

Lifevantage Corp
Form 10KSB
September 23, 2008

Table of Contents

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

FORM 10-KSB

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended June 30, 2008

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

(Name of small business issuer in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

11545 W. Bernardo Court, Suite 301

San Diego, California

(Address of principal executive offices)

90-0224471

(IRS Employer
Identification No.)

92127

(Zip Code)

Issuer's telephone number: **(858) 312-8000**

Securities registered pursuant to Section 12(b) of the Exchange Act: **None**

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, \$0.001 par value per share

(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve (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 if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Registrant's revenues for the fiscal year ended June 30, 2008 were \$3,140,302.

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the average bid and asked prices of the Registrant's Common Stock on September 17, 2008 was \$3,963,000, which excludes 6,067,000 shares of common stock held by Directors, Officers and holders of 5% or more of the Registrant's outstanding Common Stock on that date. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Registrant, or that such person is controlled by or under common control with the Registrant. There is no non-voting common equity of the Registrant.

Edgar Filing: Lifevantage Corp - Form 10KSB

The number of shares outstanding of the Registrant's Common Stock, par value \$0.001 per share, as of September 17, 2008, was 24,766,117 shares.

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

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Report on Form 10-KSB 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; 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 and the information incorporated by reference by using words such as anticipate, believe, could, estimate, expect, intend, plan, predict, project, show, 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 limited operating history and lack of sufficient revenues from operations;

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 the Company;

Our dependence on third party manufacturers to manufacture our product;

The ability to obtain raw material for our product;

Our dependence on a limited number of significant customers and a single product for our revenue;

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; and

Other factors not specifically described above, including the other risks, uncertainties, and contingencies described under Description of Business, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other sections of this Report on Form 10-KSB.

Edgar Filing: Lifevantage Corp - Form 10KSB

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.

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1. Description of Business</u>	4
<u>Item 2. Description of Properties</u>	13
<u>Item 3. Legal Proceedings</u>	14
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	14
<u>PART II</u>	
<u>Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchase of Equity Securities</u>	15
<u>Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 7. Financial Statements</u>	34
<u>Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	34
<u>Item 8A(T). Controls and Procedures</u>	34
<u>Item 8B. Other Information</u>	35
<u>PART III</u>	
<u>Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act</u>	35
<u>Item 10. Executive Compensation</u>	35
<u>Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	35
<u>Item 12. Certain Relationships and Related Transactions</u>	35
<u>Item 13. Exhibits</u>	35
<u>Item 14. Principal Accountant Fees and Services</u>	35
<u>Lease</u>	
<u>Consent of Ehrhardt Keefe Steiner & Hottman PC</u>	
<u>Certification of CEO Pursuant to Section 302</u>	
<u>Certification of CFO Pursuant to Section 302</u>	
<u>Certification of CEO Pursuant to Section 906</u>	
<u>Certification of CFO Pursuant to Section 906</u>	

Table of Contents

PART I

ITEM 1 DESCRIPTION OF BUSINESS

Overview

Lifevantage Corporation (the Company, LifeVantage, we, our, or us), 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). Our principal place of business is at 11545 West Bernardo Court, Suite 301, San Diego, CA 92127, telephone (858) 312-8000, fax (858) 312-8001. The reports filed with the Securities and Exchange Commission (SEC) by us and our officers, directors, and significant shareholders are available for review on the SEC's website at www.sec.gov. You may also read and copy materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

History

We were incorporated under Colorado law in June 1988 under the name Andraplex Corporation. We amended our name to Yaak River Resources, Inc. in January 1992, to Lifeline Therapeutics, Inc. in October 2004, and to Lifevantage Corporation in November 2006.

On October 26, 2004, we acquired approximately 81% of the outstanding common stock of Lifeline Nutraceuticals Corporation (Lifeline Nutraceuticals or LNC), a privately-held Colorado corporation, formed in July 2003 (the Reorganization). The Reorganization was treated as a reverse merger for accounting purposes. In the Reorganization: We issued 15,385,110 shares of our common stock (representing about 94% of our outstanding common stock after the Reorganization) to eleven persons in exchange for their ownership interest in Lifeline Nutraceuticals.

We agreed to exchange \$240,000 in new promissory notes for a like amount of convertible debt obligations of Lifeline Nutraceuticals.

We agreed to exchange \$559,000 in new promissory notes for a like amount of bridge loan note obligations of Lifeline Nutraceuticals.

As a result of the Reorganization described above, LifeVantage owned 81% of the outstanding common stock of Lifeline Nutraceuticals. Subsequent to the Reorganization, in March 2005 we completed the acquisition of the remaining 19% minority shareholder interest in Lifeline Nutraceuticals. LifeVantage currently owns 100% of the common stock of Lifeline Nutraceuticals. As a result of the Reorganization, our fiscal year end became June 30. LNC developed and holds the intellectual property rights to Protandim[®].

Our Product

We developed our primary product, Protandim[®], a proprietary blend of ingredients that has (through studies on animals and humans) demonstrated the ability to induce production of multiple protective enzymes including SOD and CAT, in brain, liver, and blood, the primary battlefields for oxidative stress. Protandim[®] combats oxidative stress to the human body by inducing the production of SOD and CAT. Oxidative stress refers to the cellular and tissue damage caused by chemically reactive oxygen radicals formed as a natural consequence of cellular metabolism. Oxidative stress is widely believed to play a key role in the aging process, and the body's defenses against oxidative stress and free radicals decrease with age. Protandim[®] is marketed as a dietary supplement, as defined in Section 3

Table of Contents

of the Dietary Supplement Health and Education Act of 1994 (DSHEA), codified as § 201(ff) of the Federal Food, Drug, and Cosmetic Act (FFDCA) (21 U.S.C. § 321(ff)). The name Protandim[®] is derived from promoting the tandem co-regulation of the body's antioxidant enzymes including SOD and CAT. Protandim[®] and the related intellectual property are held by our wholly-owned subsidiary LNC.

Oxidative stress results from the fact that we breathe air and utilize oxygen to generate energy. A small percentage of the oxygen we utilize generates toxic oxygen free radicals that damage the cells and tissues of the human body and consequently negatively impact our general health. Oxidative stress refers to the cellular and tissue damage caused by chemically reactive oxygen radicals formed as a natural consequence of cellular metabolism. These reactive oxygen species (ROS) and free radicals can be elevated under a wide variety of conditions, including radiation, UV light, smoking, excessive alcohol consumption, certain medical conditions such as neurodegenerative diseases and diabetes, and advancing age.

Elevated ROS levels inflict structural damage to nucleic acid, lipid and carbohydrate and protein components of cells, thereby directly contributing to or exacerbating tissue dysfunction, disease, and age-related debilitation. Normally, cellular antioxidant enzymes serve to inactivate ROS and maintain their levels at those compatible with normal cell function. Important among these enzymes are SOD and CAT. However, the levels of these protective antioxidant enzymes decrease with age and also decrease in a number of disease conditions.

SOD is the body's most effective natural antioxidant. SOD works in conjunction with CAT, and under some circumstances, the balance may be important. A by-product of SOD's potent antioxidant activity is hydrogen peroxide, a dangerous substance that needs to be subsequently converted into water and oxygen by CAT. Together, these two enzymes constitute the first line of defense and repair for the body. Scientists have long realized that increasing levels of SOD and CAT is the key to fighting oxidative stress, disease, and aging, however, SOD and CAT oral supplements by themselves can neither be absorbed or work in conjunction with each other in one safe, orally-available pill.

The role of oxidative stress in the body is very significant, as illustrated by the following excerpts from a recent scientific journal article:

Oxidative damage is, if not the key factor, certainly a major factor in Alzheimer Disease. As such, therapeutic modalities encompassing antioxidants may be an effective approach to the treatment of neurodegenerative diseases and delay the aging process.

...it is clear that oxidative damage is not simply a byproduct or end product of neuronal degenerative process but, more likely, the direct initiation factor in neurodegeneration .

Alzheimer Disease (AD) affects ...4 million diseased persons in the United States and 18 million worldwide... AD affects 10-15% of individuals 65 years old and up, and up to 47% of individuals over the age of 80 .

A wide range of major diseases closely related to free radical damage, such as cancer, heart/artery disease, essential hypertension, AD, cataracts, diabetes, Parkinson's disease, arthritis and inflammatory disease, as well as aging itself, are now believed to be caused in part or entirely by free radical damage.

Source: Prevention and treatment of Alzheimer Disease and Aging: Antioxidants, Quan Liu, Fang Xie, Raj Rolston, Paula I. Moreira, Akihiko Numomura, Xiongvie Zhu, Mark A. Smith and George Perry, *Mini-Reviews in Medicinal Chemistry*, 2007, Vol. 7, No. 2, 171-180.

Table of Contents

Protandim® is a unique antioxidant therapy. The patented dietary supplement, formulated with five widely studied phytonutrients, increases the body's natural antioxidant protection by inducing the production of naturally occurring protective enzymes, including SOD and CAT. Oxidative stress occurs as a person ages, when subjected to environmental stresses, or as an associated factor in certain illnesses. Thiobarbituric acid-reacting substances (TBARS) are laboratory markers for oxidative stress in the body. Data from a scientific study, sponsored by LifeVantage, shows in men and women that after 30 days of taking Protandim®, the level of circulating TBARS decreased an average of 40 percent. With continued use, the decrease was maintained at 120 days. For more information, please visit our website at www.protandim.com; however, information found on our website is not incorporated by reference into this Report. Our web site address is included in this Report as an inactive textual reference only.

Our Business Model

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 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 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.

Manufacturing. We retained Nexgen Pharma/Anabolic Laboratories of Colorado Springs, Colorado (Nexgen), formerly The Chemins Company prior to Chemins' acquisition by Nexgen in August 2007, to produce Protandim® under a contract manufacturing agreement dated February 2004 and amended January 17, 2005.

Nexgen has significant experience in manufacturing dietary supplements and is one of the leading contract manufacturers in the country. Its plant follows strict current good manufacturing practices (cGMP) regulations for foods in general. The Company continues to evaluate other manufacturing options to keep costs low and quality high.

We paid Nexgen a deposit of \$1,190,000 in Third Quarter of fiscal year 2005 to procure sufficient raw materials to manufacture one million bottles of Protandim®, to acquire packing and shipping materials and to commence the manufacturing and packaging process for 500,000 bottles of Protandim®. The deposit with Nexgen is reduced as product is sold. As of June 30, 2007, the Company's deposit with Nexgen was \$388,791 and as of June 30, 2008, the deposit was \$277,979.

Nexgen delivers product to us based on our purchase orders. Through June 30, 2008, Nexgen had shipped or delivered approximately 85,000 bottles of Protandim® to our fulfillment center and retail distributors. As of June 30, 2008, a total of 446,000 bottles have been shipped and an additional 54,000 bottles remain to be shipped from the initial 500,000-bottle order.

Through June 30, 2008, we have paid Nexgen approximately \$2,400,000 for the above delivered bottles, which includes the deposit for the purchase of raw materials and packaging materials for a total of one million bottles of Protandim®.

Marketing. We market Protandim® through TV, radio, print and internet advertising. In the past, the Company and Protandim® have been discussed on a nationally-televised news program, which was received with great response. During fiscal 2008, we engaged a nationally recognized creative consultant to build the marketing message and to launch a direct response television campaign for the Company to recreate the excitement and response that resulted from Primetime. We also initiated public relations efforts and contracted with a prominent marketing and

Table of Contents

communications expert with significant industry experience. In addition, we regularly train and educate customer service representatives to correctly and appropriately represent the product to consumers. We have a sales, marketing, public relations and customer service group consisting of three full-time employees and three outside contractors. We also utilize a number of retail sales brokers throughout the United States.

Sales. Protandim® is sold direct to consumers through telephone and web site orders, and through retailers including General Nutrition Distribution, LP (GNC), Super Supplements, drugstore.com, Vitamin Shoppe, Vitamin Cottage, Akin s Natural Foods Markets, and Chamberlin s Natural Foods Markets. For retail customers, the Company analyzes its contracts to determine the appropriate treatment for its recognition of revenue on a customer by customer basis.

We accept orders for our product through the Company s product website and an internal customer service department utilizing a toll-free number. The website and customer service department direct shipping orders to our fulfillment center, AtLast Fulfillment (AtLast), where orders are filled and shipped either by AtLast or by United States Postal Service (USPS). AtLast offers package tracking by toll-free number or online so that our customers or our customer service department can determine the shipping status for each order of our product.

We offer a toll-free number to our customers to order product or ask questions. Our customer service representatives answer customer calls and place orders in the Company s web order processing system. The customer service representatives receive extensive training and are particularly adept at up-selling customers to our auto-ship purchasing option, which is attractive to us as this option allows us to realize recurring revenue on a monthly basis with no further action required by the customer.

It is our desire to serve our customers directly concerning sales orders and issues or questions they may have with our product. Our customer service representatives are available to respond to our customers needs, answer questions, track packages, provide refunds, and process sales orders.

The operational backbone of the Company is our web order processing system, Heavy Metal - Business Software for e-Commerce, which we developed with the services of Make-A-Store, Inc. (MAS). The MAS system we have developed accepts and authorizes credit card submissions for both online sales order requests as well as telephone order sales. Upon authorization, the MAS system interacts with the operational system at AtLast, notifying the fulfillment center of sales shipping needs through a web enabled application. The operational system at AtLast responds to MAS when the shipment of the product has occurred, allowing MAS to capture the cost of the shipment from the customer s credit card. MAS is maintained on an array of servers, with load balancers, firewalls, and database server backups at MAS secure hosted facility. This facility provides a full-service, managed hosting environment with approximately 80,000 square feet of total space, closed circuit monitoring of all areas and entrances, coded access and 24-hour video security.

We commenced sales of Protandim® in February 2005. For the fiscal years ended June 30, 2005, 2006, 2007 and 2008, we generated revenues of \$2,353,795, \$7,165,819, \$5,050,988 and \$3,200,174 respectively. For the fiscal year ended June 30, 2005, we incurred a net loss of \$5,822,397; for the fiscal year ended July 30, 2006, we incurred a net loss of \$2,734,501; for the fiscal year ended June 30, 2007, we incurred a net loss of \$3,693,578 and for the fiscal year ended June 30, 2008 we incurred a net loss of \$2,054,439. We have expended in excess of \$21,000,000 in research and development activities and overhead expenses since the incorporation of Lifeline Nutraceuticals in July 2003.

Table of Contents**Research and Development**

A significant portion of our time, effort, and financial resources have been dedicated toward the continuing research and development of our intellectual property and the development of Protandim®. As of July 10, 2007, the United States Patent and Trademark Office (USPTO) granted patent number 7,241,461 to the Protandim® formula. On June 10, 2008 the USPTO granted a second patent for alleviating inflammation and oxidative stress. In fiscal years ended 2008 and 2007, we spent about \$324,000 and \$246,000 in Company-sponsored research and development. Several research and development projects involving Protandim® are currently ongoing with several institutions including the University of Colorado at Denver Health Science Center (UCDHSC), University of Minnesota's Masonic Cancer Center, Ohio State University, University Hospital in Brno, Czech Republic, University of Michigan and Louisiana State University.

The U.S. Dietary Supplement Market

According to the *Nutrition Business Journal*, the U.S. supplement market was estimated to be over \$23.7 billion in 2007 as reflected in the following charts:

Source: *Nutrition Business Journal*, June/July, 2008

2007 U.S. Nutrition Industry Revenues

2007	Retail-Nat/Spec	Retail-MM	Mail Order	MLM	Practitioner	Internet	Total
Supplements	8,682	6,526	1,370	4,550	1,844	747	23,718
Natural & Organic							
Food	14,088	12,491	22	31	7	22	26,661
Functional Foods	3,449	30,406	36	255	34	158	34,338
N&OPC, Household	4,797	1,360	267	2,276	336	196	9,232
Total	31,017	50,783	1,695	7,112	2,220	1,122	93,949

Source: Nutrition Business Journal primary research includes NBJ survey of natural food, supplement and NPC manufacturers, distributors, MLM firms, mail order, Internet and raw material companies and numerous interviews with major retailers (Wal-Mart, Costco, etc.), manufacturers, suppliers and industry experts. Secondary sources include Information Resources Inc., The Natural Foods Merchandiser, Whole Foods Magazine, OTC Update, SPINS, The Nielsen Co., company data and others. Note: To avoid double counting, NBJ classifies soymilk and nutrition bars as functional, not as natural & organic, foods and beverages, although both are included in natural & organic totals cited in NBJ elsewhere. Nat/Spec represents natural, health food, supplement and specialty retail outlets, including Whole Foods, GNC, sports nutrition stores, etc. MM represents mass market or FDMCC or food/grocery, drug, mass merchandise, club and convenience stores, including Wal-Mart, Costco, etc. Mail order represents catalogs, direct mail and direct response TV and radio. Practitioners represent conventional and alternative health practitioners selling to their patients, athletic trainers, beauticians, etc. (\$mil, consumer sales)

Source: *Nutrition Business Journal*, June/July, 2008

In 2007, supplement companies were faced with two of the most important pieces of federal regulation that the industry has seen in more than a decade: the publication of the final good manufacturing practice (GMP) rules and the implementation of the serious adverse event reporting (SAER) law. Both of these regulations give the government the power to expose problematic

Table of Contents

companies and will potentially improve both consumers' and the medical-establishment's perceptions of the industry. The Natural Marketing Institute's *9th Edition Health and Wellness Trends Report* confirms that the growth in the supplement market is driven by a number of factors, including:

- o increased awareness of the health benefits of dietary supplements;
- o a trend toward preventive health care;
- o an increase in the number of older Americans; and
- o health care consumers' interest in managing their own health needs.

Source: *Nutrition Business Journal*, June/July, 2008

Target Market

We analyzed the Protandim® direct customer base to profile our customers. As a result of the analysis, we found that the Protandim® direct customers tend to be college educated, 45 to 74 years old, have a household income of over \$75,000, own a home, reside in the coastal areas, and have a net worth of over \$250,000.

This profile is very similar to the Protandim® target market: the health and wellness or core wellness market segment. This segment fits the profile of the baby boomer market, but it is more specifically focused on those that care about their health and have both a desire and the means to do something about it, and includes some people that are older and younger than the baby boomers.

Just under 11,000 Americans turn 50 every day, and Americans now expect longer life-spans and a better quality of life. Americans over the age of 50 represent over \$525 billion per year in direct healthcare spending. These individuals are time crunched, creating high expectations for convenience, balance, and control.

Women in the core wellness segment tend to be proactive about their health, and do things to lower health risks and prevent disease. They also tend to be engaged in a healthy, active lifestyle, consume organic or natural foods, are positively pre-disposed to and/or are currently taking natural supplements, and they are more in tune with their body and do not wait until they get sick before they adjust any aspect of their lifestyle. Men are also part of this group and men's attitude toward aging is rapidly changing. In the past men were content to let the aging process happen, but now men are showing a greater willingness to be proactive about maintaining good health.

Pricing

LifeVantage has established the direct sale price of Protandim® at \$49.95 for a month's supply of thirty caplets and \$89.95 for a three-month's supply of ninety caplets. Price discounts are used for monthly and quarterly auto-ship options and other promotions. Products sold through the retail channels are sold to retailers at a discount.

Competition

Although we believe that Protandim® reflects a unique product in the nutraceutical industry, there are a number of potential Protandim® competitors.

Vitamin C, Vitamin E, Coenzyme Q-10, and other sources of exogenous antioxidants are often considered competitors of Protandim®. We do not consider these substances to be competitors because they are non-enzymatic oxygen radical scavengers and do not increase the body's enzymatic elimination of oxidants. Our research indicates that Protandim® increases production of natural antioxidant enzymes, such as SOD and CAT, within the cells of the body. Oxygen is consumed by the mitochondria, which is where oxidative stress is at its worst. We

Table of Contents

believe that the body's internal antioxidant enzymes, produced at homeostatic levels, provide a better defense against oxidative stress than exogenous sources of antioxidants.

There are many companies performing research into antioxidants, and these companies are intensely competitive. At least one entity is currently marketing a direct competitor to Protandim®, and it is highly likely that one or more additional entities will develop, purchase or license from a third party, competitive products along the lines of our focus. Thus, we expect that we will be subject to significant competition that will intensify as these markets develop.

Many of our actual and potential competitors have longer operating histories and possess greater name recognition, larger customer bases, and significantly greater financial, technical, and marketing resources than we do. As the dietary supplement industry grows and changes, retailers may align themselves with larger suppliers who may be more financially stable, market a broad portfolio of products or offer better customer service. Competition with companies of this nature could materially adversely affect our business, operating results, or financial condition.

Product Liability and Other Insurance

We have product liability insurance coverage for Protandim® that we believe is adequate to protect us. We have also obtained commercial property and liability coverage, as well as directors' and officers' liability insurance.

Intellectual Property, Patents, and Royalty Agreements

Protandim® is a proprietary, patented dietary supplement formulation for enhancing antioxidant enzymes including SOD and CAT. The patent and patent applications protecting this formulation are held by our wholly-owned subsidiary, Lifeline Nutraceuticals.

We use commercially reasonable efforts to protect our intellectual property and license rights through patent protection, trade secrets, and contractual protections, and intend to continue to develop a strong brand identity in the Protandim® mark. Although we do not currently license our intellectual property to any third parties, we may choose to provide such licensing arrangements in the future to provide a potential new revenue source.

Our intellectual property is covered, in part, by U.S. Patent No. U.S. 7,241,461 Preparation of composition to alleviate inflammation and oxidative stress on a mammal issued on July 10, 2007 and, most recently, U.S. patent No. 7,384,655 a continuation of U.S. patent No. 7,241,461, issued on June 10, 2008 An additional U.S. Utility Patent application is on file with the U.S. Patent and Trademark Office. A PCT International Patent Application is also on file. The Company's patents and patent applications claim the benefit of priority of seven U.S. provisional patent applications and are directed to compositions, methods, and methods of manufacture. The earliest filing date for this family of patent applications is March 23, 2004. The term of the granted patent is through March 23, 2025. The expected term of the outstanding patent applications is through March 23, 2025 assuming there are no term extensions.

Protandim® is a registered trademark in the United States, Canada and Taiwan. We have applied for protection of the Protandim® trademark in China, and the European Community. We do not know with reasonable certainty the timing of the final grant or denial of the applications for registration of the Protandim® mark in these countries.

We have applied for the trademark LifeVantage in the United States, Canada and through the World Intellectual Property Organization (WIPO). We have registered the mark LifeVantage through WIPO in Australia, China, Japan and Korea.

Table of Contents

Governmental Approval and Regulations

The formulation, manufacturing, packaging, labeling, and advertising of Protandim® are subject to regulation by federal agencies, including the Food and Drug Administration (FDA), the Federal Trade Commission (FTC), and also by various state and local agencies. Although the Company is not currently required to obtain FDA or FTC approval to sell Protandim®, the FDA, pursuant to the Federal Food, Drug, and Cosmetic Act (FFDCA), which includes the Dietary Supplement Health and Education Act (DSHEA), primarily regulates the formulation, manufacturing, packaging, and labeling of the product, while the FTC primarily regulates the advertising and marketing of the product.

Protandim® is marketed as a dietary supplement as defined in the DSHEA. The DSHEA is intended to promote access to safe, quality dietary supplements, and information about dietary supplements. The U.S. Congress has amended the FFDCA several times with respect to dietary supplements, in particular by the DSHEA. In 1994, the DSHEA established a new framework governing the composition and labeling of dietary supplements. With respect to composition, the DSHEA defined dietary supplements as including vitamins, minerals, herbs, other botanicals, amino acids, and other dietary substances for human use to supplement the diet, as well as concentrates, constituents, extracts, or combinations of such dietary ingredients. Under the DSHEA, a dietary supplement that contains a new dietary ingredient (defined as a dietary ingredient not marketed in the United States before October 15, 1994) must have a history of human use or other evidence of safety establishing that it is reasonably expected by the manufacturer to be safe prior to marketing the product. The manufacturer of a dietary supplement must notify the FDA at least 75 days before marketing products containing new dietary ingredients and provide the FDA with the information upon which the manufacturer based its conclusion that the product has a reasonable expectation of safety. The FDA may not accept the evidence of safety for any new dietary ingredient, and the FDA's refusal to accept such evidence could prevent the marketing of such dietary ingredients.

FDA Regulations Applicable to the Formulation, Manufacturing, Packaging, and Labeling of Protandim®

The DSHEA permits statements of nutritional support to be included in labeling for dietary supplements without FDA pre-approval. Such statements may describe how a particular dietary ingredient may affect the structure, function, or general well-being of the body or the mechanism of action by which dietary ingredients affect the foregoing. Such statements may not state that a dietary supplement will diagnose, cure, mitigate, treat, or prevent a disease unless such claim has been reviewed and approved by the FDA, either as a health claim or as a claim for an approved drug. A company that uses a statement of nutritional support in labeling must possess evidence substantiating that the statement is truthful and not misleading. The FDA may determine that a particular statement of nutritional support that a company wants to use is an illegal claim for an unapproved new drug or an unauthorized version of a health claim. Such a determination might prevent a company from making the claim.

The DSHEA also permits certain third-party literature, for example a reprint of a peer-reviewed scientific publication, to be used in connection with the sale of a dietary supplement to consumers without the literature being subject to regulation as labeling. However, such literature must not be false or misleading, the literature may not promote a particular manufacturer, or brand of dietary supplement and it must include a balanced view of the available scientific information on the subject matter, among other requirements. While we exercise care in the dissemination of all such third party literature in connection with Protandim®, we cannot assure you that all third party literature would be found by the FDA to satisfy all of these requirements. If we fail to satisfy any of these applicable requirements, the FDA could prevent the use of certain literature and subject

Table of Contents

Protandim® to regulation as an unapproved new drug. We could also be subject to adverse actions by other third parties.

We are subject to the risk that the FDA may take enforcement action against us for one or more violations of the FFDCA. We have to comply with the FFDCA, including the DSHEA, and all applicable FDA regulations. Any allegations of non-compliance may result in time-consuming and expensive defense of our activities. An enforcement action could include a warning letter that informs us of alleged violations, such as selling a misbranded product, an adulterated product, or an unapproved new drug. Although we would be entitled to take corrective action in response to any such warning letter, the fact that a warning letter had been issued to us from the FDA would be made available to the public. That information could affect our relationships with our investors, vendors, and consumers. The FDA could also initiate many additional types of enforcement actions that would be far more detrimental to our business than the issuance of a warning letter, including actions for product seizure, inspection, and/or criminal prosecution. Because we are not required to submit all product labeling to the FDA before we sell our dietary supplement, we cannot give any assurance that FDA enforcement action will not occur.

FTC Regulations Applicable to the Advertising and Marketing of Protandim®

Advertising and marketing of products is subject to regulation by the FTC under the Federal Trade Commission Act (FTC Act). Section 5 of the FTC Act prohibits unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce. Section 12 of the FTC Act provides that disseminating any false advertisement pertaining to drugs or foods, which would include dietary supplements, is an unfair or deceptive act or practice. Under the FTC s Substantiation Doctrine, an advertiser is required to have a reasonable basis for all express and implied product claims before the claims are made. Failure to adequately substantiate claims may be considered either deceptive or unfair practices. Pursuant to this FTC requirement, we are required to have adequate substantiation for all material advertising claims made for our products. The FTC routinely reviews advertising and websites to identify significant questionable advertising claims and practices, and competitors often inform the FTC when they believe other competitors are violating the FTC Act. If the FTC initiates an investigation to determine the support for a claim, the FTC can initiate pre-complaint discovery that may be nonpublic in nature. Such an investigation may (i) be very expensive to defend, (ii) be lengthy, and (iii) result in one or more adverse rulings by a court, administrative law judge, or in a publicly disclosed consent decree.

Our telemarketing activities must comply with the FTC s Telemarketing Sales Rule, 16 CFR Part 310, and additional telemarketing and marketing statutes and regulations of the FTC and of various states. Because these activities, in general, are in the public eye and because it may be difficult to ensure compliance with these laws and regulations by the individuals who actually make and receive such calls, there is a risk that we could be the subject of investigation and other enforcement activities that may be brought by the FTC and state agencies. We regularly train and educate telemarketing representatives to correctly and appropriately represent our product.

In addition to federal regulation in the U. S., each state has enacted its own Little FTC Act to regulate sales and advertising and each state has enacted its own food and drug laws. We may receive requests to supply information regarding our sales or advertising to state regulatory agencies. We remain subject to the risk that, in one or more of our present or future markets, our products, sales, and advertising could be found not to be in compliance with applicable laws and regulations. If we fail to comply with these laws and regulations, it could have a material adverse effect on our business in a particular market or in general. In addition, these laws and regulations could affect our ability to enter new markets.

Table of Contents

The Bioterrorism Act

In June 2002, Congress enacted the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the Bioterrorism Act). The Bioterrorism Act contained new requirements with regard to the sale and importation of food products in the United States:

1. Mandatory registration with the FDA of all food manufacturers.
2. Prior notice to regulators of inbound food shipments.
3. Recordkeeping requirements, and grant of access to the FDA of applicable records.
4. Grant of detention authority to the FDA of food products in certain circumstances.

Under the record keeping requirements, LifeVantage is considered to be a nontransporter of Protandim and must maintain certain records required of nontransporters. We are in the process of ensuring that we keep all appropriate records required by the Bioterrorism Act.

Potential FDA and Other Regulation

We could become subject to additional laws or regulations administered by the FDA, FTC, or by other federal, state, or local regulatory authorities, to the repeal of laws or regulations that we consider favorable, such as the DSHEA, or to more stringent interpretations of current laws or regulations. For example, the FDA is currently developing guidance for the industry to clarify the FDA's interpretation of the new dietary ingredient notification requirements, which may raise new and significant regulatory barriers for new dietary ingredients. Increased FDA enforcement could lead the FDA to challenge dietary ingredients already on the market as illegal under the FFDCA because of the failure to file a new dietary ingredient notification.

In 2007, the FDA issued final rules for cGMP regulations for the dietary supplement industry. The final cGMPs require quality control provisions that are similar to cGMPs for drugs and over-the-counter products. Our contract manufacturer, Nexgen, is a medium sized company. Medium sized companies have been granted two years to comply with the new cGMP requirements. Nexgen is on track to meet the requirements for dietary supplements within the two-year period.

In addition, in 2007 the FDA implemented the serious adverse event reporting (SAER) law. This law gives the federal government the power to expose problematic companies and will potentially improve both consumers' and the medical establishment's perceptions of the industry. SAER requires manufacturers, packers, or distributors whose name appears on a nonprescription drug or dietary supplement product label to notify the FDA of any serious adverse event report associated with the product's use within 15 business days of receipt of such information.

Employees

As of June 30, 2008, we had eight full time employees, including two officers, all of whom are leased through Administaff. We outsource our manufacturing and distribution operations to minimize the number of employees we have. We may in the future hire additional employees for marketing, customer service and accounting.

ITEM 2 DESCRIPTION OF PROPERTIES

Corporate Office

The lease for the Greenwood Village office expired July 31, 2008 and the Company entered a five (5) year lease in San Diego, California. Pursuant to the agreement, we prepaid rent of \$7,850. Monthly rent payments began July 1, 2008 and are as follows: \$7,850 for July 2008; rent is abated during the months of August, September and October 2008, \$7,850 per month from November 2008

Table of Contents

through June 2009; \$8,125 per month from July 2009 through June 2010; \$8,409 per month from July 2010 through June 2011; \$8,073 per month from July 2011 through June 2012; and \$9,008 per month from July 2012 through June 2013.

In addition, the Company entered into a six-month sublease for office space in Littleton, Colorado at a rate of \$842 per month effective July 7, 2008, renewable on a month-to-month basis following the initial term. Effective July 16, 2008, the Company entered into a lease agreement for additional adjoining space in Littleton, Colorado for three months at a rate of \$630 per month, renewable on a month-to-month basis following the initial term.

Warehouse Facility

Effective December 2007, our warehouse facility agreement with UPS expired. We entered into an agreement effective January 2008 with AtLast Fulfillment, pursuant to which we lease warehouse space in their climate-controlled warehouse in Denver, Colorado pursuant to a renewable agreement expiring in December 2010.

ITEM 3 LEGAL PROCEEDINGS

None.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Table of Contents**PART II****ITEM 5 MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES****Market Information and Holders**

Since February 2, 2007, our common stock has been traded on the OTC Bulletin Board in the United States under the symbol **LFVN** . From October 5, 2004 to February 1, 2007, our common stock was traded on the OTC Bulletin Board in the United States under the symbol **LFLT**.

The table below sets forth for the fiscal quarters indicated the reported high and low sale prices of our common stock, as reported on the OTC Bulletin Board. These prices were reported by an online service, reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. Our fiscal year-end is June 30.

	2008		2007	
	High	Low	High	Low
First Quarter	\$0.42	\$0.20	\$1.40	\$0.69
Second Quarter	\$0.35	\$0.17	\$0.87	\$0.44
Third Quarter	\$0.45	\$0.19	\$0.61	\$0.19
Fourth Quarter	\$0.49	\$0.18	\$0.36	\$0.16

Our common stock is issued in registered form and the following information is taken from the records of our current transfer agent, Computershare Trust Company, Inc. located in Golden, Colorado. As of June 30, 2008, we had 249 shareholders on record and 24,766,117 shares of common stock outstanding. This does not include an unknown number of persons who hold shares through brokers and dealers in street name and who are not listed on our shareholder records.

Dividends

We have not declared any dividends on any class of our equity securities since incorporation and we do not anticipate that we will declare any dividends in the foreseeable future. Our present policy is to retain future earnings (if any) for use in our operations and the expansion of our business.

Securities Authorized for Issuance under Equity Compensation Plans

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted- average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))

Edgar Filing: Lifevantage Corp - Form 10KSB

Equity compensation plans approved by security holders	3,634,365	\$	0.45	2,365,635
Equity compensation plans not approved by security holders	3,187,088	\$	0.46	
Total	6,821,453	\$	0.45	2,365,635

Consultant Warrants. We granted compensation-based warrants to various consultants for services rendered to the Company during the fiscal year ended June 30, 2008. As of June 30, 2008, unexpired compensation-based warrants to purchase 3,187,088 shares of the Company's common stock were outstanding.

Table of Contents

ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in connection with our financial statements and related notes beginning on page F-1 following Part III of this annual report.

Overview

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

At present, we primarily have 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 antioxidant enzymes including Superoxide Dismutase (SOD) and Catalase (CAT) in brain, liver, and blood, the primary battlefields for oxidative stress. 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® was selected for its ability to meet these criteria. Low, safe doses of each component help prevent unwanted additional effects that might be associated with one or another of the components, none of which have been seen with the formulation.

We commenced sales of an Omega 3 fish oil product containing EPA and DHA during the fiscal year, but to date sales have been negligible. In the future, we expect to explore additional natural products that fit within our business model.

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. Since June 2005, sales of Protandim® have declined on a monthly basis as we have not been successful in developing a marketing message that has resonated with the target audience. Beginning in May, 2008, monthly sales of Protandim appear to have stabilized. Protandim® net sales totaled approximately \$3,200,000 for the fiscal year ended June 30, 2008.

In the first quarter of fiscal year 2009, the Company will recognize all deferred revenue and expenses from GNC, as the Company has determined it has sufficient history to reasonably estimate returns and meets the retail sales recognition requirements pursuant to Staff Accounting Bulletin No. 104, *Revenue Recognition, corrected copy* (SAB 104).

In July 2006, LifeVantage entered into an agreement with CVS for the sale of Protandim® throughout the CVS store network. During fiscal year June 30, 2008, the Company agreed to accept, pursuant to a return authorization, a portion of Protandim® from CVS stores that was not sold. Sufficient bottles were returned by CVS to the Company to offset the receivable from CVS, both parties agreed to waive any further obligations of the other and the supply arrangement was terminated.

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 the efficacy 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.

Table of Contents

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. Another study, conducted by a prominent dermatologist using Protandim® and LP Derma Complex, is examining the relationship between anti-aging and the skin's natural ability to rejuvenate at the cellular level.

The primary manufacturing, fulfillment, and shipping components of our business are outsourced to companies we believe possess a high degree of expertise. Through outsourcing, we hope to achieve a more direct correlation between the costs we incur and our level of product sales, versus the relatively high fixed costs of building our own infrastructure to accomplish these same tasks. Outsourcing also helps to minimize our commitment of resources to 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.

Our expenditures have consisted primarily of marketing expenses, operating expenses, payroll and professional fees, customer service, research and development and product manufacturing for the marketing and sale of Protandim®.

We began a turn-around strategy in January 2007 to reduce our cash drain by cutting spending and lowering our operational expenses to a more appropriate level. This effort was successful in decreasing the cash expenses of the Company until a new marketing strategy could be developed and implemented. As part of the Company's new marketing strategy, a direct to consumer test of radio and TV commercials commenced during the fourth quarter of fiscal 2008 and advertising costs in the fourth quarter have risen as a result.

An additional part of this turnaround strategy has been to reduce the erosion of our direct sales, which has continued since our direct sales first began in June 2005. Through the addition of key personnel and implementation of new, more effective customer service retention and recapture programs, we will attempt to reduce the direct sales erosion experienced during fiscal 2007 and 2008.

We also began to focus on building the sales and re-establishing positive sales momentum. In this regard, we have taken steps that we believe will help to increase sales. Such steps include the addition of new marketing personnel and industry experts, entering into license agreements, expanding distribution, re-vamping our internet strategy and launching a direct response TV campaign. In addition, we also are working on developing and improving investor relations. These new strategies are being executed by David W. Brown, our new President and Chief Executive Officer, who was hired in January 2008, and who possesses significant industry experience.

Other Developments

Departure of Chief Executive Officer

Effective August 31, 2007, James J. Krejci's positions as Chief Executive Officer and as Vice Chairman and a member of our Board of Directors terminated.

Table of Contents

Hiring of Chief Executive Officer

The Company hired David Brown as its new President and Chief Executive Officer effective January 10, 2008. Mr. Brown has vast nutraceutical experience and was most recently the Managing Director and Co-Founder of Nutrition Business Advisors, a firm founded in 2003 to provide strategic consulting services, capital raising and full-service business development focused on the \$130 billion Global Nutrition Industry. Prior to co-founding Nutrition Business Advisors, Mr. Brown was President and Chief Executive Officer of Metabolife International. From 1994 to 2000, Mr. Brown served as the President of Natural Balance, Inc., a Colorado-based dietary supplement company. Mr. Brown began his career as a corporate attorney, first at the Los Angeles based firm of Kindel & Anderson, then at the Philadelphia based firm of Ballard, Spahr, Andrews & Ingersoll. Mr. Brown holds a Juris Doctorate from Cornell University and a Bachelors of Arts from Brigham Young University.

In connection with his appointment as President and Chief Executive Officer, Mr. Brown entered into an Employment Agreement with the Company effective January 10, 2008.

Changes in Certifying Accountant

The Company dismissed Gordon, Hughes & Banks, LLP as the Company's independent registered public accounting firm effective as of January 30, 2008. The Company appointed Ehrhardt Keefe Steiner & Hottman PC on January 30, 2008 as its independent registered public accounting firm for the fiscal year ended June 30, 2008, beginning for the three months ended December 31, 2007. The decision to change accountants was recommended and approved by the Company's Board of Directors and its Audit Committee on January 30, 2008. There have been no disagreements with the Company's accountants.

2007 Private Placement

On September 26, and October 31, 2007, the Company issued convertible debentures in a private placement offering. The convertible debentures are convertible into the Company's common stock at \$0.20 per share during their term and at maturity, at the Company's option the debentures may be repaid in full or converted into common stock at the lower \$0.20 per share or the average trading price for the 10 days immediately prior to the maturity date. The Convertible Debentures bear interest at 8 percent per annum, and have a term of three years. Gross proceeds of \$1,490,000 and net proceeds of approximately \$1,233,000, were distributed to the Company pursuant to the issuance of convertible debentures in the private placement offering. The Company also issued warrants to purchase shares of the Company's common stock at \$0.30 per share in the private placement offering.

We are using the proceeds from the offering for marketing, scientific research, development and testing of Protandim®.

Re-Pricing of 2005 Private Placement Warrants

Effective as of June 28, 2007, we offered to reprice warrants to purchase 6,001,866 shares of our common stock issued to investors in 2005 pursuant to a private placement offering (the 2005 warrants). The 2005 warrants were originally exercisable at \$2.00 and \$2.50 per share by the warrant holder and were repriced to be exercisable at \$0.30 per share upon the execution of a warrant amendment by the Company and the warrant holder. As of March 31, 2008, holders of the

Table of Contents

2005 warrants to purchase 3,395,706 shares of our common stock had executed a warrant amendment, and 2005 warrants to purchase 3,395,706 shares of our common stock had been repriced to be exercisable at \$0.30 per share. The 2005 warrants expired on April 18, 2008. As of the April 18, 2008 expiration date of the 2005 warrants, 1,283,083 were exercised.

Nutranomics, Inc.

Effective January 21, 2008, the Company entered into a marketing and licensing agreement with Nutranomics, Inc. (Nutranomics) for the representation and distribution of Protandim into the multi-billion dollar Asian market.

Nutranomics has a proven record of accomplishment in obtaining wide distribution with leading companies in the Asian market, including Miki Shoji, Japan's largest direct marketing company with over 500,000 distributors. In addition, the company has strong relationships with Mitsui Busan, Watakura, and Kanebo, through which Nutranomics distributes products in the Asian retail sector. Sales through Nutranomics are expected to commence once regulatory approvals for the sale of our product in Japan are received.

Year ended June 30, 2008 Compared to the Year ended June 30, 2007

Sales. We generated net sales of approximately \$3,200,000 during the year ended June 30, 2008 and approximately \$5,051,000 during the year ended June 30, 2007 from the sale of our primary product, Protandim®.

In June 2005, the Company and Protandim® were discussed nationally on Primetime, which led to substantial fiscal year 2006 sales. Since June 2005, sales of Protandim® have declined on a monthly basis as we have not been successful in developing a marketing message that has resonated with the target audience. We sold approximately 84,000 units of Protandim® for the year ended June 30, 2008, and approximately 118,000 units in the year ended June 30, 2007.

Gross Margin. Cost of sales were approximately \$695,000 for the year ended June 30, 2008, and approximately \$1,023,000 for the year ended June 30, 2007, resulting in a gross margin of approximately \$2,505,000, or 78%, and approximately \$4,028,000, or 80%, respectively. The slight decrease in margin is due to the recognition of slightly higher direct cost of sales during the year.

Operating Expenses. Total operating expenses for the fiscal year ended June 30, 2008 were approximately \$4,308,000 as compared to operating expenses of approximately \$7,791,000 for the fiscal year ended June 30, 2007. Operating expenses consist of marketing and customer service expenses, general and administrative expenses, research and development, and depreciation and amortization expenses. Cost containment programs initiated during fiscal year 2007 and maintained through 2008 contributed toward the decrease in operating expenses.

Marketing and Customer Service Expenses. Marketing and customer service expense decreased from approximately \$2,991,000 in fiscal year 2007 to approximately \$1,655,000 in fiscal year 2008. This decrease was due to cost containment programs and a more targeted approach to marketing and advertising.

General and Administrative Expenses. Our general and administrative expense decreased from approximately \$4,356,000 in fiscal year 2007 to \$2,108,000 in fiscal year 2008. The decrease is due to cost containment programs that had been implemented and the recognition of significant non-cash compensation expense from the issuance of options and warrants under SFAS 123(R) during fiscal 2007.

Table of Contents

Research and Development. Our research and development expenditures increased from approximately \$246,000 in fiscal year 2007 to approximately \$324,000 in fiscal year 2008 as a result of an increase in our research, development, and documentation of the efficacy of Protandim®.

Depreciation and Amortization Expense. Depreciation and amortization expense increased from approximately \$92,000 in fiscal year 2007 to approximately \$220,000 in fiscal year 2008. The increase is primarily due to the commencement of the amortization of the Company's U.S. Patent granted July 10, 2007.

Net Other Income and Expense. We recognized net other income of approximately \$69,000 in fiscal year 2007 as compared to net other expense of approximately \$252,000 in fiscal year 2008. The increase in other expense is largely the result of interest expense related to the 2007 private placement.

Net Loss. As a result of lower expenses our net loss of approximately \$(3,694,000) for the fiscal year ended June 30, 2007 decreased to a net loss of approximately \$(2,054,000) for the fiscal year ended June 30, 2008.

Our ability to finance future operations will depend on our existing liquidity (discussed in more detail below) and, ultimately, on our ability to generate additional revenues and profits from operations. However, even if we generate revenues at increasing levels, the revenues generated may not be greater than the expenses we incur. Operating results will depend on several factors, including the selling price of Protandim®, the number of units of Protandim® sold, the costs of manufacturing and distributing Protandim®, the costs of marketing and advertising, and other costs, including corporate overhead, which we will incur.

Liquidity and Capital Resources

Our primary liquidity and capital resource requirements are to finance the cost of our planned marketing efforts, the manufacture and sale of Protandim® and to pay our general and administrative expenses. Our primary sources of liquidity are cash flow from the sales of our product and funds raised from our 2007 private placement.

At June 30, 2008, our available liquidity was approximately \$1,297,000, including available cash and cash equivalents and marketable securities. This represented an increase of approximately \$1,136,000 from the approximately \$161,000 in cash, cash equivalents and marketable securities as of June 30, 2007. During the fiscal year ended June 30, 2008, our net cash used by operating activities was approximately \$748,000 as compared to net cash used by operating activities of approximately \$2,920,000 during the fiscal year ended June 30, 2007. The Company's cash used by operating activities during the fiscal year ended June 30, 2008 decreased primarily as a result of cost savings initiatives implemented during the prior fiscal year.

During the fiscal year ended June 30, 2008, our net cash used by investing activities was approximately \$1,170,000 primarily due to the purchase of available-for-sale marketable securities. The marketable securities include auction rate preferred securities (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. The Company considers these securities as current, however, future economic events could cause a portion of these to be classified as long term in nature. During the fiscal year ended June 30, 2007, our net cash provided by investing activities was approximately \$2,855,000, primarily due to the sale and redemption of available-for-sale marketable securities.

Table of Contents

Cash provided by financing activities during the fiscal year ended June 30, 2008 was approximately \$1,954,000, compared to cash used in financing activities of approximately \$1,800 during the fiscal year ended June 30, 2007. Cash provided in financing activities during the fiscal years ended June 30, 2008 was due to the proceeds from the Company's private placement of convertible securities and proceeds from a revolving line of credit borrowed against the Company's marketable securities. Cash used by financing activities during the fiscal year ended June 30, 2007 was due to payments made under a capital lease obligation.

At June 30, 2008, we had working capital (current assets minus current liabilities) of approximately \$817,000, compared to working capital of approximately (\$46,000) at June 30, 2007. The increase in working capital was due to cash provided by the 2007 private placement.

On September 26, and October 31, 2007, the Company issued convertible debentures in a private placement offering, which resulted in net proceeds received by the Company of approximately \$1,328,000. Based on the cost reduction initiatives that we have undertaken to conserve our cash resources and the net proceeds received by the Company on September 26 and October 31, 2007, we currently anticipate that our cash resources will be sufficient to fund our anticipated working capital and capital expenditure needs through at least June 30, 2009.

We maintain an investment portfolio of marketable securities that is managed by a professional financial institution. The portfolio includes auction rate preferred securities (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. Based upon recent redemptions, we believe the ARPS will be redeemed within the next twelve months.

We base our spending in part on our expectations of future revenue levels from the sale of Protandim®. If our revenue for a particular period is lower than expected, we will take further steps to reduce our cash operating expenses accordingly. Cash generated from operations has been insufficient to satisfy our long-term liquidity requirements, which led us to seek additional financing. Additional financing may be dilutive to our existing shareholders. In an effort to conserve our cash resources, we initiated reductions in personnel, consulting fees, advertising, and other general and administrative expenses. These measures have reduced the scope of our planned operations during the later part of fiscal 2007 and the first nine months of fiscal 2008 by reducing our advertising budget to promote Protandim®.

We plan to use the proceeds received from the 2007 private placement offering to expand marketing efforts, scientific studies, intellectual property protection and working capital in effort to grow direct to consumer and retail revenue. However, our cash resources may run out sooner than expected if our future revenue is lower than expected or our operating or other expenses are higher than expected. If we are unable to increase revenues as planned or secure additional financing, we may be required to further reduce the scope of our planned operations, which could harm our business, financial condition and operating results. We may seek additional financing to expedite our sales and marketing programs. Ant such additional financing may be dilutive to our existing shareholders.

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.

Table of Contents

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 following disclosures.

Allowances for Product Returns

We record allowances for product returns at the time we ship the product. 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. Our return rate is approximately 1 percent of sales.

We offer a 30-day, money back unconditional guarantee to all customers. As of June 30, 2008, our shipments of approximately \$252,000 were subject to the money back guarantee. We replace returned product damaged during shipment wholly at our cost, which historically has been negligible.

We monitor our return estimate on an ongoing basis and revise the allowances to reflect our experience. Our allowance for product returns was \$97,700 on June 30, 2008, compared with approximately \$112,600 on June 30, 2007. To date, product expiration dates have not played any role in product returns, and we do not expect they will in the 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 recorded no reserves for obsolete inventory as of June 30, 2008 because our product has a shelf life of at least 3 years based upon testing performed quarterly in an accelerated aging chamber at our manufacturer's facility.

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. The Company's direct customer return policy is to provide a 30-day money back guarantee on orders placed by customers. After 30 days, the Company does not issue refunds to direct sales customers for returned product. To date, the Company has experienced monthly returns of approximately 1% of sales. As of June 30, 2008 and June 30, 2007, the

Table of Contents

Company's reserve balance for returns and allowances was approximately \$97,700 and \$112,600, 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. Where the right of return exists beyond 30 days, revenue and related cost of sales is deferred until sufficient sell-through information is received to reasonably estimate the amount of future returns.

In the first quarter of fiscal year 2009, the Company will recognize all deferred revenue and expenses from GNC, as the Company has determined it has sufficient history to reasonably estimate returns and meets the retail sales recognition requirements pursuant to SAB 104. As a result, approximately \$510,000 of revenue and \$72,000 of expense will be recognized during fiscal 2009.

In July 2006, LifeVantage entered into an agreement with CVS/pharmacy (CVS) for the sale of Protandim® throughout the CVS store network. During the three months ended March 31, 2008, the Company agreed to accept, pursuant to a return authorization, a portion of the product from CVS stores that had not been sold through this retail channel. During fiscal year ended June 30, 2008, sufficient bottles were received from CVS to offset the receivable from CVS and both parties agreed to waive any further obligations from the other party and the supply arrangement was terminated.

The table below shows the effect of the change in the Company's deferred revenue and expense by quarter through fiscal year ended June 30, 2008 including the impact of the reversal of the CVS deferred revenue and receivable:

	Deferred Revenue	Deferred Expense
Deferred revenue and expense as of June 30, 2007	\$ 818,250	\$ 117,807
Additions to deferred revenue / expense for the three months ended September 30, 2007	120,810	19,770
Recognition of revenue due to retail sell-through in the three months ended September 30, 2007	(142,770)	(23,324)
Deferred revenue and expense as of September 30, 2007	\$ 796,290	\$ 114,253
Additions to deferred revenue / expense for the three months ended December 31, 2007	154,260	25,510
Reduction of deferred revenue from product return	(303,300)	(45,899)
Recognition of revenue due to retail sell-through in the three months ended December 31, 2007	(139,800)	(22,839)
Deferred revenue / expenses as of December 31, 2007	\$ 507,450	\$ 71,025
Additions to deferred revenue / expense for the three months ended March 31, 2008	148,590	24,562

Table of Contents

	Deferred Revenue	Deferred Expense
Recognition of revenue due to retail sell-through in the three months ended March 31, 2008	(137,010)	(22,383)
Deferred revenue / expenses as of March 31, 2008	\$ 519,030	\$ 73,204
Additions to deferred revenue / expense for the three months ended June 30, 2008	112,740	18,445
Recognition of revenue due to retail sell-through in the three months ended June 30, 2008	(121,005)	(19,600)
Deferred revenue / expenses as of June 30, 2008	\$ 510,765	\$ 72,049

Intangible Assets - Patent Costs

We review the carrying value of our patent costs periodically to determine whether the patents have continuing value.

Stock-Based Compensation

We use the fair value approach to account for stock-based compensation in accordance with the modified version of prospective application as prescribed by SFAS 123(R).

Research and Development Costs

We have expensed all of our payments related to research and development activities.

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.

Recently Issued Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (SFAS 157), which is effective for financial statements for fiscal years

Table of Contents

beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. The Company will adopt SFAS 157 and follow its disclosure requirements beginning in the first quarter of fiscal 2009.

In December 2007, the FASB revised Statement of Financial Accounting Standards No. 141, *Business Combinations (revised 2007)*, (SFAS 141(R)). SFAS 141(R) replaces FASB Statement No. 141, *Business Combinations*, (SFAS 141). This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which SFAS 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. The scope of SFAS 141(R) is broader than that of SFAS 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, SFAS 141(R) improves the comparability of the information about business combinations provided in financial reports. We anticipate that SFAS 141(R) will not have a material impact on our financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 *Noncontrolling Interest in Consolidated Financial Statements-an amendment of ARB No. 51*, (SFAS 160). SFAS 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide disclosures that identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective beginning January 1, 2009, and early adoption is prohibited. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We anticipate that SFAS 160 will not have a material impact on our financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*, (SFAS 161). SFAS 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We anticipate that SFAS 161 will not have a material impact on our financial statements.

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

Table of Contents**Risk Factors**

An investment in our common stock involves a high degree of risk, and should be considered only by persons who can afford the loss of their entire investment. You should carefully consider each of the following risk factors and all of the other information provided in this Annual Report, including our financial statements and the related notes, before purchasing our common stock. The risks described below are those we currently believe may materially affect us. The future development of LifeVantage and Protandim® is and will continue to be dependent upon a number of factors, many of which we cannot predict or anticipate. Accordingly, the following risk factors are not necessarily all of the important factors that could cause actual results of operations to differ materially from those expressed in the forward-looking statements in this Annual Report. Other unknown or unpredictable factors also could have material adverse effects on our business, future results of operations or financial condition. We have no obligation and do not undertake to update or revise the following risk factors to reflect events or circumstances after the date of this Report.

Risk Factors Relating to the Company, our Limited Operating History, our Management, and our Financial Condition

We have a limited operating history and lack of sufficient revenues from operations.

We did not generate any significant revenues from the sale of Protandim® until the last six months of fiscal 2005. For the fiscal years ended June 30, 2007 and 2008, we generated revenues of \$5,050,988 and \$3,200,174, respectively. Even though we have expended in excess of \$21,000,000 in research and development activities and overhead expenses since July 2003, we do not have a long operating history with revenue in excess of these costs to date. We commenced sales of our primary product, Protandim®, in February 2005. For our fiscal year ended June 30, 2007, we incurred a net loss of \$3,693,578 and for fiscal year ended June 30, 2008, we incurred a net loss of \$2,054,439. If cash generated from operations is insufficient to satisfy our liquidity requirements, we may need to raise additional financing. Additional financing may be dilutive to our existing shareholders. If we are unable to obtain sufficient financing, or increase our revenues, we will be required to reduce the scope of our planned operations, which could harm our business, financial condition and operating results.

There is no assurance that we will be successful in expanding our operations and, if successful, managing our future growth.

If we are unable to generate revenues that are sufficient to cover our costs, our results of operations will be materially and adversely affected, and we will be unable to expand our operations and may be required to further reduce the scope of our planned operations. If we are able to expand our operations in the future, we may experience periods of rapid growth, including increased staffing levels. Any such growth will place a substantial strain on our management, operational, financial and other resources, and we will need to train, motivate, and manage employees, as well as attract sales, technical, and other professionals. Any failure to expand these areas and implement appropriate procedures and controls in an efficient manner and at a pace consistent with our business objectives would have a material adverse effect on our business, financial condition, and results of operations.

Government regulators and regulations could adversely affect our business.

The formulation, manufacturing, packaging, labeling, advertising, distribution, and sale of our product, as well as other dietary supplements, are subject to regulation by a number of federal, state, and local agencies, including but not limited to the Food and Drug Administration (FDA) and the Federal Trade Commission (FTC). See Business Government Approval and Regulations. These agencies have a variety of procedures and enforcement remedies available to them, including but not limited to:

Initiating investigations;

Issuing warning letters and cease and desist orders;

Demanding recalls;

Initiating adverse publicity;

Requiring corrective labeling or advertising;

Requiring consumer redress and/or disgorgement;

Seeking injunctive relief or product seizures;

Initiating judicial actions; and

Imposing civil penalties or commencing criminal prosecution.

Table of Contents

Federal and state agencies have in the past used these types of remedies in regulating participants in the dietary supplement industry, including the imposition by federal agencies of monetary redress in the millions of dollars. Adverse publicity related to dietary supplements may result in increased regulatory scrutiny, undermine or eliminate the acceptance of our product by consumers and lead to the initiation of private lawsuits. Product recalls could result in unexpected expense of the recall and any legal proceedings that might arise in connection with the recall.

Our failure to comply with applicable laws could also subject us to severe legal sanctions that could have a material adverse effect on our business and results of operations. Specific action taken against us could result in a material adverse effect on our business and results of operations. Furthermore, a state could interpret product claims that are presumptively valid under federal law are nonetheless illegal under that state's regulations.

Future laws or regulations may hinder or prohibit the production or sale of our existing product and any future products.

We may be subject to additional laws or regulations in the future, such as those administered by the FDA, FTC, or other federal, state, or local regulatory authorities. See Government Approval and Regulations. Laws or regulations that we consider favorable may be modified or repealed. Current laws or regulations may be amended or interpreted more stringently. The FDA has proposed extensive good manufacturing practice regulations for dietary supplements. We are unable to predict the nature of such future laws, regulations, or interpretations, nor can we predict what effect they may have on our business. Possible effects or requirements could include, but are not limited to, the following:

The reformulation of products to meet new standards;

Additional ingredient restrictions;

Additional claim restrictions;

The recall or discontinuance of products unable to be reformulated;

Imposition of additional good manufacturing practices and/or record keeping requirements;

Expanded documentation of the properties of products; and

Expanded or different labeling or scientific substantiation.

Any such requirements could have material adverse effects on our business, financial condition, or results of operations.

Unfavorable publicity could materially hurt our business and the value of your investment.

We are highly dependent upon consumers' perceptions of the safety, quality, and efficacy of our products, as well as products distributed by other companies. Future scientific research or publicity may not be favorable to our industry or any particular product, or consistent with earlier research or publicity. Future reports or research that are perceived less favorably or that question such earlier research could have a material adverse effect on us. Because of our dependence upon consumer perceptions, adverse publicity associated with illness or other adverse effects resulting from the consumption of our product or any similar products distributed by other companies could have a material adverse impact on us. Such adverse publicity could arise even if the adverse effects

Table of Contents

associated with such products resulted from failure to consume such products as directed. We may be unable to counter the effects of negative publicity concerning the efficacy of our product. Adverse publicity could also increase our product liability exposure.

We are and will continue to be subject to the risk of investigatory and enforcement action by the FTC, which could have a negative impact upon the price of our stock.

We will always be subject to the risk of investigatory and enforcement action by the FTC based on our advertising claims and marketing practices. The FTC routinely reviews product advertising, including websites, to identify significant questionable advertising claims and practices. The FTC has brought many actions against dietary supplement companies based upon allegations that applicable advertising claims or practices were deceptive and/or not substantiated. If the FTC initiates an investigation, the FTC can initiate pre-complaint discovery that may be nonpublic in nature. Such an investigation: (i) may be very expensive to defend, (ii) may be lengthy, and (iii) may result in an adverse ruling by a court, administrative law judge, or in a publicly disclosed consent decree.

The dietary supplement market is highly competitive.

The market for the sale of dietary supplements is highly competitive. Our competitors could have greater financial and other resources available to them and possess better manufacturing, distribution and marketing capabilities. As the dietary supplement industry grows and changes, retailers may align themselves with larger suppliers who may be more financially stable, market a broad portfolio of products or offer better customer service. Increased competition or increased pricing pressure could have a material adverse effect on our results of operations and financial condition. Among other factors, competition among manufacturers, distributors, and retailers of dietary supplements is based upon price. Because of the high degree of price competition, we may not be able to pass on increases in raw material prices to our customers. If a competitor reduces their price in order to gain market share or if raw material prices increase and we are unable to pass along the cost to our customers, our results of operations and financial condition could be materially adversely affected.

Our business is susceptible to product liability claims, which could adversely affect our results of operations and financial condition.

The manufacture and sale of any product for human consumption raises the risk of product liability claims if a customer alleges an adverse reaction after using the product. These claims may derive from the product itself or a contaminant found in the product from the manufacturing, packaging, sales process or even due to tampering by unauthorized third parties. Even with the product liability/completed operations insurance we have obtained, there will be a risk that insurance will not cover our potential exposure completely or would fail to cover a particular claim, in which case we may not have the financial resources to satisfy such claims. In addition, certain damages in litigation, such as punitive damages, are not covered by our insurance policy. The payment of claims would require us to use funds that are otherwise needed to conduct our business and make our products. In the event that we do not have adequate insurance or other indemnification coverage, product liability claims and litigation could have a material adverse effect on our results of operation and financial condition.

Consumers of our products may not feel readily noticeable physiological differences after taking Protandim®.

Apart from the changes to oxidative stress levels that may be occurring at the cellular level, consumers of our product may not feel readily noticeable physiological differences after taking Protandim®. One of our marketing challenges is educating consumers about Protandim®'s benefits

Table of Contents

and encouraging continued use of the product despite the lack of readily noticeable physiological differences. Consequently, consumers may not continue to purchase our product, which would have a material adverse effect on our business, financial condition, and results of operation.

We have no manufacturing capabilities and we are dependent upon a third party to manufacture our product.

We are dependent upon our relationship with an independent manufacturer to fulfill our product needs. We currently only use one manufacturer for our product. Accordingly, we are dependent on the uninterrupted and efficient operation of this manufacturer's facility. Our ability to market and sell our product requires that our product be manufactured in commercial quantities, without significant delay and in compliance with applicable federal and state regulatory requirements. In addition, we must be able to have our product manufactured at a cost that permits us to charge a price acceptable to the customer while also accommodating any distribution costs or third-party sales compensation. If our current manufacturer is unable for any reason to fulfill our requirements, or seeks to impose unfavorable terms, we will have to seek out other contract manufacturers which could disrupt our operations and have a material adverse effect on our results of operation and financial condition. Competitors who perform their own manufacturing may have an advantage over us with respect to pricing, availability of product, and in other areas through their control of the manufacturing process.

Raw material for our product may be difficult to obtain or expensive.

Our third party manufacturer acquires the raw materials necessary for the manufacture of Protandim®. We cannot assure you that suppliers will provide the raw materials our manufacturer needs in the quantities requested, at a price we are willing to pay, or that meet our quality standards. The failure to supply raw materials or changes in the material terms of raw material supply arrangements could have a material adverse effect on our results of operations and financial condition. We are also subject to potential delays in the delivery of raw materials caused by events beyond our control, including labor disputes, transportation interruptions, weather-related events, natural disasters or other catastrophic events, and changes in government regulations. Any significant delay in or disruption of the supply of raw materials could, among other things, substantially increase the cost of such materials, require reformulation or repackaging of products, require the qualification of new suppliers, or result in our inability to meet customer demands. Raw materials account for a significant portion of our manufacturing costs. Significant increases in raw material prices could have a material adverse effect on our results of operations and financial condition.

We depend on a limited number of significant customers and the loss of any of them could negatively affect our business.

Our largest customer is GNC, which accounts for over 17% of our revenue, and the loss of GNC as a customer, or a significant reduction in purchase volume by GNC, would have a material adverse effect on our financial condition. The loss of GNC could adversely affect our financial condition.

In addition, pursuant to our agreement with GNC, sales are made on a sale or return basis whereby product can be returned by GNC customers for a full refund. We have sufficient history with GNC to reasonably estimate the rate of product returns and we recognize revenue associated with sales to GNC when product is sold by GNC to the consumer with an allowance for future product returns based on historical product return information. However, GNC's return policy could permit consumers to return a greater percentage of our product than historically experienced which could negatively impact our revenues and results of operation.

Table of Contents

Product returns may adversely affect our business.

Product returns are part of our business. In addition to the sale or return policy applicable to sales through GNC described above and certain other retailers, we offer a 30-day, money back unconditional guarantee to all customers.

We record allowances for product returns at the time we ship the product. 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. Our return rate since the inception of selling activities is approximately 1% of sales. We replace returned product damaged during shipment wholly at our cost, which historically has been negligible. We cannot guarantee, however, that future return rates or costs associated with returns do not increase.

To date, product expiration dates have not played any role in product returns; however, it is possible they will increase in the future.

We primarily depend on a single product for our revenue.

Protandim® is the primary product we sell and, as such, we cannot rely on a broad portfolio of other products to support our operations in the event we experience any difficulty with the manufacture, marketing, sale, or distribution of Protandim®. We cannot assure you that Protandim® will maintain or increase its popularity.

Worsening economic conditions may adversely affect our business.

The demand for dietary supplements tends to be sensitive to consumers' disposable income. Therefore, a decline in general economic conditions may lead to our consumers having less discretionary income with which to purchase such products. This could cause a reduction in our projected revenues and have a material adverse effect on operating results.

We may face limited availability of additional capital.

Should we need to borrow money from financial institutions or other third parties, or raise additional capital in the future, the cost of capital may be high. Traditional debt financing may be unavailable and we may have to seek alternative sources of financing, including the issuance of new shares of stock or preferential stock that could dilute current shareholders. There can be no guarantee that we could successfully complete such a stock issuance or otherwise raise additional capital.

We are subject to the lack of liquidity of our marketable securities investment portfolio.

We maintain an investment portfolio of marketable securities that is managed by a professional financial institution. The portfolio includes auction rate preferred securities (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. Due to the economic downturn as a result of *sub-prime mortgage* problems and overall lack of liquidity in the markets, our investment portfolio could become impaired. Additionally, our cash flows could be negatively impacted by the inability to liquidate or fully utilize the portfolio as collateral for borrowing.

We may be impacted by the affects of a slow-down of the United States economic environment and potential for recession.

Table of Contents

The majority of our customer base is comprised of individuals dispersed throughout the United States that will be directly and negatively impacted by increased mortgage payments, foreclosures and other factors arising out of a recessionary economy, and the results of the sub-prime mortgage crisis, that restrict disposable income that is expended on our products. Should current expectations of a looming recession become fiscal fact, we could be materially and adversely affected by reductions in revenue, and the corresponding negative impact on results of operations and financial condition.

The requirements of the Sarbanes-Oxley act, including section 404, are burdensome, and our failure to comply with them could have a material adverse affect on our business and stock price.

Effective internal control over financial reporting is necessary in order to provide reliable financial reports and effectively prevent fraud. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting beginning with our Annual Report on Form 10-KSB for the fiscal year ended June 30, 2008. Our independent registered public accounting firm will need to annually attest to our evaluation, and issue their own opinion on our internal control over financial reporting beginning with our Annual Report on Form 10-K for the fiscal year ending June 30, 2010. The process of complying with Section 404 is expensive and time consuming, and requires significant management attention. We cannot be certain that the measures we will undertake will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Furthermore, if we rapidly grow our business, the internal controls over financial reporting that we will need will become more complex, and significantly more resources will be required to ensure that our internal controls over financial reporting remain effective. Failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we, or our auditors, discover a material weakness in our internal control over financial reporting, the disclosure of that fact, even if the weakness is quickly remedied, could diminish investors' confidence in our financial statements and harm our stock price. In addition, non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension of trading, ineligibility for listing on one of the NASDAQ Stock Markets or national securities exchanges, and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price.

We could be exposed to certain environmental liabilities due to our past operations and property ownership.

Between 1993 and 1999, we owned mining properties in the Yaak River mining district of Montana. The Company maintained these mining properties pursuant to Montana law, but never conducted any mining operations or ore processing. Prior to completing the acquisition of Lifeline Nutraceuticals Corporation, our management and consultants reviewed the records of this prior ownership and certain publicly available records relating to the properties. The State of Montana Department of Environmental Quality (DEQ) believed that the properties may contain residues from past mining. Since we have not performed on-site environmental studies to evaluate the environmental circumstances of these properties, there is a risk that there may be material environmental liabilities associated with our former property interests in Montana for which we may be liable, however we cannot provide a reasonable estimate of such risk.

In addition, until November 10, 2004, we owned 91 lots in Lawrence, Colorado. We are not aware of any environmental liabilities with respect to these lots as the party acquiring the property assumed any environmental liability to which the property might be subject. Nonetheless, there is a risk that a governmental agency or a private individual may assert liability against us for violation of environmental laws related to the ownership of this property.

Table of Contents

Risks Related to Our Intellectual Property and Obsolescence

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products and brand.

We have attempted to protect our intellectual property rights in Protandim® through a combination of confidentiality agreements, patent applications, and other contractual provisions. The original inventors of Protandim®, William Driscoll and Paul Myhill, assigned all patent filings to LNC, our wholly owned subsidiary, and the assignment has been filed with the United States Patent and Trademark Office (USPTO). Our intellectual property is covered by two U.S. Patents granted on July 10, 2007 and June 10, 2008 and a U.S. utility patent application on file with the USPTO. A PCT International Patent Application is also on file. These patent applications claim the benefit of priority of seven U.S. provisional patent applications. There is no guarantee that these patent applications will be approved or that patents will be issued, or if they are, that the patents will contain all of the original claims. The loss of our intellectual property rights in our Protandim® product could permit our competitors to manufacture their own version of our product which could have a materially adverse effect on our revenues. Even if our existing patent applications are approved and patents are issued, patents only provide limited protection against infringement claims, and patent infringement suits are complex, expensive, and not always successful.

If we do not continue to innovate and provide products that are useful to consumers, we may not remain competitive, and our revenues and operating results could suffer.

Scientists, research institutions, and commercial institutions are making advances and improvements in nutritional supplements and issues relating to oxidative stress and aging very quickly, both domestically and internationally. It is possible that future developments may occur, and these developments may render Protandim® non-competitive. We believe that our future success will depend in large part upon our ability to develop, commercialize, and market products that address issues relating to aging and oxidative stress, and to anticipate successfully or to respond to technological changes in manufacturing processes on a cost-effective and timely basis. The development and commercialization process, particularly relating to innovative products, is both time-consuming and costly and involves a high degree of business risk. The success of new products or product enhancements is subject to a number of variables, including developing products that will appeal to customers, accurately anticipating consumer needs, pricing a product competitively and complying with laws and regulations. The failure to successfully develop or launch or gain distribution for new product offerings or product enhancements could have a material adverse effect on our results of operations and financial condition.

If we are unable to protect our proprietary information against unauthorized use by others, our competitive position could be harmed.

Our proprietary information is critically important to our competitive position and is a significant aspect of our product. We generally enter into confidentiality or non-compete agreements with our employees and consultants, and control access to, and distribution of, our documentation and other proprietary information. Despite these precautions, these strategies may not be adequate to prevent misappropriation of our proprietary information. Therefore, we could be required to expend significant amounts to defend our rights to proprietary information in the future if a breach were to occur.

Other parties might claim that we infringe on their intellectual property rights.

Although the dietary supplement industry has historically been characterized by products with naturally occurring ingredients in capsule or tablet form, recently it is becoming more common for suppliers and competitors to apply for patents or develop proprietary technologies and processes.

Table of Contents

We cannot assure you that third parties will not assert intellectual property infringement claims against us despite our efforts to avoid such infringement. To the extent that these developments prevent us from offering competitive products in the marketplace, or result in litigation or threatened litigation against us related to alleged or actual infringement of third-party rights, these developments could have a material adverse effect on our results of operations and financial condition.

Risk Factors Relating to our Common Stock

Our management and large shareholders exercise significant control over our Company and may approve or take actions that may be adverse to your interests.

As of June 30, 2008, our named executive officers, directors, and 5% stockholders beneficially owned approximately 27% of our voting power. For the foreseeable future, to the extent such shareholders vote all their shares in the same manner, they will be able to exercise control over many matters requiring approval by the board of directors or our shareholders. As a result, they will be able to:

Control the composition of our board of directors;

Control our management and policies;

Determine the outcome of significant corporate transactions, including changes in control that may be beneficial to shareholders; and

Act in each of their own interests, which may conflict with, or be different from, the interests of each other or the interests of the other shareholders.

Our common stock could be classified as penny stock and is extremely illiquid, so investors may not be able to sell as much stock as they want at prevailing market prices.

Our common stock is subject to additional disclosure requirements for penny stocks mandated by the Penny Stock Reform Act of 1990. The SEC Regulations generally define a penny stock to be an equity security that is not traded on the Nasdaq Stock Market and has a market price of less than \$5.00 per share. Depending upon our stock price, we may be included within the SEC Rule 3a-51 definition of a penny stock, with trading of our common stock covered by Rule 15c-9 promulgated under the Exchange Act. Under this rule, broker-dealers who sell or effect the purchase of penny stock to persons other than established customers or in certain exempted transactions, must make a special written disclosure to, and suitability determination for, the purchaser and receive the purchaser's written agreement to a transaction prior to sale. The regulations on penny stocks limit the ability of broker-dealers to sell our common stock and thus may limit the ability of purchasers of our common stock to sell their securities in the secondary market. Our common stock will also be considered penny stock if our net tangible assets do not exceed \$5,000,000 or our average revenue is not at least \$6,000,000 in a prior three year period.

The average daily trading volume of our common stock on the over-the-counter market was approximately 45,600 shares per day over the fiscal year ended June 30, 2008. If limited trading in our stock continues, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices.

Our stock price may experience future volatility.

The trading price of our common stock has historically been subject to wide fluctuations. The price of our common stock may fluctuate in the future in response to quarter-to-quarter variations in operating results, material announcements by us or competitors, governmental regulatory action, conditions in the dietary supplement industry, or other events or factors, many of which are beyond our control. In addition, the stock market has historically experienced significant price and volume fluctuations which have particularly affected the market prices of many dietary supplement companies and which have, in certain cases, not had a strong correlation to the operating

Table of Contents

performance of such companies. In addition, our operating results in future quarters may be below the expectations of securities analysts and investors. In such events, the price of our common stock would likely decline.

ITEM 7 FINANCIAL STATEMENTS

The information required by this item begins on page F-1 following Part III of this Report on Form 10-KSB and is incorporated into this Item 7 by reference.

ITEM 8 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company dismissed Gordon, Hughes & Banks, LLP as the Company's independent registered public accounting firm effective as of January 30, 2008. The Company appointed Ehrhardt Keefe Steiner & Hottman PC on January 30, 2008 as its independent registered public accounting firm for the fiscal year ended June 30, 2008, beginning for the three months ended December 31, 2007. The decision to change accountants was recommended and approved by the Company's Board of Directors and its Audit Committee on January 30, 2008. There was no disagreement or event in connection with the Company's change in accountants.

ITEM 8A(T) CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The SEC defines the term *disclosure controls and procedures* to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The Company's management maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and evaluated by the Company's management to allow management to make timely decisions regarding required disclosure.

Members of the Company's management, including our Chief Executive Officer, David Brown, and Chief Financial Officer, Bradford Amman, have evaluated the effectiveness of our disclosure controls and procedures, as defined by Exchange Act Rules 13a-15(e) or 15d-15(e), as of June 30, 2008, the end of the period covered by this report. Based upon that evaluation, Messrs. Brown and Amman concluded that our disclosure controls and procedures were effective as of June 30, 2008.

Internal Control over Financial Reporting

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-(f) under the Securities Exchange Act of 1934). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report. Management utilized guidance provided by the Committee of Sponsoring Organizations (COSO) in evaluating, testing and assessing its internal controls. COSO is a voluntary private-sector organization dedicated to guiding executive management and governance entities toward the establishment of more effective, efficient, and

Table of Contents

ethical business operations on a global basis. It sponsors and disseminates frameworks and guidance based on in-depth research, analysis, and best practices. Based on its assessment, our management determined that, as of the end of the period covered by this report, we maintained effective internal control over financial reporting.

This report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our fiscal year ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 8B OTHER INFORMATION

None.

PART III

The information required by Part III is incorporated by reference to the information to be set forth in the sections identified below in our definitive Proxy Statement for the 2008 Annual Meeting of Shareholders (the "Proxy Statement"). The Proxy Statement is to be filed with the SEC pursuant to Regulation 14A of the Exchange Act, no later than 120 days after the end of the fiscal year covered by this annual report.

ITEM 9 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

ITEM 10 EXECUTIVE COMPENSATION

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

ITEM 11 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

ITEM 13 EXHIBITS

See the Exhibit Index following the signature page of this annual report.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

Table of Contents**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LifeVantage Corporation.
a Colorado corporation

By: /s/ David W. Brown

David W. Brown
Its: Chief Executive Officer
Date: September 23, 2008

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David W. Brown, as his or her true and lawful attorney-in-fact, with full power of substitution, for him in any and all capacities, to sign any amendments to this report on Form 10-KSB and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact or his substitute may do or cause to be done by virtue hereof. In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Date	Title
/s/ David W. Brown David W. Brown	September 23, 2008	Chief Executive Officer; Director (Principal Executive Officer)
/s/ Bradford K. Amman Bradford K. Amman	September 23, 2008	Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer)
/s/ James D. Crapo James D. Crapo	September 23, 2008	Chairman of the Board and Director
/s/ Jack R. Thompson Jack R. Thompson	September 23, 2008	Director and Chairman of the Audit Committee
/s/ Joe M. McCord Joe M. McCord	September 23, 2008	Director
/s/ Richard D. Jones Richard D. Jones	September 23, 2008	Director
/s/ Garry Mauro Garry Mauro	September 23, 2008	Director

Table of Contents

EXHIBIT INDEX

Exhibit Number	Title
2.1	Agreement and Plan of Reorganization between Lifeline Nutraceuticals Corporation and Yaak River Resources, Inc. dated September 21, 2004 ⁽¹⁾
2.2	Settlement and Release Agreement and Plan of Reorganization dated March 10, 2005, among Lifeline Therapeutics, Inc., Lifeline Nutraceuticals Corporation and Michael Barber ⁽²⁾
3.1	Articles of Incorporation of the Registrant, as amended ⁽⁹⁾
3.2	Amended and Restated Bylaws of the Registrant ⁽⁹⁾
4.01	Form of Warrant ⁽¹²⁾
4.02	Form of Convertible Debenture ⁽¹²⁾
10.1	Form of Unit Warrant Certificate ⁽³⁾
10.2	Form of Bridge Warrant Certificate ⁽³⁾
10.3	Form of Placement Agent Warrant Certificate ⁽³⁾
10.4	Secured Indemnification Agreement dated February 21, 2005 between Lifeline Therapeutics, Inc. and William J. Driscoll and Rosemary Driscoll ⁽³⁾
10.5	Interim Executive Services Agreement between Lifeline Therapeutics, Inc. and Tatum CFO Partners, LLP dated August 1, 2005 ⁽⁴⁾
10.6	Agreement between Lifeline Therapeutics, Inc. and William Driscoll dated July 1, 2005 ⁽⁴⁾
10.7	Form of Placement Agent Warrant Certificate ⁽⁵⁾
10.8	Selling Agreement dated January 14, 2005 between Lifeline Therapeutics, Inc. and Keating Securities, LLC ⁽⁵⁾
10.9	Memorandum Agreement dated November 16, 2004 between Lifeline Nutraceuticals Corporation and The Scott Group ⁽⁵⁾
10.10	Lifevantage Corporation 2007 Long-Term Incentive Plan ⁽¹¹⁾
10.11	Independent Contractor s Agreement dated September 1, 2005 between Lifeline Therapeutics, Inc. and Robert Sgarlata Associates, Inc. ⁽⁶⁾
10.12	Statement regarding Javier Baz Employment Agreement ⁽⁶⁾
10.13	

Edgar Filing: Lifevantage Corp - Form 10KSB

Employment Agreement dated November 28, 2005 by and between Lifeline Therapeutics, Inc. and Stephen K. Onody ⁽⁷⁾

- 10.14 Employment Agreement dated January 4, 2006 by and between Lifeline Therapeutics, Inc. and Gerald J. Houston ⁽⁸⁾
- 10.15 Voting Agreement and Irrevocable Proxy dated July 1, 2005 between Lifeline Therapeutics, Inc. and William Driscoll ⁽⁹⁾
- 10.16 Voting Agreement and Irrevocable Proxy dated February 9, 2006 among Lifeline Therapeutics, Inc. Paul Myhill and Lisa Gail Myhill ⁽⁹⁾
- 10.17 Manufacturing Agreement dated February 26, 2004 and amended on February 26, 2004 between Lifeline Therapeutics, Inc. and The Chemins Company ⁽⁹⁾
- 10.18 Lease dated as of August, 2005 between Property Colorado OBJLW One Corporation and Lifeline Therapeutics, Inc. ⁽⁹⁾

Table of Contents

Exhibit Number	Title
10.19	Lease dated July 1, 2008 between Bernardo Regency, L.L.C. and LifeVantage Corporation *
10.20	Confidential Termination Agreement and General Release of Claims dated February 14, 2007 between Gerald J. Houston and the Company ⁽¹⁰⁾
10.21	Letter Agreement dated June 1, 2007 between Aspenwood Capital and Lifevantage Corporation ⁽¹²⁾
10.22	Letter Agreement dated September 28, 2007 between Bolder Venture Partners and Lifevantage Corporation ⁽¹²⁾
10.23	Purchase Agreement between General Nutrition Distribution, LP and Lifevantage Corporation, dated June 21, 2006 ⁽³⁾
21.1	List of subsidiaries ⁽⁴⁾
23.1	Consent of Ehrhardt Keefe Steiner & Hottman PC *
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

(1) Filed as an exhibit to Yaak River Resources, Inc.'s Current Report of Form 8-K (File No. 000-30489), filed on September 28, 2004, and incorporated herein by reference.

(2) Filed as an exhibit to LifeVantage Corporation's Current Report of Form 8-K (File No. 000-30489), filed on March 14,

2005, and incorporated herein by reference.

- (3) Filed as an exhibit to LifeVantage Corporation's Registration Statement on Form SB-2 (File No. 333-126288), filed on June 30, 2005, and incorporated herein by reference.
- (4) Filed as an exhibit to LifeVantage Corporation's Annual Report on Form 10-KSB (File No. 000-30489), filed on October 13, 2005, and incorporated herein by reference.
- (5) Filed as an exhibit to LifeVantage Corporation's Registration Statement on Form SB-2/A (File No. 333-126288), filed on February 6, 2006, and incorporated herein by reference.
- (6) Filed as an exhibit to LifeVantage Corporation's Registration Statement on Form SB-2/A

(F i l e
No. 333-126288),
filed on May 26,
2 0 0 6 , a n d
i n c o r p o r a t e d
h e r e i n b y
reference.

(7) Filed as an exhibit
to LifeVantage
Corporation's
Current Report on
Form 8-K (File
No. 000-30489),
f i l e d o n
November 29,
2 0 0 5 , a n d
i n c o r p o r a t e d
h e r e i n b y
reference.

(8) Filed as an exhibit
to LifeVantage
Corporation's
Current Report on
Form 8-K (File
No. 000-30489),
filed on January 4,
2 0 0 6 , a n d
i n c o r p o r a t e d
h e r e i n b y
reference.

(9) Filed as an exhibit
to LifeVantage
Corporation's
Annual Report on
Form 10-KSB
(f i l e N o .
000-30489), filed
on September 28,
2 0 0 6 , a n d
i n c o r p o r a t e d
h e r e i n b y
reference.

(10) Filed as an exhibit
to Lifevantage
Corporation's
Quarterly Report
on Form 10-QSB

(f i l e
No. 000-30489),
filed on May 14,
2 0 0 7 , a n d
i n c o r p o r a t e d
h e r e i n b y
reference.

(11) Filed with the
LifeVantage
Proxy on Form
14 - A (File
No. 000-30489)
dated October 20,
2 0 0 6 , a n d
i n c o r p o r a t e d
h e r e i n b y
reference.

(12) Filed as an exhibit
to Lifevantage
Corporation's
Registration
Statement on
Form SB-2 (File
No. 333-148119),
f i l e d
December 17,
2 0 0 7 , a n d
i n c o r p o r a t e d
h e r e i n b y
reference.

* Filed herewith.

LIFEVANTAGE CORPORATION
Index to Consolidated Financial Statements

<u>Report of Independent Registered Public Accounting Firms</u>	F-2	F-3
Consolidated Financial Statements:		
<u>Consolidated Balance Sheets as of June 30, 2008 and 2007</u>	F-4	
<u>Consolidated Statements of Operations for the years ended June 30, 2008 and 2007</u>	F-5	
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income for the years ended June 30, 2008 and 2007</u>	F-6	F-7
<u>Consolidated Statements of Cash Flows for the years ended June 30, 2008 and 2007</u>	F-8	F-9
<u>Notes to Consolidated Financial Statements</u>	F-10	F-26
	F-1	

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

LifeVantage Corporation

San Diego, California

We have audited the accompanying consolidated balance sheet of LifeVantage Corporation and subsidiary as of June 30, 2008 and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LifeVantage Corporation and subsidiary as of June 30, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Ehrhardt Keefe Steiner & Hottman PC

Denver, Colorado

September 19, 2008

F-2

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Lifevantage Corporation
Greenwood Village, Colorado

We have audited the accompanying consolidated balance sheet of Lifevantage Corporation as of June 30, 2007 and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lifevantage Corporation as of June 30, 2007 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Gordon, Hughes & Banks, LLP

Greenwood Village, Colorado
October 10, 2007

F-3

Table of ContentsLIFEVANTAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	June 30, 2008	June 30, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 196,883	\$ 160,760
Marketable securities, available for sale	1,100,000	
Accounts receivable, net	98,008	398,463
Inventory	104,415	27,834
Deferred expenses	72,049	117,807
Deposit with manufacturer	277,979	388,791
Prepaid expenses	124,049	60,175
Total current assets	1,973,383	1,153,830
Long-term assets		
Property and equipment, net	63,559	108,915
Intangible assets, net	2,270,163	2,311,110
Deferred debt offering costs, net	193,484	
Deposits	48,447	340,440
TOTAL ASSETS	\$ 4,549,036	\$ 3,914,295
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Revolving line of credit and accrued interest	\$ 166,620	\$
Accounts payable	139,803	148,699
Accrued expenses	338,268	230,811
Deferred revenue	510,765	818,250
Capital lease obligations, current portion	846	2,301
Total current liabilities	1,156,302	1,200,061
Long-term liabilities		
Capital lease obligations, net of current portion		846
Convertible debt, net of discount	223,484	
Total liabilities	1,379,786	1,200,907
Commitments and contingencies		
Stockholders equity		
Preferred stock - par value \$.001, 50,000,000 shares authorized, no shares issued or outstanding		
Common stock, - par value \$.001, 250,000,000 shares authorized and 24,766,117 and 22,268,034 issued and outstanding as of June 30, 2008 and 2007, respectively	24,766	22,268
Additional paid-in capital	17,902,840	15,395,037

Edgar Filing: Lifevantage Corp - Form 10KSB

Accumulated (deficit)	(14,758,356)	(12,703,917)
Total stockholders' equity	3,169,250	2,713,388
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,549,036	\$ 3,914,295

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

F-4

Table of ContentsLIFEVANTAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended	
	June 30, 2008	June 30, 2007
Sales, net	\$ 3,200,174	\$ 5,050,988
Cost of sales	695,386	1,022,792
Gross profit	2,504,788	4,028,196
Operating expenses:		
Marketing and customer service	1,655,461	2,991,302
General and administrative	2,108,338	4,355,803
Research and development	324,106	245,561
Depreciation and amortization	219,690	92,433
Loss on disposal of assets		105,621
Total operating expenses	4,307,595	7,790,720
Operating (loss)	(1,802,807)	(3,762,524)
Other income and (expense):		
Interest income	45,315	71,105
Interest (expense)	(296,947)	
Other (expense)		(2,159)
Total other (expense) income	(251,632)	68,946
Net (loss)	\$ (2,054,439)	\$ (3,693,578)
Net (loss) per share, basic and diluted	\$ (0.09)	\$ (0.17)
Weighted average shares outstanding, basic and diluted	22,710,096	22,268,034

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

F-5

Table of Contents

LIFEVANTAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
For the years ended June 30, 2008 and 2007

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Accumulated Other Comprehensive Income/(loss)	Accumulated Deficit	Total	Comprehensive Income
Balances, July 1, 2006	22,117,992	\$ 22,118	* \$14,018,487	\$ (55,607)	\$ (9,010,339)	\$ 4,974,659	
Unrealized (gain) on securities available for sale				55,607		55,607	55,607
Options/Warrants issued for services			1,345,200			1,345,200	
Stock issued for services	150,042	150	31,350			31,500	
Net (loss)					(3,693,578)	(3,693,578)	(3,693,578)
Balances, June 30, 2007	22,268,034	\$ 22,268	\$ 15,395,037	\$ 0	\$ (12,703,917)	\$ 2,713,388	\$ (3,637,971)

* Restated

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

F-6

Table of Contents

LIFEVANTAGE CORPORATION AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
 For the years ended June 30, 2008 and 2007

	Common Shares	Stock Amount	Additional Paid In Capital	Accumulated Deficit	Total	Comprehensive Income
Balances, July 1, 2007	22,268,034	\$ 22,268	\$ 15,395,037	\$ (12,703,917)	\$ 2,713,388	
Options/Warrants issued for services			436,104		436,104	
Exercise of options and warrants	1,548,083	1,548	452,023		453,571	
Stock issued for services	150,000	150	41,849		41,999	
Net (loss)				(2,054,439)	(2,054,439)	(2,054,439)
Warrants issued pursuant to Private Placement			681,067		681,067	
Beneficial Conversion Feature			737,560		737,560	
Conversion of debt to equity	800,000	800	159,200		160,000	
Balances, June 30, 2008	24,766,117	\$ 24,766	\$ 17,902,840	\$ (14,758,356)	\$ 3,169,250	\$ (2,054,439)

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

F-7

Table of ContentsLIFEVANTAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended	
	June 30, 2008	June 30, 2007
Cash Flows from Operating Activities:		
Net (loss)	\$(2,054,439)	\$(3,693,578)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Depreciation and amortization	219,690	92,432
Loss on disposition of assets		103,819
Stock based compensation to employees	322,150	1,199,440
Stock based compensation to non-employees	155,953	177,110
Non-cash interest expense from convertible debentures	209,230	
Changes in operating assets and liabilities:		
Decrease/(increase) in accounts receivable, net	300,455	(290,571)
(Increase)/decrease in inventory	(76,581)	17,167
Decrease in deposits to manufacturer	110,812	166,510
(Increase)/decrease in prepaid expenses	(63,874)	256,484
Decrease/(increase) in deposits	291,993	(23,819)
(Decrease) in accounts payable	(8,896)	(465,134)
Increase/(decrease) in accrued expenses	107,457	(168,494)
(Decrease) in deferred revenue	(307,485)	(326,700)
Decrease in deferred expenses	45,758	34,870
Net Cash (Used) by Operating Activities	(747,777)	(2,920,464)
Cash Flows (Used)/Provided by Investing Activities:		
(Purchase) of marketable securities	(1,525,000)	
Redemption of marketable securities	425,000	3,064,180
(Purchase) of equipment	(11,808)	(60,166)
(Purchase) of intangible assets	(58,490)	(149,068)
Net Cash (Used)/Provided by Investing Activities	(1,170,298)	2,854,946
Cash Flows from Financing Activities:		
Net proceeds from revolving line of credit and accrued interest	166,620	
Principal payments under capital lease obligation	(2,301)	(1,984)
Proceeds from margin debt		2,093,101
Repayment from margin debt		(2,093,101)
Issuance of common stock	453,571	150
Private placement fees	(153,692)	
Proceeds from issuance of private placement of convertible debentures & warrants	1,490,000	

Net Cash Provided/(Used) by Financing Activities	1,954,198	(1,834)
Increase/(decrease) in cash and cash equivalents	36,123	(67,352)
Cash and Cash Equivalents beginning of period	160,760	228,112
Cash and Cash Equivalents end of period	\$ 196,883	\$ 160,760

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

F-8

Table of Contents

LIFEVANTAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended	
	June 30, 2008	June 30, 2007
Non Cash Investing and Financing Activities:		
Conversion of long-term debt to equity	\$ 160,000	\$
Warrants issued for private placement fees for convertible debentures	\$ 94,488	\$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest expense	\$ 87,718	\$
Cash paid for income taxes	\$	\$

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

F-9

Table of Contents

**LIFEVANTAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1 - Organization and Basis of Presentation:

Lifevantage Corporation (LifeVantage or the Company) was formed under Colorado law in June 1988, under the name Andraplex Corporation. The Company amended its name to Yaak River Resources, Inc. in January 1992, to Lifeline Therapeutics, Inc. in October 2004 and to Lifevantage Corporation in November 2006. The Company is in the business of marketing and selling its primary product Protandim® to individuals throughout the United States of America and certain foreign countries. The Company began selling to individuals during the fiscal year ended June 30, 2005 and to retail stores beginning in fiscal year 2006. The Company's principal operations are located in San Diego, California.

On October 26, 2004, the Company consummated an Agreement and Plan of Reorganization with Lifeline Nutraceuticals Corporation (LNC), a privately held Colorado corporation, formed on July 1, 2003. The shareholders of LNC exchanged 81% of their outstanding shares of common stock for 15,385,110 shares of common stock of the Company, which represented 94% of the then issued and outstanding shares of the Company. The Company assumed the obligations of LNC note holders as part of the transaction. The financial statements presented reflect the consolidated operations of both LifeVantage and LNC for the two years ended June 30, 2008 and June 30, 2007.

Liquidity and management's plans for operations

As shown in the accompanying financial statements, the Company incurred net losses of (\$2,054,439) and (\$3,693,578) for the years ended June 30, 2008 and 2007 respectively. In addition, the Company reported net cash used by operating activities of (\$739,389) for the year ended June 30, 2008 compared with cash used by operations of (\$3,128,090) during fiscal year ended June 30, 2007.

To address these losses, management began a turn-around strategy in January 2007 to reduce operating expenses while implementing new customer service retention and recapture programs. Management's cost containment and reduction measures and new plans under this strategy include the following:

The Company re-evaluated its marketing programs and has either cancelled or allowed to expire various marketing and positioning contracts, replacing them with a more targeted advertising plan. The marketing plan can be expanded or contracted according to available cash flows. Cash flow savings from changing from the Company's previous national print and radio marketing programs to the Company's more targeted marketing approach were approximately \$1,600,000 per year.

Beginning during fiscal 2007, in effort to cut expenses, several employees were terminated and consultant contracts were allowed to expire without renewal and management has balanced corporate responsibilities among remaining personnel. Cash flow savings from changes to the Company's current personnel were approximately \$1,100,000 per year.

The Company re-evaluated its consultant contracts including web hosting and call center operations and has either cancelled various contracts or allowed them to expire and replaced them with more cost-efficient contracts. Cash flow savings from the expiration or termination of the Company's consultant contracts were approximately \$400,000 per year.

Table of Contents

In January 2008, the Company hired David Brown as its President and CEO in an effort to grow sales and add new revenue streams. Mr. Brown has vast nutraceutical industry experience and a proven track record of strong revenue growth with other companies he has previously led.

The Company has adopted new marketing promotions as well as new customer service retention and recapture programs. Such programs are not expected to increase sales immediately but are expected to reduce direct sales erosion experienced in fiscal 2007. Sales increases are expected to result from the redesign of Company's product website and enhanced direct to consumer marketing, as well as expansion into the natural product market with contracts with several well-known natural foods retailers and brokers.

The Company has retained the services of Peter Baloff, an award winning producer and director, who has produced over 200 commercials and sales films for companies including Princess Cruises, Hallmark, Columbia Pictures, Universal Pictures, CBS, NBC and Capitol Records. Mr. Baloff produced 1-minute, 2-minute and 5-minute spots for LifeVantage, which have been aired on the Biography Channel, Fit-TV, Food-TV, The Learning Channel, and the Travel Channel.

Effective September 26, 2007 and October 31, 2007, the Company issued debentures convertible into the Company's common stock in a private placement offering. The net proceeds received by the Company of approximately \$1,328,000 are being used to expand marketing efforts, scientific studies, intellectual property protection, as well as to provide the Company with additional working capital. The additional funding improved the Company's liquidity position from June 30, 2007 levels and allowed the Company to pursue plans for generating additional revenue while monitoring cash outflow. However, there can be no assurance that these cost reduction and containment measures will result in positive cash flow.

Note 2 - Summary of Significant Accounting Policies

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

Management of the Company 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.

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. The Company's direct customer return policy is to provide a 30-day money back guarantee on orders placed by customers. After 30 days, the Company does not issue refunds to direct sales customers for returned product. To date, the Company has experienced

Table of Contents

monthly returns of approximately 1% of sales. As of June 30, 2008 and June 30, 2007, the Company's reserve balance for returns and allowances was approximately \$97,700 and \$112,600, 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.

We entered into an agreement with General Nutrition Distribution, LP (GNC) for the sale of Protandim[®] pursuant to which GNC has the right to return any and all product shipped to GNC, at any time, for any reason. In July 2006, the Company began the recognition of revenue under the agreement with GNC due to the accumulation of historical sell-through and return 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 GNC 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, LifeVantage entered into an agreement with CVS/pharmacy (CVS) for the sale of Protandim[®] throughout the CVS store network. The Company agreed to accept, pursuant to a return authorization, a portion of the product from CVS stores that had not been sold through this retail channel. During fiscal year ended June 30, 2008, sufficient bottles were received from CVS to offset the receivable from CVS and both parties agreed to waive any further obligations from the other party and the supply arrangement was terminated.

Accounts Receivable

The Company's accounts receivable primarily 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 one national retail distributor, GNC, and several regional natural products distributors as of June 30, 2008. Two of the Company's retail distributors comprise 13% and 27% of the Company's accounts receivable balance as of June 30, 2008. Based on the current aging of its accounts receivable, the Company believes that it is not necessary to maintain an allowance for doubtful accounts.

For credit card sales to direct sales customers, the Company verifies the customer's credit card prior to shipment of product. Payment not yet received from credit card sales 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 on credit card sales related to its direct sales as of June 30, 2008. For direct sales, there is no bad debt expense for the fiscal years ended June 30, 2008 or June 30, 2007.

Inventory

Inventory is stated at the lower of cost or market value. Cost is determined using the first-in, first-out method. The Company has capitalized payments to its contract manufacturer for the acquisition of raw materials and commencement of the manufacturing, bottling and labeling of the Company's product. The contract with the manufacturer can be terminated by either party with 90 days written notice. As of June 30, 2008 and June 30, 2007, inventory consisted of:

	June 30,	
	2008	2007
Finished goods	\$ 87,393	\$ 10,947
Packaging supplies	17,022	16,887
Total inventory	\$ 104,415	\$ 27,834

Table of Contents

Earnings per share

Basic 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. The effects of approximately 48.7 million common shares issuable pursuant to the convertible debentures and warrants issued in the Company's private placement offerings, compensation based warrants issued by the Company and the Company's 2007 Long-Term Incentive Plan are not included in computations when their effect is antidilutive. Because of the net loss for years ended June 30, 2008 and June 30, 2007, 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.

Research and Development Costs

The Company expenses all costs related to research and development activities as incurred. Research and development expenses for the years ended June 30, 2008 and June 30, 2007 were \$324,106 and \$245,561, respectively.

Advertising Costs

The Company expenses advertising costs as incurred. The Company expensed the cost of producing commercials when the first commercial ran. Advertising expense for the years ended June 30, 2008 and June 30, 2007 were \$742,989 and \$1,264,872, respectively. The lower fiscal 2008 advertising costs were a result of cost containment measures taken.

Cash and Cash Equivalents

The Company considers only its monetary liquid assets with original maturities of three months or less as cash and cash equivalents in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, (SFAS 115).

Marketable Securities

From time to time, the Company has invested in marketable securities, including auction rate preferred securities of closed-end funds (ARPS) to maximize interest income. As the auction process for resetting interest rates has ceased as of mid-February 2008, we have been notified by several of the Corporate entities that have issued ARPS of plans to refinance these instruments. The Company considered its investment in these instruments as marketable securities available for sale. Based upon the most current information, we believe that these securities will settle within the next twelve months. As such, these securities have been classified as current. In accordance with SFAS 115, the Company classified the investment as *available for sale* securities.

These marketable securities which historically have been extremely liquid have been adversely affected by the broader national liquidity crisis. As noted above, the Company considers these securities as current assets, however, future economic events could cause a portion of these to

Table of Contents

be classified as long-term. The Company continues to consider these holdings as having an insignificant risk of change in value due to their underlying issuers, and the Company is currently taking advantage of higher interest yields as a result of the failed auctions.

The Company did not record any liquidity impairment related to these investments as it does not believe that the underlying credit quality of the assets has been impacted by the reduced liquidity of these investments.

In the third quarter of our fiscal year 2008, 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 slightly less than the interest being earned.

Investment in marketable securities are summarized as follows as of fiscal 2008 and 2007:

	Unrealized (Loss)	Estimated Fair Value
As of June 30, 2008		
Available for sale securities	\$	\$ 1,100,000
As of June 30, 2007		
Available for sale securities		

Deposit with Manufacturer

At June 30, 2008, the Company had a deposit of \$277,979 with its contract manufacturer. At June 30, 2007, the Company had a deposit of \$388,791 with its contract manufacturer for acquisition of raw materials and production of finished product. Throughout fiscal 2008 and 2007, the Company offset reductions in the deposit against the trade payable to the manufacturer as purchases of product occurred. As of June 30, 2008, the trade payable to the contract manufacturer was approximately \$14,600.

Shipping and Handling

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

Table of Contents**Property and Equipment**

Property, software, and equipment are recorded at cost. Depreciation of property and equipment is expensed in amounts sufficient to relate the expiring costs of depreciable assets to operations over estimated service lives, principally using the straight-line method. Estimated service lives range from three to seven years. When such assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in operations in the period of disposal. The cost of normal maintenance and repairs is charged to expense as incurred. Significant expenditures that increase the useful life of an asset are capitalized and depreciated over the estimated useful life of the asset. Property and equipment consist of:

	June 30,	
	2008	2007
Equipment	\$ 159,490	\$ 148,899
Software	60,925	59,708
Accumulated depreciation	(156,856)	(99,692)
Property and equipment, net	\$ 63,559	\$ 108,915

Goodwill and Other Intangible Assets

The Company has adopted the provisions of Statement of Financial Accounting Standards 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 June 30, 2008 and June 30, 2007 intangible assets consisted of:

	June 30,	
	2008	2007
Patent costs	\$2,246,074	\$2,203,659
Trademark costs	123,526	107,451
Amortization of patents & trademarks	(99,437)	
Intangible assets, net	\$2,270,163	\$2,311,110

Patents

The primary purpose of purchasing the remaining interest in the Company's subsidiary, LNC, was to gain control over the Company's intellectual property, i.e. patents. As a result, the \$2,000,000 purchase price has been allocated entirely to patent costs.

In addition to the \$2,000,000 cost of acquiring the remaining interest in LNC, the costs of applying for patents are also capitalized and, once the patent is granted, will be amortized on a straight-line basis over the lesser of the patent's economic or legal life. Capitalized costs will be expensed if patents are not granted. The Company reviews the carrying value of its patent costs periodically to determine whether the patents have continuing value and such reviews could result in impairment of the recorded amounts. As of June 30, 2008, two U.S. patents have been granted and

Table of Contents

amortization of these commenced upon the date of the grant and will continue over their remaining legal lives.

Impairment of Long-Lived Assets

Pursuant to guidance established in Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS 144), the Company assesses impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. When an assessment for impairment of long-lived assets, long-lived assets to be disposed of, and certain identifiable intangibles related to those assets is performed, the Company is required to compare the net carrying value of long-lived assets on the lowest level at which cash flows can be determined on a consistent basis to the related estimates of future undiscounted net cash flows for such properties. If the net carrying value exceeds the net cash flows, then impairment is recognized to reduce the carrying value to the estimated fair value, generally equal to the future discounted net cash flow.

The recurring losses experienced by the Company have resulted in management's assessment of impairment with respect to the capitalized patent costs. Analysis generated for this assessment concluded that sales volumes, less the cost of manufacturing the product sold and less the marketing and sales cost of generating the revenues, support management's conclusion that no impairment to the capitalized patent costs has occurred as of June 30, 2008.

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.

Concentration of Credit Risk

Statement of Financial Accounting Standards No. 105, *Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, (SFAS 105), requires disclosure of significant concentrations of credit risk regardless of the degree of such risk. Financial instruments with significant credit risk include cash and marketable securities. At June 30, 2008, the Company had approximately \$1,100,000 with one financial institution in an investment management account.

Stock-Based Compensation

The Company began using the fair value approach, effective beginning in the first quarter of fiscal 2007, to account for stock-based compensation, in accordance with the modified version of prospective application as prescribed by Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, (SFAS 123(R)).

Effective July 1, 2006, the Company adopted SFAS 123(R) for all options and warrants granted to 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 year ended June 30, 2008, stock based compensation of \$478,103, was reflected as an increase to additional paid in capital. Of the total \$478,103 stock based compensation, \$322,150 was employee related and \$155,953 was non-employee related.

Table of Contents

In an effort to advance the interests of the Company and its shareholders, the Company adopted and the shareholders approved the Company's 2007 Long-Term Incentive Plan (the Plan), effective November 21, 2006, to provide incentives to certain eligible employees who contribute significantly to the strategic and long-term performance objectives and growth of the Company. A maximum of 6,000,000 shares of the Company's common stock can be issued under the Plan in connection with the grant of awards. Awards to purchase common stock have been granted pursuant to the Plan and are outstanding to various employees, officers, directors and Scientific Advisory Board (SAB) members at prices between \$0.19 and \$3.47 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 Plan upon expiration of the award. Awards outstanding as of June 30, 2008, net of awards expired, is for the purchase of 3,634,365 shares of the Company's common stock.

Options granted prior to November 21, 2006, the effective date of the Plan, were 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 contractors and vendors and in other similar situations. In accordance with Emerging Issues Task Force Issue No. 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), 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.

Compensation expense was calculated using the fair value method during the fiscal years ended June 30, 2008 and 2007 using the Black-Scholes option pricing model. The following assumptions were used for options and warrants granted during the years ended June 30, 2008 and 2007:

1. risk-free interest rate of between 2.31 and 4.26 percent in fiscal 2008 and between 4.54 and 4.97 in fiscal year 2007.
2. dividend yield of -0- percent in fiscal 2008 and 2007;
3. expected life of 3 - 6 years in fiscal 2008 and 2007;
4. a volatility factor of the expected market price of the Company's common stock of 74 percent in fiscal 2008 and 2007.

Because of the limited historical trading period of our common stock, the expected volatility of our common stock was estimated at 74 percent, based on a review of the volatility of entities considered by management as most comparable to our business.

Derivative financial instruments

We do not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks.

We analyze convertible debentures under the guidance provided by Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially*

Table of Contents

Settled in, a Company's Own Stock, (EITF 00-19) and Emerging Issues Task Force Issue No. 05-02, *Meaning of Conventional Convertible Debt Instrument in Issue No. 00-19*, (EITF 05-02) and review the appropriate classification under the provisions of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS 133), and EITF 00-19.

We review the terms of convertible debt and equity instruments we issue to determine whether there are embedded derivative instruments, including the embedded conversion option, 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.

Certain instruments, including convertible debt and equity instruments and the freestanding warrants issued in connection with those convertible instruments, may be subject to registration rights agreements, which impose penalties for failure to register the underlying common stock by a defined date. These potential penalties are accounted for in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, (SFAS 5).

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, in accordance with Emerging Issues Task Force Issue No. 98-05, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, (EITF 98-05), and Emerging Issues Task Force Issue No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*, (EITF 00-27). 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 in accordance with Accounting Principles Board (APB) Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*, (APB 14), 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.

Reclassification

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

Segments of an Enterprise and Related Information

Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, (SFAS 131) replaces the industry segment approach under previously issued pronouncements with the management approach. The management approach designates the internal organization that is used by management for allocating resources and

Table of Contents

assessing performance as the source of the Company's reportable segments. SFAS 131 also requires disclosures about products and services, geographic areas and major customers. At present, the Company only operates in one segment.

Comprehensive Income

Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, (SFAS 130), requires the presentation and disclosure of all changes in equity from non-owner sources as *Comprehensive Income*. The Company had comprehensive income/(loss) for the years ended June 30, 2008 and 2007 of (\$2,054,439) and (\$3,637,971), respectively.

Effect of New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (SFAS 157), and is effective for financial statements for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. The Company will adopt SFAS 157 and follow its disclosure requirements beginning first quarter of fiscal 2009.

In December 2007, the FASB revised Statement of Financial Accounting Standards No. 141, *Business Combinations (revised 2007)*, (SFAS 141(R)). SFAS 141(R) replaces FASB Statement No. 141, *Business Combinations*, (SFAS 141). This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which SFAS 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. The scope of SFAS 141(R) is broader than that of SFAS 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, SFAS 141(R) improves the comparability of the information about business combinations provided in financial reports. We anticipate that SFAS 141(R) will not have a material impact on our financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interest in Consolidated Financial Statements-an amendment of ARB No. 51*, (SFAS 160). SFAS 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide disclosures that identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective beginning January 1, 2009, and early adoption is prohibited. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We anticipate that SFAS 160 will not have a material impact on our financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*, (SFAS 161). SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and

Table of Contents

how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We anticipate that SFAS 161 will not have a material impact on our financial statements.

We have reviewed all other 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 Accounting for Intellectual Property

Long-lived assets of the Company are reviewed as to whether their carrying value has become impaired, pursuant to guidance established in Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS 144). The Company assesses impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. When an assessment for impairment of long-lived assets, long-lived assets to be disposed of, and certain identifiable intangibles related to those assets is performed, the Company is required to compare the net carrying value of long-lived assets on the lowest level at which cash flows can be determined on a consistent basis to the related estimates of future undiscounted net cash flows for such properties. If the net carrying value exceeds the net cash flows, then impairment is recognized to reduce the carrying value to the estimated fair value, generally equal to the future discounted net cash flow.

The recurring losses experienced by the Company have resulted in management's assessment of impairment with respect to the capitalized patent costs. Analysis generated for this assessment concluded that sales volumes, less the cost of manufacturing the product sold and less the marketing and sales cost of generating the revenues, support management's conclusion that no impairment to the capitalized patent costs has occurred.

Note 4 Convertible Debentures

On September 26, and October 31, 2007, the Company issued convertible debentures in a private placement offering that bear interest at 8 percent per annum and have a term of three years. The convertible debentures are convertible into the Company's common stock at \$0.20 per share during their term and at maturity, at the Company's option, may be repaid in full or converted into common stock at the lower \$0.20 per share or the average trading price for the 10 days immediately prior to the maturity date.

Gross proceeds of \$1,490,000 were distributed to the Company pursuant to the issuance of convertible debentures in the private placement offering. The Company also issued warrants to purchase shares of the Company's common stock at \$0.30 per share in the private placement offering.

Prior to conversion or repayment of the convertible debentures, if (i) the Company fails to remain subject to the reporting requirements under the Exchange Act for a period of at least 45 consecutive days, (ii) the Company fails to materially comply with the reporting requirements under the Exchange Act for a period of 45 consecutive days, (iii) the Company's common stock is no longer quoted on the Over the Counter Bulletin Board or listed or quoted on a securities exchange, or (iv) a Change of Control (as defined in the convertible debentures) is consummated, the Company will be required upon the election of the holder to redeem the convertible debentures in an amount

Table of Contents

equal to 150 percent of the principal amount of the convertible debenture plus any accrued or unpaid interest.

The Company determined that the convertible debentures did not satisfy the definition of a conventional convertible instrument under the guidance provided in EITF Issues 00-19 and 05-02, as an anti-dilution provision in the convertible debentures reduces the conversion price dollar for dollar if the Company issues common stock with a price lower than the conversion price of the convertible debentures. However, the Company has reviewed the requirements of EITF Issue 00-19 and concluded that the embedded conversion option in the convertible debentures qualifies for equity classification under EITF Issue 00-19, and thus, is not required to be bifurcated from the host contract. The Company also determined that the warrants issued in the private placement offering qualify for equity classification under the provisions of SFAS 133 and EITF Issue 00-19.

In addition, the Company has 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. Certain events of default associated with the convertible debentures, including the holder's right to demand redemption in certain circumstances, have risks and rewards that are not clearly and closely associated with the risks and rewards of the debt instruments in which they are embedded. The Company has reviewed these embedded derivative instruments to determine whether they should be separated from the convertible debentures. However, the Company does not believe that the value of these derivative instrument liabilities is material.

In accordance with the provisions of APB Opinion No. 14, the Company 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. In accordance with EITF Issues 98-5 and 00-27, management determined that the convertible debentures contained a beneficial conversion feature based on the effective conversion price after allocating proceeds of the convertible debentures to the common stock purchase warrants. As a result, the Company allocated \$174,255 to the convertible debentures, \$578,185 to the common stock warrants, which was recorded in additional paid-in-capital, and \$737,560 to the beneficial conversion feature. The discount from the face amount of the convertible debentures represented by the value initially assigned to any associated warrants and to any beneficial conversion feature is amortized over the period to the due date of each convertible debenture, using the effective interest method.

Effective interest associated with the convertible debentures totaled \$296,948, of which \$159,443 related to the amortization of the debt discount and \$137,505 related to acceleration of the beneficial conversion feature from the conversion of debt to equity for the fiscal year June 30, 2008, and none for the fiscal year June 30, 2007. Effective interest is accreted to the balance of convertible debt until maturity. A total of \$256,567 was paid for commissions and expenses incurred in the private placement offering which is being amortized over the term of the convertible debentures on a straight-line basis. As of June 30, 2008, the Company had recorded amortization expense of \$63,083.

Note 5 Line of Credit

During the fiscal year, the Company established a line of credit of approximately \$550,000 to borrow against its marketable securities. The interest rate charged through June 30, 2008, 4.47 percent, is 0.53 percentage points below the highest published Wall Street Journal Prime Rate, which

Table of Contents

was 5.0 percent as of June 30, 2008. As of June 30, 2008, the Company has borrowed \$166,620 from the line.

Note 6 Stockholders Equity

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 fiscal year ended June 30, 2008 and 2007, stock based compensation of \$478,103 and \$1,345,200, respectively, was reflected as an increase to additional paid in capital. Of the \$478,103 stock based compensation for the fiscal year June 30, 2008, \$322,150 was employee related and \$155,953 was non-employee related. For the fiscal year ended June 30, 2007 stock based compensation of \$1,199,440 was employee related and \$145,760 was non-employee related.

During the fiscal year ended June 30, 2008, the Company granted warrants and options to consultants for services rendered, under EITF Issue 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Warrants to purchase 1,645,000 shares of the Company's common stock were granted to various consultants for marketing and advertising services rendered to the Company during the fiscal year ended June 30, 2008.

Effective as of June 28, 2007, the Company offered to reprice warrants to purchase 6,001,866 shares of our common stock issued to investors in 2005 pursuant to a private placement offering (2005 warrants). The 2005 warrants were originally exercisable at \$2.00 and \$2.50 per share by the warrant holder and were repriced to be exercisable at \$0.30 per share upon the execution of a warrant amendment by the Company and the warrant holder. As of June 30, 2008, holders of 2005 warrants to purchase 3,395,706 shares of the Company's common stock had executed a warrant amendment, and 2005 warrants to purchase 3,395,706 shares of the Company's common stock had been repriced to be exercisable at \$0.30 per share. As of June 30, 2008, 2005 warrants to purchase 1,283,083 shares of the Company's common stock had been exercised at \$0.30 per share. The unexercised 2005 warrants expired on April 18, 2008.

The Company's Articles of Incorporation authorize the issuance of preferred shares. However, as of June 30, 2008, none have been issued nor have any rights or preferences been assigned to the preferred shares by the Board of Directors.

Note 7 Stock Option Grants and Warrants

Stock Option Grants During the year ended June 30, 2008, the Company granted stock options to various employees and directors of the Company. The options granted the right to purchase shares of the Company's common stock at prices between \$0.21 and \$0.75 per share. The options are not transferable and expire on various dates through June 27, 2018. The Company adopted SFAS 123(R) effective July 1, 2006 under the modified prospective method and values stock option compensation using the fair value method.

During the year ended June 30, 2007, the Company granted stock options to various employees and directors of the Company. These options granted the right to purchase shares of the Company's common stock at prices between \$0.19 and \$0.76 per share.

Table of Contents

Warrants At June 30, 2008, 11,275,080 warrants to purchase the Company's common stock were outstanding. The warrants granted during year ended June 30, 2008 are at exercise prices ranging between \$0.23 and \$0.35 with a weighted average exercise price of \$0.30 and expiration dates ranging from April 17, 2011 to February 21, 2013. The warrants granted during year ended June 30, 2007 are at exercise prices ranging between \$0.18 and \$6.00 with a weighted average exercise price of \$0.58 and expiration dates ranging from July 31, 2008 to February 22, 2012. The following is a summary of stock options and warrants granted for the years ended June 30, 2008 and 2007.

	Options	Warrants	Exercise Price
Outstanding and exercisable, June 30, 2006	1,716,000	6,169,294	\$ 2.55
Granted	2,518,321	1,512,088	\$ 0.59
Cancelled			\$
Exercised			\$
Expired	(1,334,290)		\$ 2.78
Outstanding and exercisable, June 30, 2007	2,900,031	7,681,382	\$ 2.01
Granted	2,805,000	9,882,992	\$ 0.35
Cancelled			\$
Exercised	(115,000)	(1,433,083)	\$ 0.29
Expired	(1,955,666)	(4,856,211)	\$ 0.68
Outstanding and exercisable, June 30, 2008	3,634,365	11,275,080	\$ 0.37
	Options	Warrants	
Year ended June 30, 2007:			
Weighted average exercise price	\$ 1.66	\$ 1.89	
Weighted average remaining contractual life (years)	8.7	2.4	
Weighted average fair value of options and warrants granted during 2007	\$ 1.66	\$ 1.89	
Year ended June 30, 2008:			
Weighted average exercise price	\$ 0.45	\$ 0.35	
Weighted average remaining contractual life (years)	9.2	3.9	
Weighted average fair value of options and warrants granted during 2008	\$ 0.38	\$ 0.30	

Note 8 Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosures about the fair value for all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about fair value of financial instruments are based on pertinent information available to management as of June 30, 2008 and

F-23

Table of Contents

2007. Accordingly, the estimates presented in these statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments.

Management has estimated the fair values of cash, marketable securities, accounts receivable, accounts payable, and accrued expenses to be approximately their respective carrying values reported in these financial statements because of their short maturities.

Note 9 Income Taxes

As of June 30, 2008, the Company had a net operating loss (NOL) carry-forward of approximately \$7,500,000. At June 30, 2007, the Company had an NOL carry-forward of approximately \$5,900,000. The NOL may be offset against future taxable income, if any, through the year ended June 30, 2028. A portion of the net operating loss carryforward begins to expire in 2011, are subject to review by the Internal Revenue Service, and may be subject to U.S. Internal Revenue Code Section 382 limitations. During fiscal year 2009, \$658,000 of the Company's \$673,000 charitable contributions carryforward begins to expire.

The income tax expense (benefit) for the years ended June 30 consists of the following:

	2008	2007
Current taxes	\$	\$
Deferred taxes	46,000	(880,000)
Less: valuation allowance	(46,000)	880,000
Net income tax provision (benefit)	\$	\$

The effective income tax rate for the years ended June 30, 2008 and 2007 differs from the U.S. Federal statutory income tax rate due to the following:

	2008	2007
Federal statutory income tax rate	(34.00%)	(34.00%)
State income taxes	(3.06%)	(3.06%)
Tax return to provision true-up	36.13%	
Permanent differences interest on convertible debt	3.18%	14.25%
other		(1.03%)
Increase in valuation allowance	(2.25%)	23.84%
Net income tax provision (benefit)		

The components of the deferred tax assets and liabilities as of June 30, 2008 and 2007 are as follows:

	2008	2007
Deferred tax assets:		
Federal and state net operating loss carryovers	\$ 2,767,000	\$ 2,241,000
Contribution carryover	249,000	260,000
Deferred revenue net of deferred expenses	163,000	271,000
Stock option compensation	148,000	
Accrued interest & allowance for returns	114,000	
Deferred tax asset	\$ 3,441,000	\$ 2,772,000
Deferred tax liabilities:		
Deferred debt offering costs	\$ (72,000)	\$

Edgar Filing: Lifevantage Corp - Form 10KSB

State income taxes		(75,000)
Patents and trademarks	(720,000)	
Property & equipment		(2,000)
Total deferred liabilities	(792,000)	(77,000)
Net deferred tax asset	2,649,000	2,695,000
Less: valuation allowance	(2,649,000)	(2,695,000)
Deferred tax liability	\$	\$

F-24

Table of Contents

The Company has provided a valuation allowance for the deferred tax asset at June 30, 2008, as the likelihood of the realization of the tax benefit of the net operating loss carryforward cannot be determined. The valuation allowance decreased by approximately \$46,000 for the year ended June 30, 2008 and the valuation allowance increased by approximately \$880,000 for the year ended June 30, 2007.

On July 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48). Under FIN 48, in order to recognize an uncertain tax benefit, the taxpayer must be more likely than not of sustaining the position, and the measurement of the benefit is calculated as the largest amount that is more than 50% likely to be realized upon recognition of the benefit. We believe the Company has no uncertain tax positions and have fully reserved against the Company's future tax benefit with a valuation allowance and do not expect significant changes in the amount of unrecognized tax benefits that may occur within the next twelve months. Accordingly, we have not reserved for interest or penalties. The tax years open for examination by the Internal Revenue Service include returns for fiscal years June 30, 2005, 2006 and 2007 and the open tax years by state tax authorities include returns for fiscal years June 30, 2004, 2005, 2006 and 2007. Adoption of FIN 48 did not have a material impact on LifeVantage's financial position.

Note 10 Commitments and Contingencies

In August 2005, the Company entered into a 36-month lease for its office facilities. The terms of the agreement required a \$35,688 prepayment of rent for 5,736 square feet, with rents ranging from \$9,560 to \$10,038 over the term of the lease. Associated with this lease, the Company also tendered a \$30,144 security deposit for which two-thirds, or \$20,096, was returned to the Company. The remaining one-third of the deposit is expected to be received within the next three months. The Company was responsible for payments such as maintenance charges, property tax, bookkeeping, insurance, and management fees. Rent expense totaled \$123,457 and \$117,235 for the years ended June 30, 2008 and 2007, respectively.

The lease for the Greenwood Village office expired July 31, 2008 and the Company entered a five (5) year lease in San Diego, California. Pursuant to the agreement, we prepaid rent of \$7,850. Monthly rent payments begin July 1, 2008 are as follows: \$7,850 for July, 2008 rent is abated during the months of August, September and October 2008, \$7,850 for November 2008 through June 2009; \$8,125 from July 2009 through June 2010; \$8,409 from July 2010 through June 2011; \$8,073 from July 2011 through June 2012; and \$9,008 from July 2012 through June 2013.

Future minimum lease payments under the non-cancelable leases are as follows:

Year ending June 30,	
2009	\$ 70,650
2010	97,494
2011	100,907
2012	104,439
2013	108,094
Total future minimum Lease payments	\$ 481,584

Table of Contents

In addition, the Company entered into a six-month sublease for office space in Littleton, Colorado at a monthly rate of \$842 per month effective July 7, 2008. Effective July 16, 2008, the Company entered into a lease agreement for additional adjoining space for three months at a rate of \$630 per month. The terms of the agreement provide for month to month rent after the initial lease term.

Note 11 Interim Financial Results (Unaudited)

The following summarizes selected quarterly financial information for each of the last two years for the periods ended June 30, 2008 and 2007:

**LIFEVANTAGE CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED QUARTERLY RESULTS**

(in 000 s except per share data)

Year ended June 30, 2008	Quarter				Year ended June 30, 2008
	First	Second	Third	Fourth	
Sales, net	\$ 807.3	\$ 796.4	\$ 783.9	\$ 812.6	\$ 3,200.2
Gross profit	630.0	610.4	609.1	655.3	2,504.8
Net income (loss)	\$(298.7)	\$(401.8)	\$(604.7)	\$(749.2)	\$(2,054.4)
Per common share:					
Loss per share, basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.09)

Year ended June 30, 2007	Quarter				Year ended June 30, 2007
	First	Second	Third	Fourth	
Sales, net	\$2,075.5	\$ 1,136.8	\$ 995.3	\$ 843.4	\$ 5,051.0
Gross profit	1,699.9	887.6	781.7	659.0	4,028.2
Net income (loss)	\$ (820.2)	\$(1,765.0)	\$(582.3)	\$(526.1)	\$(3,693.6)
Per common share:					
Loss per share, basic and diluted	\$ (0.04)	\$ (0.08)	\$ (0.03)	\$ (0.02)	\$ (0.17)

Note 12 Subsequent Event

Effective July 1, 2008, the Company entered into a manufacturing and supply agreement with Cornerstone Research & Development, Inc. (Cornerstone). Cornerstone formulates and manufactures hundreds of dietary supplement products, including single herb and herbal formulas, vitamins, mineral, homeopathy, and specialty formulas. Cornerstone, which has an objective of bringing products to its customers that are based on the latest science and are produced to the highest manufacturing standards, utilizes cutting-edge capabilities in research, packaging, and developing supplement products.

F-26