deferred Expense
Deferred revenue and expense as of June 30, 2006	\$ 1,144,950	\$ 152,677
Recognition of revenue from FY2006 deferred sales	(748,230)	(98,268)
Additions to deferred revenue / expense for the three months ended September 30, 2006	678,960	101,627
Recognition of revenue due to retail sell-through in the three months ended September 30, 2006	(199,020)	(30,118)
Deferred revenue and expense as of September 30, 2006	\$ 876,660	\$ 125,918
Additions to deferred revenue / expense for the three months ended December 31, 2006	126,653	19,381
Recognition of revenue due to retail sell-through in the three months ended December 31, 2006	(221,910)	(33,529)
Deferred revenue / expenses as of December 31, 2006	\$ 781,403	\$ 111,770
Additions to deferred revenue / expense for the three months ended March 31, 2007	208,395	31,564
Recognition of revenue due to retail sell-through in the three months ended March 31, 2007	(186,840)	(28,523)
Deferred revenue / expenses as of March 31, 2007	\$ 802,958	\$ 114,811

Accounts Receivable

The Company's accounts receivable consist of receivables from retail distributors. Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The Company had two national retail distributors, GNC and CVS, and several regional natural products distributors as of March 31, 2007. The Company has created an allowance for doubtful accounts of approximately \$55,000 based on aging of its retail accounts receivable.

For credit card sales to direct sales customers, the Company verifies the customer's credit card prior to shipment of product. Payment on credit cards is treated as a deposit in transit and is not reflected as a receivable on the accompanying balance sheet. Based on the Company's verification process and historical information available,

management does not believe that there is justification for an allowance for doubtful accounts related to its direct sales as of March 31, 2007. For direct sales, there is no bad debt expense for the three or nine month periods ended March 31, 2007.

Earnings per share

Basic earnings (loss) per share are 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

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computed by dividing net income by the weighted average common shares and potentially dilutive common share equivalents. The effects of potential common share equivalents are not included in computations when their effect is antidilutive. Because of the net loss for the three and nine month periods ended March 31, 2007 and 2006, the basic and diluted average outstanding shares are the same, since including the additional shares would have an antidilutive effect on the loss per share calculation.

Goodwill and Other Intangible Assets

The Company has adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 142 establishes standards for accounting for goodwill and other intangibles acquired in business combinations.

Goodwill and other intangibles with indefinite lives are not amortized.

As of March 31, 2007 and June 30, 2006, intangible assets consisted of:

	March 31, 2007	June 30, 2006
Patent costs	\$ 2,195,309	\$ 2,097,905
Trademark costs	103,514	64,137
Intangible assets, net	\$ 2,298,823	\$ 2,162,042

Stock-Based Compensation

The Company adhered to SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123) prior to July 1, 2006. SFAS 123 provides a method of accounting for stock-based compensation arrangements, based on fair value of the stock-based compensation utilizing various assumptions regarding the underlying attributes of the options and stock, rather than the intrinsic method of accounting for stock-based compensation which is proscribed in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). The Company adopted the modified prospective application of SFAS 123(R), Share-Based Payment (SFAS 123(R)), for all options and warrants issued to employees and directors subsequent to June 30, 2006.

In an effort to advance the interests of the Company and its shareholders, the Company has established its 2007 Long-Term Incentive Plan (the Plan) to provide incentives to certain eligible employees who contribute significantly to the strategic and long-term performance objectives and growth of the Company. The Plan was approved by shareholders during the November 21, 2006 shareholder meeting. Options to purchase 2,358,321 shares have been granted pursuant to the Plan to various employees, officers, directors and Scientific Advisory Board (SAB) members at a price of between \$0.47 and \$0.76 per share, vesting over one to three-year periods. A maximum of 6,000,000 shares of common stock can be issued under the Plan in connection with the grant of awards.

Options granted prior to the adoption of the Plan have been terminated and new options on substantially identical terms and provisions (i.e., identical number of underlying shares, exercise price, vesting schedule, and expiration date as the original options) were granted under the Plan. As no modifications to the terms and provisions of the previously granted options occurred, the Company accounted for the related compensation expense under SFAS 123(R) as it did prior to the effective date of the Plan.

In certain circumstances, the Company issued common stock for invoiced services, to pay creditors and in other similar situations. In accordance with Emerging Issues Task Force 96-18 (EITF 96-18), payments in equity instruments to non-employees for goods or services are accounted for by the fair value method, which relies on the valuation of the service at the date of the transaction, or public stock sales price, whichever is more reliable as a measurement.

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The Company granted warrants and options to various consultants and directors for services rendered during the nine month period ended March 31, 2007. As the Company has adopted SFAS 123(R) effective July 1, 2006, an adjustment to net income for compensation expense to recognize annual vesting has been recorded under SFAS 123(R).

	Three month period ended March 31,		Nine month period ended March 31,	
	2007	2006	2007	2006
Net income (loss) as reported:	\$ (582,333)	\$ (670,911)	\$ (3,167,547)	\$ (1,161,642)
Share-based employee compensation cost included in net income (loss):	111,566	26,870	1,144,569	77,896
Share-based employee compensation cost that would have been included in net income if the fair value-based method had been applied to all awards:	(111,566)	(598,803)	(1,144,569)	(888,266)
Pro forma net income (loss) as if the fair value-based method had been applied to all awards:	\$ (582,333)	\$ (1,242,844)	\$ (3,167,547)	\$ (1,972,012)
Basic and fully diluted earnings per share: As Reported:	\$ (0.03)	\$ (0.03)	\$ (0.14)	\$ (0.05)
Pro forma:	\$ (0.03)	\$ (0.06)	\$ (0.14)	\$ (0.09)

The total unrecognized compensation expense to be recognized in the future is approximately \$735,000.

The fair value of the options granted in the three and nine month periods ended March 31, 2007 and 2006 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

1. risk-free interest rate of between 4.55 and 4.97 percent in the three and nine month periods ended March 31, 2007 and between 3.84 and 4.42 percent in the three and nine month periods ended March 31, 2006;
2. dividend yield of 0 percent;
3. expected life of one to ten years in 2007 and 2006; and
4. a volatility factor of the expected market price of the Company's common stock of between 74 and 211 percent in the three and nine month periods ended March 31, 2007 and between 187 and 263 percent in the three and nine month periods ended March 31, 2006.

Reclassification

Certain prior period amounts have been reclassified to comply with current period presentation.

Effect of New Accounting Pronouncement

In February 2007, SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159)", was issued by the Financial Accounting Standards Board (FASB) and is effective for

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fiscal years beginning after November 15, 2007. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. We anticipate that SFAS 159 will not have a material impact on our financial statements.

Note 3 Margin Debt

In the first quarter of fiscal year 2007, the Company established a margin account to borrow against marketable securities so that sales of these securities would not have to occur in order to fund operating needs of the Company. The interest rate on amounts borrowed was approximately 1% below prime.

During the third quarter, the Company liquidated its marketable securities portfolio and paid off the margin debt. In addition to paying off the margin debt, the Company invested funds in short term AAA rated money market Preferred Securities to maximize interest income.

Note 4 Stockholders Equity

The Company's portfolio of marketable securities declined in value as of June 30, 2006 and the Company reported an unrealized loss of \$(55,607) at that time. In accordance with SFAS 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115), the Company accounted for the investment as available-for-sale securities and recorded the unrealized loss as comprehensive income in a separate component of stockholders' equity. During the third quarter of fiscal year 2007, the Company liquidated its portfolio with a realized gain of approximately \$10,000. Accordingly, the previously recorded unrealized loss of \$55,607 was reversed.

During the three and nine month periods ended March 31, 2007, the Company granted warrants and options to consultants for services rendered, under EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services (EITF 96-18). Effective July 1, 2006, the Company adopted SFAS 123(R) for employees and directors. In accordance with SFAS 123(R), payments in equity instruments for goods or services are accounted for by the fair value method. For the three and nine months ended March 31, 2007, stock based compensation of \$111,566 and \$1,144,569, respectively, was reflected as an increase to additional paid in capital. Of the \$111,566 stock based compensation for the three months ended March 31, 2007, \$86,870 was employee related and \$24,696 was non-employee related. Of the \$1,144,569 stock based compensation for the nine months ended March 31, 2007, \$1,109,869 was employee related and \$34,700 was non-employee related. For the three and nine months ended March 31, 2006, stock based compensation of \$26,870 and \$77,895, respectively, was reflected as an increase to additional paid in capital. All of the stock based compensation for the three and nine months ended March 31, 2006 was non-employee related.

In April and May 2005, the Company issued, in a private placement, units consisting of 10,000 shares of common stock and a warrant to purchase 10,000 shares of common stock for \$2.50 per share, exercisable through April 18, 2008, to accredited investors for cash and exchange of bridge loan notes. Each unit was offered at a purchase price equal to \$2.00 per share. The private placement was made pursuant to an agreement with an investment banking firm entered into by the Company on January 15, 2005. The securities offered in the private placement were not registered under the Securities Act of 1933 (the Act) or under the securities laws of any state. The securities offered were restricted securities as defined in Rule 144 under the Act.

Pursuant to the private placement, the Company received \$4,988,811 in cash from certain accredited investors in exchange for 2,499,764 shares of common stock and an equal number of warrants. The

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Company also issued 1,507,202 shares of its common stock and an equal number of warrants in exchange for \$3,014,372 bridge notes and accrued interest. The Company paid commissions of \$508,134 plus a \$75,000 expense allowance to the investment banking firm, and issued warrants to the investment banking firm and another placement agent to purchase 409,281 shares of common stock, exercisable at \$2.00 per share through April 18, 2008. After payment of commissions, the expense allowance, and a fee to the escrow agent, the Company received net proceeds of \$4,405,677. In conjunction with the closing of the private placement, the Company repaid bridge notes payable with a principal balance of \$160,000 and related accrued interest of \$10,733 to note holders electing to be repaid rather than exchange their notes for units in the private placement.

The Company had an obligation to register the common stock issued in the private placement and the shares underlying the warrants received by bridge note holders and investors in the private placement. The Company filed a registration statement for these shares in June 2005 on Form SB-2 and subsequently amended its registration statement. On January 12, 2007, the Company's registration statement was declared effective.

The Company's articles of incorporation authorize the issuance of preferred shares. However, as of March 31, 2007, none have been issued nor have any rights or preferences been assigned to the preferred shares by the Board of Directors.

Note 5 Stock Option Grants and Warrants

Stock Option Grants During the three and nine months ended March 31, 2007, the Company granted 703,321 and 2,358,321 options to employees, officers, directors, and SAB members. Options outstanding grant the right to purchase shares of the Company's common stock at prices between \$0.47 and \$0.76 per share. The options are not transferable and expire on various dates through January 18, 2017. The Company adopted SFAS 123(R) beginning July 1, 2006.

Warrants At March 31, 2007, 276,428 compensation based and 6,001,866 investment based (i.e., warrants issued during the 2005 private placement) warrants were outstanding. There were 100,000 and 109,000 warrants granted during the three and nine months ended March 31, 2007, in exchange for services rendered, at an exercise price ranging between \$0.46 and \$0.98 and expiration dates ranging from July 31, 2008 to February 22, 2012.

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

This discussion and analysis should be read in conjunction with the accompanying Financial Statements and related notes, as well as the section entitled "Cautionary Note Regarding Forward-Looking Statements" in our Form 10-KSB/A for the fiscal year ended June 30, 2006 and the risk factors discussed therein. The statements contained in this report that are not purely historical are forward-looking statements. Forward-looking statements include statements regarding our expectations, hopes, intentions, or strategies regarding the future. Forward-looking statements include statements regarding future products or product development; statements regarding future selling, general and administrative costs and research and development spending, and our product development strategy; statements regarding future capital expenditures and financing requirements; and similar forward-looking statements. It is important to note that our actual results could differ materially from those in such forward-looking statements.

Overview

This management's discussion and analysis discusses the financial condition and results of operations of Lifevantage Corporation f/k/a Lifeline Therapeutics, Inc. (the Company, LifeVantage, or we, us or our) and its wholly-owned subsidiary, Lifeline Nutraceuticals Corporation (LNC).

At the present time, we sell a single product, Protandim®. We developed Protandim®, a proprietary blend of ingredients that has (through studies on animals and humans) demonstrated the ability to increase the production of superoxide dismutase (SOD) and catalase (CAT) in brain, liver, and blood. Protandim® is designed to induce the human body to produce more of its own catalytic antioxidants, and to decrease the process of lipid peroxidation, an indicator of oxidative stress. Each component of Protandim® has been selected on its ability to meet these criteria. Low, safe doses of each component ensure that unwanted additional effects that might be associated with one or another of the components are not seen with the formulation.

We sell Protandim® directly to individuals as well as to retail stores. We began significant sales of Protandim® in the fourth quarter ended June 30, 2005. In June 2005, the Company and Protandim® were discussed on a nationally televised news program, which led to a substantial increase in sales. Since June 2005, sales of Protandim® have declined on a monthly basis as we have not received continuing similar national news exposure.

Our research efforts to date have been focused on investigating various aspects and consequences of the imbalance of oxidants and antioxidants, an abnormality which is a central underlying feature in many disorders. We intend to continue our research, development, and documentation of Protandim® 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 cannot offer any assurance that we will be successful in this endeavor.

The primary manufacturing, fulfillment, and shipping components of our business are outsourced to companies we believe possess a high degree of expertise. One advantage of outsourcing we hope to achieve is a more direct correlation of the costs we incur to our level of product sales versus the relatively high fixed costs of building our own infrastructure to accomplish these same tasks. Another advantage of this structure is to minimize our commitment of resources to the human capital required to manage these operational components successfully. Outsourcing also provides additional capacity without significant advance notice and often at an incremental price lower than the unit prices for the base service.

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Recent Developments

Resignation of Chief Financial Officer

Effective February 16, 2007, Gerald J. Houston resigned as our Chief Financial Officer and from the positions of Secretary and Treasurer. Mr. Houston agreed to provide the Board of Directors and the Company with consulting services of up to 15 hours per week through June 15, 2007.

Hiring of Chief Executive Officer

Effective December 21, 2006, the Board of Directors appointed Mr. James J. Krejci as the Company's Chief Executive Officer. Mr. Krejci became a director of LifeVantage in April 2005 and became Vice Chairman of the Board in September 2006. Prior to accepting the position as the Company's CEO, Mr. Krejci was President of the CheckAwards Corporation, and prior to that position, he served as Executive Director of the Epilepsy Foundation of Colorado. Prior to these positions, he served as Area Director and then Executive Director for the American Diabetes Association from 2002-2004. From 1998-2002, Mr. Krejci was the CEO and Chairman of Comtec International, Inc., and prior to that, he held general management positions at the 3M Company, General Electric, Becton-Dickinson, Jones International/Intercable, and IGT.

Restatement

On November 10, 2006, in response to comments raised by the Staff of the Securities and Exchange Commission (SEC) concerning the Company's registration statement filed on Form SB-2 and the Company's valuation of goodwill and intangible assets on its financial statements, and to ensure that its financial reporting remains in accordance with Generally Accepted Accounting Principles, the Company's Board of Directors concluded that it was appropriate to restate the Company's annual report on Form 10-KSB for the fiscal year ended June 30, 2006. The restatement resulted in adjustments to certain amounts reported in our financial statements issued for the years ended June 30, 2006 and 2005 as well as the current filing. These adjustments affected the presentation and classification of amounts and costs relating to certain patents, goodwill, and additional paid-in capital on our balance sheet. In resolving the above items with the SEC, the Company also adopted a revenue recognition policy with respect to sales of the Company's product to distributors with right of return provisions. Pursuant to this policy, the Company will utilize the sell-through amounts from the Company's distributor to the consumer to recognize revenue for such sales, and then apply an allowance for product returns.

Registration Statement

On June 30, 2005, we filed a registration statement on Form SB-2 related to the sale by certain of our shareholders of up to 12,323,867 shares of our common stock issued in connection with our private placement completed in May 2005. On January 12, 2007, the Company received notification from the Securities and Exchange Commission that its registration statement on Form SB-2 was effective.

Three and Nine Months Ended March 31, 2007 Compared to Three and Nine Months Ended March 31, 2006

Sales We generated revenues of approximately \$995,000 during the three months ended March 31, 2007 and approximately \$1,391,000 during the same period of the prior fiscal year. For the three month periods ended March 31, 2007 and 2006, cost of sales was approximately \$214,000 and \$296,000 resulting in a gross profit of approximately \$782,000 and \$1,095,000, respectively. We generated revenues of approximately \$4,208,000 during the nine months ended March 31, 2007 and approximately \$6,067,000 during the same period of the prior fiscal year. For the nine month periods ended March 31, 2007 and 2006, cost of sales was approximately \$838,000 and \$1,256,000, resulting in a gross profit of approximately \$3,369,000 and \$4,811,000, respectively. A nationally televised news program in June

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2005, led to substantial sales during the three and nine month periods ended March 31, 2006. No similar national news exposure occurred during the three and nine month periods ended March 31, 2007, resulting in a decrease in sales and gross profit for such periods when compared to the three and nine months ended March 31, 2006.

Gross Margin Our gross profit percentage for the three month periods ended March 31, 2007 and 2006 was 79%. Our gross profit percentage for the nine month periods ended March 31, 2007 and 2006 was 80% and 79%, respectively. The slight increase in margin for the nine months ended March 31, 2007 is due to the recognition of higher margin distributor revenue during the period.

Operating Expenses Total operating expenses reported during the three month period ended March 31, 2007 were approximately \$1,385,000 as compared to operating expenses of approximately \$1,812,000 during the three month period ended March 31, 2006. Operating expenses decreased approximately \$427,000, primarily due to expense reduction and cost containment programs implemented in General and Administrative and Marketing and Customer Service departments. Total operating expenses reported during the nine month period ended March 31, 2007 were approximately \$6,485,000 as compared to operating expenses of approximately \$6,063,000 during the nine month period ended March 31, 2006. Operating expenses increased approximately \$422,000 primarily due to approximately \$1,145,000 of non-cash, stock-based compensation expense inc