

Lifevantage Corp
Form 10-Q
February 14, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

**10 QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE
ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2010**

**0 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)**

COLORADO

90-0224471

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

11545 W. Bernardo Court, Suite 301, San Diego, California 92127

(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 ☐

Smaller reporting
company ☒

(Do not check if a 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 February 1, 2011 was 73,518,592.

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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 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:

Limited operating history in new business model;

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

Difficulty in managing growth and expansion;

Dilutive effects of any potential need to raise additional capital;

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

Material weaknesses reported in our internal control over financial reporting;

Environmental liabilities stemming from past operations and property ownership;

Significant dependence upon a single product;

Competition in the dietary supplement market;

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;

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

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

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The effect of unfavorable publicity on our business;

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 common stock is currently classified as a penny stock;

Our stock price may experience future volatility;

The illiquidity of our common stock;

Substantial sales of shares of our common stock;

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, 2010.

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)

	December 31, 2010	As of, June 30, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,736,172	\$ 1,637,676
Investments, available for sale	300,000	340,000
Accounts receivable, net	477,591	401,597
Inventory	930,134	493,858
Prepaid expenses and deposits	298,450	153,864
Total current assets	4,742,347	3,026,995
Long-term assets		
Investments, available for sale	75,000	85,000
Property and equipment, net	200,073	196,353
Intangible assets, net	1,994,192	2,045,471
Deferred debt offering costs, net	394,442	844,792
Deposits	28,613	28,613
TOTAL ASSETS	\$ 7,434,667	\$ 6,227,224
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 710,269	\$ 770,941
Commissions payable	796,210	591,035
Reserve for sales returns	625,730	343,937
Other accrued expenses	1,210,415	809,507
Customer deposits	38,450	34,797
Revolving line of credit and accrued interest	434,093	433,985
Short-term derivative liabilities	1,716,141	1,444,331
Short-term convertible debt, net of discount	29,445	702,361
Total current liabilities	5,560,753	5,130,894
Long-term liabilities		
Deferred rent	24,104	27,191
Derivative liabilities	6,346,599	17,123,119
Convertible debt, net of discount	78,381	121,014
Total liabilities	12,009,837	22,402,218
Commitments and contingencies		
Stockholders' deficit		

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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 71,947,949 and 61,494,849 issued and outstanding as of December 31, 2010 and June 30, 2010, respectively

Additional paid-in capital

Accumulated deficit

Accumulated other comprehensive loss

Total stockholders deficit

TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT

71,948	61,495
26,891,165	21,457,145
(31,499,040)	(37,661,857)
(39,243)	(31,777)
(4,575,170)	(16,174,994)
\$ 7,434,667	\$ 6,227,224

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
(Unaudited)

	For the three months ended December 31,		For the six months ended December 31,	
	2010	2009	2010	2009
Sales, net	\$ 7,460,089	\$ 2,455,646	\$ 13,903,438	\$ 4,313,643
Cost of sales	1,191,534	411,824	2,211,669	724,798
Gross profit	6,268,555	2,043,822	11,691,769	3,588,845
Operating expenses:				
Sales and marketing	4,020,603	1,962,590	7,431,446	3,975,195
General and administrative	1,496,069	2,548,891	3,003,162	4,929,608
Research and development	89,717	118,522	199,510	225,414
Depreciation and amortization	53,184	93,475	103,900	146,773
Total operating expenses	5,659,573	4,723,478	10,738,018	9,276,990
Operating income (loss)	608,982	(2,679,656)	953,751	(5,688,145)
Other income (expense):				
Interest expense	(544,282)	(741,790)	(2,008,905)	(895,490)
Change in fair value of derivative liabilities	5,477,924	2,740,783	7,312,971	8,768,519
Total other income	4,933,642	1,998,993	5,304,066	7,873,029
Net income (loss) before income taxes	5,542,624	(680,663)	6,257,817	2,184,884
Income tax expense	(95,000)		(95,000)	
Net income (loss)	5,447,624	(680,663)	6,162,817	2,184,884
Net income (loss) per share, basic	\$.08	\$ (0.01)	\$.09	\$ 0.04
Net income (loss) per share, diluted	\$.06	\$ (0.01)	\$.07	\$ 0.03
Weighted average shares, basic	71,063,750	56,988,549	67,374,094	56,896,535
Weighted average shares, diluted	90,969,984	56,988,549	87,837,962	68,643,382

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 AND COMPREHENSIVE
INCOME
(UNAUDITED)

	Common Stock		Additional	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Paid In Capital	Deficit	Loss	Total
Balances, June 30, 2010	61,494,849	\$ 61,495	\$ 21,457,145	\$ (37,661,857)	\$ (31,777)	\$ (16,174,994)
Conversion of debt to equity	10,453,100	10,453	5,271,905			5,282,358
Options/Warrants issued for services			162,115			162,115
Currency translation adjustment					(7,466)	(7,466)
Net income				6,162,817		6,162,817
Other comprehensive income						6,155,351
Balances, December 31, 2010	71,947,949	\$ 71,948	\$ 26,891,165	\$ (31,499,040)	\$ (39,243)	\$ (4,575,170)

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

	For the six months ended December 31,	
	2010	2009
Cash Flows from Operating Activities:		
Net income	\$ 6,162,817	\$ 2,184,884
Adjustments to reconcile net loss to net cash (used) by operating activities:		
Depreciation and amortization	103,900	146,774
Stock based compensation to employees	132,517	929,205
Stock based compensation to non-employees	29,598	724,325
Amortization of debt discount	1,375,071	741,045
Amortization of deferred offering costs	450,350	44,591
Non-cash interest expense	108	
Change in fair value of derivative liabilities	(7,312,971)	(8,768,519)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(75,994)	420,843
(Increase) decrease in inventory	(436,276)	52,134
(Increase) in prepaid expenses	(140,934)	(69,057)
Decrease in deposits and other assets		21,486
(Decrease) in accounts payable	(60,672)	(24,773)
Increase in accrued expenses	884,789	339,302
Net Cash Provided (Used) by Operating Activities	1,112,303	(3,257,760)
Cash Flows from Investing Activities:		
Redemption of marketable securities	50,000	75,000
Purchase of intangible assets	(10,651)	(22,834)
Purchase of equipment	(45,690)	
Net Cash (Used) Provided by Investing Activities	(6,341)	52,166
Cash Flows from Financing Activities:		
Net (payments) on proceeds from revolving line of credit and accrued interest		(146,410)
Borrowings on long-term obligations		756,635
Issuance of convertible debt and warrants		1,377,143
Receivable from equity raise		119,750
Principal payments under capital lease obligation		(30,783)
Issuance of common stock and warrants		904,256
Exercise of options and warrants		32,378
Private placement fees		(130,714)
Net Cash Provided by Financing Activities		2,882,255
Foreign Currency Effect on Cash	(7,466)	(3,777)
Increase (Decrease) in Cash and Cash Equivalents:	1,098,496	(327,116)
Cash and Cash Equivalents beginning of period	1,637,676	608,795
Cash and Cash Equivalents end of period	\$ 2,736,172	\$ 281,679

Non Cash Investing and Financing Activities:

Warrants issued for agent fees and reclassification of warrants to a derivative liability	\$	\$ 122,508
Conversion of debt to common stock	\$ 2,090,620	\$ 30,000
Conversion of derivative to common stock	\$ 3,191,738	\$

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest expense	\$ 202,972	\$ 46,204
Cash paid for income taxes	\$ 56,000	\$

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 AND SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009
(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, 2010 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 December 31, 2010, and the results of operations for the three and six month periods ended December 31, 2010 and 2009 and the cash flows for the six month periods ended December 31, 2010 and 2009. 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 to our current period presentation.

The condensed consolidated financial statements and notes included herein are presented as required by Form 10-Q, and do not contain certain information included in our audited financial statements and notes for the fiscal year ended June 30, 2010 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, 2010, 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 Notes 4 and 6 Convertible Debentures and Stockholders Equity for disclosures related to our convertible debentures and common stock and warrant financing arrangements. The fair value hierarchy is defined below:

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Fair value hierarchy:

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

(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.

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 December 31, 2010:

Instrument:	Fair value	Carrying Value	Level	Valuation Methodology
Investments	\$ 375,000	\$ 375,000	2	Market price
Derivative warrant liabilities	\$ 5,893,631	\$ 5,893,631	3	Black-Scholes Lattice model
Embedded conversion liability	\$ 2,169,109	\$ 2,169,109	3	

The summary of fair values of financial instruments is as follows at June 30, 2010:

Instrument:	Fair value	Carrying Value	Level	Valuation Methodology
Investments	\$ 425,000	\$ 425,000	2	Market price
Derivative warrant liabilities	\$ 10,573,084	\$ 10,573,084	3	Black-Scholes Lattice model
Embedded conversion liability	\$ 7,994,366	\$ 7,994,366	3	

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 six months ended December 31, 2010 and the year ended June 30, 2010:

	December 31, 2010	June 30, 2010
Beginning balance: Derivative liabilities	\$ 18,567,450	\$ 8,429,710
Total (gains) losses	(7,312,971)	(3,101,673)
Adoption of change in accounting principle		3,267,253
Purchases, sales, issuances and settlements, net	(3,191,739)	9,972,160
Ending balance: Derivative liabilities	\$ 8,062,740	\$ 18,567,450

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 December 31, 2010 consist primarily of credit card receivables including a percentage holdback by the credit card processor. The holdback balance at December 31, 2010 was \$432,246. 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 December 31, 2010 is not necessary. No bad debt expense has been recorded for the six months ended December 31, 2010 or the year ended June 30, 2010.

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.

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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 December 31, 2010 and June 30, 2010, inventory consisted of:

	December 31, 2010	June 30, 2010
Finished goods	\$ 377,860	\$ 326,095
Raw materials	552,274	167,763
Total inventory	\$ 930,134	\$ 493,858

Deferred Offering Costs

Deferred offering costs consist of cash paid to and the fair value of warrants issued to placement agents in conjunction with our convertible debenture financings. Amortization of these costs commence upon the closing date and continue for the life of the convertible debenture instruments.

As of December 31, 2010 and June 30, 2010, deferred offering costs consisted of:

	December 31, 2010	June 30, 2010
Deferred offering costs	\$ 1,370,212	\$ 1,370,212
Amortization of deferred offering costs	(975,770)	(525,420)
Deferred offering costs, net	\$ 394,442	\$ 844,792

Revenue Recognition

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. We have experienced overall monthly returns of approximately 3% of sales. Our return rate for sales directly to consumers, which excludes sales through our network marketing channel is approximately 1% of sales based on historical experience and our return rate for sales through our network marketing channel is approximately 4% of sales based upon our historical experience and network marketing industry experience. As of December 31, 2010 and June 30, 2010, our reserve balance for returns and allowances was \$625,730 and \$343,937, 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 and six month periods ended December 31, 2010 the effects of approximately 40.9 million and 40.6 million common shares, respectively, issuable pursuant to warrants issued in our private placement offerings, compensation based warrants issued and options granted through our 2007 Long-Term Incentive Plan are not included in computations because their effect was anti-dilutive. For the three month period ended December 31, 2009 the basic and diluted average outstanding shares are the same since including the additional potential common share equivalents would

have an antidilutive effect on the loss per share calculation. For the six month period ended December 31, 2009 the effects of approximately 48.4 million common shares issuable pursuant to the convertible debentures and warrants issued in our private placement offerings, compensation based warrants issued and options granted through our 2007 Long-Term Incentive Plan are not included in computations because their effect was anti-dilutive.

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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:

	Three months ended December 31,		Six months ended December 31, 2010	
	2010	2009	2010	2009
Revenues from unaffiliated customers				
U.S. operations	\$ 5,796,985	\$ 2,392,838	\$ 10,945,062	\$ 4,250,835
Japan operations	1,589,466		2,830,797	
Mexico operations	73,638	62,808	127,579	62,808
Total revenues	\$ 7,460,089	\$ 2,455,646	\$ 13,903,438	\$ 4,313,643

Research and Development Costs

We expense all costs related to research and development activities as incurred. Research and development expenses for the six month periods ended December 31, 2010 and 2009 were \$199,510 and \$225,414, 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 fair value these instruments. For embedded conversion features we generally use a lattice technique because it contains all the requisite assumptions to value these features. 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.

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Convertible Debt Instruments

We issued convertible debt in September and October 2007, November and December 2009 and January and February 2010. We review the terms of convertible debt and equity instruments that we issue to determine whether there are embedded derivative instruments, including the embedded conversion options that are required to be bifurcated and accounted for separately as derivative instrument liabilities. Also, in connection with the sale of convertible debt and equity instruments, we may issue freestanding options or warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity. For option-based derivative financial instruments, we use the Black-Scholes option pricing model to value the derivative instruments. For embedded conversion derivatives we use a lattice model to value the derivative.

When the embedded conversion option in a convertible debt instrument is not required to be bifurcated and accounted for separately as a derivative instrument, we review the terms of the instrument to determine whether it is necessary to record a beneficial conversion feature. When the effective conversion rate of the instrument at the time it is issued is less than the fair value of the common stock into which it is convertible, we recognize a beneficial conversion feature, which is credited to equity and reduces the initial carrying value of the instrument.

When convertible debt is initially recorded at less than its face value as a result of allocating some or all of the proceeds received to derivative instrument liabilities, to a beneficial conversion feature or to other instruments, the discount from the face amount, together with the stated interest on the convertible debt, is amortized over the life of the instrument through periodic charges to income, using the effective interest method.

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 December 31, 2010 we have recognized income tax expense of \$95,000 which is our estimated state income tax liability for the six months ended December 31, 2010. 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 1.71% 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.

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 December 31, 2010, we had \$2,419,787 in cash accounts at one financial institution, approximately \$110,831 in foreign bank accounts and \$205,554 in an investment management account at another financial institution. The maximum loss that would have resulted from concentration risk totaled \$787,147 at December 31, 2010 and \$717,618 at June 30, 2010 for the excess of the deposit liabilities reported by the banks over the amounts that would have been covered by federal insurance.

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.

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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. The schedule for repurchase of remaining ARPS by Stifel Nicolaus over the next three years is as follows:

(a) The greater of 10 percent or \$25,000 to be completed by June 30, 2011;

(b) The balance of outstanding ARPS, if any, to be repurchased by 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 interest on amounts borrowed has been approximately the same as the interest being earned from the underlying securities. Management classified 80% or \$300,000 of our investments as short term. The remaining 20% or \$75,000 of our investments that may not be available in the current year are classified as long-term.

As of December 31, 2010, 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 Convertible Debentures**2007**

On September 26, 2007 and October 31, 2007, we issued convertible debentures in a private placement offering that had an interest rate of 8 percent per annum and had a term of three years. The convertible debentures were convertible into common stock at \$0.20 per share during their term and at maturity, at our option, were repayable in full or convertible into common stock at the lower of \$0.20 per share or the average trading price for the 10 days immediately prior to the maturity date on September 26, 2010 and October 31, 2010. We also issued warrants to purchase shares of our common stock at \$0.30 per share in the private placement offering. We allocated the proceeds received in the private placement to the convertible debentures and warrants to purchase common stock based on their relative estimated fair values. The discount from the face amount of the convertible debentures represented by the value initially assigned to any associated warrants and derivative liabilities was amortized over the period to the due date of each convertible debenture, using the effective interest method. We redeemed all warrants issued in the offering in fiscal 2009.

Details of the issuances are in the table below:

	Face				Discount Amortized at December 31, 2010	Net Value at December 31, 2010
Date Issued	Value Issued	Debt Discount	Face Value Converted	Discount Converted		
September 26, 2007	\$ 1,075,000	\$ (937,510)	\$ (1,075,000)	\$ 242,173	\$ 695,337	\$
October 31, 2007	415,000	(378,235)	(415,000)	139,624	238,611	
Totals	\$ 1,490,000	\$ (1,315,745)	\$ (1,490,000)	\$ 381,797	\$ 933,948	\$

As of December 31, 2010 all the convertible debentures issued in September and October of 2007 have been converted.

We determined that the conversion option in the convertible debentures did not satisfy the definition of being indexed to our own stock, as an anti-dilution provision in the convertible debentures would have reduced the

conversion price dollar for dollar if we were to have issued common stock with a price lower than the conversion price of the convertible debentures. Based on authoritative guidance effective on July 1, 2009 the embedded conversion option in the convertible debentures was a liability as of July 1, 2009. We have bifurcated the embedded conversion option from the host contract and accounted for this feature as a separate derivative liability. As of December 31, 2010 the embedded conversion option had a zero value because all debentures have been converted.

In addition, we have reviewed the terms of the convertible debentures to determine whether there are any other embedded derivative instruments that may be required to be bifurcated and accounted for separately as derivative instrument liabilities and have determined that either they did not meet the criteria or were immaterial in amount.

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Effective interest associated with the convertible debentures totaled \$16,632 and \$240,684 for the three and six months ended December 31, 2010, respectively. Effective interest associated with the convertible debentures totaled \$147,955 and \$306,703 for the three and six months ended December 31, 2009, respectively. Effective interest is accreted to the balance of convertible debt until maturity. Simple interest paid totaled \$1,102 and \$18,046 for the three and six months ended December 31, 2010, respectively. Simple interest paid totaled \$22,795 and \$46,204 for the three and six months ended December 31, 2009, respectively. A total of \$256,568 was paid for commissions and expenses incurred in the 2007 private placement offering which was amortized into interest expense over the term of the convertible debentures on a straight-line basis. As of December 31, 2010 we have recorded accumulated amortization of 2007 deferred offering costs of \$231,552.

2009 and 2010

Between November 2009 and February 2010, we issued convertible debentures with an aggregate principal amount of \$4,995,000 that bear interest at 8 percent per annum and have a term of two years. Accordingly, as of December 31, 2010, these amounts are recorded as long-term convertible debt on the accompanying balance sheet. We received aggregate net cash proceeds of \$4,035,687, after deducting placement fees of \$464,313 and taking into account the conversion of an outstanding note payable as described below. The convertible debentures are convertible into common stock at \$0.20 per share during their term. Subject to meeting certain equity conditions, we have the option to redeem the outstanding principal plus accrued interest for cash at any time during the term of the debentures. In conjunction with these convertible debentures we issued warrants to purchase an aggregate of 14,997,449 shares of common stock with an exercise price of \$0.50 per share and warrants to purchase an aggregate of 2,035,860 shares of common stock with an exercise price of \$0.20 per share. In addition, a note payable to a related party in the amount of \$500,000 was converted to a convertible debenture. We allocated the proceeds received in the private placements to the embedded derivative and warrants based on their estimated fair values. Details of the issuances are in the table below:

	Face				Discount Amortized at December 31, 2010	Net Value at December 31, 2010
Date Issued	Value Issued	Debt Discount	Face Value Converted	Discount Converted		
November 18, 2009	\$ 246,896	\$ (246,896)	\$ (169,830)	\$ 168,578	\$ 3,311	\$ 2,059
December 11, 2009	874,125	(874,125)	(199,800)	198,354	20,719	19,273
December 31, 2009	254,745	(254,745)			8,114	8,114
January 20, 2010	1,255,743	(1,255,743)	(259,740)	257,547	37,434	35,241
February 4, 2010	1,849,149	(1,849,149)	(559,440)	556,570	38,034	35,164
February 25, 2010	514,342	(514,342)	(326,530)	322,627	11,878	7,975
Totals	\$ 4,995,000	\$ (4,995,000)	\$ (1,515,340)	\$ 1,503,676	\$ 119,490	\$ 107,826

As of December 31, 2010 the convertible debentures are convertible into an aggregate of 17,398,300 shares with a value as of December 31, 2010 of \$6,785,337 which exceeds the principal value by \$3,305,677.

Based on authoritative guidance effective on July 1, 2009 we have concluded that the embedded conversion option in the convertible debentures is required to be bifurcated from the host contract and accounted for this feature as a separate derivative liability, at fair value, in our financial statements. In addition, we determined that the warrants issued in conjunction with the convertible debentures are required to be carried as derivative liabilities, at fair value, in our financial statements, due to certain anti-dilution provisions. As of December 31, 2010, the embedded conversion option is estimated to be \$2,169,109 and the warrant derivative is estimated to be \$4,884,283. In addition, we have reviewed the terms of the convertible debentures to determine whether there are any other embedded derivative instruments that may be required to be bifurcated and accounted for separately as derivative instrument liabilities and

have determined that either they did not meet the criteria or were immaterial in amount.

Effective interest associated with the convertible debentures totaled \$383,590 and \$1,337,357 for the three and six month periods ended December 31, 2010, respectively. Effective interest associated with the convertible debentures totaled \$45,107 for the three and six month periods ended December 31, 2009, respectively. Effective interest is accreted to the balance of convertible debt until maturity. Simple interest paid was \$87,906 and \$184,925 for the three and six month periods ended December 31, 2010, respectively. We incurred an aggregate of \$1,138,660 in commissions and expenses in connection with the 2009 private placement offerings, \$464,313 of which was paid in cash and the balance of which was reflected in the issuance of warrants with a fair market value of \$674,347. The \$1,138,660 in commissions and expenses is being amortized into interest expense over the term of the convertible debentures. As of December 31, 2010 we have recorded accumulated amortization of deferred offering costs of \$744,218.

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Note 5 Line of Credit

We established a line of credit to borrow up to 80% of our investments. As of December 31, 2010, we can borrow up to \$600,000. The line is collateralized by our auction rate securities. The interest rate charged through December 31, 2010, 3.00 percent, is 0.25 percentage points below the published Wall Street Journal Prime Rate, which was 3.25 percent as of December 31, 2010. At December 31, 2010, we have borrowed approximately \$434,093, including accrued interest, from the line.

Note 6 Stockholders Equity

During the three and six months ended December 31, 2010 we issued 2,307,225 and 10,453,100, respectively, shares of common stock as a result of conversions of convertible debentures.

Our Articles of Incorporation authorize the issuance of preferred shares. However, as of December 31, 2010, none have been issued nor have any rights or preferences been assigned to the preferred shares by our Board of Directors.

Note 7 Stock-based Compensation

We adopted and the shareholders approved the 2007 Long-Term Incentive Plan (the 2007 Plan), effective November 21, 2006, 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 December 31, 2010, awards for the purchase of an aggregate of 8,473,731 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 December 31, 2010 there were no 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 none and 58,000 were granted for the three and six month periods ended December 31, 2010, respectively. Compensation based options totaling 621,500 and 1,377,500 were granted during the three and six month periods ended December 31, 2009, respectively.

For the three and six months ended December 31, 2010, stock based compensation of \$46,958 and \$162,115, respectively, was reflected as an increase to additional paid in capital. Of the stock based compensation for the three and six months ended December 31, 2010, \$46,958 and \$132,517 respectively, was employee related and none and \$29,598, respectively, was non-employee related. For the three and six months ended December 31, 2009, stock based compensation of \$851,281 and \$1,653,530, respectively, was reflected as an increase to additional paid in capital. Of the stock based compensation for the three and six months ended December 31, 2009, \$490,338 and \$929,205 respectively, was employee related and \$360,943 and \$724,325 respectively, was non-employee related.

Compensation expense was calculated using the fair value method during the three and six month periods ended December 31, 2010 and 2009 using the Black-Scholes option pricing model. The following assumptions were used for options and warrants granted during the six month periods ended December 31, 2010 and 2009:

1. risk-free interest rates of between 1.33 and 1.62 percent for the six months ended December 31, 2010 and 3.52 percent for the six months ended December 31, 2009;
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 between 128 and 129 percent for the six months ended December 31, 2010 between 160 and 337 percent for the six months ended December 31, 2009.

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Note 8 Subsequent Events

In January 2011 we granted 919,500 options under our 2007 and 2010 Long-Term Incentive plans. Between January 1, 2011 and February 1, 2011 we issued 1,570,943 shares of common stock as a result of option and warrant exercises and conversions of debentures.

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, 2010 and the risk factors discussed therein.

Overview

This management's 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 Nutraceutical 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.

We are a dietary supplement company that manufactures, markets, distributes, and sells Protandim, a patented dietary supplement intended to increase the body's natural antioxidant protection by inducing multiple protective enzymes including superoxide dismutase (SOD) and catalase (CAT) through network marketing and direct-to-consumer sales channels. We also sell our LifeVantage TrueScience Anti-Aging Cream, a skin care product, through the same channel.

Our revenue depends significantly upon the number and productivity of our independent distributors. Independent distributors 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, this can have a negative impact on our revenue and harm our business.

We primarily sell a single product, Protandim, and in June 2009 we began selling our LifeVantage TrueScience Anti-Aging Cream ("LifeVantage TrueScience") which incorporates ingredients contained in Protandim and other proprietary ingredients. We developed Protandim, a proprietary blend of ingredients that combats oxidative stress by increasing the body's natural antioxidant protection at the genetic level, inducing the production of naturally occurring protective antioxidant enzymes including SOD, CAT, and glutathione synthase.

We sell Protandim and LifeVantage TrueScience through our network marketing sales channel utilizing independent distributors and directly to individuals through our preferred customer program.

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. We intend to continue our research, development, and documentation of the efficacy of Protandim to provide credibility to the market. We also anticipate undertaking research, development, testing, and licensing activities in an effort to introduce additional products in the future, although we may not be successful in this endeavor.

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Ongoing research and development projects involving Protandim are currently in various stages of completion with several institutions including the University of Colorado at Denver Health Science Center, University of Minnesota's Masonic Cancer Center, Ohio State University, University Hospital in Brno, Czech Republic, University of Michigan and Louisiana State University. The studies relate to various conditions including pulmonary hypertension, non-alcoholic fatty liver disease, Duchenne muscular dystrophy, coronary artery bypass graft failure, renal failure, diabetes, and photoaging of the skin. The recently completed and published peer-reviewed mouse study at Louisiana State University found a significant increase in the expression levels of SOD and catalase enzymes and tumor incidence and multiplicity were reduced in mice fed a Protandim® diet by 33% and 57%, respectively, compared with mice on a basal diet. Another study, conducted by a prominent dermatologist using Protandim®, is examining the relationship between anti-aging and the skin's natural ability to rejuvenate at the cellular level.

Net revenue from Protandim®, TrueScience® and related marketing materials totaled \$7,460,089 and \$13,903,438, respectively, for the three and six months ended December 31, 2010, and \$2,455,646 and \$4,313,643, respectively, for the three and six months ended December 31, 2009.

Three and Six Months Ended December 31, 2010 Compared to Three and Six Months Ended December 31, 2009

Revenue We generated net revenue of \$7,460,089 during the three months ended December 31, 2010, and generated net revenue of \$2,455,646 during the three months ended December 31, 2009. We generated net revenue of \$13,903,438 during the six months ended December 31, 2010 and \$4,313,643 during the six months ended December 31, 2009. The increase in revenue is due to increased sales volume through the network marketing or multi-level marketing sales channel. Our sales in Japan contributed \$1,589,466 and \$2,830,797 of this increase for the three and six months ended December 31, 2010, respectively. During the three and six month periods ended December 31, 2010, 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 December 31, 2010 and 2009 was 84% and 83%, respectively. Our gross profit percentage for the six months ended December 31, 2010 and 2009 was 84% and 83%, respectively. The slightly higher gross margins we have experienced are primarily due to efficiencies and cost reductions obtained through our contract manufacturer. 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 December 31, 2010 were \$5,659,573 as compared to operating expenses of \$4,723,478 for the three months ended December 31, 2009. Total operating expenses during the six month period ended December 31, 2010 were \$10,738,018 as compared to operating expenses of \$9,276,990 during the six month period ended December 31, 2009. Operating expenses consist of sales and marketing expenses, general and administrative expenses, research and development, and depreciation and amortization expenses.

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Sales and Marketing Expenses Sales and marketing expense increased from \$1,962,590 for the three months ended December 31, 2009 to \$4,020,603 for the three months ended December 31, 2010. Sales and marketing expenses increased from approximately \$3,975,195 for the six months ended December 31, 2009 to \$7,431,446 for the six months ended December 31, 2010. This increase was due primarily to commissions paid to distributors due to the higher sales volume. The increase also reflects expenses associated with sales events, such as our Elite Academy, which took place in the quarter ended December 31, 2010. We expect continued increases in sales and marketing expenses as our sales increase.

General and Administrative Expenses Our general and administrative expense decreased from \$2,548,891 for the three months ended December 31, 2009 to \$1,496,069 for the three months ended December 31, 2010. General and administrative expense decreased from \$4,929,608 for the six months ended December 31, 2009 to \$3,003,162 for the six months ended December 31, 2010. The decreases are primarily due to decreased legal and personnel related costs and are partially offset by increased bonus accruals and benefits costs. 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 decreased from \$118,522 for the three months ended December 31, 2009 to \$89,717 for the three months ended December 31, 2010. Research and development expenses decreased from \$225,414 for the six months ended December 31, 2009 to \$199,510 for the six months ended December 31, 2010. These decreases are a result of a decrease in spending on contract research in the first half of our fiscal 2011. While research and development expenses were only \$89,717 for the three months ended December 31, 2010 continued investment in research and development is a company priority and we have ensured that sufficient cash is available for the remainder of this fiscal year to fund research and development efforts amounting to approximately 2% of our total net revenue. 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 decreased from \$93,475 during the three months ended December 31, 2009 to \$53,184 during the three months ended December 31, 2010. Depreciation and amortization expense decreased from \$146,773 for the six months ended December 31, 2009 to \$103,900 for the six months ended December 31, 2010. These decreases were due primarily to assets being fully depreciated and are partially offset by depreciation associated with capital acquisitions made in the quarter ended December 31, 2010.

Net Other Income We recognized net other income of \$4,933,642 during the three months ended December 31, 2010 as compared to net other income of \$1,998,993 during the three months ended December 31, 2009. During the six months ended December 31, 2010 we recognized net other income of \$5,304,066 as compared to net other income of \$7,873,029 for the six months ended December 31, 2009. These fluctuations between periods are primarily the result of the change in fair value of the derivative liabilities during the three and six months ended December 31, 2010 of \$5,477,924 and \$7,312,971, respectively. This income was partially offset by interest expense related to convertible debentures and income tax expense.

Income Tax Expense We recognized income tax expense of \$95,000 for the three and six months ended December 31, 2010 as compared to none for the three and six months ended December 31, 2009. The income tax expense reflects our estimated liability for state income taxes for the six months ended December 31, 2010.

Net Income/Loss We recorded net income of \$5,447,624 for the three month period ended December 31, 2010 compared to a net loss of \$680,663 for the three month period ended December 31, 2009. We recorded net income of \$6,162,817 for the six month period ended December 31, 2010 compared to net income of \$2,184,884 for the six month period ended December 31, 2009.

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, 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, which we may be unable to do.

Our primary sources of liquidity are cash generated from the sales of our product and funds raised from our 2007, 2009 and 2010 private placements financing transactions. As of December 31, 2010, our available liquidity was \$2,736,172, including available cash, cash equivalents and marketable securities. This represented an increase of \$1,098,496 from the \$1,637,676 in cash, cash equivalents and marketable securities as of June 30, 2010. During the six months ended December 31, 2010, our net cash provided by operating activities was \$1,112,303 as compared to net cash used by operating activities of \$3,257,760 during the six months ended December 31, 2009. Our cash provided by operating activities during the six month period ended December 31, 2010 increased primarily as a result of increased revenues.

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During the six months ended December 31, 2010, our net cash used by investing activities was \$6,341, due to the redemption of marketable securities less the purchase of fixed and intangible assets. During the six months ended December 31, 2009, our net cash provided by investing activities was \$52,166 primarily due to the redemption of marketable securities less the purchase of intangible assets.

Cash provided by financing activities during the six months ended December 31, 2010 was none compared to cash provided by financing activities of \$2,882,255 during the six months ended December 31, 2009. Cash provided by financing activities during the six month period ended December 31, 2010 was related solely to net proceeds from the revolving line of credit. Cash provided from financing activities during the six months ended December 31, 2009 was due to proceeds from an equity offering of common stock and warrants and the issuance of convertible debentures and warrants.

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. Based upon this line of credit, we have classified 80% or \$300,000 of our marketable securities as short term. The remaining 20% or \$75,000 of our marketable securities that may not be available in the next twelve months is classified as long-term. However, future economic events could change the portion of these classified as long term.

At December 31, 2010, we had negative working capital (current assets minus current liabilities) of \$(818,406), compared to negative working capital of \$(2,103,899) at June 30, 2010. The negative working capital at December 31, 2010 is due to the classification of certain derivative liabilities related to the 2009 convertible debentures as short-term in the quarter ended December 31, 2010.

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 December 31, 2010, we did not have any off-balance sheet arrangements.

Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments, and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates. Our significant accounting policies are described in Note 2 to our 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.

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Allowances for Product Returns We record allowances for product returns at the time we ship the product based on estimated return rates of 1% to 4%. 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 December 31, 2010, our direct and network marketing sales shipments of approximately \$2,377,000 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 \$625,730 on December 31, 2010, compared with \$343,900 on June 30, 2010. 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 \$103,359 of reserve for obsolete inventory as of December 31, 2010 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.

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.

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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 December 31, 2010, 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 December 31, 2010 at the reasonable assurance level due to the material weaknesses in our internal control over financial reporting discussed immediately below.

Identified Material Weaknesses

A material weakness is a control deficiency, or combination of 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 December 31, 2010. In particular, we concluded that we did not maintain:

1. Adequate oversight of certain accounting functions and did not maintain adequate documentation of management review and approval of accounting transactions and financial reporting processes; and
2. Formal policies governing certain 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 December 31, 2010.

Management's Remediation Initiatives

We are in the process of evaluating our 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) Implement appropriate management oversight and approval activities; and
- 2) Establish comprehensive formal general accounting policies and procedures and require employees to sign off such policies and procedures as documentation of their understanding of and compliance with company policies.

We plan to test our updated controls and remediate our material weaknesses by June 30, 2011.

In our Annual Report on Form 10-K for the year ended June 30, 2010 (filed with the SEC on September 15, 2010) in addition to the material weaknesses discussed above, we identified two other material weaknesses in our internal controls related to the lack of: (i) 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; and (ii) a whistleblower hotline. During the quarter ended September 30, 2010 we hired additional staff with experience managing and working in the corporate accounting department of a publicly traded company and established a whistleblower hotline.

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Conclusion

The above identified material weaknesses resulted in material audit adjustments to our 2010 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 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

There have been no changes in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting, during the period covered by this Quarterly Report. We continue to work on remediating our identified material weaknesses.

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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, 2010. 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, 2010.

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

During the period covered by this report, we issued 800,000 unregistered shares of our common stock upon the conversion of convertible debentures originally acquired from us in September and October 2007. The shares issued were exempt from registration under the Securities Act of 1933 pursuant to Section 3(a)(9) thereof. The shares were exchanged for outstanding debentures exclusively with the holder thereof and no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

None.

Item 5. Other Information

None.

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: February 14, 2011

/s/ David W. Brown
David W. Brown
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2011

/s/ Carrie E. McQueen
Carrie E. McQueen
Chief Financial Officer
(Principal Financial Officer)
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Exhibit Index

Exhibit	Description
10.1#	LifeVantage FY2011 Corporate Bonus Plan (1)
31.1	Certification of principal executive officer pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of principal financial officer pursuant to Rule 13a-14(a)/15d-14(a)
32.1**	Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
#	Management contract or compensatory plan.
(1)	Filed as an exhibit to the registrant's quarterly report on Form 10-Q for the period ended September 30, 2010 filed on November 8, 2010, and incorporated herein by reference
**	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