XELR8 HOLDINGS, INC.
Form 10-Q
May 06, 2009

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 March 31, 2009

or

[ ] 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 [ ]

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 (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 [ ] NO [X]

As of May 6, 2009 the Company had 15,697,170 shares of its $.001 par value common stock issued and outstanding.

Table of Contents

Table of Contents

Part I FINANCIAL INFORMATION

Item 1 – CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

XELR8 HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

		March 31, 2009		December 31, 2008
ASSETS				
Current assets:				
Cash and cash equivalents	$	958,285	$	1,576,510
Accounts receivable, net of allowance for doubtful accounts of $3,097 and $3,071, respectively		8,857		6,825
Inventory, net of allowance for obsolescence of $118,239 and $116,095, respectively		244,635		176,236
Prepaid expenses and other current assets		332,061		509,377
Total current assets		1,543,838		2,268,948
Intangible assets, net		21,026		21,411
Property and equipment, net		51,313		35,832
Total assets	$	1,616,177	$	2,326,191
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	508,545	$	643,426
Return reserve		134,836		134,836
Accrued payroll and benefits		100,651		71,193
Other accrued expenses		91,275		104,662
Total Liabilities		835,307		954,117
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 shares issued and outstanding		15,697		15,697
Additional paid in capital		24,005,410		23,958,422
Accumulated (deficit)		(23,240,237)		(22,602,045)
Total shareholders' equity		780,870		1,372,074
Total liabilities and shareholders' equity	$	1,616,177	$	2,326,191

The accompanying notes are an integral part of these condensed consolidated financial statements.
* Derived from audited Financial Statements

Table of Contents

XELR8 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
Three Months Ended March 31, 2009 and 2008

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
Net sales	$ 1,316,423	$ 1,577,784
Cost of goods sold	335,704	359,578
Gross profit	980,719	1,218,206
Operating expenses:		
Selling and marketing expenses	1,001,541	1,090,792
General and administrative expenses	610,967	868,886
Research and development expenses	325	424
Depreciation and amortization	9,800	11,844
Total operating expenses	1,622,633	1,971,946
Net (loss) from operations	(641,914)	(753,740)
Other income (expense)		
Interest income	3,722	19,278
Other expense	-	(13,770)
(Loss) on disposal of asset	-	(1,130)
Total other income (expense)	3,722	4,378
Net (loss)	$ (638,192)	$ (749,362)
Net (loss) per common share		
Basic and diluted net (loss) per share	$ (0.04)	$ (0.05)
Weighted average common shares outstanding, basic and diluted	15,697,170	15,334,533

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

Table of Contents

XELR8 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Three Months Ended March 31, 2009 and 2008

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
Cash flows from operating activities:		
Net loss	$ (638,192)	$ (749,362)
Adjustments to reconcile		
Depreciation and amortization	9,800	11,844
Stock and stock options issued for services	46,988	275,375
Expense related to anti-dilution of warrants	-	13,770
Loss on asset disposal	-	1,130
Change in allowance for doubtful accounts	26	1,848
Change in allowance for inventory obsolescence	2,144	(14,716)
Change in allowance for product returns	-	10,092
Changes in assets and liabilities:		
Accounts receivable	(2,058)	4,392
Inventory	(70,543)	94,736
Other current assets	177,316	3,808
Accounts payable and accrued expenses	(118,810)	131,383
Net cash (used) by operating activities	(593,329)	(215,700)
Cash flows from investing activities:		
Capital expenditures	(24,896)	-
Net cash (used) by investing activities	(24,896)	-
Cash flows from financing activities:		
Issuance of common stock, net	-	452,974
Net cash provided by financing activities	-	452,974
NET INCREASE (DECREASE) IN CASH	(618,225)	237,274
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,576,510	2,245,858
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 958,285	$ 2,483,132

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

Table of Contents

XELR8 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

The consolidated financial statements include those of XELR8 Holdings, Inc., (XELR) (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, Bazi; sports hydration drink, a protein shake, a sports energy drink, a meal replacement drink, 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, 2008, filed on Form 10-K on March 31, 2009.

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.

Table of Contents

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.

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 and other vitamins and nutritional supplements, which it packages in various forms and containers.

Inventory is comprised of the following:

	March 31, 2009	December 31, 2008
Raw materials	$ 67,639	$ 71,930
Finished goods	295,235	220,401
Provision for obsolete inventory	(118,239)	(116,095)
	$ 244,635	$ 176,236

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

	March 31, 2009	December 31, 2008
Balance as of January 1	$ 116,095	$ 189,403
Addition to provision	2,144	22,610
Write-off of obsolete inventory	-	(95,918)
	$ 118,239	$ 116,095

Table of Contents

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 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

Total share-based compensation expense, for all of the Company’s share-based awards recognized for the three months ended March 31, 2009, was $46,988 compared with the $275,375 for the three months ended March 31, 2008.

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:

Table of Contents

	Three months ended March 31, 2009	Three months ended March 31, 2008
Stock price volatility	103.0 – 107.1%	94.7 - 96.4%
Risk-free rate of return	0.57 – 0.69%	1.55 – 3.09%
Annual dividend yield	0%	0%
Expected life	1.5 to 2.5 Years	1.5 to 4.5 Years

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, 2009, no dividends have been declared or paid by the Company.

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.

Table of Contents

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," "estimates," "predicts," "potential," "continue," or similar 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-K for the fiscal year ended December 31, 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 a liquid nutritional supplement, four powdered beverages, and 12 individual supplements packaged in our VitaCube® or a box. 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. In 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 March 31, 2009 we had 6,657 independent distributors and 4,607 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 ensure that we can timely fill our customer orders. During 2007 we entered into a five year manufacturing agreement with Arizona Packaging and Production, who manufacture our flagship product, Bazi™. The terms of the agreement provided that they would be the exclusive manufacturer of this product and also stipulated certain prices, quantities and delivery timelines. As a result the increased sales of Bazi and the manufacturing agreement, the lead time on this product has been reduced to 4 weeks. Our inventory, net of our allowance for obsolescence, was $244,635 at March 31, 2009, an increase from $176,236 at December 31, 2008.

Table of Contents

The increase of inventory was a result of the decision to add additional marketing materials in the first quarter, which we launched at our National Distributor event in February 2009, focused around the single product, Bazi™. We believe that the current inventory level is adequate to meet our short-term projected demand, and based on our sales for the quarter ended March 31, 2009, it is appropriately classified as a current asset based on the 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. In September 2008 we announced the discontinuance of one of our legacy products, the XELR8 SNACK. This did not result in any additional write-offs as the charge was taken in 2007. Our allowance for obsolete inventory increased from $116,095 at December 31, 2008 to $118,239 at March 31, 2009. 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. 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 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 2008, or will be for 2009, 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. Additionally, we believe that the deteriorating economic conditions in the United States that started in the third quarter of 2008 and continue through into 2009 could have a negative effect on our business and the ability of our independent distributors to recruit other distributors.

Table of Contents

Critical Accounting Polices 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 monthly 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 March 31, 2009, orders shipped that are subject to our 60-day money back guarantee were approximately $166,079. 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 March 31, 2009 and December 31, 2008 was $134,836. To date, product expiration dates have not played any role in product returns, and we anticipate that they may in the future because of the marketing focus on Bazi™, a product that has only a one year shelf life and therefore it is possible for us to have expired product returned to us. To date we have not have any significant returns of expired product.

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 $118,239 for obsolete inventory as of March 31, 2009 and $116,095 as of December 31, 2008.

Table of Contents

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 March 31, 2009 compared to the three months ended March 31, 2008.

The discussion below first presents the results of the quarter ended March 31, 2009 followed by the results of the quarter ended March 31, 2008

Net sales. Net sales were $1,316,423 a decrease of 17% compared to $1,577,784. The decrease in net sales can be attributed to the general economic downturn in the economy and the result of hosting the national event that the Company held in mid February in Las Vegas, later than in the prior year, and we usually get increased sales after the event.

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

	Three Months Ended March 31,	
	2009	2008
Product Category	% of Sales	% of Sales
Bazi	90%	89%
Legacy Products*	3%	6%
Other-educational materials, apparel	7%	5%

* Legacy Products include EAT, DRINK, HYDRATE, BUILD and Vitamins and minerals (including SUPPORT).

Table of Contents

Gross Profit. Gross profit decreased to $980,719 compared to $1,218,206 a decrease of 19%. Gross profit as a percentage of revenue (gross margin) decreased to 74% from 77%. The decrease in the gross margins was a result of the launch of the new Bazi sales materials, the Empower magazine and DVD. The Company took a lower of cost or market at the time it acquired that magazine, as it is sold at a price below the unit cost. In addition to this, the company was able to sell a significant number of these magazines including the DVD, that have lower gross margins as compared to the gross margin on products.

Sales and marketing expenses. Sales and marketing expenses decreased to $1,001,541 from $1,090,792, a decrease of 8%. The decrease in sales and marketing expenses is a result of the decrease in commissions paid to our independent distributors for the sales of our products. The independent distributor earnings (as a percentage of net sales) remained the same for the current period compared to the comparable period in the prior year. This decrease was offset by increases we incurred of approximately $80,000 in additional event costs associated with the national distributor event in Las Vegas as compared with the prior year. We also introduced new marketing materials, a magazine and DVD, that was launched at the national event in Las Vegas to our independent distributors, the development of which cost us approximately $105,000.

General and administrative expenses. General and administrative expenses were $610,967 a decrease of 30% compared to $868,886. The decrease was the result of lower stock based compensation expense, which decreased to $46,988 for the quarter ended March 31, 2009 compared to $275,375 for the comparable period in 2008, which was the result of the payment in the prior year to a public and investor relations company.

Net Loss. Our net loss was $638,192 compared to $749,362, a decrease of 15%. Our net loss of ($0.04) per share was compared to ($0.05) per share, a decrease of 20%. The decrease in net loss is a result of a decrease in selling and marketing and general and administrative expenses. These were offset by the decrease in net sales and related gross profit.

Liquidity and Capital Resources

To date, our operating funds have been provided primarily from sales of our common stock $15,352,624, through December 31, 2008, and to a lesser degree, cash flow provided by sales of our products.

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 $593,330 of cash for operations in the three months ended March 31, 2009, compared to $215,700 of cash for operations in the three months ended March 31, 2008. 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 March 31, 2009, we had $958,285 in cash and cash equivalents available to fund future operations. Net working capital decreased from $1,314,831 at December 31, 2008, to $708,531 at March 31, 2009.

In the event that we are not successful in completing our business plan of increasing the number of distributors and revenue, and are therefore unable to achieve profitability, our cash resources will be insufficient to fund our operations for the next 12 months. As a result, additional capital will be required to continue operations. No assurances can be given that we will be able to raise additional capital, and if so, whether such capital will be available on terms and conditions beneficial to the Company.

Table of Contents

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 March 31, 2009.

Item 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A smaller reporting company is not required to provide the information required by this item.

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.

Table of Contents

Part II OTHER INFORMATION

Item 1. – LEGAL PROCEEDINGS

None.

Item 1A. – RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, “Risk Factors”, of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Item 2. – CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

Item 3. – DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 5. – OTHER INFORMATION

On May 2, 2009 the Company entered into an amended employment agreement with its Chief Executive Officer & Chief Financial Officer, Mr. John Pougnet. Mr. Pougnet has served as the Company’s Chief Executive Officer since October 1, 2006, and as Chief Financial Officer since September 12, 2005. The amendment provides for an adjustment of Mr. Pougnet’s base annual salary from $205,000 (or approximately $17,000 per month) to $169,000 (or approximately $14,000 per month) payable for each subsequent month (commencing May 1, 2009) that the company fails to achieve certain monthly revenue goals for the remainder of 2009. There will be no accruals of the salary difference in months where the revenue goals have not been met.

Table of Contents

Item 6. – EXHIBITS

Exhibit No	Description
10.34	Amended Employment Contract for John D. Pougnet
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 the First Quarter 2009 Financial Results

Table of Contents

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 May 6, 2009.

XELR8 HOLDINGS, INC.

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