XELR8 HOLDINGS, INC.
Form 10KSB
March 28, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-KSB

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

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)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock ($1.00 par value)	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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

Check whether the issuer (1) filed all reports to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

YES o NO x

Issuer s revenues for the year ended December 31, 2007 were $4,853,046.

Aggregate market value of voting stock held by non-affiliates: **$9,704,406.**

As of March 19, 2008, the Company had 15,697,170 shares of its $.001 par value common stock issued and outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-KSB for XELR8 Holdings, Inc. (the Company) contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words may , will , estimate , intend , continue expect or anticipate and other similar words.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties. Actual future results may differ significantly from the results discussed in the forward-looking statements. Some of the risks that may affect our performance are discussed below under Risk Factors Associated with Our Business.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

We develop, sell, market and distribute nutritional supplement products primarily through a direct sales or network marketing system in which independent distributors sell our products, as well as purchase them for their own personal use. We also sell our products directly to professional and Olympic athletes and to professional sports teams.

We formulated our original legacy products in 2000 and 2001 for sale to professional and Olympic athletes. We launched our sales and marketing programs to the general public in early 2002 through our internal sales force targeting specialty retail stores, health clubs and personal trainers. During 2003, we refocused our marketing and sales strategy on direct selling through independent distributors. We believe, based upon our sales experience in 2001 and 2002, our products can be more effectively sold through the face-to-face sales method afforded by direct selling. During 2005, we formulated a new line of products that would have a wider appeal to the general public, as they were more functional foods than nutritional supplements, and began marketing them through our existing independent distributors in the latter part of 2005. In conjunction with this, we rebranded the network marketing company and all the products with the name of XELR8. During 2006 we formulated a new product, Bazi , a liquid dietary supplement. In January 2007 we introduced this product to our network of independent distributors and athlete endorsers. In late 2007 we decided to change the sales focus of our independent distributors from multiple products to a single product, Bazi , and announced this to our sales force in February 2008.

We distribute and sell our products through a network marketing system, a form of direct selling, using independent distributors (Distributors). We also sell sales and marketing tools designed to assist our distributors in growing their business and selling our products. Distributors not only

purchase our products for their own consumption, but are encouraged to build and manage their own sales group by recruiting, managing and training others to sell our products. Distributors are compensated on sales generated by their group or downline organization. We also sell our products directly to Preferred or Direct customers, who purchase our products for personal consumption, and are not permitted to resell or distribute the products.

A key part of our marketing strategy, in conjunction with our direct sales program, is the endorsement of our products by sports celebrities. Some of our celebrity endorsers include:

- Mike Shanahan (football): Head Coach on three Super Bowl teams;

- Carnell Williams (football): All Pro Running Back, 2005 Rookie of the Year;

- Curt Schilling (baseball): Pitcher Cy Young Award Winner and 2001 World Series Co-MVP;

- Randy Johnson (baseball): Pitcher five-time Cy Young Award Winner and 2001 World Series Co-MVP;

- Brian Griese (football): All Pro Quarterback;

- Caroline Lalive (skier) - 2-Time Olympian and World Cup Medalist;

- Briana Scurry (soccer player): Two time Olympic gold medal winner and U.S. Woman s World Cup Champion;

- Becky Quinn (cycling) 2-Time Silver medalist World Track Cycling Championship; and

- Gary Gait (lacrosse): Former forward, six-time National Lacrosse League MVP and member of NLL Hall of Fame.

We were formed in 2001, under the name Instanet, Inc. to provide Internet fund transfers. Instanet, which had no operating revenues, was a development stage company. Instanet s business model was not successful and it was searching for an operating business. Vita Cube Systems, Inc. (V3S), a Colorado corporation formed in October 2000, contacted Instanet in May 2003. The parties completed a stock-for-stock exchange on June 20, 2003, in which Instanet acquired V3S. The acquisition was conducted on an arms-length basis. In the exchange, the then existing stockholders of V3S exchanged their stock in V3S for 2,714,403 shares of common stock of Instanet, then representing a 90% ownership interest in Instanet. V3S then became a wholly-owned subsidiary of Instanet and V3S s management became management of Instanet. Instanet changed its name to VitaCube Systems Holdings, Inc. V3S at the time of the acquisition had $810,743 of current and long-term assets and $3,000,080 of current and long-term liabilities. V3S s assets included cash and cash equivalents, inventory, product formulations, an office information technology system and office equipment and furniture. The acquisition of V3S by Instanet is considered a reverse acquisition and accounted for under the purchase method of accounting. Under reverse acquisition accounting, V3S is considered the acquirer for accounting and financial reporting purposes. In September 2005, we changed the name of the network marketing subsidiary from Vitacube Network, Inc. to XELR8, Inc. In March 2007, the shareholders approved the change of the name of the parent company from Vitacube Systems Holdings, Inc. to XELR8 Holdings, Inc. In August 2007, XELR8, Inc. formed a wholly owned subsidiary, XELR8 International, Inc., (XELR8 International) a Colorado corporation, through which we conduct our international expansion. In September 2007, XELR8 International Inc., formed a wholly

owned subsidiary, XELR8 Canada Corp, Incorporated, (XELR8 Canada) a Nova Scotia Unlimited Company. To date, there has been no business conducted by neither XELR8 International nor XELR8 Canada.

The description of our business describes the business being conducted by V3S and now XELR8, Inc. Instanet discontinued its business prior to the stock-for-stock exchange.

Industry Overview

As a direct seller of nutritional products we compete in two industries, The Nutrition Industry and Direct Selling Industry:

The Nutrition Industry

The Nutrition Business Journal identifies the industry in the following segments:

- Dietary Supplements (vitamins, minerals, herbs & botanicals, sports nutrition, meal replacements, specialty supplements)

- Natural & Organic Foods (products such as cereals, milk, non-dairy beverages and frozen meals),

- Functional Foods (products with added ingredients or fortification specifically for health or performance purposes),

- Natural & Organic Personal Care and Household Products

According to the latest industry overview, Nutrition Business Journal (NBJ) (July/August 2007), the $85-billion U.S. nutrition industry grew 10% in 2006, its highest annual growth since 1998. The more mature supplement segment topped $22.4 billion and 5% growth, and the other three major categories were in double digits. Functional foods posted $31.4 billion in sales and its highest growth since 2002 on a strong performance in beverages and niche categories. Natural & organic foods continued a consistent progression into the mainstream food market with 14% growth and moving from 2% of total food sales in 1997 to 4.7% a decade later. Natural & organic personal care and household goods posted a second consecutive year of record growth in 2006.

We believe that the following factors drive growth in the nutrition industry:

- The general public s awareness and understanding of the connection between diet and health,
- The aging population in our markets who tend to use more nutritional supplements as they continue to age,
- Increasing healthcare costs and the consequential trend toward preventative medicine and non-traditional medicines,
- Product introductions in response to new scientific studies, and
- The willingness of the population to embrace ingredients that have been used in non-western cultures many years.

We believe that we are well positioned to capitalize on the growth trends in the nutrition industry.

The Direct Selling Industry

Results of the 2006 Direct Selling Association s Annual Growth and Outlook Survey indicate a 5.6% increase in direct sales over 2005 to a record high of $31.18 billion, with an estimated 15.2 million people involved in the industry in the U.S., up 7.8% from 2005. The survey, which measures the size and activity of the U.S. direct selling industry, is conducted annually and includes responses from a cross-section of direct selling companies. Other major results of the survey indicate wellness products, such as weight loss products and nutritional supplements, account for approximately 20.3% of direct sales, an increase from 19.1% in 2005.

We believe the prospects for continued growth in direct sales are good and should benefit us, and we perceive several reasons why such growth has occurred:

- The growth of direct sales has given it public visibility. We believe that governmental regulation of the direct selling industry has facilitated the public s market acceptance of legitimate direct selling companies.

- The current economic climate of sub-prime lending foreclosures, business closures, lay-offs, downsizing, outsourcing, and merging has resulted in motivated, educated workers seeking direct sales. These workers generally have professional and social networks, which offer personalized credibility to the direct selling industry.

- With improved technology and the expanding use of the Internet, direct selling firms can become more efficient. For example, none of our independent distributors are required to carry inventory or personally conduct public presentations, and our computer systems keep track of and communicate with independent distributors and their organizations. We believe these efficiencies make direct selling easier to administer than in the past.

Our Products

We currently focus our sales and marketing efforts on a liquid nutritional supplement drink Bazi , but also offer 12 different nutritional products. None of our products contain substances that have been the subject of publicized health concerns by the medical community such as ephedra, creatine, androstene, androstenedione, aspartame, steroids or human growth hormones. Our products include:

Bazi

Our latest product offering, Bazi, is a liquid nutritional drink packed with eight different super fruits and berries, including the Chinese jujube, plus 12 vitamins and 68 minerals. The proprietary XELR8 Phyto8 Blend contains the following fruits and berries: Jujube Fruit, Blueberry, Pomegranate, Goji Berry, Mangosteen, Raspberry, Acai and Seabuckthorn. Additionally, the product contains 12 vitamins including A, C, E and B-complex and the XELR8 Mineral Blend. During 2007 this product accounted for 83% of our total revenue.

In late 2007 we decided to change the sales focus of our independent distributors from multiple products to a single product, Bazi , and announced this to our sales force in February 2008. We will continue to sell the other products to our existing customers and athletes, but will not have them available to new distributors or customers.

XELR8 EDS System

The EDS System is the packaged concept for three of our products, EAT, DRINK and SNACK which allows the distributor or customer to purchase the complete system of products bundled together. The products can also be purchased individually.

XELR8 EAT

The EAT product is a functional food drink that was formulated as a meal replacement. It combines all the health benefits of a protein-based meal replacement drink with the high-impact nutrition value of pure whole food supplements. The foods and nutrients in the EAT product are based on the Harvard Healthy Food Pyramid developed at the Harvard Medical School, and includes ingredients from the eight essential food groups that their studies have shown people should eat from everyday: Whole Grains; Vegetables; Fruits; Poultry, Eggs and Fish; Plant Oils; Nuts; Legumes; and Multi-Vitamin and Calcium Supplements. Added to the product are essential enzymes, pro-biotics and Serotain™.

XELR8 DRINK

The DRINK product is an energy drink that has been formulated with the health benefits of antioxidants. The DRINK is sugar free, low in carbohydrates, high in flavonoid antioxidants (vitamins A, C and D) and has an ORAC value (measurement of antioxidant strength) of 6,000, which is equilivant to three servings of blueberries.

XELR8 SNACK

The SNACK is a raspberry-chocolate chew that contains SeroTONE , a proprietary complex that works with your body s natural levels of serotonin helping to satisfy cravings between meals. SNACK is also formulated to be low in fat and calories at approximately 60 calories and 2.5g of fat per serving.

XELR8 HYDRATE

XELR8 HYDRATE is a sports drink that has been formulated to support sustained energy without the levels of sugar and caffeine of most colas, and with one-tenth the amount of carbohydrates and two additional hydrating electrolytes not found in Gatorade®, a competing sports drink. XELR8 HYDRATE has been formulated to provide support for sustained energy before activity by incorporating the ingredients D-Ribose, 5 ginsengs and a complete B-Vitamin Complex (B1, B2, B6 and B12). XELR8 HYDRATE also contains antioxidants such as Vitamins A, C and E and pomegranate extract in its formulation designed to benefit the body after activity.

XELR8 BUILD

XELR8 BUILD is a balanced shake that has a blend of proteins, carbohydrates and sugars and is available in chocolate or vanilla flavors. Its blend of proteins is designed to support metabolism and provide energy.

XELR8 BUILD is formulated with 27 vitamins, minerals and antioxidants to help provide nourishment. XELR8 BUILD combines various protein sources, vitamins, and minerals with ingredients such as Aminogen® an ingredient that contributes amino acids to the body and Fibersol-2®, a fiber that aids in digestion.

Vitamins and Minerals, including XELR8 SUPPORT

Our vitamins, minerals, and specialty formulations are sold in various VitaCubes® and in the XELR8 SUPPORT PACK, and consist of tablets, capsules and soft gel formulations. The VitaCube® is a compartmentalized container in which each supplement is separated into its own compartment, with a label above to designate the location of supplement. The XELR8 SUPPORT PACK is a flip top box of vitamins that are pillow packed into individual servings, with four tablets in each serving. The XELR8 SUPPORT PACK replaced the Basic VitaCube®, and is designed for individuals who are new to nutritional supplement programs or who are recreational athletes. This label also provides the supplement name, a photograph, its benefits, the main ingredients and dosages, and the time to take it. VitaCubes® are divided into two primary and gender-specific packages:

- VitaCube® Essential, designed for the individuals who have taken supplements previously and who seek a continued, serious exercise routine; and

- VitaCube® Elite, designed for the individual who wants to maximize his or her exercise regimen and sports performance.

Supplements found in our XELR8 SUPPORT PACK and VitaCube® and their product description:

Name of Supplement	**Product Description/Intended Benefits**
XELR8 Multi-Vitamin and Mineral / VitaCube ® M32+® (Multi System Formula)	32 vitamins and minerals multivitamins
XELR8 Bone Support / VitaCube® Cal/Mag+	Calcium and Magnesium support bones and muscles
Absorbit	Digestive Enzymes and Aminogen® aid digestion of nutrients
CP Complex®	Vitamin C and Potassium aid metabolic function
AO Elite®	L-Arginine and L-Ornithine aid circulation and muscle repair
ZMA Pro	Zinc and Magnesium Aspartate support muscle function and muscle recovery from exercise
WNB	Women s Natural Balance support for women s health
GC Elite®	L-Glutamine and L-Carnitine amino acids facilitate muscle recovery and fat metabolism
Ultra EFA	Essential Fatty Acids with Vitamin E support cardiovascular health (essential fatty acids) and cellular functions (Vitamin E)
XELR8 Essential Oils	Essential Oils support cardiovascular health and supports muscle recovery, including Omega 3, 6 & 9; Vitamin E and CoEmzyme Q10

AlphaNac®	Alpha Lipoic Acid and N-Acetyl-L-Cysteine antioxidants help neutralize effects of muscle stress associated with exercise
JSH® (Joint Support Health)	Glucosamine and Chondroitin support joint flexibility and mobility
XELR8 Joint Support	Glucosamine and Chondroitin support joint flexibility and mobility including MSM, Boswellia, Tumeric and Cayenne
Q-Zyme®	CoEnzyme Q10 support energy metabolism in the heart

Quality in Our Products

In seeking quality in our products, we require that before a product is brought to market, all:

- supplements are supported with publicly available scientific research and references;
- our manufacturers carry applicable manufacturing licenses;
- ingredients are combined so that their effectiveness is not impaired;

- ingredients are in dosage levels that fall within tolerable upper intake levels established for healthy people by the Institute of Medicine of the National Academies;

- products are free of adulterated ingredients such as ephedra, creatine, androstenedione, aspartame, steroids or human growth hormones;

- formulations have a minimum one year shelf life;

- products are 100% free of lead and the typical allergens of wheat, corn and yeast; and

Product Development

In May of 2005, we entered into a technology contract for the services of UTEK, Inc., a knowledge transfer enterprise, under a strategic alliance services contract. UTEK is the primary organization responsible for the acquisition of new technologies, primarily from universities, medical centers and federal research laboratories for the formulation of all of our new products. During 2006 our expense related to the UTEK contracts were $40,005. In October 2006, we terminated our relationship with UTEK.

New Product Identification.

From time to time we expand our product line through the development of new products. New product ideas are derived from a number of sources, including trade publications, scientific and health journals, consultants, distributors, and other third parties. Prior to introducing new products, we investigate product formulations as they relate to regulatory compliance and other issues. We expect to formulate approximately two new products within the next 12 to 48 months, but will only introduce these products if they would be complimentary to the Bazi product and integrated into the product marketing focus.

Celebrity Endorsements

As part of our marketing efforts, we compensate several sports celebrities for endorsing our products. We believe these endorsements lead health and fitness conscious consumers to use our products.

Our endorsers have agreed to provide written testimonials to advertise our products including the use of their name, likeness, and pictures for print, radio, electronic media, and video announcements. Additionally some endorsers have agreed to make personal appearances, participate in website chats, and wear apparel containing our logo.

The terms of our endorsement contracts vary. These contracts are generally for a period of one to three years and the endorsers are provided with our products for personal use on a reduced or no cost basis. In addition to receiving our products, these endorsers may receive cash compensation, stock options, stock grants, a percentage of net revenues, or other consideration. Some of our endorsement contracts also provide that the endorser will not endorse any competing products.

Our Independent Distributors and Customers

Overview. We distribute products through a direct selling program with independent distributors. Our distributors purchase products for their own consumption and to sell to their customers. Generally distributors do not maintain an inventory of products, but rather introduce new customers who purchase directly from us.

Independent distributors are encouraged to recruit and sign up new independent distributors and customers, the result of which is the creation of new levels within their sales organizations. These new enrollees are referred to as the downline of their enrolling distributor. Downline independent distributors are also encouraged to recruit new independent distributors, thereby creating additional levels in their organizations, but still connected to the original enrolling distributor. Enrollments occur based on personal introduction regardless of geographic location. We have

no sales territories. Our independent distributors are compensated with commissions and bonuses on the sale of product generated through their downline.

We believe direct selling is an effective way to distribute our products because:

- distributors can educate consumers about our products in person;

- direct sales allows for actual product sampling by potential consumers;

- compared to other distribution methods our distributors can provide customers high levels of service and attention;

- direct selling has benefited from advancements in technology, including low-cost telephone services and the Internet; and

- products can be introduced to the market through person-to-person selling, resulting in lower up front capital outlays for us than conventional methods.

Our marketing team utilizes multimedia website, CDs and e-mail to enhance the selling and recruiting capabilities of our independent distributors. These materials are sold to the independent distributors so that the ongoing advertising costs borne by us are not substantial. In addition, we utilize print, telecommunications and the Internet to recruit and train independent distributors. We have created a compensation plan that we believe motivates independent distributors to sell our products, build their sales organizations, and participate in Company-sponsored contests. During 2007 we entered into a marketing partnership with Stevenson Lexus of Fredrick (in Fredrick, Colorado), whereby qualified independent distributors would be eligible for a monthly reimbursement on a Bazi branded Lexus vehicle as long as they remained qualified.

Structure of Our Direct Selling Program. To become one of our independent distributors, a person must be enrolled through an existing independent distributor and must purchase a starter kit, except in states where a purchase of a starter kit is optional due to state regulations, in which case the distributor is given a starter kit at no charge. The starter kit consists of forms, policy and procedures, selling aids, and access to a personal website at a costs of $35. Additionally, at the time of enrollment we permit distributors to purchase product at a discount for personal consumption or for business building purposes. Once enrolled, our distributors purchase product on a monthly basis from us for personal consumption and recruiting purposes and retail sales.

Compensation Plan. Independent distributors can earn compensation in a number of different ways:

- selling products directly to customers (earning a retail rebate for the spread between their price and their customer s price as established by us);

- generating commissions based on their personal sales volume and the sales volume of their downline organization. We do not pay compensation for an existing distributor enrolling a new distributor;

- qualifying for bonuses based on sales performance by distributors and their downline organization;

- reimbursement of the cost of purchasing a Bazi Lexus vehicle from Stevenson Lexus of Fredrick, based on meeting certain monthly sales goals; and

- distributor options, under a plan approved by our shareholders, for the purchase of our common stock which is traded on the American Stock Exchange, earned by achieving a certain sales level each month.

Independent Distributor Training, Support and Motivation. We believe that training, support and motivation are key elements in our independent distributors achieving success. Training from our corporate management includes live training events, conference calls and e-mail. We have conference call capabilities which are available any time and can be accessed from any U.S. location for use by our independent distributors. In addition, every independent distributor is provided with an online back office or website. This provides the distributors the ability

to send e-mails directly to their downline database along with tools for placing and reviewing orders and managing his or her downline.

For motivation, we recognize our independent distributors with recognition and awards based upon sales achievements. In addition, from time to time, we use memorabilia signed by our celebrity endorsers as a further incentive. We plan on utilizing trips and vacations as a primary component of our motivation strategy. During January 2007, we held a distributor recognition and training conference in Las Vegas, Nevada and in September 2007, we held a Diamond recognition weekend in Cabo San Lucas, Mexico for our best performing independent distributors. We also hold regional sales, recognition and training events each year, typically during spring or fall. We have established a annual recognition calendar and will continue to add to this as our independent distributors achieve higher sales goals each month.

Additional Methods of Distribution. We also sell directly to professional and Olympic athletes using our in-house staff. Many of these athletes purchase our products at a discounted price, although some endorse our products in return for receiving them at no charge. We believe the endorsements of these high-profile athletes provides credibility to our products.

We are not dependent on one customer or a group of customers.

Management Information, Internet and Telecommunication Systems

The ability to efficiently manage distribution, compensation, inventory control, and communication functions through the use of sophisticated and dependable information processing systems is critical to our success.

We continue to upgrade systems and introduce new technologies to facilitate our continued growth and support of independent distributor activities. These systems include: (1) an internal network server that manages user accounts, print and file sharing, firewall management, and wide area network connectivity; (2) a Microsoft SQL database server to manage sensitive transactional data, and corporate accounting and sales information; (3) a centralized host computer located in Texas supporting our customized order processing, fulfillment and independent distributor management software; (4) a standardized Avaya telecommunication switch and system; (5) a hosted independent distributor website system designed specifically for network marketing and direct sales companies; and (6) procedures to perform daily and weekly backups with both onsite and offsite storage of backups.

Importantly, our technology systems provide key financial and operating data for management, timely and accurate product ordering, commission payment processing, inventory management and detailed independent distributor records. Additionally, these systems deliver real-time business management, reporting and communications tools to assist in retaining and developing our sales leaders and independent distributors. We intend to continue to invest in our technology systems in order to strengthen our operating platform.

Product Returns

We revised our return policy in 2004 to provide an initial purchase guarantee to all first-time customers and first-time independent distributors who are not satisfied with our products for any reason, which was consistent with the Code of Ethics of the Direct Selling Association, whom we are a member of. These customers and distributors may return to us any products purchased within 60 days of their initial order for a full refund. After 60 days and on all subsequent orders, customers and independent distributors may return unused, unopened and undamaged product that is currently being sold by us for a refund of 100% of the sales price less a 10% restocking fee, provided it is returned to us within 12 months of the purchase date. Product damaged during shipment is replaced. Historically, product returns as a percentage of our net sales have ranged from 0.7% to 7.7% of our monthly net sales.

Our Competition

We compete with many companies engaged in selling nutritional supplements. We also compete with direct selling companies who sell products similar to ours. Most of our competitors have significantly greater financial and human resources than we do, and have operating histories longer than ours. We seek to differentiate our products and marketing from our competitors based on our product quality, the use of sports celebrity endorsers, our attractive compensation plan for our independent distributors and through our simple selling program.

The retail market for nutritional supplements is characterized by a few dominant national companies, including General Nutrition Centers, Vitamin World, Vitamin Shoppe, and Great Earth Vitamin Stores. Others have a presence within local markets, such as Vitamin Cottage in Denver, Colorado. Three companies dominate the Internet Puritan.com, GNC.com and VitaminShoppe.com, the latter two having retail sales locations as well.

We compete with a number of large direct sellers in the liquid superfruit / functional food category, such as Xango, Inc, who produce a mangosteen drink; Monavie, Inc., who sell an Acai Berry product; and Freelife Inc, who market a Goji berry drink, as well as may other smaller drink companies with different superfruits as their principle ingredient.

Major competitors in the sports nutrition and weight-loss markets consist of companies such as EAS, Inc., Weider Nutrition International, Inc. and Twinlab Corporation, which dominate the market with such products as Myoplex (EAS), Body Shaper (Weider) and Ripped Fuel (Twinlab).

Competitors for our sports and energy drinks include Gatorade®, Red Bull®, Powerade®, Accelerade® and All Sport®. Indirect competition includes soft drinks and orange juice and related products such as Sunny Delight®, CapriSun® and other fruit drinks. Our protein drink and meal replacement compete with Myoplex®, Atkins Advantage®, Ensure® and Prolab®. The SNACK product competes in the market with low carbohydrate bars like Atkins Advantage®, Balance® and EAS AdvantageEdge®.

We compete with a number of large direct selling firms selling nutritional, diet, health, personal care and environmental products, and numerous small competitors. The principal direct selling competitors are Amway Corporation, Nature s Sunshine, Inc., Herbalife International of America, Inc., USANA, Inc., and Melalecua, Inc.

Our Manufacturers

We use a limited number of third parties to supply and manufacture our products. Our flagship product, Bazi , is manufactured by Arizona Packaging and Production under the terms of a five year exclusive manufacturing agreement, which stipulates certain prices, quantities and delivery timelines. For our other legacy products, manufacturers produce these products on a purchase order basis only and can terminate their relationships with us at will. Our two other primary manufacturers are Valentine Industries, Inc. and GMP Laboratories of America, Inc.

Product Delivery

All of our products are shipped by our manufacturers directly to our third party warehouse and fulfillment contractor, HoldenMSS for storage at our main facilities in Denver, Colorado. The majority of the products sold to our independent distributors and their customers are shipped directly by HoldenMSS, to the distributors or customers. We maintain a secondary warehouse in Detroit, Michigan, where we maintain a limited inventory for future shipments into Canada. This facility is maintained and operated by a third party contractor, who also acts as a customs agent. We collect sales tax on products based upon the address of the consumer to whom products are sent regardless of how the order is placed. Sales to our professional and Olympic athletes, our sports teams and from our non-distributor customers are shipped directly to them from our facilities.

Scalable Business Model.

Our business model enables us to grow our business with moderate investment in our infrastructure and other fixed costs. We require no company-employed sales force to market and sell our products, we incur no direct incremental cost to add a new distributor in our existing markets, and our distributor compensation varies directly with sales. In addition, our independent distributors bear the part of the cost of our consumer marketing expenses, and our distributor leaders coordinate the recruiting and training initiatives of their downline distributor organizations. Furthermore, we can readily increase production and distribution of our products as a result of our multiple third party manufacturing relationships and distribution centers.

Regulatory Matters

General. Our operations are affected by extensive laws, governmental regulations, administrative determinations, court decisions and enforcement policies. These requirements exist at the federal, state and local levels in the United States, including laws and regulations pertaining to:

- the formulation, manufacturing, packaging, labeling, holding, storage, distribution, advertising, and sale of our products;

- product claims and advertising, including direct claims and advertising by us, as well as claims and advertising by independent distributors, for which we may be held responsible;

- our direct selling program; and

- taxation of independent distributors (which in some instances could impose an obligation on us to collect the taxes and maintain appropriate records).

The formulation, manufacturing, packaging, labeling, holding, storage, distribution, advertising, and sale of our products are subject to regulation by one or more federal agencies, including the FDA, the FTC, the Consumer Product Safety Commission (CPSC), the Occupational Safety and Health Administration (OSHA), the Department of Agriculture (USDA) and the Environmental Protection Agency (EPA). These activities are also regulated by various agencies of the states and localities in which our products are sold. Pursuant to the Federal Food, Drug, and Cosmetic Act (FDCA), the FDA regulates the processing, formulation, safety, manufacture, packaging, labeling, holding, sale, and distribution of foods and nutritional supplements (including vitamins, minerals, amino acids, herbs, and botanicals). The FTC has jurisdiction to regulate the advertising of these products. The CPSC is charged with protecting the public from risks of serious injury or death associated with the use of consumer products. Nutritional supplements are among the over 15,000 types of consumer products under CPSC s jurisdiction. When consumers complain to the CPSC about alleged harm stemming from ingestion of a nutritional supplement, CPSC may contact the entity concerned, inform it of the nature of the complaint, and invite a response. CPSC has conducted several recalls of iron-containing dietary supplements that do not comply with the child-resistant packaging requirement. The OSHA is charged with protecting workplace safety. Nutritional supplement companies must maintain a safe workplace and may from time to time be subject to queries from OSHA if manufacturing methods or procedures raise a question of worker safety. The USDA has jurisdiction over animal food and animal feed, including regulatory control over the harvesting of animal-based source materials, including animal-derived proteins, and animal-derived gelatin capsules, used in the making of dietary supplements. The EPA regulates dietary supplement compliance with standards established under the Clean Air Act, the Clean Water Act, the Occupational Safety and Health Act, and the Pollution Prevention Act as they affect the use, maintenance, and disposal of substances used in and facilities used for the manufacture of nutritional supplements.

The FDCA has been amended several times with respect to nutritional supplements, in particular by the Dietary Supplement Health and Education Act of 1994 (DSHEA), which established a new framework governing the composition, safety, labeling and marketing of nutritional supplements. Nutritional supplements are defined as vitamins, minerals, herbs, other botanicals, amino acids and other dietary substances for human use to supplement the diet, as well as concentrates, metabolites, constituents, extracts or combinations of such dietary ingredients.

Generally, under DSHEA, dietary ingredients that were on the market prior to October 15, 1994, may be used in nutritional supplements without notifying the FDA. New dietary ingredients, consisting of dietary ingredients that were not marketed in the United States before October 15, 1994, are subject to a FDA pre-market new dietary ingredient notification requirement unless the ingredient has been present in the food supply as an article used for food without being chemically altered. A new dietary ingredient notification must provide the FDA with evidence of a history of use or other evidence of safety establishing that use of the dietary ingredient will reasonably be expected to be safe. A new dietary ingredient notification must be submitted to the FDA at least 75 days before the initial marketing of the new dietary ingredient. There is no certainty that the FDA will accept any particular evidence of safety for any new dietary ingredient. The FDA s refusal to accept such evidence could prevent the marketing of such dietary ingredients.

DSHEA permits statements of nutritional support to be included in labeling for nutritional supplements without FDA premarket approval. These statements must be submitted to the FDA within 30 days of marketing and must bear a label disclosure that This statement has not been evaluated by the Food and Drug Administration. This product is not intended to diagnose, treat, cure, or prevent any disease. These statements may describe a benefit

related to a nutrient deficiency disease, the role of a nutrient or nutritional ingredient intended to affect the structure or function in humans, the documented mechanism by which a nutrient or dietary ingredient acts to maintain such structure or function, the general well-being from consumption of a nutrient or dietary ingredient, but may not expressly or implicitly represent that a nutritional supplement will diagnose, cure, mitigate, treat or prevent a disease. An entity that uses a statement of nutritional support in labeling must possess scientific evidence substantiating that the statement is truthful and not misleading. If the FDA determines that a particular statement of nutritional support is an unacceptable drug claim or an unauthorized version of a disease claim for a food product, or if the FDA determines that a particular claim is not adequately supported by existing scientific data or is false or misleading, we would be prevented from using the claim.

In addition, DSHEA provides that so-called third-party literature, e.g., a reprint of a peer-reviewed scientific publication linking a particular nutritional ingredient with health benefits, may be used in connection with the sale of a nutritional supplement to consumers without the literature being subject to regulation as labeling. Such literature must not be false or misleading; the literature may not promote a particular manufacturer or brand of nutritional supplement; the literature must present a balanced view of the available scientific information on the nutritional supplement; if displayed in an establishment, the literature must be physically separate from the nutritional supplement; and the literature may not have appended to it any information by sticker or any other method. If the literature fails to satisfy each of these requirements, we may be prevented from disseminating it with our products, and any dissemination could subject our products to regulatory action as an illegal drug. Moreover, any written or verbal representation by us that would associate a nutrient in a product that we sell with an effect on a disease will be deemed evidence of an intent to sell the product as an unapproved new drug, a violation of the FDCA.

On August 25, 2007 the FDA adopted the final regulations for manufacturers of a standard originally proposed in March 2003 of the current Good Manufacturing Practices guidelines (cGMPs) for the manufacturing, packing, holding and distributing dietary ingredients and nutritional supplements. The new regulations will require nutritional supplements to be prepared, packaged, and held in compliance with strict rules, and will require quality control provisions that may mandate redundant testing of product ingredients at each separate stage of manufacture and are intended to ensure that products are accurately labeled and don t contain adulterants and contaminants. While the rule allowed for medium and small manufacturers to have until 2009 and 2010, respectively, to comply with the cGMPs, most of our contract manufacturers did not qualify as small or medium. As a result, many of our contract manufacturers began following the proposed cGMPs or even pharmaceutical cGMPs well before the final rule was published. We expect to see an increase in our manufacturing costs as a result of the necessary increase in testing of raw ingredients and finished products and compliance with higher quality standards, although we are not certain of the amount of these costs.

The FDA has broad authority to enforce the provisions of the FDCA applicable to nutritional supplements, including powers to issue a public warning letter to an entity, to publicize information about illegal products, to request a recall of illegal products from the market, and to request the Department of Justice to initiate a seizure action, an injunction action, or a criminal prosecution in the United States courts. The regulation of nutritional supplements may increase or become more restrictive in the future.

In 2004, legislation was introduced in both houses of Congress that imposed substantial new regulatory requirements for dietary supplements. These bills did not pass and are no longer pending, but we believe the 2004 proposed legislation evidences a continuing effort to further regulate dietary supplements.

On April 12, 2004, the FDA adopted a new test for determining when a nutritional supplement is adulterated. Under this test, the FDA may declare a nutritional supplement adulterated (i.e., to present an unreasonable risk of illness or injury) if it finds any benefit provided by the supplement outweighed by a risk of illness of injury. The new risk/benefit test is ill-defined and can be interpreted to permit FDA to hold a wide range of nutritional supplements adulterated. It is possible that FDA might hold more nutritional supplements adulterated in the future, reducing the nutritional ingredients available for use in our products.

The FTC exercises jurisdiction over the advertising of nutritional supplements. In recent years, the FTC has instituted numerous enforcement actions against nutritional supplement companies for deceptive advertising based on those companies alleged failure to possess competent and reliable scientific evidence in support of claims made in advertising.

The FTC may monitor our advertising and could request all evidence in support of our advertising claims, which evidence is required to be kept by us in advance of advertising. Discerning what constitutes competent and reliable scientific evidence involves, to a degree, a subjective assessment of the relative level, degree, quality, and quantity of scientific evidence and its acceptance in the scientific community as proof of the advertising statement. It is therefore possible that we may think evidence we have is sufficient but the FTC may deem the evidence inadequate. We believe we are in material compliance with applicable federal, state and local rules.

On December 9, 2006, President Bush signed the Dietary Supplement & Nonprescription Drug Consumer Protection Act into law. The legislation requires manufacturers of dietary supplement and over-the-counter products to notify the FDA when they receive reports of serious adverse events. We already have an internal adverse event reporting system that has been in place for several years. Based on our understanding of the new law s requirements, we believe we will have to make some changes to our existing reporting system, but are still in the process of fully evaluating the effect that this will have on the Company. We will know more when the FDA issues implementing regulations in 2008, which we would intend to fully comply with.

Direct Selling Program. Our direct selling program is subject to a number of federal and state regulations administered by the FTC and various state agencies. These regulations include anti-pyramid laws, securities laws, and laws and regulations governing business opportunities, franchises, lotteries and deceptive trade practices.

The anti-pyramid laws generally are directed at ensuring that product sales ultimately are made to the retail consumers, that advancement within an organization is based on sales of the organization s products rather than the recruitment of new distributors, and that distributors are not saddled with large quantities of non-returnable inventory. We remain subject to the risk that, in one or more markets, our marketing system could be found not to be in compliance with applicable anti-pyramid laws. Failure by us to comply with these regulations could have a material adverse effect on our business in a particular market or in general.

We also are subject to the risk of private party challenges to the legality of our direct selling program. For example, in *Webster v. Omnitrition International, Inc.*, 79 F.3d 776 (9th Cir. 1996), the multi-level marketing program of Omnitrition International, Inc. (Omnitrition) was successfully challenged in a class action by Omnitrition distributors who alleged that Omnitrition was operating an illegal pyramid scheme in violation of federal and state laws. We believe that our direct selling program satisfies the standards set forth in the Omnitrition case and other applicable statutes and case law defining a legal marketing system, in part based upon what we believe are differences between our marketing system and that described in the Omnitrition case.

We monitor and respond to regulatory and legal developments, including those that may affect our direct selling program. However, the regulatory requirements concerning direct selling programs do not include bright line rules and are inherently fact-based. An adverse judicial determination with respect to our direct selling program could have a material adverse effect on our business. An adverse determination could: (1) require us to make modifications to our direct selling program, (2) result in negative publicity, (3)have a negative impact on independent distributor morale, (4) result in reduced revenues, (5) result in fewer celebrity endorsers of our products, and (6) potentially lead to the failure of the Company. In addition, adverse rulings by courts in any proceedings challenging the legality of multi-level marketing systems, even in those not involving us directly, could have a material adverse effect on our operations.

Regulatory enforcement by the FTC against direct sales programs that it believes are pyramids or that are engaging, or have engaged in, significant deceptive consumer practices have resulted in complete failure of entities prior to an adverse ruling by a court in a contested hearing or trial. The FTC s practice is to conduct an investigation into a company s practices and activities as well as the practices and activities of its independent distributors. If the FTC believes that it has developed sufficient evidence, it will apply to a court for an *ex parte* temporary restraining order, an asset freeze, and the appointment of a receiver to run the company. The FTC has been successful in receiving such

extraordinary relief from the courts. Once the temporary restraining order is issued, the independent distributors commonly abandon the selling company and move to other opportunities quickly. This can result in the failure of a direct selling company before a contested judicial proceeding occurs.

Federal and state securities laws may also apply to network marketing programs. If a network marketing company s compensation plan is not properly designed or implemented, the plan itself can fall within the definition of an investment contract, which is a form of a security. Promoting such a program without registration is a violation of the securities laws and regulations. A violation could be prosecuted by the Securities and Exchange Commission, state securities commissions, or a civil cause of action could be instituted by private parties, and may result in significant damage to, or the closure of, a direct selling company.

The FTC and many states have Business Opportunity laws and regulations. Business opportunities that have a required investment threshold that exceeds a specified amount are subject to registration and disclosure obligations. Some states also require the promoter of the program to secure a surety bond before offering the business opportunity in the state and impose a cooling off period before the promoter can sell the business opportunity to a prospect. If a state or the FTC determines that our program is subject to regulation under the business opportunity laws or regulations, we will be required to register and adhere to the applicable obligations imposed by the respective states to which the determination applies. This could impede the enrollment of new distributors and slow the sales of our products.

On April 12, 2006, the Federal Trade Commission (FTC) proposed a new Business Opportunity Rule. Under the current Business Opportunity Rule (16 C.F.R. § 437), the Company does not meet the definition of a Business Opportunity and therefore is not subject to the rule. If the proposed Business Opportunity Rule is made final by the FTC as proposed, the Company (as well as all other network marketing companies) will fall within the definition of a Business Opportunity and will be required to comply with the requirements of the rule.

Following publication of the proposed rule, the FTC accepted comments from those who wished to make a submission. The comment and rebuttal periods have since closed. In addition to receiving thousands of comments in opposition to the proposed rule from direct selling companies and individuals engaged in direct selling, several members of Congress advised the FTC of their opposition to the proposed rule. It is unknown when the FTC will issue a final version of the proposed rule. The rule, when made final, by the FTC may differ significantly from the proposed rule. If made final as it is currently proposed, the proposed rule would require, among other things, that that all network marketing companies, including the Company, to provide all prospective distributors with extensive disclosures at least seven days prior to enrolling as a distributor.

The Company or the sponsor of the prospective distributor will be required to disclose:

(a) Identifying Information: This includes the name, address and telephone number of the Company, the name of the sponsor of the prospective distributor, and the date on which the Disclosure Document is provided to the prospect;

(b) Earnings Claim Information: If the Company or the sponsor of the prospective distributor makes earnings claims to the prospective distributor in association with the opportunity, an Earnings Claim Statement must be provided. The Earnings Claim Statement must disclose (i) the beginning and ending dates when the represented earnings were achieved, (ii) the number and percentage of all distributors who achieved that level of earnings within such time period, (iii) any specific characteristics applicable to the person making the earnings claim that differ from the characteristics of the prospect (e.g., a different geographic location), and (iv) a statement that written substantiation for the earnings claim will be made available to the prospective distributor upon request;

(c) Legal Claims: If the Company, or any affiliate or prior business of the Company, or any of its s officers, directors, managers or similar individuals have been the subject of any civil or criminal action involving misrepresentation, fraud, securities law violations, or unfair or deceptive practices in the ten years preceding the date of the Disclosure Document, the full caption of each such action must be disclosed;

(d) Refund Policy: The Company will be required to disclose the terms of its refund policy;

(e) Cancellation and Refund Requests: The Company will be required to disclose the total number of purchasers who have cancelled their business within the preceding two years;

(f) Reference List: The Company will be required to list the name, city, state, and telephone numbers of ten people who have enrolled as distributors within the three year period preceding the date of the Disclosure Document who are located nearest to the prospective distributor. Alternatively, the Company may disclose such information for all distributors. The Disclosure Document must also advise prospective distributors that if they become distributors, their personal contact information may be disclosed to future prospective distributors.

The impact of the proposed rule could be: (1) the advance seven day disclosure will cause a reduction in enrollments; (2) providing 10 references closest to an applicant will require a significant investment in advanced software systems; (3) the reference requirement creates a confidentiality problem, as it completely ignores a distributor s right to have their personal information maintained confidential; (4) the identity of our distributors is

currently protected as trade secret information and such status will be compromised; and (5) the disclosure of legal claims within the specified categories applies to even those claims that were settled without admission of liability, and even applies to disclosure of claims in which the company prevailed on the claims. All of these could cause a significant decrease in the recruiting of independent distributors to the Company and consequently affect our ability to sell our products.

On March 18, 2008, the Federal Trade Commission (FTC) issued a revised Notice of Proposed Rulemaking on March 18, 2008, recommending significant revisions to the proposed Business Opportunity Rule that the FTC announced nearly two years ago. The revised proposed Rule indicates that the FTC intends to *exempt* direct sellers from coverage of the Revised Proposed Business Opportunity Rule. The FTC concluded major revisions to the initial Rule were necessary to avoid broadly sweeping in sellers of multilevel marketing opportunities and that the proposed Rule is too blunt an instrument to cure fraud in the MLM industry. Rather, the FTC determined that it will continue to use the flexibility it has in existing law to enforce and address individual cases of fraud on a case-by-case basis.

In its comments and analysis announcing the revisions to the proposed rule, the FTC made extensive observations that may have as much significance as the revisions themselves. Specifically, the FTC comments and analysis address:

- The inapplicability of the Proposed Rule, as amended, to direct sellers;
- The difference between legitimate multilevel companies and pyramid schemes;
- The lack of a need for a specific anti-pyramid rule;
- The lack of evidence of prevalent deceptive practices in the MLM [direct selling] industry ;
- The preference for a fact specific inquiry into the legitimacy of any one entity on a case-by-case basis rather than a broad rule; and
- The difficulties and undesirability of imposing a uniform earnings disclosure requirement across the direct selling industry.

In the proposed revision the FTC has set forth specific language redefining a business opportunity , and relies upon three aspects of the definition to effectively remove direct sellers from coverage.

- First, the FTC limits coverage to those business relationships in which the prospective purchasers makes a required payment, but excludes from the definition those relationships in which the only required payment is for inventory at bona fide wholesale prices.
- Second, the application of the Rule would no longer be triggered by virtue of an earnings claim being made, i.e. the mere representation by a company that an individual might make money will not trigger the rule.
- Third, in order to be considered a business opportunity the company would have to offer business assistance to a prospect. Business Assistance is defined as providing locations, outlets, accounts, or customers, or promising to buy

back goods or services that an individual makes.

Taken in their totality, these provisions significantly narrow the scope of the initially proposed rule and reflect the FTC s intent to remove direct sellers from coverage. While the FTC Business Opportunity rulemaking is not complete, it is clear is that it is the intention of the FTC to remove direct sellers from the coverage of the revised Rule.

The application of the Federal Franchise Rule and state franchise laws have similar application as the business opportunity laws. If found to be a franchise, we would be required to prepare and submit a Uniform Franchise Offering Circular or similar disclosure document to independent distributors before they could enroll in the program. Additional compliance obligations would also be imposed. This could have a material adverse impact on the enrollment of new distributors and the sales of our products.

The United States Postal Services (USPS) has determined that some network marketing programs constitute illegal postal lotteries. If a participant in the program must give consideration to participate, and the selling entity remunerates the participants based on the element of chance, the program constitutes a postal lottery. A determination that we are operating a postal lottery would have a material adverse consequence on us as the USPS would discontinue all mail service and could pursue criminal prosecution.

Research and Development

We incurred $17,828 on research and development for the year ended December 31, 2007 compared with $73,921 for the same period in 2006. During 2006 we developed a new liquid nutrition drink, Bazi , which was launched in January 2007. This product will not require FDA or other regulatory approval. During 2007 we continued to research new ingredients and productions methods that we could integrate into existing products or new products. We will continue to evaluate our product line and either update existing products or find new complimentary products to sell through our independent distributors. We estimate aggregate amounts to continue development and testing of these products to be approximately $50,000.

Patents, Trademarks and Proprietary Rights

We have obtained registration on trademarks for nine of our supplements: Alpha Nac, AO Elite, Complex SPP, CP Complex, GC Elite, JSI M32+ . We have also obtained trademarks for our rehydration drink eForce and our protein shake product VitaPro, as well as for other products, all of which we have discontinued the use of the name. We have abandoned or not pursued efforts to register marks identifying other items in our product line for various reasons including the inability of some names to qualify for registration. We also received federal trademark registration for six names or expressions that we use or intend to use to distinguish ourselves from others: Cube Up, Get Cubed, Simple, Innovative, Complete Nutrition, The Power of Nutrition, VitaCube and V3S. All trademark registrations are protected for a period of 10 years and then are renewable thereafter if still in use. We are currently pursuing a trademark for XELR8, What Moves You, Bazi and the Shendong Jujube to be used in association with our direct sales marketing program.

Employees

We had 12 full-time employees as of March 19, 2008. We consider our employee relations to be good.

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ITEM 1A RISK FACTORS

We are subject to various risks that could have a negative effect on the Company and its financial condition. These risks could cause actual operating results to differ from those expressed in certain forward looking statements contained in this Form 10-KSB as well as in other communications.

We have a history of operating losses and a significant accumulated deficit, and we may never achieve profitability.

We have not been profitable since inception in 2001. We had net losses for the year ending December 31, 2007 and year ended December 31, 2006 of $3,241,730 and $4,669,449, respectively. At December 31, 2007, we had an accumulated deficit of $20,492,011. We may never achieve or maintain profitability. Our ability to achieve and maintain a profit is dependent upon our attracting and retaining a large base of independent distributors who generate our sales.

We may need to raise additional funds to fund operations which cannot be assured and would result in dilution to the existing shareholders.

To date, our operating funds have been provided primarily from sales of our common stock ($14,913,421), and by loans from our founder and by various stockholders ($3,989,209), through December 31, 2007, and to a lesser degree, cash flow provided by sales of our products. We used $1,178,996 of cash for operations in the year ended December 31, 2007, and $2,992,028 of cash for operations in the year ended December 31, 2006. 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, and what dilution will be caused to the existing shareholders.

Our limited operating history and recent change in marketing strategy make it difficult to evaluate our prospects.

We have a limited operating history on which to evaluate our business and prospects. Our current flagship product, Bazi was formulated in 2006 and introduced to the public for sale in January 2007. Our other, legacy products were formulated from 2000 through 2005, and we began selling these products to the general public in early 2002 through 2005, with limited market success. In late 2003, we began to refocus our sales and marketing efforts on direct sales of products through our network of independent distributors. In 2005, we rebranded the network marketing company and launched new products. In February 2008, we decided to change our sales focus from multiple products, to a single product focus on Bazi , our liquid dietary supplement drink. There is no assurance that we will achieve significant sales as a result of us focusing our sales efforts on this single product.

We also may not be successful in addressing our operating challenges such as establishing a viable network of independent distributors, developing brand awareness and expanding our market presence. Our prospects for profitability must be considered in light of our evolving business model. These factors make it difficult to assess our prospects.

Our failure to recruit, maintain and motivate a large base of productive independent distributors could limit our ability to generate revenues.

To increase revenue, we must increase the sales and recruiting productivity of our independent distributors. We cannot assure you that we will be successful in recruiting and retaining productive independent distributors, particularly since direct sales organizations usually experience high turnover rates of independent distributors. Our independent distributors can terminate their relationships with us at any time. The distributors also typically work on a part-time basis and may engage in other business activities, which may reduce their efforts for us.

In recruiting and keeping independent distributors, we will be subject to significant competition from other direct sales organizations, both inside and outside our industry. Our ability to attract and retain independent distributors will be dependent on the attractiveness of our compensation plan, our product mix, and the support we offer to our independent distributors. Adverse publicity concerning direct sales marketing and public perception of direct selling businesses generally could negatively affect our ability to attract, motivate and retain independent distributors.

Based on our knowledge of the direct selling industry, we anticipate that our independent distributor organization will be headed by a relatively small number of key independent distributors who together with their downline network will be responsible for a disproportionate amount of revenues. We believe this structure is typical in the direct selling industry, as sales leaders emerge in these organizations, and it is the current situation with us. The loss of a key independent distributor will adversely affect our revenues and could adversely affect our ability to attract other independent distributors, especially if an independent distributor takes other independent distributors of ours to a competitor or to any other organization.

We are dependent on the level of effort that our independent distributors make in selling our products and we do not have control over their methods of marketing our products.

We are dependent on our non-employee, independent distributors to market and sell our products. Our independent distributors purchase products from us for their own personal use and to use in marketing their business. Additionally, we have a large number independent distributors in relation to the small number of corporate employees who are responsible for providing motivational support and recognition to these independent distributors. We also, typically have a high turnover in the number of independent distributors who join our business each year, who require training and motivation from both their enrollers, key independent distributor leaders and corporate staff. We rely on this training and the policies and procedures included in the independent distributor agreement to ensure that each independent distributor is aware of laws concerning the making of certain claims regarding the products or income potential from the distribution on our products. We take what we believe to be reasonable efforts to monitor distributor activities to prevent misrepresentations, illegal acts or unethical behavior while they conduct their business activities. There can be no assurance, however, that our efforts to train, motivate, educate and govern their activities will be successful, and may result in lower recruiting and negative publicity and legal actions against us.

A change in the amount of compensation paid to our independent distributors could reduce our ability to recruit and retain them.

One of our significant expenses is the payment of compensation to our independent distributors. This compensation includes commissions, bonuses, awards and prizes. From the date we changed our sales method to direct sales through independent distributors, August 1, 2003, through December 31, 2007, compensation paid to our independent distributors represented 50% of our total revenues. We may change our independent distributor compensation plan in seeking to better manage these incentives, to monitor the amount of independent distributor compensation paid and to prevent independent distributor compensation from having a significant adverse effect on our revenues. Changes to our independent distributor compensation plan may make it difficult for us to recruit and retain qualified and motivated independent distributors. We do not have any current plans to change our distributor compensation plan. Further, as we expand into foreign markets in the future, the laws of those countries may force us to alter our compensation plan, which may cause a negative trend amongst our distributors and consequently sales.

We are not in a position to exert the same level of influence or control over our independent distributors as we could if they were our employees, and we may be subject to significant costs and reputation harm in the event our independent distributors violate any laws or regulations applicable to our operations.

Our independent distributors are independent contractors and, accordingly, we are not in a position to provide the same level of control and oversight as we would if independent distributors were our employees. While we have implemented independent distributor policies and procedures designed to govern independent distributor conduct and to protect our goodwill, there can be no assurance that our independent distributors will comply with our policies and procedures. Violations by our independent distributors of applicable law or of our policies and procedures dealing with customers could reflect negatively on our products and operations and harm our business reputation. To date, we have not experienced any significant problems affecting our products, operations or business reputation caused by distributor violations of our policies and procedures. Additionally, as we expand from our present to future markets, our marketing system could be found not to comply

with these laws and regulations or may be prohibited. Failure to comply with current or future markets laws could have a material adverse effect on our business, financial condition, and results of operations.

In addition, extensive federal, state and local laws regulate our direct selling program. The Federal Trade Commission (FTC) or a court could hold us liable for the actions of our independent distributors. The FTC could also find us liable civilly for deceptive advertising if health benefit representations made by our independent

distributors are not supported by competent and reliable scientific evidence. If any of these representations made by our independent distributors were deemed fraudulent, the FTC could refer the matter to the Department of Justice for criminal fraud prosecution. Also, the Food and Drug Administration (FDA) could seek to hold us civilly and criminally liable for misbranding, for adulteration, or for sale of an unapproved new drug if an independent distributor were to make false or misleading claims, sell a product past its shelf life, or represent that any of our products were intended for use in the cure, treatment, or prevention of a disease or health-related condition. While we train our independent distributors and attempt to monitor our independent distributors marketing claims and sales materials, we cannot ensure that all of these materials comply with applicable law.

Our direct selling program through independent distributors could be found not to be in compliance with current or newly adopted laws or regulations, which could subject us to increased costs and reduced distributor participation in sales efforts, and our revenues would decrease significantly.

Our direct marketing program could be found to violate laws or regulations applicable to direct selling marketing organizations. These laws and regulations generally are directed at preventing fraudulent or deceptive schemes, often referred to as pyramid or chain sales schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on sales of the organization s products rather than investments in the organization or other non-retail sales-related criteria. The regulations concerning these types of marketing programs do not include bright line rules and are inherently fact-based. Thus, even in jurisdictions where we believe that our direct selling program is in full compliance with applicable laws or regulations governing direct selling programs, we are subject to the risk that these laws or regulations or the enforcement or interpretation of them by governmental agencies or courts can change. The failure of our direct selling program to comply with current or newly adopted laws or regulations could result in costs and fines to us and make our independent distributors reluctant to continue their sales efforts, which would reduce our revenues significantly.

We are also subject to the risk of private party challenges to the legality of our direct selling program. Direct selling programs of some other companies have been successfully challenged in the past. The challenges centered on whether the marketing programs of direct selling companies are investment contracts in violation of applicable securities laws and pyramid schemes in violation of applicable FTC rules and regulations. These challenges have caused direct selling companies to focus greater attention on generating product sales to non-participants or non-distributors. Direct selling companies have addressed these issues by promoting retail sales incentives, tying sales commissions more directly to retail sales and reclassifying those persons who enroll as distributors but do not make sales to other persons as retail customers. An adverse judicial determination with respect to our direct selling program, or in proceedings not involving us directly but which challenge the legality of direct selling systems, could have a material adverse effect on our sales efforts, leading to lower revenues. To date, we have not been subject to any adverse judicial determination with respect to our direct selling program.

On April 12, 2006, the Federal Trade Commission (FTC) proposed a new Business Opportunity Rule. Under the current Business Opportunity Rule (16 C.F.R. § 437), the Company does not meet the definition of a Business Opportunity and therefore is not subject to the rule. If the proposed Business Opportunity Rule is made final by the FTC as proposed, the Company (as well as all other network marketing companies) will fall within the definition of a Business Opportunity and will be required to comply with the requirements of the rule.

Following publication of the proposed rule, the FTC accepted comments from those who wished to make a submission. The comment and rebuttal periods have since closed. In addition to receiving thousands of comments in opposition to the proposed rule from direct selling companies and individuals engaged in direct selling, several members of Congress advised the FTC of their opposition to the proposed rule. It is unknown when the FTC will issue a final version of the proposed rule. The rule, when made final, by the FTC may differ significantly from the proposed rule. If made final as it is currently proposed, the proposed rule would require, among other things, that that all network marketing companies, including the Company, to provide all prospective distributors with extensive disclosures at least seven days prior to enrolling as a distributor.

The Company or the sponsor of the prospective distributor will be required to disclose:

(a) Identifying Information: This includes the name, address and telephone number of the Company, the name of the sponsor of the prospective distributor, and the date on which the Disclosure Document is provided to the prospect;

(b) Earnings Claim Information: If the Company or the sponsor of the prospective distributor makes earnings claims to the prospective distributor in association with the opportunity, an Earnings Claim Statement must be provided. The Earnings Claim Statement must disclose (i) the beginning and ending dates when the represented earnings were achieved, (ii) the number and percentage of all distributors who achieved that level of earnings within such time

period, (iii) any specific characteristics applicable to the person making the earnings claim that differ from the characteristics of the prospect (e.g., a different geographic location), and (iv) a statement that written substantiation for the earnings claim will be made available to the prospective distributor upon request;

(c) Legal Claims: If the Company, or any affiliate or prior business of the Company, or any of its s officers, directors, managers or similar individuals have been the subject of any civil or criminal action involving misrepresentation, fraud, securities law violations, or unfair or deceptive practices in the ten years preceding the date of the Disclosure Document, the full caption of each such action must be disclosed;

(d) Refund Policy: The Company will be required to disclose the terms of its refund policy;

(e) Cancellation and Refund Requests: The Company will be required to disclose the total number of purchasers who have cancelled their business within the preceding two years;

(f) Reference List: The Company will be required to list the name, city, state, and telephone numbers of ten people who have enrolled as distributors within the three year period preceding the date of the Disclosure Document who are located nearest to the prospective distributor. Alternatively, the Company may disclose such information for all distributors. The Disclosure Document must also advise prospective distributors that if they become distributors, their personal contact information may be disclosed to future prospective distributors.

The impact of the proposed rule could be: (1) the advance seven day disclosure will cause a reduction in enrollments; (2) providing 10 references closest to an applicant will require a significant investment in advanced software systems; (3) the reference requirement creates a confidentiality problem, as it completely ignores distributors right to have their personal information maintained confidential; (4) the identity of our distributors is currently protected as trade secret information and such status will be compromised; and (5) the disclosure of legal claims within the specified categories applies to even those claims that were settled without admission of liability, and even applies to disclosure of claims in which the company prevailed on the claims. All of these could cause a significant decrease in the recruiting of independent distributors to the Company and consequently affect our ability to sell our products.

We may be held responsible for taxes or assessments relating to the activities of our independent distributors resulting in greater costs to us.

We treat our independent distributors as independent contractors and do not pay employment taxes, like social security, or similar taxes in other countries with respect to compensation paid to them. In the event that an local regulatory authority in which our distributors operate deem the distributor to be an employee, we may be held responsible for a variety of obligations imposed on employers relating to their employees, including, but limited to, employment taxes (social security) and related taxes, plus any related assessments and penalties, which could significantly increase our operating costs.

We are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints which can make compliance costly and subject us to enforcement actions by governmental agencies.

The formulation, manufacturing, packaging, labeling, holding, storage, distribution, advertising and sale of our products are affected by extensive laws, governmental regulations and policies, administrative determinations, court decisions and similar constraints at the federal, state and local levels, both within the United States and any country that we conduct business in. There can be no assurance that we or our independent distributors will be in compliance with all of these regulations. A failure by us or our distributors to comply with these laws and regulations could lead to governmental investigations, civil and criminal prosecutions, administrative hearings and court proceedings, civil and criminal penalties, injunctions against product sales or advertising, civil and criminal liability for the Company and/or its principals, bad publicity, and tort claims arising out of governmental or judicial findings of fact or conclusions of law adverse to the Company or its principals. In addition, the adoption of new regulations and policies or changes in the interpretations of existing regulations and policies may result in

significant new compliance costs or discontinuation of product sales and may adversely affect the marketing of our products, resulting in decreases in revenues.

The U.S. Food and Drug Administration, the FDA, and other similar government agencies in other countries, regulate our products and our product labeling. Among other matters, the FDA and other foreign agencies regulate nutrient content and ingredient information, claims of the effect of a dietary supplement or dietary ingredient on a body structure or function, and claims of the effect of a dietary supplement or dietary ingredient on disease or risk of disease. The FDA and other foreign agencies can initiate civil and criminal proceedings against persons who make false or misleading claims on labels or in labeling, who engage in misbranding, who evidence an intent to sell their

products for a therapeutic use not approved by the agency, who sell misbranded products, or who sell adulterated products. The FDA and other foreign agencies can also require the recall of all products that are misbranded or adulterated.

The U.S. Federal Trade Commission, the FTC and their counterpart agencies in other countries that we may operate in, have jurisdiction over our product advertising. These agencies can initiate civil proceedings for deceptive advertising and deceptive advertising practices. It can seek for companies to make payments to consumers or disgorgement of profits from the sale of any product held to have been deceptively advertised. These agencies or a court of law can require a company found liable to give notice of the availability of refunds in part or whole for the product purchase price for all products sold through use of advertising deemed deceptive.

State and local authorities may likewise bring enforcement actions for misbranding, adulteration, and deceptive advertising. Those actions may be pursued simultaneously with federal actions.

On August 25, 2007 the FDA adopted the final regulations for manufacturers of a standard originally proposed in March 2003 of the current Good Manufacturing Practices guidelines (cGMPs) for the manufacturing, packing, holding and distributing dietary ingredients and nutritional supplements. The new regulations will require nutritional supplements to be prepared, packaged, and held in compliance with strict rules, and will require quality control provisions that may mandate redundant testing of product ingredients at each separate stage of manufacture and are intended to ensure that products are accurately labeled and don t contain adulterants and contaminants. While the rule allowed for medium and small manufacturers to have until 2009 and 2010, respectively, to comply with the cGMPs, most of our contract manufacturers did not qualify as small or medium. As a result, many of our contract manufacturers began following the proposed cGMPs or even pharmaceutical cGMPs well before the final rule was published. We expect to see an increase in our manufacturing costs as a result of the necessary increase in testing of raw ingredients and finished products and compliance with higher quality standards, although we are not certain of the amount of these costs. We expect that the cGMPs will increase our product costs by requiring our various contract manufacturers to expend additional capital and resources on quality control testing, new personnel, plant redesign, new equipment, facilities placement, recordkeeping and ingredient and product testing.

The FDA, other state and local regulatory authorities, and the Direct Selling Association, invite the public to complain if they experience any adverse effects from the consumption of nutritional supplements. These complaints may be made public. Regardless of whether complaints of this kind are substantiated or proven, public release of complaints of this type may have an adverse effect upon public perception of us, the quality of our products or the prudence of taking our products. Changes in consumer attitudes based on adverse event reports could adversely affect the potential market for and sales of our products and make it more difficult to recruit and retain independent distributors and obtain endorsers.

Our ability to grow sales is dependent on growing in our existing markets as well as expanding into new markets in other countries. As we expand into foreign markets, we will become subject to different political, cultural, exchange rate, economic, legal and operational risks. We may invest significant amounts in these expansions with little success.

We currently are focusing our marketing efforts on the United States and Canadian markets to grow the number of independent distributors and consequently our sales. We believe that our future growth will come from both the markets that we are currently operating in and other international markets. We do not have any history of international expansion, and there for have no assurance that any efforts will result in increased revenue. Additionally, we may need to overcome significant regulatory and legal barriers in order to sell our products and whether our distribution method will be accepted. These markets may require that we reformulate our product to comply with local customs and laws, however, there is no guarantee that the reformulated product will be approved for sale by these regulatory agencies or attract local distributors. These countries may not accept our current compensation plan for distributors which may result in an inability to attract and retain local distributors. International taxing laws may also prevent us from operating or repatriating profits from operations in these countries, and the complexity of transfer pricing laws could diminish the effective returns from investments in foreign countries. Many of our competitors already

have significant international operations which could be an additional barrier for entry into a foreign market as the local population may be established in other compensation opportunities and similar products. We believe that success in foreign markets will be dependent on the integration of these markets in a seamless way into our current compensation plan and also the ability of our existing distributors to assist in building downline sales organizations.

We are dependent on a limited number of independent suppliers and manufacturers of our products, which may affect our ability to deliver our products in a timely manner. If we are not able to ensure timely product deliveries, potential distributors and customers may not order our products, and our revenues may decrease.

We rely entirely on a limited number of third parties to supply and manufacture our products. Our flagship product, Bazi , is manufactured by Arizona Packaging and Production under the terms of a five year exclusive manufacturing agreement, which stipulates certain prices, quantities and delivery timelines. For our other legacy products, manufacturers produce these products on a purchase order basis only and can terminate their relationships with us at will. Our two other primary manufacturers are Valentine Industries, Inc. and GMP Laboratories of America, Inc.

These third party manufacturing parties may be unable to satisfy our supply requirements, manufacture our products on a timely basis, fill and ship our orders promptly, provide services at competitive costs or offer reliable products and services. The failure to meet of any of these critical needs would delay or reduce product shipment and adversely affect our revenues, as well as jeopardize our relationships with our independent distributors and customers. In the event any of our third party manufacturers were to become unable or unwilling to continue to provide us with products in required volumes and at suitable quality levels, we would be required to identify and obtain acceptable replacement manufacturing sources. There is no assurance that we would be able to obtain alternative manufacturing sources on a timely basis. Additionally, all our third party manufactures source the raw materials for our products, and if we were to use alternative manufacturers we may not be able to duplicate the exact taste and consistency profile of the product from the original manufacturer. An extended interruption in the supply of our products would result in decreased product sales and our revenues would likely decline. We believe that we can meet our current supply and manufacturing requirements with our current suppliers and manufacturers or with available substitute suppliers and manufacturers. Historically, we have not experienced any delays or disruptions to our business caused by difficulties in obtaining supplies.

We are dependent on our third party manufacturers to supply our products in the compositions we require, and we do not independently analyze our products. Any errors in our product manufacturing could result in product recalls, significant legal exposure, and reduced revenues and the loss of distributors.

While we require that our manufacturers verify the accuracy of the contents of our products, we do not have the expertise or personnel to monitor the production of products by these third parties. We rely exclusively, without independent verification, on certificates of analysis regarding product content provided by our third party suppliers and limited safety testing by them. We cannot be assured that these outside manufacturers will continue to supply products to us reliably in the compositions we require. Errors in the manufacture of our products could result in product recalls, significant legal exposure, adverse publicity, decreased revenues, and loss of distributors and endorsers.

We face significant competition from existing suppliers of products similar to ours. If we are not able to compete with these companies effectively, then we may not be profitable.

We face intense competition from numerous resellers, manufacturers and wholesalers of liquid nutritional supplements, energy drinks, protein shakes and nutritional supplements similar to ours, including other network marketing channels, retail, online and mail order providers. We consider the significant competing products in the U.S. market for our flagship product Bazi to be FreeLife International®, Xango® and Monavie® for a liquid nutrition drinks, and for our legacy products to be Myoplex® for protein drinks, Gatorade®, Powerade®, Acclerade®, and All Sport® for energy drinks, and that Nature s Bounty, Inc. and General Nutrition Centers, Inc. are the significant producers of vitamins. Most of our competitors have longer operating histories, established brands in the marketplace, revenues significantly greater than ours, more capital and better access to capital than us. We expect that these competitors may use their resources to engage in various business activities that could result in reduced sales of our products. Companies with greater capital and research capabilities could re-formulate existing products or formulate new products that could gain wide marketplace acceptance, which could have a depressive effect on our future sales. In addition, aggressive advertising and promotion by our competitors may require us to compete by lowering prices because we do not have the resources to

engage in marketing campaigns against these competitors, and the economic viability of our operations likely would be diminished.

Customers and distributors may not be able to distinguish our products by name from competitor s products.

Due to the similarity of our company name to those of many of our competitor s products may result in the loss of customers and distributors as well as impair the recruiting efforts of our independent distributors. This could result in the loss of repeat business as well as the inability to generate increased revenue and attract future independent distributors.

Adverse publicity associated with our products, ingredients or direct selling program, or those of similar companies, could adversely affect our sales and revenues.

Adverse publicity concerning any actual or purported failure of our Company or our independent distributors to comply with applicable laws and regulations regarding any aspect of our business could have an adverse effect on the public perception of our Company. This, in turn, could negatively affect our ability to obtain endorsers and attract, motivate and retain independent distributors, which would have a material adverse effect on our ability to generate sales and revenues.

Our independent distributors and customers perception of the safety and quality of our products as well as similar products distributed by others can be significantly influenced by national media attention, publicized scientific research or findings, product liability claims and other publicity concerning our products or similar products distributed by others. Adverse publicity, whether or not accurate, that associates consumption of our products or any similar products with illness or other adverse effects, will likely diminish the public s perception of our products. Claims that any products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could have a material adverse effect on the market demand for our products, including reducing our sales and revenues.

The results of new nutritional dietary supplement studies could be contrary to general industry knowledge on which the formulation and marketing of our products are based and could materially and adversely impact our product sales. The federal government, research institutes, universities and others regularly conduct research into the use, effectiveness and potential for adverse results from the use of nutritional dietary supplements. Even if adverse studies are subject to substantial criticism or not supported by accepted scientific methodology, publicity surrounding the reports of these studies may result in flat or decreased sales of our products. In the past few years, the effectiveness of, and potential for harm from, some of the leading herbal supplements, which contain ingredients not in our products, have come into question as a result of research studies. These negative study results and other negative publicity could adversely affect the potential market and sales of our products, as well as increase our product returns, resulting in increased expenses to us.

While we have not received any direct negative publicity, the publicized studies associating increased mortality rates with high dosages of Vitamin E has increased awareness of our consumers relating to the safety of the ingredients in our supplements. Additionally, in 2007 there was a study published regarding increased mortality rates in higher doses of antioxidants other than those from natural fruit, berry and vegetable sources which again increased awareness among our consumers relating to the safety of the ingredients in our products.

Nutritional supplement products may be supported by only limited conclusive clinical studies resulting in less market acceptance of these products and lower revenues or lower growth rates in revenues.

Our nutritional supplement products are made from vitamins, minerals, amino acids, herbs, botanicals, fruits, berries and other substances for which there is a long history of human consumption. However, there is little long-term experience with human consumption of certain product ingredients or combinations of ingredients in concentrated form. Although we believe all of our products fall within the generally known safe limits for daily doses of each ingredient contained within them, nutrition science is imperfect. Moreover, some people have peculiar sensitivities or reactions to nutrients commonly found in foods and may have similar sensitivities or reactions to nutrients contained in our products. Furthermore, nutrition science is subject to change based on new research. New scientific evidence may disprove the efficacy of our products or prove our products to have effects not previously known. We could be adversely affected in the event that our products should prove to be or if they are asserted to be ineffective or harmful to consumers, or if adverse effects are associated with a competitor s similar products.

Our products may have higher prices than the products of most of our competitors, which may make it difficult for us to achieve significant revenues.

We may have difficulty in achieving market acceptance of our products because our products are among the highest priced in their categories due to the ingredients that we require in our products. While we believe that our products are superior to competing, lower priced products, consumers must be educated about our products. If we

are unable to achieve market acceptance, we will have difficulty in achieving revenue growth, which would likely result in continuing operating losses.

The sale of our products involves product liability and related risks that could expose us to significant insurance and loss expenses.

We face an inherent risk of exposure to product liability claims if the use of our products results in, or is believed to have resulted in, illness or injury. Most of our products contain combinations of ingredients, and there is little long-term experience with the effect of these combinations. In addition, interactions of these products with other products, prescription medicines and over-the-counter drugs have not been fully explored or understood and may have unintended consequences. While our third party manufacturers perform tests in connection with the formulations of our products, these tests are not designed to evaluate the inherent safety of our products.

Although we maintain product liability insurance, it may not be sufficient to cover product liability claims and such claims could have a material adverse effect on our business. The successful assertion or settlement of an uninsured claim, a significant number of insured claims or a claim exceeding the limits of our insurance coverage would harm us by adding further costs to our business and by diverting the attention of our senior management from the operation of our business. Even if we successfully defend a liability claim, the uninsured litigation costs and adverse publicity may be harmful to our business.

Any product liability claim may increase our costs, and adversely affect our revenues and operating income. Moreover, liability claims arising from a serious adverse event may increase our costs through higher insurance premiums and deductibles, and may make it more difficult to secure adequate insurance coverage in the future. In addition, our product liability insurance may fail to cover future product liability claims, which if adversely determined could subject us to substantial monetary damages.

A slower growth rate in the nutritional supplement industry could lessen our sales and make it more difficult for us to achieve growth and become profitable.

According to the Nutrition Business Journal (NBJ) (July/August 2007), the $85-billion U.S. nutrition industry grew 10% in 2006, its highest annual growth since 1998. The more mature supplement segment topped $22.4 billion and 5% growth, and the other three major categories were in double digits. Functional foods posted $31.4 billion in sales and its highest growth since 2002 on a strong performance in beverages and niche categories. There have continued to be negative impacts of Echinacea, Ephedra on the supplement market and low-carb products affected minerals and liquid meal replacements. The negative tide of media is no longer putting problematic categories like ephedra or prohormones at stake, but foundation categories like E, C and even multivitamins and in 2007 antioxidants were subject to the same scrutiny. All these factors could have a negative impact on our sale growth.

New products may render our products obsolete and our sales may suffer.

The nutritional supplement market historically has been influenced by fad products that became popular due to changing consumer tastes and media attention. Our products may be rendered obsolete by changes in popular tastes as well as media attention on new products or adverse media attention on nutritional supplements, which could reduce our sales. It may be difficult for us to change our product line to adapt to changing tastes. In addition, other fad food regimens, such as low carbohydrate diets, may decrease the overall popularity and use of our

products, as well as result in higher returns of our products, thereby increasing our expenses.

We may from time to time write off obsolete inventories resulting in higher expenses and consequently greater net losses.

Because we maintain high levels of inventories to meet the product needs of our independent distributors and customers, a change by us of our product mix could result in write downs of our inventories. During 2007 we decided to modify the sales efforts from multiple products to a single product focus on our flagship product Bazi . As a consequence of this decision, we deemed the inventory of certain of the legacy products to be obsolete due to the low likelihood that we would sell these products before their expiration. Likewise, in 2006 we discontinued certain other legacy products and sales tools, and therefore we deemed the remaining inventory to be obsolete. As a result we incurred a write-down against inventory for the year ended December 31, 2007 of $189,403 and a charge against obsolete inventory of $123,511 in 2006. Write downs and charges of this type have historically increased our net losses, and if experienced in the future, will make it more difficult for us to achieve profitability.

Product returns in excess of our estimates could require us to incur significant additional expenses, which would make it difficult for us to achieve profitability.

We have established a reserve in our financial statements for product returns which is based upon our historical experience. Additionally, we only have limited sales experience with Bazi as the product was only introduced to the market in January 2007. If this reserve were to be inadequate, we may incur significant expenses for product returns. As we gain more operating experience, we may need to revise our reserves for product returns.

If we are not able to adequately protect our intellectual property, then we may not be able to compete effectively and we may not be profitable.

Our existing proprietary rights may not afford remedies and protections necessary to prevent infringement, reformulation, theft, misappropriation and other improper use of our products by competitors. We own the formulations contained in some our products. We consider these product formulations our critical proprietary property, which must be protected from competitors. We do not have any patents because we do not believe they are necessary to protect our proprietary rights. Although trade secret, trademark, copyright and patent laws generally provide such protection and we attempt to protect ourselves through contracts with manufacturers of our products, we may not be successful in enforcing our rights. In addition, enforcement of our proprietary rights may require lengthy and expensive litigation. We have attempted to protect some of the trade names and trademarks used for our products by registering them with the U.S. Patent and Trademark Office, but we must rely on common law trademark rights to protect our unregistered trademarks. Common law trademark rights do not provide the same remedies as are granted to federally registered trademarks and the rights of a common law trademark are limited to the geographic area in which the trademark is actually used. Our inability to protect our intellectual property could have a material adverse impact on our ability to compete and could make it difficult for us to achieve a profit.

If we were to lose one of our significant independent distributor leaders, there could be an adverse result on our sales.

Our current distribution model relies on the efforts of our independent distributors in buying our products and recruiting and retaining new independent distributors in their downline organization. Our successful independent distributor leaders have significant downline organizations that they personally train and communicate with, and consequently develop business relationships. The loss of one of these leaders could result in lower recruitment and the inability of us to retain the downline organization, which could result in a significant decrease in revenue and an increased cost for us to attract and retain new distributors for replace the distributors that left our company. The loss of a leader may be a result of our actions, like changes to the compensation plan or changing the products that we sell or as a result of factors that we have no control over, like business and economic conditions, public perception of network marketing, public perception of nutritional products, other competing network marketing companies or the results of ruling by regulatory bodies against us.

Interruptions to or failure of our information processing systems may disrupt our business and our sales may suffer.

We are dependent on our information processing systems to timely process customer orders, oversee and manage our distributor network and control our inventory, and for our distributors to communicate with their customers and distributors in their network. Since the initial purchase of our technology system in 2001 through December 31, 2007, we had spent $335,763 on technology system upgrades. We have experienced interruptions and may in the future experience interruptions to or failure of our information processing system; however, none of the interruptions to date have materially disrupted our business. Interruptions to or failure of our information processing systems may be costly to fix and may damage our relationships with our customers and distributors, and cause us to lose customers and distributors. If we are unable to fix

problems with our information processing systems in a timely manner our sales may suffer.

Loss of key personnel could impair our ability to operate.

Our success also depends on hiring, retaining and integrating senior management and skilled employees, including John Pougnet, our Chief Executive Officer and Chief Financial Officer, Douglas Ridley, our President, Timothy Transtrum, our Vice President of Operations, John Hutchinson, Vice President of IT and Web, Sanjeev Javia, our Vice President of Product Development and Endorser Relations and Sanford D. Greenberg, our founder, in order to expand our business. Certain of our officers have employment agreements that have stipulated service terms. As with all personal service providers, our officers can terminate their relationship with us at will. Our

inability to retain these individuals may result in our reduced ability to operate our business. We do not have key man life insurance on any of our executive officers.

Provisions in our articles of incorporation and bylaws may prevent a change in control of us which could limit the price that investors may be willing to pay for our securities.

Provisions contained in our articles of incorporation and bylaws could make it more difficult for a third party to acquire us or for our shareholders to change our management. These provisions:

- give our board of directors the right to set the number of directors between one and nine directors;

- permit the board of directors to fill vacancies resulting from an increase in the number of directors or the death or resignation of a board member;

- prohibit cumulative voting in the election of directors; and

- authorize our board of directors to issue shares of preferred stock in the future without shareholder approval and to determine the rights, preferences, privileges and restrictions of such preferred stock.

These provisions may limit the price that investors are willing to pay in the future for our securities.

The price of our securities could be subject to wide fluctuations and your investment could decline in value.

The market price of the securities of a company such as ours with little name recognition in the financial community and without significant revenues can be subject to wide price swings. For example, the bid price of our common stock has ranged from a high $16.25 to a low of $0.19 during the twenty quarters ended December 31, 2007. The market price of our securities may be subject to wide changes in response to quarterly variations in operating results, announcements of new products by us or our competitors, reports by securities analysts, volume trading, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations for a number of reasons, including the failure of certain companies to meet market expectations. These broad market price swings, or any industry-specific market fluctuations, may adversely affect the market price of our securities.

Speculative traders may anticipate a decline in the market price of our securities and engage in short sales of our securities. Such short sales could further negatively affect the market price of our securities.

Companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. If we were to become the subject of securities class action litigation, it could result in substantial costs and a significant diversion of our management s attention and resources.

We may issue preferred stock with rights senior to the common stock.

Our articles of incorporation authorize the issuance of up to 5,000,000 shares of preferred stock without shareholder approval and on terms established by our directors. We have no existing plans to issue shares of preferred stock. However, the rights and preferences of any such class or series of preferred stock would be established by our board of directors in its sole discretion and may have dividend, voting, liquidation and other rights and preferences that are senior to the rights of the common stock.

You should not rely on an investment in our common stock for the payment of cash dividends.

Because of our significant operating losses and because we intend to retain future profits, if any, to expand our business, we have never paid cash dividends on our stock and do not anticipate paying any cash dividends in the foreseeable future. You should not make an investment in our securities if you require dividend income. Any return on investment in our common stock would only come from an increase in the market price of our stock, which is uncertain and unpredictable.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2. DESCRIPTION OF PROPERTY

Facilities

We lease an office, located at 480 South Holly Street, Denver, Colorado, from the father of Sanford D. Greenberg, our founder, for $3,900 per month. The lease expired on March 31, 2006, with an automatic monthly extension right and a two month notice period for the Company to terminate the lease. Our annual office rent for 2007 and 2006 was $42,780 and $40,680, respectively. We currently do not have any plans for renovation, improvement or development of our corporate office.

In January 2006, we entered a twelve month contract with GA Wright Marketing, Inc. (GAW) to manage and store our products as well as perform the fulfillment functions for us. GAW stores our products in a controlled-environment warehouse in Denver, Colorado, and accepts bulk shipments on our behalf. We pay for these services on a per transaction basis, and our costs have been approximately $9,600 per month. In July 2006 we contracted with Holden MSS, Inc. (Holden), to assume our warehouse functions from GAW. Holden acquired the warehousing and fulfillment operation from GAW and operates a facility in the vicinity of the GAW warehouse. Holden continues to bill us on a per transaction basis plus a monthly inventory storage fee. During August 2007 we contracted with Landmark Global Distribution, Inc., a warehouse and fulfillment facility in Detroit, Michigan, to perform fulfillment for orders to be shipped into Canada. This agreement is a month by month arrangement and we pay for the space that our inventory uses and on a transactional basis. To date, our Canadian operations have not commenced and we maintain a minimal amount of inventory at this location.

Insurance

We maintain commercial general liability, including product liability coverage, and property insurance. Our policy provides for a general liability limit of $2 million per occurrence, and $2 million annual aggregate umbrella coverage. We also have a casualty insurance policy with a limit of $1.0 million on our main facility, including inventory, and $600,000 on our products located at both the Holden and Landmark facilities.

ITEM 3. LEGAL PROCEEDINGS

We are not currently involved in any legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The following matters were submitted to a vote by the shareholders at the meeting held on November 12, 2007:

1. To elect seven directors of the Company.

2. To increase the number of shares issuable under our Stock Incentive Plan from 2,200,000 shares to 3,000,000 shares.

3. To increase the number of shares issuable under our Distributor Stock Option Plan from 500,000 shares to 1,500,000 shares.

Details relating to the above matters were set forth in the Proxy Statement dated September 4, 2007. All of our shareholders of record as of the close of business on September 24, 2007 were entitled to notice of and to vote at such meeting. At the meeting the shareholders approved all matters set forth in the Company s proxy statement, which included the re-election of Board members, the increase of shares issuable under its 2003 Stock Incentive Plan from 2,200,000 to 3,000,000 shares, and the increase of shares issuable under its Distributor Stock Option Plan from 500,000 shares to 1,500,000. The members re-elected to the Board of Directors, who will serve until the 2008 Annual Meeting of Stockholders, include Chairman, John B. McCandless; Chief Executive Officer and Chief Financial Officer, John Pougnet; Company President, Douglas Ridley; Anthony DiGiandomenico; AJ Robbins; Daniel Rumsey and Anthony Petrelli.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock commenced trading on the OTC Bulletin Board on December 26, 2001. Our trading symbol was VCUB.OB. Since there is only a limited trading market for our stock, stockholders may find it difficult to sell their shares. Until June 20, 2003, the common stock trades reflected the business of Instanet prior to the share exchange with V3S. On April 5, 2005, the Company moved to the American Stock Exchange and started trading under the symbol PRH in conjunction with a secondary offering of shares. On March 19, 2007, the Company changed its name to XELR8 Holdings, Inc. and on March 19, 2007, started trading under the symbol BZI .

The following table sets forth high and low bid prices for our common stock for the calendar quarters indicated as reported by the American Stock Exchange from April 5, 2005. These prices have been stated after giving retroactive effect to a 1-for-5 reverse split of our common stock consummated on December 8, 2004, and represent quotations between dealers without adjustment for retail markup, markdown, or commission and may not represent actual transactions.

	High	Low
2006		
First Quarter	$ 1.52	$ 1.22
Second Quarter	$ 1.79	$ 0.62
Third Quarter	$ 0.65	$ 0.39
Fourth Quarter	$ 0.62	$ 0.27
2007		
First Quarter	$ 1.80	$ 0.58
Second Quarter	$ 3.04	$ 1.56
Third Quarter	$ 1.94	$ 0.85
Fourth Quarter	$ 1.25	$ 0.70

Holders

As of March 19, 2008, we had approximately 833 holders of record of our common stock. A significant number of our shares were held in street name and, as such, we believe that the actual number of beneficial owners is significantly higher.

Dividends

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent upon then existing conditions, including our financial condition and results of operations, capital requirements, contractual restrictions, business prospects, and other factors that our board of directors considers relevant.

ITEM 6. MANGEMENT_S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our financial statements, including the notes thereto contained in this report. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of certain factors, including those set forth under Risk Factors Associated with Our Business and elsewhere 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 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 February 29, 2008 we had 5,089 independent distributors and 3,327 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. We can have large increases in inventory levels if we have multiple product reorders in the same period. In addition, our manufacturers typically may take up to 12 weeks to deliver products after we place an order, and they have minimum order requirements, which also adds to higher inventory levels. 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 lead time on this product has been reduced to 10 weeks. Our inventory, net of our allowance for obsolescence, was $370,843 at December 31, 2007, a decrease from $411,364 at December 31, 2006.

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 year ended December 31, 2007, 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.

During the year ended December 31, 2007, we saw 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 a single product focus. Both of these factors resulted in taking a charge against operations for obsolete inventory of $216,760. Our allowance for obsolete inventory increased to $189,403 from $41,655 for the years ended December 31, 2007 and 2006, respectively. 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.

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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 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 9 months.

In March 2007, we completed a private sale of common stock of the Company for gross proceeds of $2,000,000 and in May 2007 completed a second private sale of common stock of the Company for additional gross proceeds of $2,000,000.

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. 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 December 31, 2007, orders shipped that are subject to our 60-day money back guarantee were approximately $140,465. 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 the year ended December 31, 2007 and 2006 was $76,193 and $45,327, respectively. 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 $189,403 for obsolete inventory as of December 31, 2007 and $41,655 as of December 31, 2006.

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 vary widely and are often material to the financial statements.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) 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

The discussion below first presents the results of 2007 year followed by the results of 2006 year.

For year ended December 31, 2007, compared to the year ended December 31, 2006.

Net Sales. Net sales were $4,853,046 compared to $2,148,420, an increase of 126%. The increase in sales was the result of the January 12, 2007 launch of the liquid nutritional supplement, Bazi . This product, along with a introduction of new sales and marketing tools assisted our independent distributors in executing our business plan. Independent distributors purchase our products for resale to customers and for their own personal consumption.

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

	Year Ended December 31,	
Product Category	**2007 % of Sales**	**2006 % of Sales**
BAZI	83%	%
HYDRATE	2%	11%
BUILD	2%	5%
EAT	1%	18%
DRINK	3%	28%
SNACK	1%	10%
Vitamins and minerals (including SUPPORT)	2%	13%
Other educational materials, apparel	6%	15%

Gross Profit. Gross profit increased to $3,472,383 from $1,372,658, an increase of 153%. Gross profit as a percentage of revenue (gross margin) increased to 72% compared to 64%, a result of higher margin of the Bazi product compared to our legacy products. This higher gross margins was offset by charges that we took against inventory of $216,760. The overall increase in gross profit also reflects the increase in net revenue.

Sales and Marketing Expenses. Sales and marketing expenses increased to $3,180,392 from $2,626,613, an increase of 21%. Sales and marketing expenses include the commissions that we pay our independent distributors as well as costs associated with producing marketing materials, promotional activities and events for our distributors. The increases in the expense is primarily due to the increased revenue compared to the prior year, and therefore the commission that we pay these distributors who sell the product. We incurred $2,006,167 during the year ended December 31, 2007,

compared to $1,311,158 in the year ended December 31, 2006, in costs to attract experienced sales leaders to our distributor network, commissions paid to our Independent Distributors, and promotions and awards for our distributors. Our costs of hosting Distributor events like the National Distributor Event and the Diamond Club Weekend remained relatively constant from year to year, with the expense for the year ended December 31, 2007, of $229,749 comparing favorability to the 2006 expense of $222,126. The salary expense of our sales and marketing group, which includes our customer service center, increased to $282,924 for the year ended December 31, 2007 compared to $270,945 for the year ended December 31, 2006. We expect all of these expense categories to continue to increase as our sales increase for the next 12 months as we implement our marketing plan.

General and Administrative Expenses. General and administrative expenses were $3,107,469 compared to $3,275,689, or a decrease of 5%. The decrease in this expense is a result of the decrease in salary and severance expense from $1,829,709 in 2006 compared to $942,200 in 2007. This decrease was primarily the result of the expense the Company recorded in 2006 of $540,000 for the amendment to Sanford Greenberg s employment contract. Additionally, executive compensation decreased as a result of amendments to the employment agreements with Earnest Mathis, Jr., our former Chief Executive Officer and John D. Pougnet, our Chief Financial Officer effective May 28, 2006 and the subsequent departure of Mr. Mathis in October 2006 and the assumption of his role of Chief Executive Officer by Mr. Pougnet. In addition to the assumption of Chief Executive duties by Mr. Pougnet, all the other executives of the Company reduced their salaries, with a reinstatement based on the Company

achieving certain monthly sales milestones. During 2007 one of the milestones was achieved, and these executives received a partial reinstatement of prior salaries. The reduction in the salary and severance expense was offset by the increase in stock based compensation expense, increasing to $1,212,409 for the year ended December 31, 2007 compared to $701,270 for the year ended December 31, 2006. The increase is a result of the fee we paid in stock to the referral agent in connection with the short term loan financing and a one time grant of fully vested options to the executives that took a pay reduction in 2006. The increase was also the result of $350,000 in stock based compensation that the Company recorded in the second quarter for the grant of stock by a principal shareholder, Mr. Sanford Greenberg, 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.

Research and Development Expenses. Research and development expenses decreased to $17,828 from $73,921, a decrease of 76%. We are continuing to research and develop ingredients and manufacturing technologies for our product line. In October 2006 we terminated the strategic alliance agreement with UTEK Corporation, a technology transfer company to assist us with introductions to university research ingredients and processes. Additionally, during 2006 we engaged a number of authorities on the Jujube fruit, the principal ingredient in the new product, Bazi, that the Company launched in January 2007.

Interest Expense. Interest expense was $439,537 compared with $33,888, an increase of 1,197% due to the two short term bridge notes that the Company entered into in November 2006 and January 2007. 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, the date the Company closed the first private placement transaction, extinguishing all debt financing that the Company had in place.

Net Loss. Our net loss was $3,241,730, compared to $4,669,449, a decrease of 31%; while on a per share basis our loss was $(0.23) per share for the year ended December 31, 2007, compared to $(0.48) per share for the year ended December 31, 2006, a decrease of 52%. The decrease in net loss is a result of increased sales and gross margin, and offset by the increased Distributor commission expense, stock based compensation expense and the interest expense from the bridge note loans. The per share decrease was also a result of a higher number of outstanding shares as a result of the two private placement transactions that tok place in the year ended December 31, 2007.

Liquidity and Capital Resources

To date, our operating funds have been provided primarily from sales of our common stock ($14,913,421), and by loans from our founder and by various stockholders ($3,989,209), through December 31, 2007, and to a lesser degree, cash flow provided by sales of our products.

On November 21, 2006, we obtained a $250,000 short-term loan from an unrelated party. We were also able to obtain a commitment for an additional $250,000 from an unrelated party that funded in January 2007. Each loan provided for the issuance of 400,000 restricted shares and interest at 10% per annum. The loans matured at the earlier of six months from funding or the final closing of a private placement.

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.

We used $1,178,996 of cash for operations in the year ended December 31, 2007, compared to $2,992,028 of cash for operations in the year ended December 31, 2006. 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 December 31, 2007, we had $2,245,858 in cash and cash equivalents available to fund future operations. Net working capital increased from ($659,328) at December 31, 2006, to $2,120,479 at December 31, 2007.

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 24 months. 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 had no off-balance sheet items as of December 31, 2007.

ITEM 7. FINANCIAL STATEMENTS

The financial statements are included in this annual report on Form 10-KSB at page F-1.

Index to Financial Statements

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

None.

ITEM 8A. CONTROLS AND PROCEDURES

Item 8A(T). Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer (CEO), evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our CEO concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) accumulated and communicated to our management, including our CEO, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Management s Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable

assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management, with the participation of the CEO, evaluated the effectiveness of the Company s internal control over financial reporting as of December 31, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on this evaluation, our management, with the participation of the President, concluded that, as of December 31, 2007, our internal control over financial reporting was effective.

(b) *Changes in Internal Control over Financial Reporting.* There were no changes in the Company s internal controls over financial reporting, known to the CEO or the chief financial officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

Sale of Unregistered Equity Securities

On February 19, 2008 XELR8 Holdings, Inc. (the Company) announced that it had sold 500,000 units of its securities at $1 per unit to a group of accredited investors. Each unit consists of one share of common stock and six/tenths (6/10) of a Class G Warrant to purchase common stock. As a part of the private placement terms, the Company agreed to reduce the exercise price of its Series E Warrants and Series F Warrants previously purchased by the same investors in a prior 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 Class 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 Class 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 Company s placement agent was Burnham Hill Partners, a division of Pali Capital, Inc. and John Thomas Financial acted as a consultant to the Company. The placement is contingent upon approval of the unit issuance by the American Stock Exchange. The Company will have 15,697,170 shares outstanding after completion of the private placement sale. The subscription and registration rights agreement do not require the Company to file a resale registration statement covering the shares of common stock, but do require the Company to file a resale registration statement covering the shares of common stock underlying the warrants to be filed with the U.S. Securities and Exchange Commission within one year of the closing date.

The Company will receive approximately $440,000 in net proceeds after placement fees and other estimated costs of the offering.

Issuance on Press Release

On March 26, 2008, the Company issued a press release in connection with its year end results and investor conference call, a copy of which has been filed herewith.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The following sets forth certain information regarding each of our directors and executive officers:

Name	Age	Position	Committee
John B. McCandless	59	Chairman	
John D. Pougnet	36	Chief Executive Officer, Chief Financial Officer and Director	
Douglas Ridley	51	President and Director	
Daniel Rumsey	46	Director	Audit/Compensation/Nominating
Anthony Petrelli	55	Director	Compensation/Nominating
AJ Robbins	61	Director	Audit/Compensation/Nominating
Anthony DiGiandomenico	41	Director	Audit

Directors hold office until the next annual meeting of stockholders following their election unless they resign or are removed as provided in the bylaws. Our Board of Directors has determined that our directors, other than Mr. McCandless, Pougnet and Ridley, are independent directors under the American Stock Exchange listing standards. Our officers serve at the discretion of our Board of Directors.

The following is a summary of our directors and executive officers business experience.

John B. McCandless, Director. Mr. McCandless was appointed as a director on February 19, 2004. He is currently providing consulting services to the Company as well as other nutrition and direct selling companies. From October 2003 until December 2006 Mr. McCandless served as the Vice President of Technical Services at Weider Nutrition International. Mr. McCandless provided operations and product consulting services to nutrition and direct selling companies as a consultant from November 2002 to October 2003, and from October 1995 to November 2002, he served as Senior Vice President and Chief Operating Officer for USANA Health Sciences, a health science company.

John D. Pougnet, Chief Executive Officer and Chief Financial Officer. Mr. Pougnet was appointed a Director on July 11, 2007 and Chief Executive Officer on October 11, 2006. Prior to that Mr. Pougnet was appointed as Chief Financial Officer in September 2005. Immediately prior to joining the Company, Mr. Pougnet was Assurance Senior Manager at KPMG, LLP, a global network of professional services firms providing Audit, Tax and Advisory services to both public and private companies from January 2003 to September 2005. Prior to this Mr. Pougnet operated an independent consulting business from August 2002 to June 2003. He also served as Vice President of Finance and

Corporate Secretary at Future Beef Operations, LLC, from May 2001 to August 2002, where he was responsible for the strategic planning, development and leadership of the Corporate Finance department for this multi-state meat packing company. Prior to this, Mr. Pougnet was senior auditor with Deloitte & Touché from September 1996 to May 2001.

Douglas Ridley, President and Director. Mr. Ridley was appointed as a Director on January 1, 2004, and in June 2005 Mr. Ridley joined the Company as President. Mr. Ridley was an independent consultant to us from April 2003 until December 31, 2003. Prior to joining the Company Mr. Ridley was President of Simply Because, a gift products network marketing company, from 2003 until 2005 and from 1997 until May 2005, was President of Chad Management Co., LLC, a nutritional products network marketing company.

AJ Robbins, Director. Mr. Robbins was appointed as a director on July 10, 2006, and serves on our Audit and Compensation Committees. Mr. Robbins is currently the Managing Partner of AJ Robbins PC, which he founded in 1986. Mr. Robbin s practice focuses on accounting and auditing for corporate and securities work for both private and public companies. Mr. Robbins is a Certified Public Accountant registered in Colorado, New York and

California as well as a member of the American Institute of Certified Public Accountants and his firm is registered with Public Company Accounting Oversight Board.

Daniel Rumsey, Director. Mr. Rumsey was appointed as a director on August 17, 2007, and serves on our Audit and Compensation Committees. Mr. Rumsey is active in advising boards, private equity and hedge funds and banks in connection with public and private financings, restructurings, turnarounds, mergers and acquisitions and crisis management. He currently serves as Chairman of the Board and Interim Chief Financial Officer of Prescient Applied Intelligence, a leading provider of supply chain and advanced commerce solutions for retailers and suppliers, as well as Chief Executive Officer and Chairman of the Board of Azzurra Holding Corporation (formerly P-Com, Inc.), a public company that recently emerged from protection under Chapter 11 of the U.S. Bankruptcy Code. Prior to joining Azzurra, Mr. Rumsey was Vice President and General Counsel of Knowledge Kids Network, Inc., a multi-media education company. Prior to joining Knowledge Kids Network, Inc., Mr. Rumsey was the President and General Counsel of Aspen Learning Systems and NextSchool, Inc. Mr. Rumsey sold Aspen Learning Systems and NextSchool to Knowledge Kids Network in 1999. Mr. Rumsey also served as an attorney at the U.S. Securities & Exchange Commission s Division of Corporation Finance. Mr. Rumsey currently serves on the Board of Directors of Prescient Applied Intelligence, Inc., World Racing Group, Inc., and Azzurra Holding Corporation. Mr. Rumsey is a graduate of the University of Denver and the University of Denver College of Law.

Anthony Petrelli, Director. Mr. Petrelli was appointed as a director on August 17, 2007, and serves on our Compensation Committee. Mr. Petrelli has been engaged in the areas of corporate finance, investment banking underwriting, sales management and securities trading for more than 30 years. Mr. Petrelli joined Neidiger, Tucker, Bruner, Inc. in May of 1987 and currently serves as Senior Vice President and a member of the Board of Directors. He is also its Managing Director of Corporate Finance/Investment Banking and oversees public and private offerings for micro-, small- and mid-cap market companies. In addition, he has served on the National Association of Securities Dealers, Inc. (NASD) Statutory Disqualification Committee; been a member and Vice Chairman of the NASD National Adjudicatory Council; member and Chairman of the NASD District Business Surveillance Committee; a member of the Task Force on Future of Shared State and Federal Securities Regulation for the North American Securities Administrators Association, Inc.; and is a current board member and past Chairman of the National Investment Banking Association. Mr. Petrelli currently serves on the Board of Arena Resources, Inc., a publicly traded company traded on the New York Stock Exchange.

Anthony DiGiandomenico, Director. Mr. DiGiandomenico was appointed as a director on May 25, 2004, and serves on our Audit Committee. Mr. DiGiandomenico co-founded MDB Capital Group LLC, a NASD member broker-dealer, in 1997 and serves as a managing director of the firm. From 1990 to 1995, he served as President and Chief Executive Officer of the Digian Company, a real estate development company. He currently serves on the Board of Directors of Orion Acquisition Corp. II, a corporation which files reports pursuant to the Securities Exchange Act of 1934, which was formed in 1995 to acquire an operating business by purchase, merger or otherwise.

There are no family relationships between or among our executive officers and directors.

BOARD OF DIRECTORS

Board Committees

The standing committees of the Board of Directors are comprised of the Audit Committee, Compensation Committee and the Corporate Governance & Nominating Committee.

The Audit Committee is comprised of Messrs. Rumsey, DiGiandomenico and Robbins and oversees our financial reporting processes, including (i) reviewing with management and the outside auditors the audited financial statements included in our Annual Report, (ii) reviewing with the outside auditors the interim financial results included in our quarterly reports filed with the SEC, (iii) discussing with management and the outside auditors the quality and adequacy of internal controls, and (iv) reviewing the independence of the outside auditors. During 2007 the Audit Committee met four times telephonically.

The Compensation Committee is comprised of Messrs. Petrelli, Robbins and Rumsey. At the direction of the full Board, the Compensation Committee reviews and makes recommendations with respect to compensation of our directors, executive officers and senior management. The Compensation Committee administers our Stock Incentive

Plan. The Compensation Committee met four times during 2007 and approved various other matters by unanimous written consent.

The Corporate Governance & Nominating Committee is comprised of Messrs. Rumsey, Robbins and McCandless. At the direction of the full Board, the Committee review, investigate qualified nominees for election to the Board when vacancies occur and makes recommendations with respect to the nomination of directors. The Committee met once in 2007.

The Corporate Governance & Nominating Committee strives to identify and attract director nominees with a variety of experience who have the business background and personal integrity to represent the interests of all shareholders. Although the Board has not established any specific minimum qualifications that must be met by a director nominee, factors considered in evaluating potential candidates include educational achievement, managerial experience, business acumen, financial sophistication, direct selling industry expertise and strategic planning and policy-making skills. Depending upon the current needs of the Board, some factors may be weighed more or less heavily than others in the Board s deliberations. The Board evaluates the suitability of a potential director nominee on the basis of written information concerning the candidate, discussions with persons familiar with the background and character of the candidate and personal interviews with the candidate. The Corporate Governance & Nominating Committee also assists the Board in developing and monitoring the Company s corporate governance guidelines.

Attendance at Meetings

The Board held four meetings during 2007. Various matters were also approved by the unanimous written consent of the directors during the last fiscal year. Each director attended at least 75% of the aggregate of (i) the total number of meetings of the Board and (ii) the total number of meetings held by all committees of the Board on which such director served. We have no formal policy with respect to the attendance of Board members at the annual meeting of shareholders but encourage all incumbent directors and director nominees to attend each annual meeting of shareholders.

Board Charters

The Board has adopted a charter with respect to its governance which includes consideration of director nominees. Additionally, the Compensation, Audit and Corporate Governance & Nominating Committees have adopted Charters with respect to their governance and operation.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our directors, officers and employees. We publicize the Code of Ethics through posting the policy on our website, http://www.XELR8.com. We will disclose on our website any waivers of, or amendments to, our Code of Ethics.

ITEM 10. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The objective of the Company s compensation program is to attract, retain and reward management who demonstrates the required skill to develop the Company into a leader in the nutrition and network marketing field. Through the development of the Company s business plan, the compensation program is designed to incentivize management in the creation of shareholder value. The compensation program has been designed to reward executives for establishing the Company in the network marketing field, developing products that can be successfully sold in that channel and creating shareholder wealth.

Currently the Company has used two elements of compensation for management, current compensation, in the form of cash, and long-term equity compensation in the form of grants of stock option awards. The Company has also used the award of options to replace cash compensation for employees and the issuance of stock as a method of fulfilling its obligations under employment contracts. As the Company has not been profitable since its inception, the Company has not had a cash bonus program, but rather relied on the potential of the long-term awards as incentives to compensate its executives. The Company has identified and disclosed to its executives what levels of

profitability would be required in order to create a cash bonus plan. Typically the current compensation is set at a base level, with variances based on the achievement of certain benchmarks with regards to monthly net sales targets.

The cash compensation enables the Company to attract management with the required skills and experience while the awards of stock options are used as a method of retaining executives for long term growth. Additionally, the Company has used the awards of stock and options as a method of reducing cash outflow.

The Company has determined the amount of short and long term compensation based on a number of factors: level of experience of the employee in his or her respective field, prevailing market rates for individuals performing similar functions at competing companies in a similar industry and stage of development of the Company. The Company has attempted to evenly balance the compensation between current and long-term for its executives, with the long-term award requiring some form of vesting, typically over a two or four year period. During the current year, the executives were granted what is typically a long-term compensation award, stock options, in lieu of short term cash compensation, and were vested into their options over a shorter period of time. The Company has also used options on a performance basis for certain individuals, with the achievement of certain goals resulting in the vesting in the options. Going forward the Company intends to base awards to management based on the achievement of certain predetermined sales goals. When evaluating the compensation of executives on an annual basis, the Company has reviewed past compensation received by the executive in both current and long-term awards when determining any additional awards, as well as the achievement of certain sales and profitability targets for selected executives.

Each element of the compensation program is designed to further the Company s goals of attracting and retaining high caliber individuals with the experience to grow the Company and ultimately create and increase shareholder wealth. The incentive based awards were directly tied to the achievement of an objective, whereas the other awards that were based on the vesting period were used as a mechanism to retain skilled executives. In the performance based awards, where either long-term awards are vested or there is an increase in current cash compensation, it is the practice of the Company to link the overall objectives of the Company with the respective objectives for that executive and his or her ability to exercise influence over the outcome.

The following table sets forth information with respect to compensation earned by the executive officers of the Company for 2007 and 2006.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(5)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(1)	Total ($)
John D. Pougnet,	2007	158,886		38,500(3)	103,378				300,761
Chief Executive Officer and	2006	116,891			138,878				255,769
Chief Financial Officer (2)									
Sanford D. Greenberg,	2007	50,927							50,927
Founder (4)	2006	95,192		540,000(4)	59,988			15,231	710,407
Douglas Ridley,	2007	143,886		35,000(3)	78,656				257,539
President	2006	163,814							163,814

(1) Includes auto allowance.

(2) Mr. Pougnet joined the Company in September 2005 as Chief Financial Officer. On October 11, 2006 he replaced Mr. Earnest Mathis as Chief Executive Officer.

(3) On March 27, 2007 a principal shareholder, Mr. Sanford Greenberg, granted shares of his own stock to certain 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.

(4) On November 17, 2006 the Company agreed to issue to Mr. Greenberg 1,500,000 shares of its common stock in return for an amendment to his current employment agreement pursuant to which he will forfeit all future base salary amounting to $396,923 due under the agreement and 250,000 vested options in exchange for the issuance of the shares and payment of a sales commission equal to 1% of the net sales until 2019.

(5) 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 to calculate the compensation expense:

	For the year ended December 31, 2007
Stock price volatility	96.7 to 98.7%
Risk-free rate of return	3.34 to 4.95%
Annual dividend yield	0%
Expected life	1.5 to 4.5 Years

Grants of Plan-Based Awards

In 2007, we issued the options listed below. There were no stock options exercised in 2007. The following table sets forth the options granted in 2007:

Name	Grant Date(1)	Number of Non-Equity Incentive Plan Units Granted (#)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($ / Sh)(1)
John Pougnet, Chief Executive Officer and Chief Financial Officer	3/26/2007	0	0	0	0	0	0	0	0	100,000(3)	$ 1.55
Douglas Ridley, President(6)	3/27/2007	0	0	0	0	0	0	0	0	70,000(2)	$ 1.00

(1) The Company uses the same date for the Grant Date and the Approval Date. The Company s closing market price for the Grant Date is used to determine the exercise price of the options.

(2) The award was granted under the Company s 2003 Stock Incentive Plan. The closing price of the Company s private placement transaction that occurred on the same day was used as the market value of the stock. The employee has five years from the date of issue to exercise the option, and the award was fully vested on the date of the award. The terms of the award are determined by the 2003 Stock Incentive Plan.

(3) The award was granted under the Company s 2003 Stock Incentive Plan. The employee has five years from the date of issue to exercise the option, and the award will vest over a twenty-two month period. The terms of the award are determined by the 2003 Stock Incentive Plan

Employment Contracts

During 2006 the Company entered amended employment contracts with Mr. Mathis, Mr. Greenberg and Mr. Pougnet.

On March 2, 2005, in connection with Mr. Greenberg s resignation as Chairman, Chief Executive Officer, and President, Mr. Greenberg s employment agreement was amended and restated to provide that his primary duties involve training, motivating, and recruiting independent distributors. Mr. Greenberg received a salary of $150,000 per year and may receive bonuses in such amounts as determined by our Board of Directors. On July 10, 2006, Mr. Greenberg s contract was amended to reduce his base salary for a period of one year to $75,000 and Mr. Greenberg was granted 150,000 options to purchase the Company s common stock. Mr. Greenberg will also be eligible to participate in bonuses on the same basis as our executives under any executive bonus plan adopted by us. Either party may terminate the agreement upon 30 days prior written notice. Additionally, Mr. Greenberg may be terminated for just cause as defined in the employment agreement upon one business day s prior written notice. Mr. Greenberg may terminate his employment for good reason as defined in employment agreement. If we terminate Mr. Greenberg without just cause or he terminates his employment for good reason, he is entitled to three years salary payable over the 36 month period commencing October 1, 2006 regardless of when terminated. Mr. Greenberg s employment agreement also includes a non-competition provision for a period of two years after his termination of employment or, if later, one year after final payment of any pay-out provision upon termination. On March 2, 2005, in connection with Mr. Mathis employment as Chief Executive Office, Mr. Greenberg forfeited options to purchase 275,000 shares. In addition, Mr. Greenberg has agreed to forfeit options to purchase 50,000 shares when the April 2005 public offering was completed. On November 17, 2006 the Company agreed to issue to Mr. Greenberg 1,500,000 shares of its common stock in return for an amendment to his current employment agreement pursuant to which he will forfeit all future base salary amounting to $396,923 due under the agreement and 250,000 vested options in exchange for the issuance of the shares and payment of a sales commission equal to 1% of the net sales until 2019.

On September 12, 2005, John D. Pougnet joined us as our Chief Financial Officer and effective October 1, 2006 was appointed also as our Chief Executive Officer. On Mr. Pougnet s employment agreement is for a two-year

term and he will receive a base salary of $140,000, and may receive bonuses in such amounts as determined by our Compensation Committee. Additionally, Mr. Pougnet will have an option to purchase 50,000 shares of our common stock, with an exercise price of $1.80. The options will vest in equal amounts over a four-year period on December 31 starting on December 31, 2005. On March 3, 2006 Mr. Pougnet was granted additional options to purchase 100,000 shares of our common stock. On July 10, 2006 Mr. Pougnet s contract was amended to reduce his base salary to $90,000 for a year and Mr. Pougnet was granted options to purchase 100,000 shares of our common stock. Mr. Pougnet will also be eligible to participate in bonuses on the same basis as other executives under any executive bonus plan adopted by us. If Mr. Pougnet s employment were terminated other than for cause, disability or without good reason by Mr. Pougnet, he would be provided severance pay equal to twelve months, payable in equal monthly installments. On March 26, 2007, the Company entered into an Amendment to the Employment Agreement with Mr. Pougnet, the company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO). The Amendment provides that Mr. Pougnet will serve as in both capacities of Chief Executive Officer and Chief Financial Officer, the term of Employee s employment as Chief Executive Officer pursuant to this Second Amendment shall commence effective as of October 11, 2006 and shall continue to February 1, 2008 (CEO Amended Term) and the term of Employee s employment as Chief Financial Officer pursuant to this Amendment shall commence effective as of October 11, 2006 and terminate on December 31, 2008. Employee will receive as compensation for all responsibilities a base salary (Base Salary) of $127,000 per year. So long as the Employee is employed as the Company s CEO and CFO, the Base Salary shall increase: (i) to $150,000 per year upon the completion of the Private Placement, (ii) to $14,583/month (1/12 of $175,000) for each month the company is at or above breakeven (defined as when net monthly sales meet or exceed net monthly expenses on a cash basis) and $12,500/month (1/12 of $150,000) for each month the company is below breakeven, and (iii) to $205,000 per year commencing October 1, 2007. Employee s salary as CFO shall be $150,000 per year as long as net revenues are above financial breakeven and $175,000 per year after the first month that monthly net sales exceed $900,000. In addition the Employee shall receive options to purchase an aggregate of an additional 100,000 shares of Employer s common stock pursuant to the Incentive Stock Option Plan and shall vest on a pro-rata basis at the end of each month of Employee s employment beginning March 2007 and ending December 31, 2008. The Agreement provides for compensation to be paid in the event the Employee is terminated for cause or if the Company chooses to appoint a new Chief Executive Officer during the term of this agreement.

Outstanding Equity Awards as of December 31, 2007

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
John Pougnet,	37,500	12,500		$ 1.80	9/11/2015				
Chief Executive Officer	45,833	54,167		$ 1.39	3/9/2011				
and Chief Financial Officer	100,000	0		$					