XELR8 HOLDINGS, INC.
Form 10KSB
March 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-KSB

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

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 under Section 12(b) of the Exchange Act: **Common Stock, par value $.001 per share**

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

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 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, 2006 were $2,148,420.

Aggregate market value of voting stock held by non-affiliates: $10,560,511.

As of March 9, 2007, the Company had 10,097,170 shares of its $.001 par value common stock issued and outstanding.

Index to XELR8 Holdings, Inc. 2006 Form 10-KSB

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, bel 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 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 WHAT MOVES YOU. In January 2007 we launched our latest product offering, Bazi , a dietary supplement drink.

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 three Super Bowl teams;
- Carnell Williams (football): All Pro Running Back, 2005 Rookie of the Year
- 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.

- 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.

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

The Nutrition Industry

According to the latest industry overview, *Nutrition Business Journal* (NBJ) (June/July 2006), the year 2005 was a study of contrast and contradiction in the nutrition industry. While supplements declined in the mass market, many large direct sellers of nutritional products reported double-digit growth. Overall growth was 9.3% to a total of $75.4 billion in U.S. sales, up from 7.8% the year before. The Nutrition industry is subdivided into four common categories: Dietary Supplements; Natural and Organic Foods; Functional Foods; and Natural and Organic Personal Care & Household Products. U.S. consumer sales of all Dietary Supplements totaled $21.3 billion in 2005 on 4.5% growth, according to NBJ. This growth was mixed across the multiple channels, with the mass market again faring the worst with an overall 1.5% decline, while all other channels saw increases: with a 6.2% gain in natural and specialty retail channels; 25% in internet sales; 6.7% for practitioner sales and direct sales saw an increase of 8.6%. Dietary supplement sales in 2005 were led by specialty supplements, with growth of 13.3%, then sports nutrition at 5.7%, minerals at 4.3%, vitamins at 3.9% and finally herbs and botanicals at 2.1%.

We believe that the size of the supplement market is due to public awareness of the positive effects of nutritional dietary supplements. The 2004 Consumer Confidence Survey by the Council for Responsible Nutrition found high consumer confidence in supplements as well as a significant increase in supplement usage. Fully 78% of U.S. adults surveyed replied that they are very or somewhat confident in supplements, while the overwhelming majority (85%) believes vitamin and mineral supplements are safe. Over two-thirds (66%) have confidence in the safety of herbal supplements. Regular supplement use rose from 27% to 33%, while 62% of consumers reported using supplements at least occasionally.

While organic foods growth continues to be an important story, 2005 will likely most be remembered as the year that liquid botanical supplements exploded into a category that is approaching half a billion dollars in U.S. consumer

sales. 2005 will also be remembered for the continued slide of the liquid meal supplements, which continued to decline for its third consecutive year

The Direct Selling Industry

Firms that use direct sales as their distribution method have grown in numbers, sales and profits, both domestically and abroad. Stated in a press release issued on February 15, 2006, by the Direct Selling Association, the direct selling industry contributed $72 billion to the U.S. economy in 2004, according to an economic impact study conducted by Ernst & Young.

The $72 billion includes direct, indirect, and induced impacts from $27.8 billion in wages, commissions, bonuses, and other compensation earned by the more than 13.6 million Americans who work in the direct selling industry, as well as impact from sales to customers, production activities, capital investments and tax revenue. The study also found significant social benefits that flow to those who work as independent sellers. These include the flexibility that allows them to own and operate a business while caring for their families, higher self-esteem and confidence as a result of their direct selling experiences, and high levels of satisfaction (more than 89 percent described satisfaction with their direct selling experience.).

Results of the 2004 Direct Selling Association s Annual Growth and Outlook Survey indicate a 10.7% increase in direct sales over the previous two years to a record high of $29.55 billion. This represents the 19th consecutive year of growth for the industry. 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 15.3% of direct sales. The Direct Selling Association s published figures for 1999-2003 indicate that annual U.S. retail sales for the five years ended December 31, 2003, have grown from $24.5 billion to nearly $30 billion along with the independent distributor base growing from 10.3 million to nearly 13.3 million individuals during the same time period.

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 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

Currently we offer 13 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. During 2006 the Company developed a new product offering that was launched on January 12, 2007 called Bazi. Our products include:

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

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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 SerotainTM.

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 (formerly eForce® Sports Drink)

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 (formerly VitaPro® Nutrition Shake)

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

Bazi

Our latest product offering, Bazi, is a liquid nutritional drink packed with eight different 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.

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
- tablets, capsules and soft gels are designed to readily dissolve in the body to facilitate absorption.

Product Development

In May of 2005, we entered into a twelve month 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 and 2005 our expenses related to the UTEK contracts were $40,005 and $55,995 respectively. 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 24 months.

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.

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 or business builder pack, 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 and selling aids, their personal website and costs $30. The business builder packs contain the starter kit, a selection of our products, and other materials, and range in price from $99 to $499.

Compensation Plan. Independent distributors can earn compensation in three 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; and
- qualifying for bonuses based on sales performance by distributors and their downline organization.

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 March 2006, we held a distributor recognition and training conference in Las Vegas, Nevada and in July 2006, we held a Diamond recognition weekend in Aspen, Colorado for our best performing independent distributors. In September 2006, we held a Director Training weekend in Denver, Colorado.

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 Nortel Meridian 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. 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.

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 Bounty, Inc., Sunrider Corporation, New Vision USA, Inc., Herbalife International of America, Inc., USANA, Inc., and Melalecua, Inc.

Our Manufacturers

We use six principal manufacturers for the components of our products, and multiple vendors for packaging and labeling. Our relationship with any of our manufacturers may be terminated at will or upon short notice. We have established relationships with other manufacturers that we believe can satisfy our needs if our relationship with any principal manufacturer terminates.

Product Delivery

All of our products are shipped by our manufacturers directly to us for storage at our facilities in Denver, Colorado. The majority of the products sold to our independent distributors and their customers are shipped directly by a third party warehouse and fulfillment contractor, HoldenMSS, to the distributors or customers. 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.

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.

The FDA issued a consumer warning in 1996, followed by proposed regulations in 1997, covering nutritional supplements that contain ephedra or its active substance, ephedrine alkaloids. We have never produced or sold products containing ephedra. In February 2004, the FDA issued a final regulation declaring nutritional supplements containing ephedra under the FDCA because they present an unreasonable risk of illness or injury under the conditions of use recommended or suggested in labeling, or if no conditions of use are suggested or recommended in labeling, under ordinary conditions of use. The rule took effect on April 12, 2004, and bans the sale of nutritional supplement products containing ephedra. Similarly, the FDA issued a consumer advisory in 2002 with respect to nutritional supplements that contain the ingredient Kava, and the FDA is currently investigating adverse effects associated with ingestion of this ingredient. We have never produced or sold any products containing Kava.

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.

We expect that the FDA will adopt in the future the final regulations, originally proposed in March 2003, regarding current Good Manufacturing Practice guidelines (cGMPs) in manufacturing, packing, holding and distributing dietary ingredients and nutritional supplements. These 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. We or our third-party suppliers or vendors could incur substantial additional expenses in order to comply with any new rules. If the FDA issues the final cGMPs for dietary supplements in 2007, as we expect, we and our manufacturers will have up to a year to ensure compliance. 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 proposed regulations would establish standards to ensure that nutritional supplements and dietary ingredients are not adulterated with contaminants or impurities, and are labeled to reflect accurately the ingredients in the products. It also includes proposed requirements for designing and constructing physical plants, establishing quality control procedures, and testing manufactured dietary ingredients and nutritional supplements, as well as proposed requirements for maintaining records and for handling consumer complaints related to cGMPs. We are evaluating this proposal with respect to our manufacturers. However, the proposed regulation can be expected to result in additional costs and possibly the need to seek alternate suppliers.

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 as 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 later in 2007, 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.

During 2006, the FTC proposed a new business opportunity rule. It is currently in the comment period during which the FTC is accepting comments from those who wish to make a submission. The new rule proposes the following amendments to the way that network marketing companies do business:

1. The Disclosure Document. At least seven days before a new distributor can sign a distributor application or make any type of payment to join a program, the sponsor or parent company must provide the prospective distributor with a disclosure document. This document must disclose: (a) Identifying information: This includes the name, address and telephone number of the direct selling company, the name of the sponsor, and the date on which the disclosure document is provided to the prospect; (b) Earnings claim information: If the company or distributor makes earnings claims (which includes quality of life claims such as pictures of boats, expensive cars, homes, etc.), an earnings claim statement must be provided which discloses the beginning and ending dates when the represented earnings were achieved, the number and percentage of all distributors who achieved that level of earnings within such time period, and 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); (c) Legal Claim Disclosures: If the seller, or any affiliate or prior business of the seller, or any of the seller 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 prior ten years, the seller must disclose the name of the action, the caption, the court, case number, and the names of the parties; (d) Refund Policy: The seller must disclose the terms of its refund policy; (e) Cancellation and Refund Requests: The seller must disclose the total number of purchasers who have cancelled their business within the preceding two years; (f) Reference List: The seller must state the name, city, state, and telephone numbers of ten people who have purchased the business opportunity within the last three years who are located nearest to the prospect s location. Otherwise, the company can disclose all of its distributors. The company s application must also disclose to prospects that if they join, their personal contact information may be disclosed to other future buyers.

2. Record Retention: The direct sales companies must archive for three years: (a) Each materially different version of all disclosure and earnings claim documents; (b) Each purchaser s disclosure receipt; (c) Each oral or written cancellation or refund request; (d) All substantiation upon which the seller relies for earnings claims.

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; the identity of our distributors is deemed a trade secret; and (4) 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.

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 $73,921 on research and development for the year ended December 31, 2006 compared with $70,037 for the same period in 2005. We developed a replacement product for our Basic VitaCube® with a combination of existing vitamins as well as new formulations. We also developed a new liquid nutrition drink, Bazi during 2006, which was launched in January 2007. This product will not require FDA or other regulatory approval. During 2007, 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 $90,000.

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 9, 2007. We consider our employee relations to be good.

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, 2006 and year ended December 31, 2005 of $4,669,449 and $5,015,877, respectively. At December 31, 2006, we had an accumulated deficit of $17,250,281. We may never achieve or maintain profitability. Our ability to achieve and maintain a profit is dependent upon our attracting and maintaining a large base of independent distributors who generate significant 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 ($11,280,587), and by loans from our founder, our chairman and by various stockholders ($4,239,209), through December 31, 2006, and to a lesser degree, cash flow provided by sales of our products. We used $2,992,028 of cash for operations in the year ended December 31, 2006, and we used $4,936,422 of cash for operations in the year ended December 31, 2005. 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 casued to the existing shareholders.

We may be unable to continue as a going concern in which case our securities will have little or no value.

Our independent auditors have noted in their reports concerning our financial statements as of December 31, 2006 and 2005 that we have incurred substantial losses since inception, which raises substantial doubt about our ability to continue as a going concern. In the event we are not able to continue operations, you will likely suffer a complete loss of your investment in our securities. See the auditors reports on our consolidated financial statements elsewhere in this Form 10-KSB.

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 products were formulated in 2000 and 2001, and we began selling our products to the general public in early 2002. 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 January 2007, we continued the development of our product base, launching our latest product offering, a liquid dietary supplement drink. There is no assurance that we will achieve significant sales as a result of this new strategy.

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 key independent distributors 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.

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

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, 2006, compensation paid to our independent distributors represented 62% 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.

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 reputational 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.

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.

During 2006, the FTC proposed a new business opportunity rule. It is currently in the comment period during which the FTC is accepting comments from those who wish to make a submission. The new rule proposes the following amendments to the way that network marketing companies do business:

1. The Disclosure Document. At least seven days before a new distributor can sign a distributor application or make any type of payment to join a program, the sponsor or parent company must provide the prospective distributor with a disclosure document. This document must disclose: (a) Identifying information: This includes the name, address and telephone number of the direct selling company, the name of the sponsor, and the date on which the disclosure document is provided to the prospect; (b) Earnings claim information: If the company or distributor makes earnings claims (which includes quality of life claims such as pictures of boats, expensive cars, homes, etc.), an earnings claim statement must be provided which discloses the beginning and ending dates when the represented earnings were achieved, the number and percentage of all distributors who achieved that level of earnings within such time period, and 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); (c) Legal Claim

Disclosures: If the seller, or any affiliate or prior business of the seller, or any of the seller 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 prior ten years, the seller must disclose the name of the action, the caption, the court, case number, and the names of the parties; (d) Refund Policy: The seller must disclose the terms of its refund policy; (e) Cancellation and Refund Requests: The seller must disclose the total number of purchasers who have cancelled their business within the preceding two years; (f) Reference List: The seller must state the name, city, state, and telephone numbers of ten people who have purchased the business opportunity within the last three years who are located nearest to the prospect s location. Otherwise, the company can disclose all of its distributors. The company s application must also disclose to prospects that if they join, their personal contact information may be disclosed to other future buyers.

2. Record Retention: The direct sales companies must archive for three years: (a) Each materially different version of all disclosure and earnings claim documents; (b) Each purchaser s disclosure receipt; (c) Each oral or written cancellation or refund request; (d) All substantiation upon which the seller relies for earnings claims.

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; the identity of our distributors is deemed a trade secret; and (4) 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.

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 social security or similar taxes with respect to compensation paid to them. In the event that we are required to treat our independent distributors as employees, rather than independent contractors, we may be held responsible for 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. 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 FDA regulates our products and our product labeling. Among other matters, the FDA regulates 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 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 can also require the recall of all products that are misbranded or adulterated.

The FTC has jurisdiction over our product advertising. The FTC 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. The FTC or a federal

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

On March 13, 2003, the FDA proposed a new regulation to require current Good Manufacturing Practice guidelines (cGMPs) in the manufacture, packing, holding, and distribution of nutritional supplements. The proposed rules would establish minimum standards that must be met by all companies that manufacture, package, and hold nutritional supplements in the United States. Violation of those standards would render the products in question presumptively adulterated and unlawful to sell. The proposed cGMPs would require manufacturers to follow procedures that would track nutrients from source to finished product, test nutrients for identity, purity, quality, strength, and composition at each stage of production, and record full compliance with specific regulations governing production, manufacture, and holding of nutritional supplements. The cGMPs are expected to be adopted in 2007. 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 and some state agencies 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.

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 manufacturers produce our products on a purchase order basis only and can terminate their relationships with us at will. Our six primary manufacturers are New Sun Nutrition, LLC, FoodPharma, LLC, Valentine Industries, Inc., Natural Alternatives International Inc., Arizona Packaging and GMP Laboratories of America, Inc. These third 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. 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 energy drinks, protein shakes and nutritional supplements similar to ours, including retail, online and mail order providers. We consider the significant competing products in the U.S. market 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 and Xango® and Monavie® for a liquid nutrition drink. 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 products 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 amoung 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 (June/July 2006), after a promising recovery in 2003, U.S. Supplement growth flattened overall from 5.7% in 2003 to growth rates of 4.5% and 2.9% in 2005 and 2004, respectively, for total dollar sales of $21.3 billion in 2005. The largest major channel for supplement sales remained natural & specialty retail, which rose 6.2% to $7.74 billion or 36% of the supplement consumer market, while the mass market continued to lose ground, declining 1.5% in 2005 to $6.04 billion. Other channels had more success, with multi-level marketers up 8.6% to $4.2 billion and practitioner and internet sales up 6.7% and 25%, respectively, to $1.54 billion and $0.5 billion, respectively. The negative impacts of Echinacea, Ephedra 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.

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. For example, in 2006 and 2005 we discontinued certain products and sales tools that we deemed obsolete, and we incurred a write-down against inventory for the year ended December 31, 2006 of $123,511 and a charge against obsolete inventory of $70,335 in 2005. 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 limited historical experience. 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 may 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.

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, 2006, we had spent $321,530 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 Sanford D. Greenberg, our founder, John Pougnet, our Chief Executive Officer and Chief Financial Officer, Douglas Ridley, our President, and Timothy Transtrum, our Vice President of Operations, Sanjeev Javia, our Vice President of Product Development and Endorser Relations, 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.

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 $3,390 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 2006 and 2005 was $40,680 and $38,830, respectively. We currently do not have any plans for renovation, improvement or development of our corporate office.

In January 2006, we contracted 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 $6,400 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.

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 the Holden facility.

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 March 7, 2007:

1. To elect five directors of the Company.

2. To increase the number of shares issuable under our Stock Incentive Plan from 1,800,000 shares to 2,200,000 shares.

3. To approve the issuance and sale of greater than 20% of our outstanding stock at less than the current market price.

4 To approve a Distributor Stock Option Plan.

5. To amend the Articles of Incorporation to change the name of the Company from VitaCube Systems Holdings, Inc. to XELR8 Holdings, Inc.

6. To transact such other business as may properly come before the meeting.

Details relating to the above matters were set forth in the Proxy Statement dated February 15, 2007. All of our shareholders of record as of the close of business on February 6, 2007 will be entitled to notice of and to vote at such meeting.

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 OTC Bulletin Board until April 4, 2005 and on 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
2005		
First Quarter	$ 3.90	$ 3.30
Second Quarter	$ 3.30	$ 1.17
Third Quarter	$ 1.97	$ 1.25
Fourth Quarter	$ 1.86	$ 1.25
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

Holders

As of March 9, 2007, we had approximately 611 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. In 2006 the Company repackaged the Basic VitaCube® into 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.

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 28, 2007 we had 3,145 independent distributors and 714 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. Our inventory, net of our allowance for obsolescence, was $411,364 at December 31, 2006, a decrease from $542,749 at December 31, 2005.

The decrease of inventory was a result of the launch of the three new products in the EDS System near the year end in the prior year that required sufficient inventory levels for the projected demand and lead time in product ordering, coupled with the lower demand for the Vitacube® in the current year, which resulted in an ability to lower our inventory levels for this product. Even though our inventory level currently is relatively high based on our sales for the year ended December 31, 2006, we believe our inventory is appropriately classified as a current asset based on the ongoing implementation of our new marketing plan which is designed to increase our distributor base and sales.

During the year ended December 31, 2006, we replaced the Basic Vitacube® with the XELR8 Support Pack, which containes a new combination of supplements. Additionally, we saw the demand for the Essential Vitacube® decrease as customers favored the convenience of the Support Pack with the supplements in pillow packs for each serving. Both of these factors resulted in taking a charge against operations for obsolete inventory of $123,511. Our allowance for obsolete inventory increased to $41,655 from $16,879 for the years ended December 31, 2006 and 2005, respectively. We believe our reserve for obsolescence is reasonable because (i) substantially all of our inventory has been recently purchased, (ii) the shelf life of our products averages three years, and (iii) we have no current plans to eliminate any of our products, instead choosing to repackage them in the new product branding strategy.

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 2006 or will be for 2007 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 2007 is focused on the launch of our new product offering, Bazi , and increasing the number of independent distributors and customers, growing revenues, and generating gross profits. Due to the relatively recent commencement of our direct selling program through independent distributors, 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.

On April 8, 2005 we closed a public offering of 1,500,000 units that was comprised of two shares of common stock and one Class A common stock warrant to purchase common stock at $4.50 and one Class B warrant to purchase common stock at $6.00 for net proceeds of $7,742,682. 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 placement transaction, and on March 27, 2007, we closed the transaction. At the time of closing, we paid in full the short-term loans of $500,000 plus accrued interest of $13,424.66 leaving us with no short-term or long-term debt at this time.

Our independent auditors have noted in their reports on our financial statements as of December 31, 2006 and 2005 and for the years then ended, that there is substantial doubt regarding our ability to continue as a going concern. To date this contingency has not affected our ability to secure funding for our operations; however, going forward, in the event this uncertainty is not resolved, we may experience more difficulty in raising funds to operate our Company, if we are required to raise such capital.

Critical Accounting Polices and Estimates

Discussion and analysis of our financial condition and results of operations are based upon financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates; including those related to collection of receivables,

inventory obsolescence, sales returns and non-monetary transactions such as stock and stock options issued for services and beneficial conversion features of notes payable. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

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

Allowances for Product Returns. Allowances for product returns are recorded at the time product is shipped. These accruals are based upon the historical return rate since the inception of our network marketing program in the third quarter of 2003, and the specific historical return patterns by product. Our 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, 2006, orders shipped that are subject to our 60-day money back guarantee were approximately $61,447. 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, 2006 and 2005 was $45,327 and $20,314, respectively. To date, product expiration dates have not played any role in product returns, and we do not expect they will in the future because it is unlikely that we will ship product with an expiration date earlier than the latest allowable product return date.

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 $41,655 for obsolete inventory as of December 31, 2006 and $16,879 as of December 31, 2005.

Stock Based Compensation. Effective January 1, 2006, we adopted 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 year ended December 31, 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 2006 year followed by the results of 2005 year.

For year ended December 31, 2006, compared the year ended December 31, 2005.

Net Sales. Net sales were $2,148,420 compared to $1,227,803, an increase of 75%. The increase in sales was the result of executing our sales and marketing plan of increasing our distributor and customer base along with creating greater brand recognition, along with the full years sales from the three products that were released in September 2005. 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, 2006		2005	
Product Category	**% of Sales**		**% of Sales**	
HYDRATE (formerly eForce® sports drink)	11	%	25	%
BUILD (formerly VitaPro® nutrition shake)	5	%	10	%
EAT	18	%	7	%
DRINK	28	%	6	%
SNACK	10	%	11	%
Vitamins and minerals (including SUPPORT)	13	%	29	%
Other educational materials, apparel	15	%	12	%

Gross Profit. Gross profit increased to $1,372,658 from $686,887, an increase of 100%. Gross profit as a percentage of revenue (gross margin) increased to 64% compared to 56%, a result of higher sales of the EDS products that have higher gross margins and offset by charges that we took against inventory of $123,511. The overall increase in gross profit also reflects the increase in net revenue.

Sales and Marketing Expenses. Sales and marketing expenses decreased to $2,626,613 from $2,856,351 a decrease of 8%. Sales and marketing activities decreased due to our focused efforts to attract multilevel marketing industry leaders to become independent distributors of ours and the rebranding strategy in the prior year. We incurred $483,987 during the year ended December 31, 2006, compared to $952,026 in the year ended December 31, 2005, in costs to attract experienced sales leaders for our distributor network, which was offset by the increase in the amount we paid our Independent Distributors in sales commissions as a result of the increased sales. We expect to continue to incur higher sales and marketing expenses for the next 12 months as we implement our marketing plan.

General and Administrative Expenses. General and administrative expenses were $3,275,689 compared to $2,844,633, or an increase of 15%. The increase in 2006 is a result of expenses associated with the recording of Stock Based Compensation Expense in the Statement of Operations in the year ended December 31, 2006 while it was only disclosed in the notes to the financial statements in the year ended December 31, 2005. Additionally, the Company recorded an expense of $540,000 for the amendment to Sanford Greenberg s employment contract. These increases were offset by decreases in the expense of business consultants used in the web development, public company expenses and lower executive compensation. 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 duties by Mr. Pougnet.

Research and Development Expenses. Research and development expenses increased to $73,921 from $70,073. We are continuing to research and develop ingredients and manufacturing technologies for our product line. We continued to engage in a strategic alliance agreement with UTEK Corporation until October 2006, a technology transfer company to assist us with introductions to university research ingredients and processes. We also engaged a number of authorities on the Jujube fruit, the principle ingredient in the new product, Bazi, that the Company launched in January 2007.

Interest Expense. Interest expense was $33,888 compared with $2,841, an increase of 1,093% due to the short term bridge note that the company entered into in November 2006.

Net Loss. Our net loss was $4,669,449 or $(0.48) per share, compared to $5,015,877 or $(0.57) per share, a decrease of 7% . The decrease in net loss is a result of increased sales and gross margin.

Liquidity and Capital Resources

To date, our operating funds have been provided primarily from sales of our common stock ($11,280,587), and by loans from our founder, our chairman and by various stockholders ($4,239,209), through December 31, 2006, and to a lesser degree, cash flow provided by sales of our products.

During March 2005, we obtained a $170,000 short-term loan from our Chairman, a $25,000 short-term loan from a significant shareholder and a $170,000 short-term loan from an unrelated party for a total of $365,000. All of these loans provided for interest at 10% per annum. These loans were paid in full with accrued interest of $2,841 on April 12, 2005 leaving us with no short-term or long-term debt at that time.

On April 8, 2005 we closed a public offering of 1,500,000 units that was comprised of two shares of common stock and one Class A common stock warrant to purchase common stock at $4.50 and one Class B warrant to purchase common stock at $6.00 for net proceeds of $7,742,682.

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 to be 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 placement transaction, and on March 27, 2007, we closed the transaction. At the time of closing, we paid in full the short-term loans of $500,000 plus accrued interest of $13,424.66 leaving us with no short-term or long-term debt at this time, other than trade accounts payable and other accrued liabilities.

We used $2,992,028 of cash for operations in the year ended December 31, 2006, and we used $4,936,422 of cash for operations in the year ended December 31, 2005. 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, 2006, we had $76,147 in cash and cash equivalents available to fund future operations as well as a commitment from a lender to fund the company $250,000 by January 15, 2007. Net working capital decreased to ($409,328) at December 31, 2006, from $3,310,034 at December 31, 2005. This decrease in working capital was the result of the continued losses from operations as sales have not increased sufficiently to sustain the expenses of the company. Additionally, the accrued payables include an amount of $540,000 that is payable to an employee for an amendment to his employment contract that will be satisfied with the issuance of restricted stock. From the initial purchase of our technology system in 2001 through December 31, 2006, we have spent $321,530 on technology system upgrades. Subsequent to December 31, 2006 we completed a private placement transaction with accredited individual and institutional investors for gross proceeds of $2,000,000. We used these funds to retire all short-term debt and fund our working capital requirements.

Our independent auditors have noted in their reports on our financial statements as of December 31, 2006 and 2005 and for the years then ended, that there is substantial doubt regarding our ability to continue as a going concern. To date this contingency has not affected our ability to secure funding for our operations; however, going forward, we may experience more difficulty in raising additional funds to operate our Company.

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 12 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, 2006.

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

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management s control objectives.

With the participation of management, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures at the conclusion of the period ended December 31, 2006. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in ensuring that material information required to be disclosed is included in the reports that we file with the Securities and Exchange Commission.

Changes in Internal Controls

There were no significant changes in the Company s internal controls or in other factors that could significantly affect those controls subsequent to the date of this evaluation, including any corrective actions with regard to significant deficiencies and weaknesses.

ITEM 8B. OTHER INFORMATION

Entry into a Material Definitive Agreement Sanford D. Greenberg Amended Employment Agreement

Effective March 26, 2007, the Registrant entered into an Amendment to the Employment Agreement with Sanford Greenberg, a copy of which has been filed herewith. The Amendment provides for the assignment of the benefits and obligations of the Employee Agreement from XELR8 Holdings, Inc. to XELR8, Inc. The Amendment

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provides that Mr. Greenberg will receive annual compensation of $1. Additionally, the Employee waives any and all rights to participate in any incentive executive bonus plan of Employer, but will receive a bonus equal to one percent (1%) of the net sales of Employer to be paid monthly in arrears on the first normal payroll date subsequent to November 1, 2006 for a period of 12 years. Further, Employee shall receive 1,500,000 restricted shares of XELR8 Holdings, Inc. restricted common stock, and the Employee hereby agrees to waive and forfeit options for 250,000 shares of the Employer s common stock that were granted on April 1, 2004.

Entry into a Material Definitive Agreement John D. Pougnet Amended Employment Agreement

Effective March 26, 2007, the Registrant entered into an Amendment to the Employment Agreement with John D. Pougnet, the company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), a copy of which has been filed herewith. 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 ISOP at an exercise price equal closing market price on the date of this agreement, the Options 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 pursuant to this Agreement. 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.

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
Earnest Mathis, Jr.	46	Chairman	
Douglas Ridley	50	President and Director	
John D. Pougnet	36	Chief Executive Officer and Chief Financial Officer	
Timothy Transtrum	43	Vice President Operations	
David Litt	40	Vice President Sales and Marketing	
Sanjeevkumar Javia	31	Vice President Product Development	
John B. McCandless	58	Director	Audit/Compensation
AJ Robbins	60	Director	Audit/Compensation
Anthony DiGiandomenico	39	Director	Audit/Compensation

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. Mathis and Mr. 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. The Board recommends a vote of FOR the election of each nominee below.

Earnest Mathis, Jr., Chairman. Mr. Mathis was appointed as the Chairman and Chief Executive Officer on March 2, 2005. On October 11, 2006, Mr. Mathis resigned his position as Chief Executive Officer. Prior to the merger with VitaCube Systems, Inc. Mr. Mathis served as Instanet s Chief Executive Officer and a director from February 2001 to June 2003. Mr. Mathis is the current President and a Director of Inverness Investments, Inc., a private financial consulting company and he has served in these positions since January 1987. Mr. Mathis is currently serving as Manager of Amerigolf, LLC, a private golf course development company, and he has served in this position since February 1998. Mr. Mathis is the Founder and manager of Waveland Ventures, LLC, a private capital management company managing governmental economic redevelopment programs and he has served in this position since March 2002.

Mr. Mathis is a manager with Waveland Colorado Ventures, LLC, a Colorado certified capital company, that invests and loans money to Colorado-based businesses and he has served in this position since March 2002. Mr. Mathis is currently Chief Executive Officer, Chief Financial Officer and a Director for Petramerica, a public development stage company, and he has served in this position since April 2002. Mr. Mathis was managing Director of Integrated Medical Services, Inc., a private medical waste transport company, from January 1997 to December 2004. From February 2001 through December 2002, Mr. Mathis served as President, Chief Financial Officer and a Director of Care Concepts I, Inc., a public development stage company, that acquired Ibid America, Inc in December 2002.

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. Mr. Ridley is currently President of Simply Because, a gift products network marketing company, and since 1997, has been President of Chad Management Co., LLC, a nutritional products network marketing company.

John D. Pougnet, Chief Executive Officer and Chief Financial Officer. Mr. Pougnet was appointed 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 firm 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 & Touche from September 1996 to May 2001.

Timothy Transtrum, Vice President of Operations. Mr. Transtrum joined us on February 2, 2004, as Operating Officer. Prior to that, he was President and Chief Operating Office for NutriHealth USA, a division of the global nutrition company, Natural Health Holdings LTD, from May 2002 to February 2004. From February 1999 to May 2000, he served as Vice President of Operations and International Development for Oasis Wellness Network, a network marketing company. From February 1998 to February 2004, Mr. Transtrum also was President of TF Transtrum Associates, an operations and retention consulting firm. From 1991 to 1998, he worked for Melaleuca Inc., a network marketing company, during which time he became Director of International Operations.

David Litt, Vice President of Sales and Marketing. Mr. Litt joined us as our Vice President of Sales and Marketing on October 1, 2004. Mr. Litt was an independent consultant for us from February 2004 until October 1, 2004, through his consulting business. Mr. Litt operated an independent consulting business from January 2003 until October 2004. From October 1998 to January 2003, Mr. Litt was the Chief Sales and Marketing Officer for Oasis Wellness Network, a network marketing company, and from June 1996 to October 1998 he was the Vice President of Marketing for Mercantile Stores, Inc., a retail department store.

Sanjeevkumar Javia, Vice President of Product Development. Mr. Javia joined the Company in July 2001 and manages and oversees product development and product training and is a liaison to the Company s external scientific and medical research resources. Prior to joining the Company, Mr. Javia was the Director of Affiliate Publishers for Worldpages.com, an independent publisher, from September 1998 to July 2001.

John B. McCandless, Director. Mr. McCandless was appointed as a director on February 19, 2004, and serves on our Audit and Compensation Committees. He is currently providing consulting services to 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.

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 registered with Public Company Accounting Oversight Board.

Anthony DiGiandomenico, Director. Mr. DiGiandomenico was appointed as a director on May 25, 2004, and serves on our Audit and Compensation Committees. 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 and the Compensation Committee.

The Audit Committee oversees our conduct of the 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. The Audit Committee met five times during 2006.

The Compensation Committee is comprised of Messrs. Robbins, McCandless and DiGiandomenico. 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 once during 2006 and approved various other matters by unanimous written consent.

Attendance at Meetings

The Board held six meetings during 2006. Various matters were also approved by the unanimous written consent of the directors during the last fiscal year. Each director attended at least 80% 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.

Nomination of Directors

The full Board acts in place of a nominating committee to investigate qualified nominees for election to the Board when vacancies occur.

Board Charters

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

The Board 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, insurance 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.

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 that 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. Typically the current compensation is set at a base level, with variances based on the achievement of certain benchmarks.

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 that were granted what is typically a long-term compensation award, stock options, in lieu of short term cash compensation, were vested into their options over a year long period. 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. 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.

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 2006 and 2005.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(7)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(1)	Total ($)
John Pougnet, Chief Executive Officer and Chief Financial Officer(5)	2006	116,891	0	0	138,878	0	0	0	255,769
	2005	40,385	0	0	0	0	0	0	40,385
Earnest Mathis, Jr., Chairman(2)	2006	91,269	0	0	59,988	0	0	9,231	160,488
	2005	122,845	0	0	0	0	0	9,831	132,676
Sanford D. Greenberg, Founder(6)	2006	95,192	0	540,000	59,988	0	0	15,231	710,411
	2005	150,000	0	0	0	0	0	18,000	168,000
Douglas Ridley, President(3)	2006	163,814	0	0	0	0	0	0	163,814
	2005	100,962	25,000	0	0	0	0	0	125,962
David Litt, Vice President Sales and Marketing(5)	2006	145,817	0	0	0	0	0	5,308	151,125
	2005	173,077	25,000	0	0	0	0	462	198,539

Timothy Transtrum, Vice	2006	122,209	0	0	0	0	0	5,225	127,434
President of Operations	2005	130,000	0	0	0	0	0	0	130,000
Sanjeevkumar Javia, Vice									
President of Product	2006	107,936	0	0	0	0	0	0	107,936
Development	2005	102,714	0	0	0	0	0	0	102,714

(1) Includes auto allowance.

(2) Mr. Mathis joined the Company in March 2005 as Chief Executive Officer. On October 11, 2006 he resigned his po