

Lifevantage Corp
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____
Commission file number 001-35647

LIFEVANTAGE CORPORATION
(Exact name of Registrant as specified in its charter)

COLORADO
(State or other jurisdiction of incorporation or organization)
9815 S. Monroe Street, Ste 100, Sandy, UT 84070
(Address of principal executive offices)
(801) 432-9000
(Registrant's telephone number)

90-0224471
(IRS Employer Identification No.)

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

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

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

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

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

The number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of May 1, 2013 was 113,524,045.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

These forward-looking statements may be identified in this report and the information incorporated by reference by words such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “plan”, “predict”, “project”, “should” and similar 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:

- Inability to successfully expand our operations in both existing and new markets;
- Difficulty in managing our growth and expansion;
- Challenges relating to transitioning our business in Japan from a “not-for-resale” model to a direct selling model;
- Inability to conform our business operations in Japan to applicable government regulations;
- Disruptions in our information technology systems;
- Inability of new products to gain distributor and market acceptance;
- Costs of our voluntary recall being significantly more than we estimated;
- Deterioration of global economic conditions and the decline of consumer confidence and spending;
- Inability to raise additional capital if and when needed;
- Environmental liabilities stemming from past operations and property ownership;
- Inability to maintain appropriate level of internal control over financial reporting;
- Significant dependence upon a single product;
- Adverse effects, including adverse publicity, surrounding and related to product recalls, such as the voluntary product recall we initiated during the quarter ended December 31, 2012;
- Improper actions by our independent distributors that violate laws or regulations;
- Inability to retain independent distributors or to attract new independent distributors on an ongoing basis;
- Competition in the dietary supplement market;
- Regulations governing the production or marketing of our personal care product;
- Significant government regulations on network marketing activities;
- Unfavorable publicity on our business, products, business model or industry;
- Inability to protect our intellectual property rights;
- Third party claims that we infringe on their intellectual property rights;

Investigatory and enforcement action by the federal trade commission, the food and drug administration or other governmental agency;

- Third party and governmental actions involving our network marketing sales activities;

Strengthening of the United States dollar against foreign currencies, specifically the Japanese yen;

Dependence on third party manufacturers to manufacture our product;

Inability to obtain raw material for our product;

Product liability claims against us;

Loss of key personnel;

Economic, political and other risks associated with international operations;

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

Volatility of the market price of our common stock;

The illiquidity of our common stock; and

Other factors not specifically described above, including the other risks, uncertainties, and contingencies described under “Part I. Item 1A — Risk Factors” of this Quarterly Report on Form 10-Q or under “Description of Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Items 1, 1A and 7 of our Annual Report on Form 10-K for the year ended June 30, 2012.

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, except as required by law, do not undertake to update or revise any such forward-looking statements to reflect events or circumstances after the date of this report.

LIFEVANTAGE CORPORATION
INDEX

	PAGE
<u>PART I. Financial Information</u>	<u>5</u>
Item 1. <u>Financial Statements:</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets (unaudited) — March 31, 2013 and June 30, 2012</u>	<u>5</u>
<u>Condensed Consolidated Statements of Operations and Other Comprehensive Income (unaudited) — For the Three and Nine Month Periods Ended March 31, 2013 and 2012</u>	<u>6</u>
<u>Condensed Consolidated Statement of Stockholders' Equity (unaudited) — For the Nine Month Period Ended March 31, 2013</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows (unaudited) — For the Nine Month Periods Ended March 31, 2013 and 2012</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>9</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>13</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>17</u>
Item 4. <u>Controls and Procedures</u>	<u>17</u>
 <u>PART II. Other Information</u>	 <u>18</u>
Item 1. <u>Legal Proceedings</u>	<u>18</u>
Item 1A. <u>Risk Factors</u>	<u>18</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>20</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>21</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>21</u>
Item 5. <u>Other Information</u>	<u>21</u>
Item 6. <u>Exhibits</u>	<u>21</u>
<u>Signatures</u>	<u>22</u>

PART I Financial Information

Item 1. Financial Statements

LIFEVANTAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	As of, March 31, 2013	June 30, 2012
(In thousands, except per share data)		
ASSETS		
Current assets		
Cash and cash equivalents	\$27,239	\$24,648
Accounts receivable	1,381	333
Inventory	8,025	11,353
Current deferred income tax asset	1,244	1,244
Prepaid expenses and deposits	5,985	1,250
Total current assets	43,874	38,828
Long-term assets		
Property and equipment, net	5,926	1,997
Intangible assets, net	1,781	1,882
Long-term deferred income tax asset	1,479	1,479
Deposits	1,419	342
TOTAL ASSETS	\$54,479	\$44,528
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$4,608	\$3,615
Commissions payable	7,201	5,631
Reserve for sales returns	821	863
Accrued bonuses	100	2,287
Income tax payable	70	546
Other accrued expenses	5,552	2,932
Customer deposits	228	154
Total current liabilities	18,580	16,028
Long-term liabilities		
Other long-term liabilities	1,042	217
Total liabilities	19,622	16,245
Commitments and contingencies		
Stockholders' equity		
Preferred stock — par value \$0.001 per share, 50,000 shares authorized, no shares issued or outstanding	—	—
Common stock — par value \$0.001 per share, 250,000 shares authorized and 113,464 and 110,174 issued and outstanding as of March 31, 2013 and June 30, 2012, respectively	116	111
Additional paid-in capital	108,850	105,154
Accumulated deficit	(74,064)	(76,961)
Accumulated other comprehensive loss	(45)	(21)
Total stockholders' equity	34,857	28,283
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$54,479	\$44,528

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

LIFEVANTAGE CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE
 INCOME

(Unaudited)

	For the three months ended March 31,		For the nine months ended March 31,		
	2013	2012	2013	2012	
(In thousands, except per share data)					
Sales, net	\$50,370	\$36,212	\$156,667	\$81,579	
Cost of sales	7,330	4,989	23,936	11,625	
Product recall costs	(461	) —	5,418	—
Gross profit	43,501	31,223	127,313	69,954	
Operating expenses:					
Sales and marketing	29,844	19,676	88,976	44,097	
General and administrative	8,370	4,616	23,227	10,492	
Research and development	848	378	2,105	924	
Depreciation and amortization	499	146	1,180	323	
Total operating expenses	39,561	24,816	115,488	55,836	
Operating income	3,940	6,407	11,825	14,118	
Other income (expense):					
Other income (expense), net	122	21	(426	) 9
Change in fair value of derivative liabilities	—	(10,687) —	(6,741)
Total other income (expense)	122	(10,666) (426) (6,732)
Net income (loss) before income taxes	4,062	(4,259	) 11,399	7,386
Income tax (expense) benefit	(646	) (587	) (3,609	) 251
Net income (loss)	\$3,416	\$(4,846	) \$7,790	\$7,637
Net income (loss) per share, basic	\$0.03	\$(0.05	) \$0.07	\$0.08
Net income (loss) per share, diluted	\$0.03	\$(0.05	) \$0.06	\$0.07
Weighted average shares, basic	112,806	103,016	112,203	100,451	
Weighted average shares, diluted	124,985	103,016	125,371	115,232	
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment	(87	) (80	) (24	) 12
Other comprehensive income (loss)	\$(87	) \$(80	) \$(24	) \$12
Comprehensive income (loss)	\$3,329	\$(4,926	) \$7,766	\$7,649

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

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

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total
	Shares	Amount				
(In thousands)						
Balances, June 30, 2012	110,174	\$111	\$105,154	\$(76,961)	\$(21)	\$28,283
Stock-based compensation	—	—	1,635	—	—	1,635
Exercise of options and warrants	3,777	3	2,063	—	—	2,066
Issuance of restricted stock	1,518	2	(2)	—	—	—
Repurchase of company stock	(2,005)	—	—	(4,893)	—	(4,893)
Currency translation adjustment	—	—	—	—	(24)	(24)
Net income	—	—	—	7,790	—	7,790
Balances, March 31, 2013	113,464	\$116	\$108,850	\$(74,064)	\$(45)	\$34,857

7

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

	For the nine months ended March 31,	
	2013	2012
(In thousands)		
Cash Flows from Operating Activities:		
Net income	\$7,790	\$7,637
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,180	323
Stock based compensation	1,635	881
Impairment of inventory	4,155	—
Deferred income tax benefit	—	(2,712)
Change in fair value of derivative liabilities	—	6,741
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,048)	) 125
Increase in inventory	(827)	) (4,856)
Increase in prepaid expenses and deposits	(4,735)	) (1,771)
Increase in long-term deposits	(1,077)) —
Increase (decrease) in accounts payable	993	(799)
Increase in accrued expenses	1,485	6,097
Increase in customer deposits	74	—
Increase in other long-term liabilities	442	—
Net Cash Provided by Operating Activities	10,067	11,666
Cash Flows from Investing Activities:		
Redemption of marketable securities	—	350
Purchase of intangible assets	—	(49)
Purchase of equipment	(4,625)	) (1,744)
Net Cash Used by Investing Activities	(4,625)	) (1,443)
Cash Flows from Financing Activities:		
Net payments proceeds from revolving line of credit and accrued interest	—	(434)
Principal payments under capital lease obligation	—	(3)
Repurchase of company stock	(4,893)	) (976)
Issuance of company stock	2,066	1,703
Net Cash (Used) Provided by Financing Activities	(2,827)	) 290
Foreign Currency Effect on Cash	(24)	) 12
Increase in Cash and Cash Equivalents:	2,591	10,525
Cash and Cash Equivalents — beginning of period	24,648	6,371
Cash and Cash Equivalents — end of period	\$27,239	\$16,896
Non Cash Investing and Financing Activities:		
Non-cash increase in property and equipment\other long-term liabilities	\$376	\$—
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	\$6,370	\$2,280
The accompanying notes are an integral part of these condensed consolidated statements.		

LIFEVANTAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE AND NINE MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

These unaudited Condensed Consolidated Financial Statements and Notes should be read in conjunction with the audited financial statements and notes of LifeVantage Corporation (the “Company”) as of and for the year ended June 30, 2012 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on September 10, 2012.

Note 1 — Organization and Basis of Presentation:

The condensed consolidated financial statements included herein have been prepared by the Company’s management, without audit, pursuant to the rules and regulations of the SEC. In the opinion of the Company’s management, these interim Financial Statements include all adjustments, consisting of normal recurring adjustments, that are considered necessary for a fair presentation of its financial position as of March 31, 2013, and the results of operations for the three and nine month periods ended March 31, 2013 and 2012 and the cash flows for the nine month periods ended March 31, 2013 and 2012. Interim results are not necessarily indicative of results for a full year or for any future period.

The condensed consolidated financial statements and notes included herein are presented as required by Form 10-Q, and do not contain certain information included in the Company’s audited financial statements and notes for the fiscal year ended June 30, 2012 pursuant to the rules and regulations of the SEC. For further information, refer to the financial statements and notes thereto as of and for the year ended June 30, 2012, and included in the Annual Report on Form 10-K on file with the SEC.

Note 2 — Summary of Significant Accounting Policies:

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Translation of Foreign Currency Statements

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

Currency translation gains and losses on intercompany balances denominated in a foreign currency are recorded as other income (expense), net. A net foreign currency loss of \$379,000 and \$926,000 is recorded in other income (expense), net for the three and nine months ended March 31, 2013, respectively. A net foreign currency gain of \$3,000 and loss of \$24,000 is recorded for the three and nine months ended March 31, 2012, respectively.

Derivative Instruments and Hedging Activities

The Company's subsidiaries enter into transactions with each other which may not be denominated in the respective subsidiaries' functional currencies. The Company seeks to reduce its exposure to fluctuations in foreign exchange rates through the use of derivatives. The Company does not use such derivative financial instruments for trading or speculative purposes.

To hedge risks associated with the foreign-currency-denominated intercompany transactions the Company entered into a forward foreign exchange contract which was settled in March 2013 and was not designated for hedge accounting. For the three and nine months ended March 31, 2013, a realized gain of \$112,000, related to the forward contract, is recorded in other income (expense), net. The Company did not hold any derivative instruments at March 31, 2013.

Use of Estimates

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

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.

Accounts Receivable

The Company's accounts receivable for the periods ended March 31, 2013 and June 30, 2012 consist primarily of credit card receivables. Based on the Company's verification process for customer credit cards and historical information available, management has determined that an allowance for doubtful accounts on credit card sales related to its direct and independent distributor sales as of March 31, 2013 is not necessary. No bad debt expense has been recorded for the periods ended March 31, 2013 and June 30, 2012.

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 our contract product manufacturer for the acquisition of raw materials and commencement of the manufacturing, bottling and labeling of our product. As of March 31, 2013 and June 30, 2012, inventory consisted of (in thousands):

	March 31, 2013	June 30, 2012
Finished goods	\$3,093	\$5,964
Raw materials	4,932	5,389
Total inventory	\$8,025	\$11,353

We wrote down \$3.7 million of inventory in December 2012 related to our voluntary recall.

Other Accrued Expenses

As of March 31, 2013 and June 30, 2012 other accrued expenses included accrued operating liabilities of \$2.3 million and \$939,000, respectively.

Revenue Recognition

The Company ships the majority of its product directly to the consumer and receives substantially all payment for these sales in the form of credit card receipts. 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. Estimated returns are recorded when product is shipped. The Company's return policy is to provide a full refund for product returned within 30 days if the returned product is unopened or defective. After 30 days, the Company generally does not issue refunds to direct sales customers for returned product. The Company allows terminating distributors to return unopened, unexpired product that they have purchased within the prior twelve months, subject to certain consumption limitations, for a full refund, less a 10% restocking fee. The Company establishes the returns reserve based on historical experience. The returns reserve is evaluated on a quarterly basis. As of March 31, 2013 and June 30, 2012, the Company's reserve balance for returns and allowances was approximately \$821,000 and \$863,000, respectively.

Income per share

Basic income or loss per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during the period. Diluted income or loss per common share is computed by dividing net income by the weighted average common shares and potentially dilutive common share equivalents. For the three month period ended March 31, 2013 the effects of approximately 710,000 common shares issuable upon exercise of options granted pursuant to the Company's 2010 Long-Term Incentive Plan are not included in computations because their effect was anti-dilutive. For the three month period ended March 31, 2012 the effects of approximately 120,000 common shares issuable upon exercise of options granted pursuant to the Company's 2007 and 2010 Long-Term Incentive Plans are not included in computations because their effect was anti-dilutive.

The following is a reconciliation of earnings per share and the weighted-average common shares outstanding for purposes of computing basic and diluted net income per share (in thousands except per share amounts):

Edgar Filing: Lifevantage Corp - Form 10-Q

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Numerator:				
Net income (loss)	\$3,416	\$(4,846)	) \$7,790	\$7,637
Denominator:				
Basic weighted-average common shares outstanding	112,806	103,016	112,203	100,451
Effect of dilutive securities:				
Stock awards and options	3,802	—	4,586	4,772
Warrants	8,377	—	8,582	10,009
Diluted weighted-average common shares outstanding	124,985	103,016	125,371	115,232
Net income (loss) per share, basic	0.03	(0.05)	) 0.07	0.08
Net income (loss) per share, diluted	0.03	(0.05)	) 0.06	0.07

Segment Information

The Company operates in a single operating segment by selling products to a global network of independent distributors that operates in an integrated manner from market to market. Selling expenses are the Company's largest expense comprised of the commissions paid to its worldwide independent distributors. The Company manages its business primarily by managing its global network of independent distributors. The Company reports revenue in two geographic regions: Americas and Asia/Pacific. As of March 31, 2013 long-lived assets were \$5.6 million in the U.S. and \$3.2 million in Japan. As of June 30, 2012 long-lived assets were 3.8 million in the U.S. and 0 in Japan. Revenues by geographic area are as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Americas	\$33,098	\$25,746	\$97,720	\$59,612
Asia/Pacific	17,272	10,466	58,947	21,967
Total revenues	\$50,370	\$36,212	\$156,667	\$81,579

Additional information as to the Company's revenue from operations in the most significant geographical areas is set forth below (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
United States	\$32,721	\$25,478	\$96,779	\$58,952
Japan	15,284	10,466	55,080	21,968

Research and Development Costs

We expense all costs related to research and development activities as incurred. Research and development expenses for the nine month periods ended March 31, 2013 and 2012 were approximately \$2.1 million and \$924,000, respectively.

Shipping and Handling

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

Stock-Based Compensation

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

Other Income (Expense), net

Other income (expense), net for the three and nine months ended March 31, 2013 and March 31, 2012 was as follows:

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Business development incentive, net	\$363	\$—	\$363	\$—
Foreign currency gain (loss), net	(379	) 3	(926	) (24
Gain on settlement of forward contract	112	—	112	—
Change in fair value of derivative liabilities	—	(10,687	) —	(6,741
Other income, net	26	18	25	33
Total other income (expense), net	\$122	(10,666	) (426	) (6,732

In January 2013, the Company began operations of a foreign subsidiary that qualifies for a government-sponsored business development incentive. Under the incentive program, the Company's foreign subsidiary is allowed to retain certain non-income based taxes during the twelve month period ending December 31, 2013, rather than remit such taxes to the government.

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.

For the nine months ended March 31, 2013 the Company has recognized income tax expense of \$3.6 million which is the Company's estimated federal and state income tax liability for the nine months ended March 31, 2013. Realization of deferred tax assets is dependent upon future earnings in specific tax jurisdictions, the timing and amount of which are uncertain. The Company continues to evaluate the realizability of the deferred tax asset based upon achieved and estimated future results. The difference between the effective rate of 35.36% and the Federal statutory rate of 34.38% is due to state income taxes (net of federal benefit), and certain permanent differences between taxable and book income.

Concentration of Credit Risk

The Company discloses significant concentrations of credit risk regardless of the degree of such risk. Financial instruments with significant credit risk include cash and investments. At March 31, 2013, the Company had \$17.5 million in cash accounts that were held primarily at one financial institution and \$10.0 million in an account at another financial institution. As of March 31, 2013 and June 30, 2012 the Company's cash balances exceeded federally insured limits.

Effect of New Accounting Pronouncements

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

Note 3 — Stockholders' Equity

During the three and nine months ended March 31, 2013 the Company issued 657,000 and 3.8 million shares of common stock, respectively, as a result of the exercise of warrants and options and 957,000 and 1.5 million shares of restricted stock, respectively.

On December 14, 2012 the Company announced a share repurchase program. As of March 31, 2013 the Company had repurchased 2.0 million shares under this program. These repurchases were made pursuant to a pre-arranged stock repurchase plan that operated in accordance with guidelines specified under Rules 10b5-1 and 10b-18 of the Securities

Exchange. This prearranged stock repurchase plan, however, terminated in accordance with its terms on April 15, 2013. On March 22, 2013 the Company announced an additional repurchase program to purchase up to an additional \$5 million of shares of the Company's common stock.

The Company's Articles of Incorporation authorize the issuance of preferred shares. However, as of March 31, 2013, none have been issued nor have any rights or preferences been assigned to the preferred shares by the Company's Board of Directors.

Note 4 — Stock-based Compensation

The Company adopted and the shareholders approved the 2007 Long-Term Incentive Plan (the "2007 Plan"), effective November 21, 2006, to provide incentives to certain eligible employees, directors and consultants. A maximum of 10.0 million shares of our common stock can be issued under the 2007 Plan in connection with the grant of awards. Awards to purchase common stock have been granted pursuant to the 2007 Plan and are outstanding to various employees, officers, directors, independent distributors and Scientific Advisory Board members at prices between \$0.21 and \$1.50 per share, that had initial vesting periods of one- to three years. Awards expire in accordance with the terms of each award and the shares subject to the award are added back to the 2007 Plan upon expiration of the award. As of March 31, 2013, awards for the purchase of an aggregate of 5.7 million shares of our common stock are outstanding under the 2007 Plan.

The Company adopted and the shareholders approved the 2010 Long-Term Incentive Plan (the "2010 Plan"), effective September 27, 2010, as amended on January 10, 2012, to provide incentives to eligible employees, directors and consultants. A maximum of 6.9 million shares of the Company's common stock can be issued under the 2010 Plan in connection with the grant of awards. Awards to purchase common stock have been granted pursuant to the 2010 Plan and are outstanding to various employees, officers and directors at prices between \$0.63 and \$3.53 per share, subject to various vesting periods. As of March 31, 2013, awards with respect to 4.8 million shares of the Company's common stock were outstanding under the 2010 Plan.

Payments in equity instruments for goods or services are accounted for under the guidance of share based payments, which require use of the fair value method. The Company has adjusted the expense for anticipated forfeitures. Compensation based options and restricted stock totaling 1.0 million and 1.7 million shares were granted for the three and nine month periods ended March 31, 2013, respectively. Compensation based options and restricted stock totaling 1.8 million and 1.9 million shares were granted for the three and nine month periods ended March 31, 2012, respectively.

For the three and nine months ended March 31, 2013, stock based compensation of \$585,000 and \$1.6 million, respectively, was reflected as an increase to additional paid in capital. Stock based compensation for the three and nine months ended March 31, 2013, was all employee related. For the three and nine months ended March 31, 2012, stock based compensation of \$308,000 and \$881,000, respectively, was reflected as an increase to additional paid in capital. Of the stock based compensation for the three and nine months ended March 31, 2012, \$308,000 and \$748,000, respectively, was employee related and none and \$133,000, respectively, was non-employee related.

Compensation expense was calculated using the fair value method during the three and nine month periods ended March 31, 2013 and 2012 using the Black-Scholes Merton option pricing model. The following assumptions were used for options and warrants granted during the nine month periods ended March 31, 2013 and 2012:

1. risk-free interest rates of between 0.46 and 1.19 percent for the nine months ended March 31, 2013 and between 0.93 and 0.97 percent for the nine months ended March 31, 2012;
2. dividend yield of -0- percent;
3. expected life of 3 to 6 years; and
4. a volatility factor of the expected market price of our common stock of between 113 and 127 percent for the nine months ended March 31, 2013 between 129 and 137 percent for the nine months ended March 31, 2012.

Note 5 — Contingencies

In December 2012 the Company initiated a voluntary recall of specific lots of Protandim®. On December 31, 2012, the Company recorded \$5.9 million in costs related to the recall. As of March 31, 2013 the Company has recorded a total net expense of \$5.6 million. The costs recorded for the recall include initial cost recoveries from insurance of approximately \$511,000.

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

The following discussion and analysis contains forward-looking statements within the meaning of the federal securities laws. We urge you to carefully review our description and examples of forward-looking statements included

in the section entitled “Cautionary Note Regarding Forward-Looking Statements” at the beginning of this report. Forward-looking statements speak only as of the date of this report and, except as required by law, we undertake no obligation to publicly update any forward-looking statements to reflect new information, events or circumstances after the date of this report. Actual events or results may

differ materially from such statements. In evaluating such statements, we urge you to specifically consider various risk factors identified in this report and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, including the matters set forth below in Part II, Item 1A of this report and Items 1 and 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, any of which could cause actual results to differ materially from those indicated by such forward-looking statements. The following discussion and analysis should be read in conjunction with the accompanying financial statements and related notes, as well as the Financial Statements and related notes in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Overview

We are a company dedicated to helping people achieve their health, wellness and financial independence goals. We provide quality, scientifically validated products and a financially rewarding network marketing business opportunity to customers and independent distributors who seek a healthy lifestyle and financial freedom. We sell our products in the United States, Japan, Australia, Hong Kong and Mexico through a network of independent distributors, and to preferred and retail customers. We also sell our products directly to consumers located in Canada for personal consumption.

We engage in the identification, research, development, manufacture and distribution of advanced nutraceutical dietary supplements, including our flagship product, Protandim[®], the Nrf2 Synergizer[®], our anti-aging skin care product, LifeVantage TrueScience[®] and a supplement formulated to combat oxidative stress in dogs, Canine Health[®]. We currently focus our ongoing internal research efforts on oxidative stress solutions, particularly the activation of Nuclear factor (erythroid-derived 2)-like 2, also known as Nrf2, as it relates to health-related disorders.

Recent Developments

We introduced Canine Health[®] in January 2013. Canine Health[®] is a supplement specially formulated to combat oxidative stress in dogs through Nrf2 activation. Canine Health[®] builds on the same active ingredients as Protandim[®] to reduce oxidative stress, and support joint function, mobility and flexibility in dogs. In April 2013, Canine Health[®] received the Quality Seal from the National Animal Supplement Council.

We transitioned our operations in Japan from a “not-for-resale” model to our traditional direct selling model in January, 2013. Additionally, in January 2013 we announced our release in Japan of a new formulation of Protandim[®] that meets local regulatory requirements.

Our Products

Our products are Protandim[®], LifeVantage TrueScience[®] and Canine Health[®]. Protandim[®] is a proprietary blend of ingredients that has been shown to combat oxidative stress by increasing the body’s natural antioxidant protection at the genetic level, inducing the production of naturally-occurring protective antioxidant enzymes including superoxide dismutase, catalase, and glutathione synthase. LifeVantage TrueScience[®] is our science-based anti-aging skin care product, which incorporates some of the ingredients found in our Protandim[®] product with other proprietary ingredients. Canine Health[®] is a supplement specially formulated to combat oxidative stress in dogs through Nrf2 activation.

We sell our Protandim[®], LifeVantage TrueScience[®] and Canine Health[®] products primarily through network marketing to independent distributors and to our preferred and retail customers.

To date, we have focused our research efforts on investigating various aspects and consequences of the imbalance of oxidants and antioxidants, an abnormality, which is a central underlying feature in many disorders. We intend to continue our research, development, and documentation of the efficacy of our Protandim[®] formula to provide credibility to the market. We also anticipate undertaking research, development, testing, licensing and acquisition efforts to be able to introduce additional products in the future, although we may not be successful in this endeavor.

Net revenue from Protandim[®], LifeVantage TrueScience[®], Canine Health[®] and related marketing materials totaled approximately \$156.7 million and \$81.6 million for the nine months ended March 31, 2013 and 2012, respectively.

Three and Nine months Ended March 31, 2013 Compared to Three and Nine months Ended March 31, 2012

Revenue We generated net revenue of \$50.4 million during the three months ended March 31, 2013 and generated net revenue of \$36.2 million during the three months ended March 31, 2012. We generated net revenue of \$156.7 million during the nine months ended March 31, 2013 and \$81.6 million during the nine months ended March 31, 2012. The increases in revenue of \$14.2 million and \$75.1 million for the three and nine months ended March 31, 2013

compared to the three and nine months ended March 31, 2012 are due to increased volume of product sales in the Americas and Asia Pacific. Sales in the Americas region accounted for \$4.6 million and \$35.2 million, respectively, of the increase. Our sales in Asia Pacific accounted

for \$9.6 million and \$39.9 million, respectively, of the increase. During the three and nine month periods ended March 31, 2013, all of our sales and marketing effort was directed toward building our network marketing sales. Gross Margin Our gross profit percentage for the three month periods ended March 31, 2013 and 2012 was 86% . Our gross profit percentage for the nine months ended March 31, 2013 and 2012 was 81% and 86%, respectively. The lower gross margins for the nine months ended March 31, 2013 are due to increased costs of \$5.6 million recorded in December 2012 due to a voluntary recall of certain lots of our Protandim® product.

Operating Expenses Total operating expenses for the three months ended March 31, 2013 were \$39.6 million as compared to operating expenses of \$24.8 million for the three months ended March 31, 2012. Total operating expenses during the nine months ended March 31, 2013 were \$115.5 million as compared to operating expenses of \$55.8 million during the nine months ended March 31, 2012. Operating expenses consist of sales and marketing expenses, general and administrative expenses, research and development, and depreciation and amortization expenses. The increase in total operating expenses for three and nine month periods ended March 31, 2013 compared to the relevant prior year periods was primarily due to commissions paid to distributors on the higher sales volume as well as increases in headcount, facilities and related expenses as we have continued to experience high growth. We expect our operating expenses to continue to increase as sales increase.

Sales and Marketing Expenses Sales and marketing expense increased from \$19.7 million for the three months ended March 31, 2012 to \$29.8 million for the three months ended March 31, 2013. Sales and marketing expenses increased from \$44.1 million for the nine months ended March 31, 2012 to \$89.0 million for the nine months ended March 31, 2013. These increases were due primarily to commissions paid to distributors due to higher sales volume, increased headcount costs and increased costs for distributor events and promotions. We expect continued increases in sales and marketing expenses as our sales increase.

General and Administrative Expenses Our general and administrative expense increased from \$4.6 million for the three months ended March 31, 2012 to \$8.4 million for the three months ended March 31, 2013. General and administrative expense increased from \$10.5 million for the nine months ended March 31, 2012 to \$23.2 million for the nine months ended March 31, 2013. The increases were due primarily to increased headcount and facilities costs as we have continued to hire to support our growth, and to increased legal and professional fees directly related to our growth.

Research and Development Our research and development expenses increased from \$378,000 for the three months ended March 31, 2012 to \$848,000 for the three months ended March 31, 2013. Research and development expenses increased from \$924,000 for the nine months ended March 31, 2012 to \$2.1 million for the nine months ended March 31, 2013. The increases are primarily a result of an increase in salary and benefits. The recognition and timing of these expenses will be dependent upon entry into specific research and development projects.

Depreciation and Amortization Expense Depreciation and amortization expense increased from \$146,000 during the three months ended March 31, 2012 to \$499,000 during the three months ended March 31, 2013. Depreciation and amortization expense increased from \$323,000 for the nine months ended March 31, 2012 to \$1.2 million for the nine months ended March 31, 2013. These increases were due primarily to capital acquisitions made during the three and nine month periods ended March 31, 2013 related to our continuing growth and to new leased office space in Utah and Japan.

Net Other Income (Expense) We recognized net other income of \$122,000 during the three months ended March 31, 2013 as compared to net other expense of \$10.7 million during the three months ended March 31, 2012. During the nine months ended March 31, 2013 we recognized net other expense of \$426,000 as compared to net other expense of \$6.7 million for the nine months ended March 31, 2012. Net other income for the three months ended March 31, 2013 consisted primarily of income related to a business development incentive partially offset by foreign currency net losses. Net other expense for the nine months ended March 31, 2013 consisted primarily of income related to a business development incentive offset by foreign currency net losses. Net other income (expense) recognized during the three and nine months ended March 31, 2012 was primarily due to the valuation of derivative liabilities related to warrants issued as part of previous financing rounds. As of June 30, 2012 there were no derivative instruments remaining requiring liability treatment.

Edgar Filing: Lifevantage Corp - Form 10-Q

Income Tax Benefit (Expense) We recognized income tax expense of \$646,000 and \$3.6 million, respectively, for the three and nine months ended March 31, 2013 as compared to income tax expense of \$587,000 for the three months March 31, 2012 and income tax benefit of \$251,000 for the nine months ended March 31, 2012.

Net Income We recorded net income of \$3.4 million for the three month period ended March 31, 2013 compared to net loss of \$4.8 million for the three month period ended March 31, 2012. We recorded net income of \$7.8 million for the nine months ended March 31, 2013 compared to net income of \$7.6 million for the nine months ended March 31, 2012.

Liquidity and Capital Resources

15

Our primary liquidity and capital resource requirements are to finance our continued expansion. This includes the costs associated with additional support personnel, compensating our distributors, the manufacture and sale of our products, capital investments in systems and infrastructure and other operating expenses. In order to remain cash flow positive from operations, we must maintain or continue to increase sales and maintain or limit expense increases. Our primary source of liquidity is cash generated from the sales of our products. As of March 31, 2013, our available liquidity was \$27.2 million, including available cash and cash equivalents. This represented an increase of \$2.6 million from the \$24.6 million in cash and cash equivalents as of June 30, 2012. During the nine months ended March 31, 2013, our net cash provided by operating activities was \$10.1 million as compared to net cash provided by operating activities of \$11.7 million during the nine months ended March 31, 2012. During the nine months ended March 31, 2013, our net cash used by investing activities was \$4.6 million, due to the purchase of fixed assets. During the nine months ended March 31, 2012, our net cash used by investing activities was \$1.4 million primarily due to the purchases of fixed assets and partially offset by the redemption of marketable securities.

Cash used by financing activities during the nine months ended March 31, 2013 was \$2.8 million compared to cash provided by financing activities of \$290,000 during the nine months ended March 31, 2012. Cash used by financing activities during the nine month period ended March 31, 2013 related to the repurchase of Company stock partially offset by proceeds received from the exercise of options and warrants.

At March 31, 2013, we had working capital (current assets minus current liabilities) of \$25.3 million, compared to working capital of \$22.8 million at June 30, 2012.

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

Off-Balance Sheet Arrangements

As of March 31, 2013, we did not have any off-balance sheet arrangements.

Critical Accounting Policies

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

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

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

Our return policy is to provide a full refund for product returned within 30 days if the returned product is unopened or defective. As of March 31, 2013, approximately \$15.9 million of our sales were subject to the money back guarantee. We replace product returned due to damage during shipment at our cost, the total of which historically has been negligible. In

16

addition, we allow terminating distributors to return 30% of unopened, unexpired product they purchased during the prior twelve months, subject to certain consumption limitations, for a full refund, less a 10% restocking fee.

We monitor our return estimate on an ongoing basis and may revise the allowances to reflect our experience. Our allowance for product returns was \$821,000 at March 31, 2013, compared with \$863,000 at June 30, 2012. To date, product expiration dates have not played any role in product returns, and we do not expect product expiration dates to affect product returns in the foreseeable future because it is unlikely that we will ship product with an expiration date earlier than the latest allowable product return date.

Inventory Valuation We value our inventory at the lower of cost or market value on a first in first out basis.

Accordingly, we reduce our inventories for the diminution of value resulting from product obsolescence, damage or other issues affecting marketability equal to the difference between the cost of the inventory and its estimated market value. Factors utilized in the determination of estimated market value include (i) current sales data and historical return rates, (ii) estimates of future demand, (iii) competitive pricing pressures, (iv) new production introductions, (v) product expiration dates, and (vi) component and packaging obsolescence.

We wrote down \$3.7 million of inventory in December 2012 related to our voluntary recall.

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

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

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

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

Commitments and Obligations The following table summarizes our contractual payment obligations and commitments as of March 31, 2013 (in thousands):

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	Thereafter
Operating Lease Obligations	\$18,974	\$2,159	\$8,341	\$4,734	\$3,740

Recently Issued Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Under SEC rules and regulations, because the aggregate worldwide market value of our common stock held by non-affiliates was more than \$75 million, but less than \$700 million, as of December 31, 2011, we became an “accelerated filer” for purposes of, among other things, our filing status under the Securities Exchange Act of 1934 (the “Exchange Act”). We were a “smaller reporting company” when we determined our filing status for purposes of our annual report on Form 10-K for our fiscal year ended June 30, 2011. SEC rules and regulations provide that a smaller reporting company transitioning away from smaller reporting company status, as we did in fiscal 2012, may finish reporting as a smaller reporting company for the rest of the fiscal year, including in its annual report on Form 10-K, and is not required to satisfy the larger reporting company disclosure requirements until the first quarterly report for the new fiscal year following the determination date. Accordingly, we were not required to and did not provide the quantitative and qualitative disclosures about market risk required by Item 305 of Regulation S-K in our annual report on Form 10-K for our fiscal year ended June 30, 2012. As a result, we are not required to provide the quantitative and qualitative disclosures about market risk required by Item 305 of Regulation S-K in this quarterly report.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) that are designed to ensure that the information required to be disclosed in the reports we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and (b) accumulated and communicated to management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness and design and operation of such disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2013.

Changes In Internal Control over Financial Reporting

An evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 of the Exchange Act was also performed under the supervision and with the participation of our management, including our CEO and CFO, of any change in our internal control over financial reporting that occurred during our last fiscal quarter. That evaluation did not identify any changes in our internal control over financial reporting during the three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II Other Information

Item 1. Legal Proceedings

On April 9, 2013, we were sued in state court in Salt Lake County, Utah. The plaintiff in the lawsuit is Ronald Jones, an independent distributor with our company. The lawsuit alleges that we entered into an agreement with Mr. Jones related to his distributor activities in Hong Kong and that we subsequently breached that agreement. It also alleges that we misappropriated trade secrets that purportedly belong to Mr. Jones. The lawsuit seeks over \$20 million in damages. We believe the allegations made by Mr. Jones are completely without merit and we intend to vigorously defend the lawsuit.

.

Item 1A. Risk Factors

The following description of risk factors includes any material changes to, and, if applicable, supersedes the description of, risk factors associated with our business previously disclosed in “Part I. Item 1A — Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, and it supplements and should be read in conjunction with the detailed discussion of risks associated with our business in our recent SEC filings, including the risk factors discussed in “Part I. Item 1A — Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Because our Japanese operations account for a significant part of our business, an inability to strengthen our business and work with continued government regulations in Japan could harm our business.

Approximately 28% of our fiscal 2012 revenue was generated in Japan. The Japanese market has changed significantly since we began selling into the market in fiscal 2010 and its regulatory framework continues to change.

In 2011, for example, the Ministry of Health, Labour and Welfare, or MHLW, made the determination that Ashwagandha, one of the ingredients in Protandim®, is inappropriate for inclusion in a food product in Japan. In January 2013, we announced the release of a new formulation of Protandim for the Japanese market. Our business in Japan could be substantially harmed if we determine, or if the market perceives, that this formulation of Protandim does not have the same effect as the original formulation, if the market does not accept this formulation, or if the formulation faces additional challenges from regulatory agencies in Japan. Other factors that could impact our results in Japan include:

- continued or increased levels of regulatory or media scrutiny and any regulatory actions taken by regulators, or any adoption of more restrictive regulations, in response to such scrutiny;
- significant weakening of the Japanese yen;
-

increased regulatory constraints with respect to the claims we can make regarding the efficacy of Protandim® , which could limit our ability to effectively market that product;

- the initiatives we have implemented in Japan, which are patterned after successful initiatives implemented in the U.S., may not generate renewed growth or increased productivity among our independent distributors in Japan, and may cost more or require more time to implement than we have anticipated;
- inappropriate activities by our independent distributors and any resulting regulatory actions against us or our independent distributors;
- improper practices of other direct selling companies or their independent distributors that increase regulatory or media scrutiny of our industry; and
- any weakness in the economy or consumer confidence.

In January 2013, we transitioned our operations in Japan from a “not-for-resale” model to our traditional direct selling model. Our transition to a direct selling model in Japan may cause our sales in Japan to slow temporarily or permanently. Our business and financial results could be substantially harmed if the transition to a direct selling model is less successful than anticipated or if distributors in Japan do not accept our business opportunity as anticipated. Additionally, there is a high level of regulatory scrutiny of the direct selling industry in Japan. Several direct selling companies have been penalized in Japan for actions of distributors that violated applicable regulations. Such penalties have included suspension from sponsoring activities in Japan. If our distributors fail to comply with applicable regulations in Japan, regulators could take action against us, including a suspension of our sponsoring activities, or we could receive negative media attention, either of which could harm our business significantly.

A substantial and growing portion of our business is conducted in foreign markets, exposing us to the risks of trade or foreign exchange restrictions, increased tariffs, foreign currency fluctuations, disruptions or conflicts with our third party importers and similar risks associated with foreign operations.

A substantial portion of our sales are generated outside the United States. If we are successful in entering foreign markets, we anticipate that the percentage of our sales generated outside the United States will increase. There are substantial risks associated with foreign operations. For example, a foreign government may impose trade or foreign exchange restrictions or increased tariffs, which could negatively impact our operations. We are also exposed to risks associated with foreign currency fluctuations. For instance, purchases from suppliers are generally made in U.S. dollars while sales to distributors are generally made in local currencies. Accordingly, strengthening of the U.S. dollar versus a foreign currency could have a negative impact on us. Specifically, because approximately 28% of our fiscal 2012 revenue was generated in Japan, strengthening of the U.S. dollar versus the Japanese yen could have an adverse impact on our financial results. Additionally we may be negatively impacted by conflicts with or disruptions caused or faced by third party importers, as well as conflicts between such importers and local governments or regulating agencies. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries.

Inability of new products to gain distributor and market acceptance could harm our business.

We recently introduced a new product offering, Canine Health, to our independent distributors and other customers. We may seek to further expand our product portfolio. However, any new products we introduce may not gain distributor and market acceptance. Factors that could affect our ability to introduce new products include, among others, government regulations, the inability to attract and retain qualified research and development staff, the termination of third-party research and collaborative arrangements, proprietary protections of competitors that may limit our ability to offer comparable products and the difficulties in anticipating changes in consumer tastes and buying preferences. In addition, new products we introduce may not be successful or generate substantial revenue. The introduction of a new product could also negatively impact other product lines to the extent our distributor leaders focus their efforts on the new product. If any of our products fail to gain distributor acceptance, we could see an increase in product returns.

Unfavorable publicity could materially harm our business.

We are highly dependent upon consumers’ perceptions of the safety, quality, and efficacy of our products, as well as competitive products distributed by other companies. In the past we have experienced negative publicity that has

harmed our business. Critics of our industry and other individuals whose interests are not aligned with our interests, have in the past and may in the future utilize the internet, the press and other means to publish criticisms of the industry, our company, our products and our competitors, or make allegations regarding our business and operations, or the business and operations of our competitors. For instance, several prominent companies in our industry have been targeted by short sellers who profit if a company's stock price decreases. These short sellers have an incentive to publicly criticize our industry and business model and any such criticism may adversely affect our stock price.

Future scientific research or publicity may not be favorable to our industry or any particular product, including Protandim. Because of our dependence upon consumer perceptions, adverse publicity associated with illness or other adverse effects resulting or claimed to have resulted from the consumption or use 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 claims are unsubstantiated or if the adverse effects associated with such products resulted from failure to consume or use such products as directed. Adverse publicity could also increase our product liability exposure, result in increased regulatory scrutiny and lead to the initiation of private lawsuits.

We are subject to risks related to product recalls.

During the manufacturing process of our products we have implemented measures that are designed to prevent and detect defects in our products, including the inclusion of foreign contaminants. However, there can be no assurance that such measures will prevent or reveal defects or detect contaminants in our products and such defects and contaminants may not become apparent until after our products have been sold into the market. Accordingly, there is a risk that product defects will occur, or that our products will contain foreign contaminants, and that such defects and contaminants will require a product recall. We do not maintain product recall insurance. In December 2012, we commenced a voluntary recall of certain lots of Protandim to alleviate concerns that some Protandim tablets may have included small metal fragments. We discovered these small metal fragments in certain batches of turmeric extract, an ingredient in Protandim we purchase from third party suppliers. Product recalls and subsequent remedial actions can be expensive to implement and could have a material adverse effect on our business, results of operations and financial condition. In addition, product recalls could result in negative publicity and could result in public concerns regarding the safety of any of our products, any of which could harm the reputation of our products and our business and could cause the market value of our common stock to decline quickly. The ultimate costs of the recall we commenced in December 2012, including financial costs, injury to our reputation, liability and reduced growth prospects, are not yet known to us.

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

Raw materials account for a significant portion of our manufacturing costs. Suppliers may be unable or unwilling to provide the raw materials our manufacturers need in the quantities requested, at a price we are willing to pay, or that meet our quality standards. We are also subject to potential delays in the delivery of raw materials caused by events beyond our control, including labor disputes, transportation interruptions 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.

In December 2012 we commenced a voluntary recall of certain lots of Protandim to alleviate concerns that some Protandim tablets may have included small metal fragments. We discovered these small metal fragments in certain batches of turmeric extract, one of the raw materials used to manufacture Protandim. We purchase turmeric extract from third party suppliers. Our business could be adversely affected if we are unable to obtain a reliable source of turmeric extract or any other ingredient in our products that meets our quality standards.

We are dependent upon third parties to manufacture our product.

We currently rely on third parties to manufacture the products we sell. We are dependent on the uninterrupted and efficient operation of third party manufacturers' facilities. If any of our current manufacturers are unable or unwilling to fulfill our manufacturing requirements or seek to impose unfavorable terms, we will likely have to seek out other manufacturers, which could disrupt our operations and we may not be successful in finding alternative manufacturing resources. In addition, 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. Following the voluntary recall we commenced in December 2012, we implemented more stringent measures, including several redundant measures, in our manufacturing process to catch contaminants. Third party manufacturers may be reluctant to implement these redundant measures, may refuse to manufacture our products and these additional measures may increase our cost of goods sold.

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

Edgar Filing: Lifevantage Corp - Form 10-Q

During the period covered by this report, we issued 2,281,374 unregistered shares of our common stock upon the exercise of various warrants. The shares issued were exempt from registration under the Securities Act of 1933 pursuant to Section 3(a)(9) thereof.

The following table provides information with respect to purchases we made of shares of our common stock during the quarter ended March 31, 2013.

20

Period	(a) Total Number of Shares (or Units) Purchased (3)	(b) Average Price Paid per Share (or Unit) (1)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)(3)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Jan. 1, 2013 to Jan. 31, 2013	145,766	\$2.42	145,766	\$ 4,408,910
Feb. 1, 2013 to Feb. 28, 2013	750,624	\$2.50	750,624	\$ 2,533,106
Mar. 1, 2013 to Mar. 31, 2013	1,002,947	\$2.45	992,310	\$ 107,330
Total	1,899,337	\$2.44	1,888,700	

(1) Average price paid per share of common stock repurchased is the execution price, including commissions paid to brokers.

(2) In December 2012, we announced that our board of directors authorized us to repurchase an aggregate amount of up to \$5 million of shares of our common stock. As part of that repurchase program, we entered into a pre-arranged stock repurchase plan that operated in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange. The pre-arranged stock repurchase plan terminated in accordance with its terms on April 15, 2013.

(3) On March 22, 2013, we announced that our board of directors authorized us to repurchase an aggregate amount of up to \$5 million of shares of our common stock, which repurchase authorization is in addition to the repurchase authorization we announced in December 2012. As part of this repurchase plan, we anticipate entering into a pre-arranged stock repurchase plan that will operate in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange. To date, we have not made any purchases of our common stock pursuant to this additional repurchase authorization.

(4) In March 2013, we withheld 10,637 shares to satisfy tax withholding obligations in connection with the partial vesting of restricted stock awards.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURES

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

LIFEVANTAGE CORPORATION

Date: May 9, 2013

/s/ Douglas C. Robinson
Douglas C. Robinson
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2013

/s/ David S. Colbert
David S. Colbert
Chief Financial Officer
(Principal Financial Officer)

Exhibit Index

Exhibit	Description
10.1#	Software Service Agreement with JIA, Inc. dated September 28, 2012
10.2#	Software License Agreement with JIA, Inc. dated September 28, 2012
31.1	Certification of principal executive officer pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of principal financial officer pursuant to Rule 13a-14(a)/15d-14(a)
32.1*	Certification of principal executive officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of principal financial officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101**	<p>The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 formatted in XBRL (extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at March 31, 2013 and June 30, 2012; (ii) Unaudited Condensed Consolidated Statements of Operations and Other Comprehensive Income for the three and nine month periods ended March 31, 2013 and 2012; (iii) Unaudited Condensed Consolidated Statement of Stockholders' Deficit for the nine months ended March 31, 2013; (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the nine month periods ended March 31, 2013 and 2012; and (v) Notes to Unaudited Condensed Consolidated Financial Statements, tagged as blocks of text.</p>
#	<p>The Company has requested confidential treatment for portions of this agreement. Accordingly, certain portions of this agreement have been omitted in the version filed with this report and such confidential portions have been filed with the Securities and Exchange Commission.</p>
*	<p>This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Exchange Act and is not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing</p>
**	<p>Users of this data are advised that pursuant to Rule 406T of Regulation S-T, this XBRL information is being furnished and not filed herewith for purposes of Section 18 of the Exchange, and Sections 11 or 12 of the Securities Act of 1933 and is not to be incorporated by reference into any filing, or part of any registration statement or prospectus, of LifeVantage Corporation, whether made before or after the date hereof, regardless of any general incorporation language in such filing.</p>