XELR8 HOLDINGS, INC.
Form 10-Q
August 07, 2008
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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the**

**Securities Exchange Act of 1934**

**For the quarterly period ended June 30, 2008**

**or**

o **Transition Report Pursuant to Section 13 or 15 (d) of**

**the Securities Exchange Act of 1934**

**Commission file No. 000-50875**

# XELR8 HOLDINGS, INC.

(Exact name of small business issuer as specified in its charter)

| **Nevada** | **84-1575085** |
|---|---|
| (State of incorporation) | (I.R.S. Employer Identification Number) |

**480 South Holly Street**

**Denver, CO 80246**

(Address of principal executive offices)

**(303)-316-8577**

(Issuer s telephone number)

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 proceeding 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 x NO o

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. (Check one):

| Large accelerated filer o | Accelerated filer o |
|---|---|
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company x |

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

YES o NO x

As of August 4, 2008 the Company had 15,697,170 shares of its $.001 par value common stock issued and outstanding.

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## Part I FINANCIAL INFORMATION

### Item 1 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**XELR8 HOLDINGS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | | June 30, 2008 (unaudited) | | December 31, 2007 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 2,263,673 | $ | 2,245,858 |
| Accounts receivable, net of allowance for doubtful accounts of $10,130 and $12,231, respectively | | 2,390 | | 7,460 |
| Inventory, net of allowance for obsolescence of $181,256 and $189,403, respectively | | 322,478 | | 370,843 |
| Prepaid expenses and other current assets | | 498,172 | | 329,015 |
| Total current assets | | 3,086,713 | | 2,953,176 |
| | | | | |
| Intangible assets, net | | 17,345 | | 17,959 |
| Property and equipment, net | | 57,201 | | 81,405 |
| | | | | |
| Total assets | $ | 3,161,259 | $ | 3,052,540 |
| | | | | |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | $ | 1,283,923 | $ | 832,697 |
| Short-term note payable | | | | |
| | | | | |
| Total Liabilities | | 1,283,923 | | 832,697 |
| | | | | |
| **Commitments and Contingencies** | | | | |
| | | | | |
| **SHAREHOLDERS EQUITY (Note 2):** | | | | |
| Preferred stock, authorized 5,000,000 shares, $.001 par value, none issued or outstanding | | | | |
| Common stock, authorized 50,000,000 shares, $.001 par value, 15,697,170 and 15,197,170 shares issued and outstanding respectively | | 15,697 | | 15,197 |
| Additional paid in capital | | 23,715,986 | | 22,696,657 |
| Accumulated (deficit) | | (21,854,347) | | (20,492,011) |
| | | | | |
| Total shareholders equity | | 1,877,336 | | 2,219,843 |
| | | | | |
| Total liabilities and shareholders equity | $ | 3,161,259 | $ | 3,052,540 |

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

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**XELR8 HOLDINGS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

Three and Six Months Ended June 30, 2008 and 2007

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2008 | June 30, 2007 | June 30, 2008 | June 30, 2007 |
| Net sales | $ 2,276,415 | $ 1,386,395 | $ 3,854,199 | $ 2,255,470 |
| Cost of goods sold | 523,482 | 366,939 | 883,060 | 672,531 |
| Gross profit | 1,752,933 | 1,019,456 | 2,971,139 | 1,582,939 |
| | | | | |
| Operating expenses: | | | | |
| Selling and marketing expenses | 1,614,161 | 967,853 | 2,704,953 | 1,597,119 |
| General and administrative expenses | 752,173 | 937,289 | 1,621,058 | 1,786,810 |
| Research and development expenses | 2,087 | 4,517 | 2,512 | 5,130 |
| Depreciation and amortization | 11,844 | 22,497 | 23,687 | 34,276 |
| Total operating expenses | 2,380,265 | 1,932,156 | 4,352,210 | 3,423,335 |
| | | | | |
| Net (loss) from operations | (627,332) | (912,700) | (1,381,071) | (1,840,396) |
| Other income (expense) | | | | |
| Interest income | 14,358 | 31,917 | 33,636 | 35,043 |
| Other expenses | | | (13,770) | |
| (Loss) on disposal of asset | | | (1,130) | |
| Interest (expense) | | | | (439,537) |
| | | | | |
| Total other income (expense) | 14,358 | 31,917 | 18,736 | (404,494) |
| | | | | |
| Net (loss) | $ (612,974) | $ (880,783) | $ (1,362,335) | $ (2,244,890) |
| | | | | |
| Net (loss) per common share | | | | |
| Basic and diluted net (loss) per share | $ (0.04) | $ (0.06) | $ (0.09) | $ (0.18) |
| | | | | |
| Weighted average common shares outstanding, basic and diluted | 15,697,170 | 14,603,763 | 15,515,851 | 12,699,948 |

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

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**XELR8 HOLDINGS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

**Six Months Ended June 30, 2008 and 2007**

| | | June 30 2008 | | June 30 2007 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net income (loss) | $ | (1,362,335) | $ | (2,244,890) |
| Adjustments to reconcile | | | | |
| Depreciation and amortization | | 23,687 | | 34,276 |
| Loss on disposal of asset | | 1,130 | | |
| Stock and stock options issued for services | | 566,856 | | 1,011,132 |
| Expense related to anti-dilution of warrants | | 13,770 | | |
| Interest expense and amortization related to bridge loan financing | | | | 428,889 |
| Change in allowance for doubtful accounts | | (2,101) | | 5,629 |
| Change in allowance for inventory obsolesence | | (8,147) | | 41,661 |
| Change in allowance for product returns | | 26,147 | | 30,866 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | | 7,171 | | (8,835) |
| Inventory | | 56,512 | | 16,634 |
| Other current assets | | (169,157) | | (17,601) |
| Accounts payable and accrued expenses | | 425,079 | | 239,415 |
| Net cash (used) by operating activities | | (421,388) | | (462,824) |
| | | | | |
| Cash flows from investing activities: | | | | |
| Proceeds from maturity of investments | | | | |
| Capital expenditures | | | | (10,408) |
| Net cash (used) by investing activities | | | | (10,408) |
| | | | | |
| Cash flows from financing activites: | | | | |
| Proceeds from bridge loan financing | | | | 250,000 |
| Repayments of bridge financing | | | | (500,000) |
| Offering costs | | (60,797) | | (367,166) |
| Issuance of common stock | | 500,000 | | 4,000,000 |
| Net cash provided from financing activities | | 439,203 | | 3,382,834 |
| | | | | |
| NET INCREASE (DECREASE) IN CASH | | 17,815 | | 2,909,602 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD | | 2,245,858 | | 76,147 |
| CASH AND CASH EQUIVALENTS, END OF THE PERIOD | $ | 2,263,673 | $ | 2,985,749 |
| | | | | |
| **SUPPLEMENTAL CASH FLOW DISCLOSURES** | | | | |
| Cash paid for interest | $ | | $ | 13,425 |
| Stock issued for satisfaction of accrued compensation expense | $ | | $ | 540,000 |
| Deferred offering costs applied against proceeds from offering | $ | | $ | 25,000 |

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

**XELR8 HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 - ORGANIZATION, OPERATIONS AND BASIS OF PRESENTATION**

***Organization and Business***

The condensed consolidated financial statements include those of XELR8 Holdings, Inc. (formerly VitaCube Systems Holdings, Inc.), and its wholly owned subsidiaries, VitaCube Systems, Inc., XELR8, Inc. (formerly VitaCube Network, Inc.), XELR8 International, Inc. and XELR8 Canada, Corp. Collectively, they are referred to herein as the the Company.

The Company is in the business of selling, marketing and distributing nutritional supplement products and functional foods. Our product lines consist of a liquid dietary supplement, a sports hydration drink, a protein shake, a sports energy drink, a meal replacement drink, a functional food snack and a full product line of vitamins and minerals in the form of tablets, softgels or capsules, all of which are manufactured using our proprietary product formulations.

The Company sells and markets the products through a direct selling channel, in which independent distributors sell our products through a network of customers and other distributors. These activities are conducted through XELR8, Inc., a wholly owned Colorado corporation, formed on July 9, 2003. In addition, we sell our products directly to professional and Olympic athletes and professional sports teams through VitaCube Systems, Inc. To date there have been no activities in XELR8 International, Inc. and XELR8 Canada, Corp.

***Basis of Presentation***

The condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. The condensed interim financial statements and notes thereto should be read in conjunction with the financial statements and the notes thereto, included in the Company s Annual Report to the Securities and Exchange Commission for the fiscal year ended December 31, 2007, filed on Form 10-KSB on March 28, 2008.

The accompanying condensed interim financial statements have been prepared, in all material respects, in conformity with the standards of accounting measurements set forth in Accounting Principles Board Opinion No. 28 and reflect, in the opinion of management, all adjustments necessary to summarize fairly the financial position and results of operations for such periods in accordance with accounting principles generally accepted in the United States of America. All adjustments are of a normal recurring nature. The results of operations for the most recent interim

period are not necessarily indicative of the results to be expected for the full year.

***Principles of Consolidation***

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiaries VitaCube Systems, Inc., XELR8, Inc., XELR8 International, Inc. and XELR8 Canada, Corp.  All inter-company accounts and transactions have been eliminated in the preparation of these consolidated statements.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.  Management believes that the estimates utilized in the preparation of financial statements are prudent and reasonable.  Actual results could differ from these estimates.

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***Revenue Recognition***

The Company ships its products by common carrier and receives payment in the form of cash, credit card or approved credit terms. In May 2004, the Company revised its product return policy to provide a 60-day money back guarantee on orders placed by first-time customers and distributors. After 60 days and for all subsequent orders placed by customers and distributors, the Company allows resalable products to be returned within 12 months of the purchase date for a 100% sales price refund, subject to a 10% restocking fee. Since August 2003, the Company has experienced monthly returns ranging from 0.7% to 7.7% of net sales. Sales revenue and estimated returns are recorded when the merchandise is shipped since performance by the Company is considered met when products are in the hands of the common carrier. Amounts received for unshipped merchandise are recorded as customer deposits and are included in accrued liabilities.

***Inventory***

Inventory is stated at the lower of cost or market on a FIFO (first-in first-out) basis. Provision is made to reduce excess or obsolete inventory to the estimated net realizable value. The Company purchases for resale a liquid nutrition drink, a sports hydration drink, a sports energy drink, a protein shake, an appetite suppressant chew and other vitamins and nutritional supplements, which it packages in various forms and containers.

Inventory is comprised of the following:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Raw materials | $ 67,626 | $ 58,746 |
| Finished goods | 436,108 | 501,500 |
| Provision for obsolete inventory | (181,256) | (189,403) |
| | $ 322,478 | $ 370,843 |

A summary of the reserve for obsolete and excess inventory is as follows:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Balance as of January 1 | $ 189,403 | $ 41,655 |
| Addition to provision | 11,339 | 216,760 |
| Write-off of obsolete inventory | (19,486) | (69,012) |
| | $ 181,256 | $ 189,403 |

***Income Taxes***

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ( SFAS 109 ). Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their

respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

In June 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, Accounting for Uncertainties in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes ( FIN 48 ). FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. FIN 48 is effective for fiscal years beginning after December 15, 2006.

FIN 48 became effective for the Company on January 1, 2007. The cumulative effect of adopting FIN 48 on January 1, 2007 has been recorded net in deferred tax assets, which resulted in no FIN 48 liability on the balance sheet. The total amount of unrecognized tax benefits as of the date of adoption was zero. There are open statutes of limitations for taxing authorities in federal and state jurisdictions to audit the Company s tax returns from 2006 through the current period. The Company s policy is to account for income tax related interest and penalties in income tax expense in the statement of operations. There have been no income tax related interest or penalties assessed or recorded. Because the

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Company has provided a full valuation allowance on all of its deferred tax assets, the adoption of FIN 48 had no impact on the Company s effective tax rate.

***Stock-Based Compensation***

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123R ), which requires compensation costs related to share-based transactions, including employee stock options, to be recognized in the financial statements based on fair value. SFAS 123R revises Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation,* ( SFAS 123 ) and supersedes Accounting Principles Board Opinion ( APB ) No. 25, *Accounting for Stock Issued to Employees.* In March 2005, the Securities and Exchange Commission (the SEC ) issued Staff Accounting Bulletin No. 107 ( SAB 107 ) regarding the SEC s interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company adopted the provisions of SFAS 123R using the modified prospective transition method. In accordance with this transition method, the Company s consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS 123R. Under the modified prospective transition method, share-based compensation expense for the first quarter of 2006 includes compensation expense for all share-based compensation awards granted prior to, but for which the requisite service has not yet been performed as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Share-based compensation expense for all share-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The Company recognizes compensation costs net of an assumed forfeiture rate and recognizes the compensation costs for nonqualified stock options expected to vest on a straight-line basis over the requisite service period of the award. The Company estimates the forfeiture rate based on its historical experience.

Total share-based compensation expense, for all of the Company s share-based awards recognized for the six months ended June 30, 2008, was $467,588 compared with the $1,011,132 for the six months ended June 30, 2007.

The Company uses a Black-Scholes option-pricing model (Black-Scholes model) to estimate the fair value of the stock option grant. The use of a valuation model requires the Company to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical volatility of the Company s stock price. In the future the average expected life will be based on the contractual term of the option and expected employee exercise and post-vesting employment termination behavior. Currently it is based on the simplified approach provided by SAB 107. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of the grant. The following were the factors used in the Black Sholes model in the quarters to calculate the compensation cost:

| | **Six months ended June 30, 2008** | **Six months ended June 30, 2007** |
|---|---|---|
| Stock price volatility | 94.5 - 96.4% | 98.5% - 98.7% |
| Risk-free rate of return | 1.55 3.09% | 4.91%- 4.95% |
| Annual dividend yield | 0% | 0% |
| Expected life | 1.5 to 4.5 Years | 1.5 to 4.5 Years |

***Net Loss Per Share***

Earnings per share require presentation of both basic earnings per common share and diluted earnings per common share. Since the Company has a net loss for all periods presented since inception, common stock equivalents are not included in the weighted average calculation since their effect would be anti-dilutive.

**NOTE 2 - SHAREHOLDERS EQUITY**

The authorized capital stock of the Company consists of 50,000,000 shares of common stock at $.001 par value and 5,000,000 shares of preferred stock at $.001 par value. The holders of the common stock are entitled to receive, when and as declared by the Board of Directors, dividends payable either in cash, in property or in shares of the common stock of the Company. Dividends have no cumulative rights and dividends will not accumulate if the Board of Directors does not declare such dividends. Through March 31, 2008, no dividends have been declared or paid by the Company.

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On February 19, 2008, the Company announced that it had completed the sale of one-half million units in a private placement transaction for gross proceeds of $500,000. The placement was sold to accredited individuals and institutional investors. The units were sold under the exemption provided in Regulation D of Rule 506 and Section 415 of the Securities Act. The terms of the private placement provided for a unit offering at $1.00 per unit. Each unit consists of one share of common stock and six/tenths (6/10) of a Class G Warrant to purchase common stock. In connection with the private placement, the Company agreed to reduce the exercise price of certain of its Series E Warrants and Series F Warrants previously purchased by the same investors in the May 8, 2007 private placement. The Class G Warrants have an exercise price of $1.50 and are exerciseable for a five year period with a call provision by the Company if the Company s share price closes above $2.50 for twenty consecutive days. The Amended Series E Warrants have an exercise price of $1.50 and are exerciseable for a five year period, with a call provision by the Company if the Company s share price closes above $3.00 for twenty consecutive days. The Amended Series F Warrants have an exercise price of $1.50 and are exerciseable for a five year period, with a call provision by the Company if the Company s share price closes above $4.50 for twenty consecutive days. The shares of common stock have not been registered under the Securities Act of 1933, as amended. The Company has one year from the closing date to file a registration statement for the shares underlying the Class G Warrants. If the Company does not have an effective registration statement for the common stock underlying the Amended Series E and F Warrants within one year, the holder would receive cashless exercise rights. The Company incurred $60,797 of offering expenses in connection with the offering, netting the Company $439,203 in proceeds. Additionally, the Company engaged a number of selling agents in connection with the sale of the private placement and paid compensation of 25,000 warrants for their efforts. As a result of the offering, and the lowering of the exercise price of the Original Series E and Series F warrants, the Company recorded a dilution expense of $13,770 for the Investors who participated in the May 8, 2007 offering, but not in the February 19, 2008 placement. On March 6, 2008 the American Stock Exchange approved the issue of the shares.

**Item 2 MANAGEMENT S DISCUSSION AND ANAYLSIS OR PLAN OF OPERATION**

**Cautionary Note Regarding Forward-Looking Statements**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and is subject to the safe harbor created by those sections. We intend to identify forward-looking statements in this report by using words such as believes, intends, expects, may, will, should, plan, projected, contemplates, anticipates, es potential, continue, or similar terminology. These statements are based on our beliefs as well as assumptions we made using information currently available to us. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Because these statements reflect our current views concerning future events, these statements involve risks, uncertainties, and assumptions. Actual future results may differ significantly from the results discussed in the forward-looking statements. These risks include changes in demand for our products, changes in the level of operating expenses, our ability to expand our network of distributors, changes in general economic conditions that impact consumer behavior and spending, product supply, the availability, amount, and cost of capital to us and our use of such capital, and other risks discussed in this report. Additional risks that may affect our performance are discussed under Risk Factors Associated with Our Business in our Form 10-KSB for the fiscal year ended December 31, 2007. Readers are cautioned not to place undue reliance on the forward-looking statements contained in this report and in Registration Statements on Form S-8 declared effective on June 11, 2008 and June 17, 2008. Readers are cautioned not to place undue reliance on the forward-looking statements contained in this report.

**Overview**

We are in the business of developing, selling, marketing and distributing nutritional supplement products and functional foods. We market our products primarily through direct selling or network marketing, in which independent distributors sell our products. In addition, we sell our products directly to professional and Olympic athletes and professional sports teams.

Our product lines consist of four powdered beverages, 12 individual supplements packaged in our VitaCube® or a box , and a nutritional chew. Our VitaCube® is an easy to use, compartmentalized box with instructions for which supplements to take and the proper times to take them. We added a box of supplements with the four daily vitamins conveniently packaged in pillow-packs for each serving. Our EAT, DRINK and SNACK System is a packaged product that consists of functional foods and energy drinks that can be purchased as a whole system or individually. In

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January 2007 we launched our latest product offering Bazi, a liquid nutrition drink. In late 2007 we decided to focus our sales efforts on this product and publicly announced it to our independent distributors in February 2008.

During the third quarter of 2003, we initiated a transition of our sales and marketing efforts from sales to retail outlets and in-house telemarketing to direct selling through independent distributors and we launched our direct sales program in the second quarter of 2004. As of June 30, 2008 we had 6,264 independent distributors and 4,370 customers (excluding professional athletes and sports teams) who had purchased our products within the prior twelve months.

We maintain an inventory of our products to insure that we can timely fill our customer orders. During 2007 we entered into a five year manufacturing agreement with Arizona Packaging and Production, who manufactures our flagship product, Bazi. The terms of the agreement provide that they be the exclusive manufacturer of this product and also stipulate certain prices, quantities and delivery timelines. As a result the lead time on this product has been reduced to 6 weeks. Our inventory, net of our allowance for obsolescence, was $322,478 at June 30, 2008, a decrease from $370,843 at December 31, 2007.

The decrease of inventory was a result of the decision to focus our marketing efforts around the single product, Bazi, therefore we provided for obsolescence on a number of the legacy products that we do not believe that we will sell before they expire. We believe that the current inventory level is adequate to meet our short-term projected demand, and based on our sales for the six months ended June 30, 2008, it is appropriately classified as a current asset based on the ongoing implementation of our new single product marketing plan which is designed to increase our distributor base and sales.

Since the launch of our liquid dietary supplement, Bazi on January 12, 2007, we have seen the demand for all of our legacy products (all products other than Bazi) decrease as customers favored the convenience and simplicity of Bazi. In February 2008 we announced our decision to focus our sales and marketing efforts around this single product. Both of these factors resulted in taking a charge against operations for obsolete inventory of $216,760 for the year ended December 31, 2007. Our allowance for obsolete inventory decreased from $189,403 at December 31, 2007 to $181,256 at June 30, 2008 as we started to dispose of our legacy products. We believe our reserve for obsolescence is reasonable because (i) substantially all of our Bazi inventory has been recently purchased, and (ii) the shelf life of our legacy products averages three years and Bazi is a year.

Our network marketing program is designed to provide an incentive for independent distributors to build, maintain and motivate a sales organization of customers and other independent distributors to enhance earning potential. Our independent distributors are compensated with commissions and bonuses on sales generated through their downline organization. Independent distributors advance in distributor levels as they develop their sales organization and increase their sales volume, which increases their compensation.

We recognize revenue when products are shipped to our customers. Revenue is reduced by product returns at the time we take the product either back into inventory or dispose of it. In addition, we estimate a reserve total for future returns. Cost of our sales consists of expenses directly related to the production and distribution of the products and certain sales materials. Included in the sales and marketing expenses are independent distributor commissions, bonus and incentives along with other general selling expenses. We expect our independent distributor expenses, as a percentage of net revenues, to decrease as independent distributors receive less additional incentives and rely on the incentives in our direct sales program. General and administrative expenses include salaries and benefits, rent and building expenses, legal, accounting, telephone and professional fees.

Our revenue will depend on the number and productivity of our independent distributors, who purchase products and sales materials from us for resale to their customers or for personal use. Because we will distribute substantially all of our products through our independent distributors, our failure to retain our existing distributors and recruit additional distributors could have an adverse effect on our revenue.

Due to the early stage of our direct sales program we believe that the number of our distributors and customers are an important indicator to monitor. In addition, we will monitor the sales generated per independent distributor as well as the success of our independent distributors in recruiting new independent distributors and customers.

With respect to industry and market factors that may affect us directly, we believe that industry credibility in both direct selling and nutritional supplements will be critical elements in whether we can increase revenues and become profitable. Any adverse developments in either of these two areas, to us or in our industry, could lead to a lower number

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of our independent distributors and reduced sales and recruiting efforts by existing distributors, as well as a loss or no increase in the number of sports celebrity endorsers of our products. We do not know what industry growth was for 2007 or will be for 2008 nor do we have enough experience in the direct sales channel to determine whether a slower industry growth rate, which occurred for several years leading up to 2003 and which has subsequently been slow, will adversely affect us.

Our operating plan for 2008 is focused on the continued growth and market penetration of Bazi , and increasing the number of independent distributors and customers, growing revenues, and generating gross profits. With respect to industry and market factors that may affect us directly, we believe that industry credibility in both direct selling and nutritional supplements will be critical elements in whether we can increase revenues and become profitable. Any adverse developments in either of these two areas, to us or in our industry, could lead to a lower number of our independent distributors and reduced sales and recruiting efforts by existing distributors, as well as a loss or no increase in the number of sports celebrity endorsers of our products. Due to the relatively recent commencement of our direct selling program through independent distributors and the change in marketing strategy from multiple products to a single product, we cannot predict our revenue, gross profit, net income or loss or use of cash and cash equivalents; however, we expect net losses will continue for at least the next 6 months.

**Critical Accounting Policies and Estimates**

Discussion and analysis of our financial condition and results of operations are based upon financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates; including those related to collection of receivables, inventory obsolescence, sales returns and non-monetary transactions such as stock and stock options issued for services and beneficial conversion features of notes payable. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

***Revenue Recognition.*** In accordance with Staff Accounting Bulletin 104 Revenue Recognition in Financial Statements , revenue is recognized at the point of shipment, at which time title is passed. Net sales include sales of products, sales of marketing tools to independent distributors and freight and handling charges. With the exception of approved professional sports teams, we receive the net sales price from all of our orders in the form of cash or credit card payment prior to shipment. Professional sports teams with approved credit have been extended payment terms of net 30 days.

***Allowances for Product Returns***. Allowances for product returns are recorded at the time product is shipped. These accruals are based upon the historical return rate since the inception of our network marketing program in the third quarter of 2003, and the specific historical return patterns by product. Our return rate since the third quarter of 2003 has varied from 0.7% to 7.7% of our net sales.

We offer a 60-day, 100% money back unconditional guarantee to all customers and independent distributors who have never before purchased products from us. As of June 30, 2008, orders shipped that are subject to our 60-day money back guarantee were approximately $492,423. All other product may be returned to us by any customer or independent distributor if it is unopened and undamaged for a 100% sales price refund, less a 10% restocking fee, provided the product is returned within 12 months of purchase and is being sold by us at the time of return. We are not able to estimate the amount of revenue we have recognized that is held by these buyers of product and which is returnable, because it is not

possible to determine the amount of product that is unopened and undamaged. Product damaged during shipment is replaced wholly at our cost, which historically has been negligible.

We monitor our return estimate on an ongoing basis and may revise allowances to reflect our experience. Our reserve for product returns at June 30, 2008 and December 31, 2007 was $102,340 and $76,193, respectively. 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.

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***Inventory Valuation***. Inventories are stated at the lower of cost or market on a first-in first-out basis. A reserve for inventory obsolescence is maintained and is based upon assumptions about current and future product demand, inventory whose shelf life has expired and market conditions. A change in any of these variables may require additional reserves to be taken. We reserved $181,256 for obsolete inventory as of June 30, 2008 and $189,403 as of December 31, 2007.

***Stock Based Compensation.*** Many equity instrument transactions are valued based on pricing models such as Black-Scholes-Merton, which require judgments by us. Values for such transactions can very widely and are often material to the financial statements.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS 123R ), which requires compensation costs related to share-based transactions, including employee stock options, to be recognized in the financial statements based on fair value. SFAS 123R revises SFAS No. 123, Accounting for Stock-Based Compensation, ( SFAS 123 ) and supersedes Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. In March 2005, the Securities and Exchange Commission (the SEC ) issued Staff Accounting Bulletin No. 107 ( SAB 107 ) regarding the SEC s interpretation of SFAS 123R and the valuation of share-based payments for public companies. We have applied the provisions of SAB 107 in its adoption of SFAS 123R. We adopted the provisions of SFAS 123R using the modified prospective transition method. In accordance with this transition method, the company s consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS 123R. Under the modified prospective transition method, share-based compensation expense for the first quarter of 2006 includes compensation expense for all share-based compensation awards granted prior to, but for which the requisite service has not yet been performed as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Share-based compensation expense for all share-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

**Results of Operations**

**For the three months ended June 30, 2008 compared to the three months ended June 30, 2007.**

*The discussion below first presents the results of the quarter ended June 30, 2008 followed by the results of the quarter ended June 30, 2007*

*Net sales.* Net sales were $2,276,415, an increase of 64% compared to $1,386,395. The increase in net sales can be attributed to continued success of the Bazi product, the sales promotions that were held in the quarter and the resulting increase in the number of independent distributors and customers.

The percentage that each product category represented of our net sales is as follows:

| | Three Months Ended June 30, |
|---|---|

| Product Category | 2008<br>% of Sales | 2007<br>% of Sales |
|---|---|---|
| *Bazi* | 92% | 83% |
| EAT | 0%* | 1% |
| DRINK | 1% | 3% |
| SNACK (formerly sZone® snack) | 0%* | 0.5% |
| HYDRATE (formerly eForce® sports drink) | 1% | 2% |
| Vitamins and minerals, including SUPPORT | 1% | 2% |
| BUILD (formerly VitaPro® nutrition shake) | 0%* | 1.5% |
| Other-educational materials, apparel | 5% | 7% |

* - less than 1%

*Gross Profit.* Gross profit increased to $1,752,933 compared to $1,019,456, an increase of 72%. Gross profit as a percentage of revenue (gross margin) increased to 77% from 74%. The increase in the gross margins was a result of the increased sales of the new Bazi product that has a higher gross margin as compared to the legacy products. The increase

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was offset as a result of the scrap and obsolescence charges resulting from new marketing materials for Bazi compared with the XELR8 WHAT MOVES YOU marketing materials.

*Sales and marketing expenses.* Sales and marketing expenses increased to $1,614,161 from $967,853, an increase of 67%. The increase in sales and marketing expenses is a result of the increased payments to our independent distributors as a result of increased sales. The independent distributor earnings decreased to 42% of net sales for the current period compared to 43% for the comparable period. Additionally, the Sales and Marketing increase was primarily due to the payment for the termination a marketing consulting services agreement that the Company entered into in 2003 with Mineral Deposits. The original agreement had provided for Mineral Deposits to provide consulting services in exchange for a monthly payment based on the Company s sales, as long as the Company continued to sell products through a multi-level marketing system of independent distributors. In exchange for a termination of the consulting services agreement, which provided for monthly payments equal to ½% of the Company s net revenue, the Company paid Mineral Deposits during the quarter, $62,500 cash and 100,000 options with an exercise price of $1.18 per share.

*General and administrative expenses.* General and administrative expenses were $752,173, a decrease of 20% compared to $937,289. The decrease is a result of $350,000 in stock based compensation that the Company recorded in the prior year period for the grant of stock by a principal shareholder to the employees of the Company. Under the guidance issued by the Securities and Exchange Commission in Staff Accounting Bulletin 107 (SAB 107), share-based payments issued to an employee of a reporting entity by a related party or other holder of economic interest in the entity as compensation for services provided to the entity are to be recorded as a compensation expense by the entity. This decrease was partially, offset by higher executive compensation as a result of the restructured employment agreement with Mr. Pougnet, our Chief Executive Officer, and Mr. Ridley, our President, and costs associated with being a pubic company.

*Depreciation and Amortization Expense.* The expense was $11,844 compared to $22,497, a decrease of 47%. As a result of the continued success of the Bazi product we evaluated the carrying value of the trademarks associated with the legacy products that the Company had and fully amortized these intangible balances.

*Net Loss.* Our net loss was $612,974, or ($0.04) per share, compared to $880,783, or ($0.06) per share, a decreased loss of $.02 per share, or 30%, respectively. The decreased net loss is associated with the increases in sales and gross margin.

**For the six months ended June 30, 2008 compared to the six months ended June 30, 2007.**

*The discussion below first presents the results of the six months ended June 30, 2008 followed by the results of the six months ended June 30, 2007*

*Net sales.* Net sales were $3,854,199, an increase of 71% compared to $2,255,470. The increase in net sales can be attributed to the continued success of Bazi , the sales promotion, XELR8 to $1million , conducted in the first half of 2008 and the resultant increase in the number of independent distributors and customers.

The percentage that each product category represented of our net sales is as follows:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| **Product Category** | **% of Sales** | **% of Sales** |
| *Bazi* | 91% | 77% |
| EAT | 0%* | 2% |
| DRINK | 1% | 4% |
| SNACK (formerly sZone® snack) | 0%* | 1% |
| HYDRATE (formerly eForce® sports drink) | 1% | 3% |
| Vitamins and minerals, including SUPPORT | 1% | 3% |
| BUILD (formerly VitaPro® nutrition shake) | 1% | 2% |
| Other-educational materials, apparel | 5% | 8% |

* - less than 1%

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*Gross Profit.* Gross profit increased to $2,971,139 compared to $1,582,939, an increase of 88%. Gross profit as a percentage of revenue (gross margin) increased to 77% from 70%. The increase in the gross margin was a result of the increased sales of Bazi which has a higher gross margin as compared to the legacy products. The increase was partially offset as a result of the scrap and obsolescence charges from the focus away from the legacy products.

*Sales and marketing expenses.* Sales and marketing expenses increased to $2,704,953 from $1,597,119, an increase of 69%. Sales and marketing expenses consist primarily of distributor commissions, costs associated with attracting experienced field leaders for our distributor network, events and training for the distributors. The independent distributor compensation remained constant at 43% of net sales for the current period compared to the prior period. We incurred approximately $108,000 in additional costs for our distributor, leadership and events in the current period, compared to the prior period. The increase was also due to the payment for the termination a marketing consulting services agreement that the Company entered into in 2003 with Mineral Deposits. The original agreement had provided for Mineral Deposits to provide consulting services in exchange for a monthly payment based on the Company s sales, as long as the Company continued to sell products through a multi-level marketing system of independent distributors. In exchange for a termination of the consulting services agreement, which provided for monthly payments equal to ½% of the Company s net revenue, the Company paid Mineral Deposits in April, $62,500 cash and 100,000 options with an exercise price of $1.18 per share.

*General and administrative expenses.* General and administrative expenses were $1,621,058, a decrease of 9% compared to $1,786,810. The decrease is a result of $661,132 in stock based compensation that we paid to the referral agent in connection with the short term loan financing in the prior period and a charge of $350,000 in stock based compensation that the Company recorded for the grant of stock by a principal shareholder to the employees of the Company. Under the guidance issued by the Securities and Exchange Commission in Staff Accounting Bulletin 107 (SAB 107), share-based payments issued to an employee of a reporting entity by a related party or other holder of economic interest in the entity as compensation for services provided to the entity are to be recorded as a compensation expense by the entity. These decreases were partially, offset by higher compensation as a result of the variable employment agreements with our executives and additional employees, and additional expenses incurred for filings and compliance as a public company.

*Depreciation and Amortization Expense.* The expense was $23,687 compared to $34,276, a decrease of 31%. As a result of the continued success of the Bazi product we evaluated the carrying value of the trademarks associated with the legacy products that the Company had and fully amortized these intangible balances.

*Interest Expense.* Interest expense was $0 compared to $439,537. In November 2006 and January 2007, the Company entered into two short term debt financing agreements. Both provided for a 10% interest rate and an origination fee of 400,000 shares of common stock of the Company which was valued using the share price of the Company on the dates the loans were funded and amortized over the term of the loan. Both loans were repaid on March 27, 2007.

*Net Loss.* Our net loss was $1,362,335, or ($0.09) per share, compared to $2,244,890, or ($0.18) per share. Our net loss decreased by 39% as the result of higher sales and gross margin contribution, which was offset by increased expenses for Sales and Marketing.

**Liquidity and Capital Resources**

To date, our operating funds have been provided primarily from sales of our common stock ($15,413,421), and by loans from our founder and by various stockholders ($3,989,209), through June 30, 2008, and to a lesser degree, cash flow provided by sales of our products.

On March 5, 2007, we announced that the Company had raised $2,000,000 in gross proceeds in a private placement transaction, which would close subject to shareholder and American Stock Exchange approval. On March 7, 2007, the shareholders approved the private placement transaction, and on March 27, we closed the transaction. At the time of closing, we paid in full the short-term loans of $500,000 plus accrued interest of $13,425 leaving us with no short-term or long-term debt at this time, other than trade accounts payable and other accrued liabilities.

On May 8, 2007, the Company announced that it had completed the sale of one million units in a private placement transaction resulting in gross proceeds of $2,000,000, which would close subject to American Stock Exchange approval. On May 24, 2007, we closed the transaction.

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On February 19, 2008, the Company announced that it had completed the sale of one-half million units in a private placement transaction for gross proceeds of $500,000. On March 6, 2008, the American Stock Exchange approved the issue of the shares.

We used $421,388 of cash for operations in the six months ended June 30, 2008, compared to $462,824 of cash for operations in the six months ended June 30, 2007. The use of cash in our operations results from incurring and accruing expenses to suppliers necessary to generate business and service our customers at a time when revenues did not keep pace with expenses. As of June 30, 2008, we had $2,263,673 in cash and cash equivalents available to fund future operations. Net working capital decreased from $2,120,479 at December 31, 2007, to $1,802,790 at June 30, 2008.

In the event that we are successful in completing our business plan of increasing the number of distributors, sales levels and consequently increased profitability, we believe that our cash resources will be sufficient to fund our operations for the next year. If our business operations do not result in increased product sales, our business viability, financial position, results of operations and cash flows will likely be adversely affected. Further, if we are not successful in achieving profitability, additional capital will be required to conduct ongoing operations. We cannot predict the terms upon which we could raise such capital or if any capital would be available at all.

***Customer Concentrations***

We had no single customer that accounted for any substantial portion of our revenues.

***Off-Balance Sheet Items***

We have no off-balance sheet items as of June 30, 2008, or December 31, 2007.

**Item 4T CONTROLS AND PROCEDURES**

Prior to the filing of this report, the Company s management carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company s management, including the Chief Executive Officer and the Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company s internal control over financial reporting that occurred during the Company s most recent fiscal quarter that has materially affected or is reasonably likely to materially affect its internal control over financial reporting.

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## Part II OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

On May 27, 2008, Bleu Ridge Consultants, Inc., filed a lawsuit against XELR8 in the District Court for the City and County of Denver, Colorado, alleging that XELR8 breached a funding agreement by failing to make payments to Bleu Ridge. On July 11, 2008, Bleu Ridge and XELR8 entered into a standstill agreement, pursuant to which the parties agreed to certain terms to govern the parties relationship while they negotiated a settlement.

### Item 6. EXHIBITS

| Exhibit No | Description |
|---|---|
| 31.1 | Certification of CEO as Required by Rule 13a-14(a)/15d-14 |
| 31.2 | Certification of CFO as Required by Rule 13a-14(a)/15d-14 |
| 32.1 | Certification of CEO as Required by Rule 13a-14(a) and Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code |
| 32.2 | Certification of CFO as Required by Rule 13a-14(a) and Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code |
| 99.1 | Press release announcing 2nd Quarter 2008 Results |
| 99.2 | Standstill Agreement with Bleu Ridge Consultants, Inc. |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City and County of Denver, State of Colorado, on August 7, 2008.

**XELR8 HOLDINGS, INC.**

By */s/ John D. Pougnet*
John D. Pougnet
Chief Executive Officer

By */s/ John D. Pougnet* .
John D. Pougnet
Chief Financial Officer (Principal Accounting Officer)