

XELR8 HOLDINGS, INC.
Form 10QSB
August 02, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended June 30, 2007

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
(State of incorporation)

84-1575085
(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 NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES NO

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

YES NO

Edgar Filing: XELR8 HOLDINGS, INC. - Form 10QSB

As of July 31, 2007 the Company had 15,197,170 shares of its \$.001 par value common stock issued and outstanding.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets June 30, 2007 and December 31, 2006

Condensed Consolidated Statements of Operations Three Months Ended June 30, 2007 and 2006 and Six Months Ended June 30, 2007 and 2006

Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2007 and 2006

Notes to Financial Statements

Item 2. Management's Discussion and Analysis or Plan of Operation

Item 3. Controls and Procedures

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits

Part I FINANCIAL INFORMATION**Item 1 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****XELR8 HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,985,749	\$ 76,147
Accounts receivable, net of allowance for doubtful accounts of \$16,335 and \$10,706, respectively	7,991	4,785
Inventory, net of allowance for obsolescence of \$83,316 and \$41,655, respectively	353,069	411,364
Prepaid expenses and other current assets	276,893	259,292
Total current assets	3,623,702	751,588
Intangible assets, net	10,350	11,212
Property and equipment, net	100,937	123,943
Deferred offering and loan costs		133,889
Total assets	\$ 3,734,989	\$ 1,020,632
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 866,197	\$ 1,160,916
Short-term note payable		250,000
Total Liabilities	866,197	1,410,916
Commitments and Contingencies		
SHAREHOLDERS EQUITY (DEFICIT) (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, 15,197,170 and 10,097,170 shares issued and outstanding respectively	15,197	10,097
Additional paid in capital	22,348,766	16,849,900
Accumulated (deficit)	(19,495,171)	(17,250,281)
Total shareholders equity (deficit)	2,868,792	(390,284)
Total liabilities and shareholders equity	\$ 3,734,989	\$ 1,020,632

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

XELR8 HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

Three and Six Months Ended June 30, 2007 and 2006

	For the Three Months Ended June 30, 2007	For the Three Months Ended June 30, 2006	For the Six Months Ended June 30, 2007	For the Six Months Ended June 30, 2006
Net sales	\$ 1,386,395	\$ 577,181	\$ 2,255,470	\$ 1,116,141
Cost of goods sold	366,939	165,949	672,531	411,328
Gross profit	1,019,456	411,232	1,582,939	704,813
Operating expenses:				
Selling and marketing expenses	967,853	618,544	1,597,119	1,643,682
General and administrative expenses	937,289	755,237	1,786,810	1,559,050
Research and development expenses	4,517	19,364	5,130	43,933
Depreciation and amortization	22,497	35,125	34,276	42,774
Total operating expenses	1,932,156	1,428,270	3,423,335	3,289,439
Net (loss) from operations	(912,700)	(1,017,038)	(1,840,396)	(2,584,626)
Other income (expense)				
Interest income	31,917	9,389	35,043	27,657
Interest (expense)			(439,537)	
Total other income (expense)	31,917	9,389	(404,494)	27,657
Net (loss)	\$ (880,783)	\$ (1,007,649)	\$ (2,244,890)	\$ (2,556,969)
Net (loss) per common share				
Basic and diluted net (loss) per share	\$ (0.06)	\$ (0.10)	\$ (0.18)	\$ (0.27)
Weighted average common shares outstanding, basic and diluted				
	14,603,763	9,663,345	12,699,948	9,642,357

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

XELR8 HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Six Months Ended June 30, 2007 and 2006

	June 30 2007	June 30 2006
Cash flows from operating activities:		
Net income (loss)	\$ (2,244,890)	\$ (2,556,969)
Adjustments to reconcile		
Depreciation and amortization	34,276	42,774
Stock and stock options issued for services	1,011,132	387,426
Interest expense and amortization related to bridge loan financing	428,889	
Change in allowance for doubtful accounts	5,629	1,126
Change in allowance for inventory obsolescence	41,661	59,165
Change in allowance for product returns	30,866	15,572
Changes in assets and liabilities:		
Accounts receivable	(8,835)	1,746
Inventory	16,634	(409)
Other current assets	(17,601)	78,733
Accounts payable and accrued expenses	239,415	65,280
Net cash (used) by operating activities	(462,824)	(1,905,556)
Cash flows from investing activities:		
Proceeds from maturity of investments		60,000
Capital expenditures	(10,408)	(71,846)
Net cash (used) by investing activities	(10,408)	(11,846)
Cash flows from financing activities:		
Proceeds from bridge loan financing	250,000	
Repayments of bridge financing	(500,000)	
Issuance of common stock	3,632,834	
Net cash provided from financing activities	3,382,834	
NET INCREASE (DECREASE) IN CASH	2,909,602	(1,917,402)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	76,147	2,805,021
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 2,985,749	\$ 887,619
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. and XELR8, Inc. (formerly VitaCube Network, Inc.). Collectively, they are referred to herein as the the Company.

The Company is in the business of selling, marketing and distributing nutritional supplement products, functional foods and dietary supplement liquids. Our product lines consist of 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. In January 2007, we added a new product, BAZI , a dietary supplement beverage.

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.

Our independent auditors have noted in their reports on our financial statements as of December 31, 2006 and 2005 and for the years then ended, that there is substantial doubt regarding our ability to continue as a going concern. To date this contingency has not affected our ability to secure funding for our operations; however, going forward, in the event this uncertainty is not resolved, we may experience more difficulty in raising funds to operate our Company if we are required to raise such capital. In March 2007, we completed a private sale of common stock shares of the Company for gross proceeds of \$2,000,000 and in May 2007 completed a second private sale of common stock shares of the Company for an additional gross proceeds of \$2,000,000.

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, 2006, filed on Form 10-KSB on March 30, 2007.

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. and XELR8, Inc. 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.

Revenue Recognition

The Company ships its products by common carrier and receives payment in the form of cash, credit card payment or approved credit terms. The Company offers 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. During the six months ended June 30, 2007 and six months ended June 30, 2006, returns as a percentage of net sales were 3.6% and 5.7%, respectively. 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. Additionally, the Company collects an annual website fee from distributors that is deferred on receipt and recognized as income on a straight-line basis over the subsequent twelve-month period.

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 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, 2007	December 31, 2006
Raw materials	\$ 65,397	\$ 245,447
Finished goods	370,988	207,572
Provision for obsolete inventory	(83,316)	(41,655)
	\$ 353,069	\$ 411,364

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

	June 30, 2007	December 31, 2006
Balance as of January 1	\$ 41,655	\$ 16,879
Addition to provision	110,673	123,511
Write-off of obsolete inventory		