

BAZI INTERNATIONAL, INC.  
Form 10-Q  
August 16, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT

For the transition period from N/A to N/A

Commission file No. 000-50875

BAZI INTERNATIONAL, INC.  
(Exact name of small business issuer as specified in its charter)

Nevada  
(State of incorporation)

84-1575085  
(I.R.S. Employer Identification Number)

1730 Blake Street, Suite 305  
Denver, CO 80202  
(Address of principal executive offices)

(303) 316-8577  
(Issuer's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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|                         |                          |                         |                                     |
|-------------------------|--------------------------|-------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer       | <input type="checkbox"/>            |
| Non-Accelerated filer   | <input type="checkbox"/> | Small reporting company | <input checked="" type="checkbox"/> |

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

Yes ☐ No ☒

As of August 16, 2010 the Company had 18,367,170 shares of its \$.001 par value common stock issued and outstanding.

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PART I  
FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

BAZI INTERNATIONAL, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

|                                                                                                                                    | June 30,<br>2010 | December 31,<br>2009* |
|------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------------|
| <b>ASSETS</b>                                                                                                                      |                  |                       |
| Current assets:                                                                                                                    |                  |                       |
| Cash and cash equivalents                                                                                                          | \$ 241,278       | \$ 45,289             |
| Accounts receivable, net of allowance for doubtful accounts of \$838 and \$1,205, respectively                                     | 6,924            | 8,754                 |
| Inventory, net of allowance for obsolescence of \$82,153 and \$113,790, respectively                                               | 126,500          | 222,847               |
| Prepaid expenses and other current assets                                                                                          | 64,102           | 173,933               |
| Total current assets                                                                                                               | 438,804          | 450,823               |
| Intangible assets, net                                                                                                             | 25,958           | 26,973                |
| Property and equipment, net                                                                                                        | 18,046           | 17,224                |
| Deferred Finance Costs                                                                                                             | 416,658          | -                     |
| Total assets                                                                                                                       | \$ 899,466       | \$ 495,020            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>                                                                              |                  |                       |
| Current liabilities:                                                                                                               |                  |                       |
| Accounts payable                                                                                                                   | \$ 440,441       | \$ 554,675            |
| Return reserve                                                                                                                     | 63,756           | 134,836               |
| Accrued payroll and benefits                                                                                                       | 47,162           | 60,668                |
| Accrued interest                                                                                                                   | 42,691           | -                     |
| Other accrued expenses                                                                                                             | 83,227           | 114,973               |
| Total Current Liabilities                                                                                                          | 677,277          | 865,152               |
| Long term Liabilities                                                                                                              |                  |                       |
| Senior Notes Payable                                                                                                               | 1,348,692        | -                     |
| Total Liabilities                                                                                                                  | 2,025,969        | 865,152               |
| Commitments and Contingencies                                                                                                      |                  |                       |
| <b>SHAREHOLDERS' EQUITY (DEFICIT):</b>                                                                                             |                  |                       |
| Preferred stock, authorized 5,000,000 shares, \$.001 par value, none issued or outstanding                                         | -                | -                     |
| Common stock, authorized 50,000,000 shares, \$.001 par value 15,867,170 and 15,697,170 shares issued and outstanding, respectively | 15,867           | 15,697                |
| Additional paid in capital                                                                                                         | 24,850,959       | 24,215,754            |
| Accumulated (deficit)                                                                                                              | (25,993,329)     | (24,601,583)          |

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|                                            |              |            |
|--------------------------------------------|--------------|------------|
| Total shareholders' equity (deficit)       | (1,126,503 ) | (370,132 ) |
| Total liabilities and shareholders' equity | \$ 899,466   | \$ 495,020 |

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

\* Derived from audited Financial Statements.

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BAZI INTERNATIONAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)  
 Three and Six Months Ended June 30, 2010 and 2009

|                                                               | For the<br>Three Months<br>Ended<br>June 30, 2010 | For the<br>Three Months<br>Ended<br>June 30, 2009 | For the<br>Six Months<br>Ended<br>June 30, 2010 | For the<br>Six Months<br>Ended<br>June 30, 2009 |
|---------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Net sales                                                     | \$ 583,276                                        | \$ 1,733,282                                      | \$ 1,326,129                                    | \$ 3,049,705                                    |
| Cost of goods sold                                            | 193,088                                           | 415,765                                           | 375,690                                         | 751,469                                         |
| Gross profit                                                  | 390,188                                           | 1,317,517                                         | 950,439                                         | 2,298,236                                       |
| Operating expenses:                                           |                                                   |                                                   |                                                 |                                                 |
| Selling and marketing expenses                                | 460,343                                           | 1,022,517                                         | 1,228,124                                       | 2,024,058                                       |
| General and administrative expenses                           | 484,947                                           | 569,735                                           | 970,510                                         | 1,180,703                                       |
| Research and development expenses                             | 6,200                                             | 98                                                | 10,213                                          | 422                                             |
| Depreciation and amortization                                 | 14,519                                            | 9,800                                             | 18,386                                          | 19,600                                          |
| Total operating expenses                                      | 966,009                                           | 1,602,150                                         | 2,227,233                                       | 3,224,783                                       |
| Net (loss) from operations                                    | (575,821 )                                        | (284,633 )                                        | (1,276,794 )                                    | (926,547 )                                      |
| Other income (expense)                                        |                                                   |                                                   |                                                 |                                                 |
| Interest income                                               | 113                                               | 1,310                                             | 288                                             | 5,032                                           |
| Interest expense                                              | (71,797 )                                         | -                                                 | (115,240 )                                      | -                                               |
| Total other income (expense)                                  | (71,684 )                                         | 1,310                                             | (114,952 )                                      | 5,032                                           |
| Net (loss)                                                    | \$ (647,505 )                                     | \$ (283,323 )                                     | \$ (1,391,746 )                                 | \$ (921,515 )                                   |
| Net (loss) per common share                                   |                                                   |                                                   |                                                 |                                                 |
| Basic and diluted net (loss) per share                        | \$ (0.04 )                                        | \$ (0.02 )                                        | \$ (0.09 )                                      | \$ (0.06 )                                      |
| Weighted average common shares outstanding, basic and diluted | 15,758,818                                        | 15,697,170                                        | 15,728,164                                      | 15,697,170                                      |

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

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BAZI INTERNATIONAL, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

|                                                                                             | For the<br>Six Months<br>Ended<br>June 30, 2010 | For the<br>Six Months<br>Ended<br>June 30, 2009 |
|---------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Cash flows from operating activities:                                                       |                                                 |                                                 |
| Net income (loss)                                                                           | \$ (1,391,746 )                                 | \$ (921,515 )                                   |
| Adjustments to reconcile                                                                    |                                                 |                                                 |
| Depreciation and amortization                                                               | 18,386                                          | 19,600                                          |
| Loss on disposal of asset                                                                   | -                                               | -                                               |
| Stock and stock options issued for services                                                 | 202,869                                         | 99,300                                          |
| Amortization of bridge and senior secured note discount and deferred financing cost         | 69,530                                          | -                                               |
| Change in valuation reserve on other current assets                                         | (64,313 )                                       |                                                 |
| Change in allowance for doubtful accounts                                                   | (367 )                                          | 26                                              |
| Change in allowance for inventory obsolescence                                              | (31,637 )                                       | 1,395                                           |
| Change in allowance for product returns                                                     | (71,080 )                                       | -                                               |
| Changes in assets and liabilities:                                                          |                                                 |                                                 |
| Accounts receivable                                                                         | 2,197                                           | 3,746                                           |
| Inventory                                                                                   | 127,984                                         | (18,719 )                                       |
| Other current assets                                                                        | 174,144                                         | 144,577                                         |
| Accrued interest                                                                            | 42,691                                          | -                                               |
| Accounts payable and accrued expenses                                                       | (159,486 )                                      | (75,866 )                                       |
| Net cash (used) by operating activities                                                     | (1,080,828 )                                    | (747,456 )                                      |
| Cash flows from investing activities:                                                       |                                                 |                                                 |
| Capital expenditures                                                                        | (18,193 )                                       | (81,434 )                                       |
| Net cash (used) by investing activities                                                     | (18,193 )                                       | -                                               |
| Cash flow from financing activities:                                                        |                                                 |                                                 |
| Issuance of senior secured convertible notes, net of fees                                   | 1,065,010                                       | -                                               |
| Proceeds from bridge loan financing                                                         | 230,000                                         | -                                               |
| Net cash provided from financing activities                                                 | 1,295,010                                       | -                                               |
| NET INCREASE (DECREASE) IN CASH                                                             | 195,989                                         | (828,890 )                                      |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD                                          | 45,289                                          | 1,576,510                                       |
| CASH AND CASH EQUIVALENTS, END OF THE PERIOD                                                | \$ 241,278                                      | \$ 747,620                                      |
| SUPPLEMENTAL CASH FLOW DISCLOSURE                                                           |                                                 |                                                 |
| Accrued interest paid by issuance of senior notes                                           | \$ 3,019                                        | \$ -                                            |
| Discount on senior secured convertible notes payable recorded to additional paid in capital | \$ 432,506                                      | \$ -                                            |
| Loan fees incurred from the issuance of convertible notes                                   | \$ (438,509 )                                   | \$ -                                            |
| Bridge notes paid by issuance of senior notes                                               | \$ 230,000                                      | \$ -                                            |
| Interest paid in cash                                                                       | \$ -                                            | \$ -                                            |

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





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BAZI INTERNATIONAL, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION, OPERATIONS AND BASIS OF PRESENTATION

Organization and Business

The consolidated financial statements include those of Bazi International, Inc., formerly named XELR8 Holdings, Inc., and its wholly owned subsidiaries, VitaCube Systems, Inc., XELR8, Inc. (dba Bazi, Inc.), XELR8 International, Inc. and XELR8 Canada, Corp. Bazi International, Inc. and its wholly owned subsidiaries are collectively referred to herein as the “Company.”

We develop, market, sell and distribute Bazi®, the Company’s flagship liquid nutritional supplement drink. Until January 18, 2010, our principal channel of distribution was through a multilevel distributor network, which generated \$7.4 million and \$6.2 million in sales in 2008 and 2009, respectively. The Company terminated its multilevel distributor network compensation plan in favor of a retail and direct-to-consumer, online sales model that is expected to result in lower cost of sales of our products compared to the cost of sales to support a multilevel distribution model. Our plan is to distribute our products through retail channels, online, through direct sales to consumers, and through our existing database of independent distributors. The Company has also developed a comprehensive marketing and public relations strategy to market its products. As a result of the determination to implement our new marketing strategy, and the termination of our multilevel distributor model, most of our top distributors terminated their relationship with the Company during the first quarter of 2010. Total sales for the quarter ended June 30, 2010 were therefore materially lower than our sales during the comparable quarter in 2009 and will be materially lower for the year ended December 31, 2010 relative to total sales for the year ended December 31, 2009.

Certain products are also sold directly to professional and Olympic athletes and professional sports teams. Our objective is to continue to develop an endorser program using professional and Olympic athletes to build brand awareness and promote the Company’s products.

We currently focus our sales and marketing efforts on Bazi®. We also offer eight different nutritional products and supplements that have historically been sold under the XELR8™ brand. We have discontinued the XELR8™ brand, including many of our nutritional products, and instead are focusing our sales and marketing efforts on Bazi®. Those nutritional products and supplements that we determine to continue to market and sell will be repositioned under the Bazi® brand, thereby capitalizing on the interest in the Bazi® brand created as a result of the Company’s comprehensive marketing and public relations efforts.

Basis of Presentation

The condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. The condensed interim financial statements and notes thereto should be read in conjunction with the financial statements and the notes thereto, included in the Company’s Annual Report to the Securities and Exchange Commission for the fiscal year ended December 31, 2009, filed on Form 10-K on March 31, 2010.

The accompanying condensed interim financial statements have been prepared, in all material respects, in conformity with the standards of accounting measurements set forth in FASB Accounting Standards Codification (the ASC Topic

270) and reflect, in the opinion of management, all adjustments necessary to summarize fairly the financial position and results of operations for such periods in accordance with accounting principles generally accepted in the United States of America. All adjustments are of a normal recurring nature. The results of operations for the most recent interim period are not necessarily indicative of the results to be expected for the full year.

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The Company has been developing awareness of its products through its marketing plan and product innovation. With time and given its new sales and marketing strategy, management believes that demand for its products will develop to allow the Company to become profitable, through the development of its customer base. At December 31, 2009, the Company's existing cash resources were insufficient to provide for our short term working capital requirements and to fund the successful execution of our business plan of sufficiently increasing the number of customers and revenue, and consequently achieving profitability. On March 5, 2010, the Company completed the initial closing of a secured convertible note financing ("Note Financing"). At the closing, we issued \$1.23 million in aggregate principal amount of senior secured convertible notes ("Senior Notes"). The purchase price of the Senior Notes consisted of \$1,000,500 of gross proceeds the cancellation of \$230,000 in aggregate principal amount (and related accrued interest of \$3,019) of certain bridge notes previously issued by the Company to certain lenders in January 2010, and before deferred financing costs of \$318,311.

On June 7, 2010, the Company completed a second closing of Senior Notes resulting in gross proceeds of \$500,000 (the "Second Closing"), and before deferred financing costs of \$120,198. Subsequent to the balance sheet date, on July 2, 2010, the Company completed a third closing of the Senior Notes resulting in gross proceeds of \$500,000, and before deferred finance costs of \$80,256.

The accompanying balance sheet assumes the continued operations of the Company, which in turn is dependent on an increase in revenue. The Company's ability to achieve positive cash flow resulting from its new business plan is uncertain.

## Principles of Consolidation

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

## Use of Estimates

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

## 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 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.

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## Allowances for Product Returns

Allowances for product returns are recorded at the time product is shipped. Prior to February 28, 2010, we offered a 60-day, 100% money back unconditional guarantee to all customers and independent distributors who have never before purchased products from us. All other products 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. As a result of the termination of our multilevel marketing network model, our return policy changed on March 1, 2010, to a 20 day money back guarantee.

As a result of the change in the return policy, the accrual is based on two distinct pools of historic sales. There are the sales that are still subject to the old, network marketing program, these are based upon the historical return rate since the inception of our network marketing program in the third quarter of 2003, and the specific historical return patterns by product. Our monthly return rate since the third quarter of 2003 has varied from 0.7% to 7.7% of our net sales, and was 2.78% as of February 28, 2010 when the last sales were made in the network marketing channel. Additionally, there are the sales from March 1, 2010 that are now subject to the new return policy. As of June 30, 2010, the Company has recorded a return percentage of 1.18% in calculating the provision for sales subject to the 20 day return policy. Management believes that the current provision will be adequate.

We will monitor our return estimate on an ongoing basis and may revise allowances to reflect our experience. Our reserve for product returns at the end of the six months ended June 30, 2010 was \$63,756. To date, product expiration dates have not played any role in product returns, and we do not anticipate that they will be in the future because of the marketing focus on Bazi®, a product that has a one year shelf life and therefore it is unlikely for us to have expired product returned to us.

## Inventory

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

Inventory is comprised of the following:

|                                  | June 30,<br>2010 | December 31,<br>2009 |
|----------------------------------|------------------|----------------------|
| Raw materials                    | \$ 12,567        | \$ 51,843            |
| Finished goods                   | 196,086          | 284,794              |
| Provision for obsolete inventory | (—82,153)        | (113,790)            |
|                                  | \$ 126,500       | \$ 222,847           |

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

|                                 | June 30,<br>2010 | December 31,<br>2009 |
|---------------------------------|------------------|----------------------|
| Balance as of January 1         | \$ 113,790       | \$ 116,095           |
| Addition to provision           | 41,038           | 23,126               |
| Write-off of obsolete inventory | (72,675)         | (25,431)             |

\$ —82,153 \$ 113,790

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## Intangible Assets

Intangible assets, to date, have consisted of the direct costs incurred for application fees and legal expenses associated with trademarks on the Company's products. The Company's intangible assets, consisting of trademarks and patent costs, are being amortized over their estimated life of 15 years. The Company evaluates the useful lives of its intangible assets annually and adjusts the lives according to the expected useful life. An impairment was not deemed necessary in either 2010 or 2009.

## Deferred Finance Costs

Deferred finance costs, to date, have consisted of the direct costs incurred for commissions, application fees and legal expenses associated with the origination of the Company's Senior Notes. The deferred finance costs are being amortized over the 5 year term of the loan on a straight line basis, and is expected to be \$73,641 for the year ended December 31, 2010. The Company incurred \$438,509, excluding the \$80,256 incurred in the Third Closing, in deferred finance costs, and has amortized \$21,851 to interest expense for the six months ended June 30, 2010.

## Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740. Under the asset and liability method of ASC Topic 740 deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

Based on management's assessment of ASC Topic 740, the Company does not have an accrual for uncertain tax positions as of June 30, 2010. There have been no income tax related interest or penalties assessed or recorded and if interest and penalties were to be assessed, the Company would charge interest and penalties to income tax expense. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date. The Company files income tax returns in the U.S. and various state jurisdictions and there are open statutes of limitations for taxing authorities to audit the Company's tax returns from 2006 through the current period.

## Stock-Based Compensation

Total share-based compensation expense, for all of the Company's share-based awards recognized for the six months ended June 30, 2010, was \$202,869 as compared to \$99,300 for the six months ended June 30, 2009.

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

|                          | Six months ended<br>June 30, 2010 | Six months ended<br>June 30, 2009 |
|--------------------------|-----------------------------------|-----------------------------------|
| Stock price volatility   | 142.0 – 149.5%                    | 103.0 – 122.0%                    |
| Risk-free rate of return | 1.25 – 2.21%                      | 0.50 – 0.69%                      |

|                       |                  |                  |
|-----------------------|------------------|------------------|
| Annual dividend yield | 0%               | 0%               |
| Expected life         | 2.5 to 4.5 Years | 1.5 to 4.5 Years |

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Net Loss Per Share

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

Recent Accounting Pronouncements

We have reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on our financial condition or the results of our operations.

NOTE 2. SHAREHOLDERS' EQUITY

The authorized capital stock of the Company consists of 50,000,000 shares of common stock at \$.001 par value and 5,000,000 shares of preferred stock at \$.001 par value. The holders of the common stock are entitled to receive, when and as declared by the Board of Directors, dividends payable either in cash, in property or in shares of the common stock of the Company. Dividends have no cumulative rights and dividends will not accumulate if the Board of Directors does not declare such dividends. Through June 30, 2010, no dividends have been declared or paid by the Company.

On May 25, 2010 the Company granted Sanford Greenberg 170,000 shares of common stock (the "Greenberg Shares") in connection his resignation from the Board of Directors, and to incentivize Mr. Greenberg to continue to promote, market and sell the Company's products, and 325,000 options previously issued to Mr. Greenberg were cancelled. The Greenberg Shares are restricted from resale.

NOTE 3. SENIOR SECURED CONVERTIBLE NOTES

On March 5, 2010, the Company consummated the sale of Senior Notes in the aggregate principal amount of \$1.23 million ("Note Financing") to a limited number of accredited investors. The purchase price of the Senior Notes consisted of \$1,000,500 of gross proceeds before deferred financing costs of \$318,311 and the cancellation of \$230,000 in aggregate principal amount (and related accrued interest of \$3,019) of the Bridge Notes previously issued by the Company, in which Bridge Notes were converted into Senior Notes in connection with the Note Financing. Net proceeds to the Company after both the deduction of selling commissions and expenses of the Note Financing were approximately \$915,000 after giving effect to the issuance of the Bridge Notes. The Bridge and Senior Notes contained a beneficial conversion feature at the date of issue as a result of the market price of the stock trading at a price higher than the conversion price of \$0.15, resulting in the recording of the Bridge and Senior Notes at a discount of \$21,333 and \$411,173, respectively. The discount on the Bridge was fully amortized at conversion, and the discount on the Senior Notes will be amortized on a straight-line basis, which approximates the effective interest method, over the term of the note, resulting in additional interest expense of \$47,679 for the six months ended June 30, 2010.

On June 7, 2010, the Company completed a second closing of Senior Notes resulting in gross proceeds of \$500,000 (the "Second Closing"), and before deferred financing costs of \$120,198. Subsequent to the balance sheet date, on July 2, 2010, the Company completed a third closing of the Senior Notes resulting in gross proceeds of \$500,000, and before deferred finance costs of \$80,256.



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|                                                                       | June 30,<br>2010 |
|-----------------------------------------------------------------------|------------------|
| Senior Convertible Notes issued                                       | \$ 1,500,500     |
| Bridge Notes converted (including accrued interest)                   | 233,019          |
| Total senior notes outstanding, at par                                | 1,733,519        |
| Beneficial conversion feature allocated to additional paid in capital | (411,173)        |
| Net discounted senior notes                                           | 1,322,346        |
| Amortization of note discount                                         | 26,346           |
| Senior secured notes balance                                          | \$ 1,348,692     |

The Senior Notes issued on March 5, 2010 are due on March 5, 2015, and the Senior Notes issued on June 7, 2010 are due on June 7, 2015. Both issuances accrue interest at the rate of 10% per annum payable semi-annually in arrears on June 15 and December 15 of each year, and interest is payable, at the option of holders of a majority of the aggregate principal amount of outstanding Senior Notes, in either cash or additional Senior Notes. As of June 30, 2010, the Company inadvertently failed to make the first interest payment. As a result, the Notes related to the First and Second Closing accrued an additional three percent (3%) interest until they were paid on August 12, 2010. At any given time (prior to the maturity date) the holders of the Senior Notes may elect to convert the outstanding principal and accrued interest from either issuance into shares of the Company's common stock, \$0.001 par value (the "Common Stock"), at a conversion price of \$0.15 per share or 11,556,793 shares, subject to certain adjustments. Both issuances of the Senior Notes are secured by the intangible assets of the Company.

## NOTE 4. COMMITMENTS

On April 24, 2010 the Company entered into a lease for corporate office space for the period commencing June 1, 2010 to July 31, 2013. As of June 30, 2010, the Company has a total remaining obligation under the lease of \$187,161.

## NOTE 5. SUBSEQUENT EVENTS

On July 2, 2010, the Company completed the Note Financing by issuing \$500,000 of Senior Notes (the "Final Closing") and before deferred finance costs of \$80,256. Net proceeds to the Company from the Final Closing after the deduction of selling commissions, and expenses of the Final Closing, were approximately \$419,744. The Senior Notes issued at the Final Closing contained a beneficial conversion feature at the date of issue as a result of the market price of our common stock trading at a price higher than the conversion price of \$0.15, which will result in the recording of the Senior Notes at a discount of \$233,333. The Secured Notes are due July 2, 2015 and accrue interest at the rate of 10% per annum payable semi-annually in arrears on June 15 and December 15 of each year. Interest is payable, at the option of holders of a majority of the aggregate principal amount of outstanding Secured Notes, in either cash or additional Secured Notes. At any given time (prior to the maturity date) the holders of the Senior Notes may elect to convert the outstanding principal and accrued interest into shares of our Common Stock at a conversion price of \$0.15 per share, subject to certain adjustments. We have the option, after effectiveness of the Registration Statement (as defined below), to repay all outstanding principal and interest under the Secured Notes if the volume weighted average price of our shares of Common Stock has exceeded \$1.00 for the preceding 30 consecutive trading days. The Company intends to use the proceeds from the issuance of the Secured Note to implement the Company's marketing strategy, for operating expenses and for general corporate purposes.

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In connection with the initial closing of the issuance of secured convertible notes on March 5, 2010, we entered into a Placement Agency Agreement with the placement agent involved in the offering (the "Placement Agent"). The Placement Agent agreed to act on a best efforts basis with respect to the sale of Secured Notes in an aggregate principal amount of up to \$2,000,000 (with an over-allotment option of up to \$1,000,000). Under the Placement Agency Agreement, the Placement Agent receives a placement fee equal to 10% of the gross proceeds of the Secured Notes sold by the Placement Agent and a non-accountable expense allowance of 3% of the gross proceeds of the Note Financing. As a result of the consummation of the Final Closing on July 2, 2010, we issued 2,500,000 shares of Common Stock to the Placement Agent.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Cautionary Note Regarding Forward-Looking Statements

This report contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and is subject to the safe harbor created by those sections. We intend to identify forward-looking statements in this report by using words such as "believes," "intends," "expects," "may," "will," "should," "plan," "projected," "contemplates," "anticipates," "estimates," "predicts," "potential," "continue," or similar. These statements are based on our beliefs as well as assumptions we made using information currently available to us. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Because these statements reflect our current views concerning future events, these statements involve risks, uncertainties, and assumptions. Actual future results may differ significantly from the results discussed in the forward-looking statements. These risks include changes in demand for our products, changes in the level of operating expenses, our ability to expand our network of distributors, changes in general economic conditions that impact consumer behavior and spending, product supply, the availability, amount, and cost of capital to us and our use of such capital, and other risks discussed in this report. Additional risks that may affect our performance are discussed under "Risk Factors Associated with Our Business" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. Readers are cautioned not to place undue reliance on the forward-looking statements contained in this report.

Overview

We develop, market, sell and distribute Bazi®, the Company's flagship liquid nutritional supplement drink. Until January 18, 2010, our principal channel of distribution was through a multilevel distribution network, which generated \$7.4 million and \$6.2 million in sales in 2008 and 2009, respectively. The Company terminated its multilevel distribution network compensation plan in favor of a retail and direct-to-consumer, online sales model that is expected to result in lower cost of sales of our products compared to the cost of sales to support a multilevel distributor model. Our plan is to distribute our products through retail channels, online, through direct sales to consumers, and through our existing database of independent distributors. The Company has also developed a comprehensive marketing and public relations strategy to market its products. As a result of the determination to implement our new marketing strategy, and the termination of our multilevel distributor model, most of our top distributors terminated their relationship with the Company during the first quarter of 2010. Total sales for the quarter ended June 30, 2010 were therefore substantially lower than our sales during the comparable quarter in 2009, and will be substantially lower for the year ended December 31, 2010 is therefore expected to be materially lower relative to total sales for the year ended December 31, 2009.

Certain products are also sold directly to professional and Olympic athletes and professional sports teams. Our objective is to continue to develop an endorser program using professional and Olympic athletes to build brand awareness and promote the Company's products.



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We currently focus our sales and marketing efforts on Bazi®. We also offer 8 different nutritional products and supplements that have historically been sold under the XELR8™ brand. We have largely discontinued the XELR8™ brand, including many of our nutritional products, and instead are focusing our sales and marketing efforts on Bazi®. Those nutritional products and supplements that we determine to continue to market and sell will be repositioned under the Bazi® brand, thereby capitalizing on the interest in the Bazi® brand created as a result of the Company's comprehensive online marketing and public relations efforts.

The description of our business describes the business being conducted by Bazi International, Inc. Instanet discontinued its business prior to the stock-for-stock exchange. The Company is currently listed for quotation on the Over-the-Counter Bulletin Board ("OTCBB") under the symbol XELR.OB. As of June 30, 2010, the Company had nine full time employees.

## Critical Accounting Policies and Estimates

Discussion and analysis of our financial condition and results of operations are based upon financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates; including those related to collection of receivables, inventory obsolescence, sales returns and non-monetary transactions such as stock and stock options issued for services. 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. From the third quarter of 2003 until February 28, 2010, these accruals were based upon the historical return rate of our network marketing program. Our monthly return rate since the third quarter of 2003 has varied from 0.7% to 7.7% of our net sales, and was 2.78% in the quarter ended June 30, 2010, as compared to 3.1% in the year ended December 31, 2009. As a result of the termination of our multilevel marketing network channel, our return policy changed on March 1, 2010 to a 20 day money back guarantee.

Under the terms of our old return policy, we offer a 60-day, 100% money back unconditional guarantee to all customers and independent distributors who have never before purchased products from us. As of June 30, 2010, there are no orders shipped that are subject to our 60-day money back guarantee. 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 subject to return because it is not possible to determine the amount of product that is unopened and undamaged; however, only ten months of sales remain that is still subject to this policy.

Additionally, sales subsequent to March 1, 2010 are now subject to our new return policy. As of June 30, 2010, the Company had \$149,024 in sales subject to the new policy.

Product damaged during shipment is replaced wholly at our cost, which historically has been negligible.

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We monitor our return estimate on an ongoing basis and will revise allowances to reflect our experience under the new policy as well as the reduction in the sales subject to the old policy. Our reserve for product returns at June 30, 2010 was \$63,756, as compared to \$134,836 at December 31, 2009.

**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 \$82,153 for obsolete inventory as of June 30, 2010 and \$113,790 as of December 31, 2009.

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

Effective January 1, 2006, we adopted ASC Topic 718, which requires compensation costs related to share-based transactions, including employee stock options, to be recognized in the financial statements based on fair value. In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of ASC Topic 718 and the valuation of share-based payments for public companies. We have applied the provisions of SAB 107 in its adoption of ASC Topic 718. We adopted the provisions of ASC Topic 718 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 ASC Topic 718. Under the modified prospective transition method, share-based compensation expense for the first quarter of 2006 includes compensation expense for all share-based compensation awards granted prior to, but for which the requisite service has not yet been performed as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of ASC Topic 718. 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 ASC Topic 718.

## Results of Operations

For the three months ended June 30, 2009 compared to the three months ended June 30, 2008.

The discussion below first presents the results of the quarter ended June 30, 2010 followed by the results of the quarter ended June 30, 2009.

**Net Sales.** Net sales for the three months ended June 30, 2010 decreased to \$583,276 as compared to \$1,733,282 for the three months ended June 30, 2009. The decrease in net sales is principally attributable to the termination of the multilevel compensation plan on January 18, 2010, and the resulting loss of distributors caused by the change in business model. As a result, the total number of distributors actually receiving commissions at the end of the quarter ended June 30, 2010 decreased by 352, or 52% compared to the number of distributors actually receiving commissions at the end of the quarter ended March 31, 2010. The Company currently anticipates that the number of distributors actually receiving commissions in the quarter ended September 30, 2010 will continue to decrease relative to the number at June 30, 2010, as the Company fully transitions to its new business model.



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

| Product Category                     | Three Months Ended<br>June 30, |                    |
|--------------------------------------|--------------------------------|--------------------|
|                                      | 2010<br>% of Sales             | 2009<br>% of Sales |
| Bazi®                                | 97%                            | 92%                |
| Legacy Products *                    | 3%                             | 2%                 |
| Other-educational materials, apparel | 0%                             | 6%                 |

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

The Company anticipates that sales of legacy products will decline as the Company discontinues sales of most of its legacy products previously sold under the XELR8™ brand. In addition, although no assurances can be given, the Company anticipates that the decline in sales attributed to the loss of distributors will be partially offset in the short-term by sales in other distribution channels established by the Company in connection with our new business plan, and will be fully offset as the Company's sales gain traction in such other distributions channels in subsequent periods.

**Gross Profit.** Gross profit for the three months ended June 30, 2010 decreased to \$390,188 as compared to \$1,317,517 for the three months ended June 30, 2009. Gross profit as a percentage of revenue (gross margin) decreased to 67% as compared to 76% during the quarter ended June 30, 2010. The decrease in the gross profit was a result of charges to cost of sales for the write-off of obsolete inventory that was marketed and sold under the XELR8 brand.

**Sales and Marketing Expenses.** Sales and marketing expenses for the three months ended June 30, 2010 decreased to \$460,343 as compared to \$1,022,517 for the three months ended June 30, 2009. Sales and marketing expenses principally include the commissions that we paid our distributors as well as costs associated with producing marketing materials, promotional activities and events for our distributors, as well as other sales and marketing costs and expenses. The decrease in sales and marketing expense is primarily due to the decreased revenue compared to the prior year, and therefore the commissions that we paid our distributors who sold our product. This decrease was partially offset by the increased salaries of the marketing group retained by the Company to build the Bazi® brand. Commissions paid to our independent distributors for the three months ended June 30, 2010 decreased to 14% of net sales as compared to 43% of net sales for the three months ended June 30, 2009.

We expect a significant decrease in commission expense resulting from the termination of our multilevel distributor model, which decrease is anticipated to be offset by increases in other sales and marketing expenses incurred to launch the Company's direct to consumer, affiliate and retail model.

**General and Administrative Expense.** General and administrative expenses for the three months ended June 30, 2010 decreased to \$484,947 as compared to \$569,735 for the three months ended June 30, 2009. The decrease is a result of lower administrative and executive salary expenses as a result of termination of certain executives, and the restructuring of additional management contracts. The decrease was also a result of decrease in the costs associated with eliminating investor relations consultants. The decrease was offset by the increase in web related expenses and stock based compensation for awards.

**Interest Expense.** Interest expense for the for the three months ended June 30, 2010 increased to \$71,797 as compared to \$0 for the three months ended June 30, 2009. This was a result of the interest, amortization of the beneficial conversion feature and the amortization of the deferred loan costs associated with the Senior Notes.



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**Net Loss.** Our net loss for the three months ended June 30, 2010 was \$647,505 as compared to \$283,323 for the three months ended June 30, 2009. Our net loss per share for the three months ended June 30, 2010 was (\$0.04) per share as compared to (\$0.02) per share for the three months ended June 30, 2009, an increase of 100%. The increased net loss is principally the result of lower revenue during the quarter ended June 30, 2010 compared to the quarter ended June 30, 2009, and the costs of terminating the multilevel marketing channel, which were offset by the resultant decreases in commission payments to distributors, and by the decrease in salaries and public company expenses incurred during the quarter ended June 30, 2010 compared to the quarter ended June 30, 2009, and the increased interest expense. The per share increase was also a result of a higher loss per share.

For the six months ended June 30, 2010 compared to the six months ended June 30, 2009.

The discussion below first presents the results of the six months ended June 30, 2010 followed by the results of the six months ended June 30, 2009.

**Net Sales.** Net sales for the six months ended June 30, 2010 decreased to \$1,326,129 as compared to \$3,049,705 for the six months ended June 30, 2009. The decrease in net sales is principally attributable to the termination of the multilevel compensation plan on January 18, 2010, and the resulting loss of distributors caused by the change in business model. As a result, the total number of distributors actually receiving commissions at the end of the six months ended June 30, 2010 decreased by 496, or 61% compared to the number of distributors actually receiving commissions at the end of the year ended December 31, 2009. The Company currently anticipates that the number of distributors actually receiving commissions in the quarter ended September 30, 2010 will continue to decrease relative to the number at June 30, 2010, as the Company fully transitions to its new business model. Although no assurances can be given the Company anticipates that the decline in sales attributed to the loss of distributors will be partially offset in the short-term by sales in other distribution channels established by the Company in connection with its new business plan and will be fully offset as the Company's sales gain traction in such other distribution channels in subsequent periods.

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

| Product Category                     | Six Months Ended<br>June 30, |                    |
|--------------------------------------|------------------------------|--------------------|
|                                      | 2010<br>% of Sales           | 2009<br>% of Sales |
| Bazi™                                | 96%                          | 91%                |
| Legacy Products                      | 4%                           | 3%                 |
| Other-educational materials, apparel | 0%                           | 6%                 |

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

The Company anticipates that sales of legacy products will decline as the Company discontinues sales of most of its legacy products previously sold under the XELR8™ brand.

**Gross Profit.** Gross profit for the six months ended June 30, 2010 decreased to \$950,439 as compared to \$2,298,236 for the six months ended June 30, 2009. Gross profit as a percentage of revenue (gross margin) during the six months ended June 30, 2010 decreased to 72% as compared to 75% during the six months ended June 30, 2009. The decrease in the gross profit was a result of charges to cost of sales for the write-off of obsolete inventory that was packaged with the XELR8 brand.



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**Sales and Marketing Expenses.** Sales and marketing expenses for the six months ended June 30, 2010 decreased to \$1,228,124 as compared to \$2,024,058 for the six months ended June 30, 2009. Sales and marketing expenses principally include the commissions that we paid our distributors as well as costs associated with producing marketing materials, promotional activities and events for our distributors, as well as other sales and marketing costs and expenses. The decrease in sales and marketing expense is primarily due to the decreased revenue compared to the prior year, and therefore the commissions that we paid our distributors who sold our product. This decrease was partially offset by the increased salaries of the marketing group hired by the Company to build the Bazi brand. Commissions paid to our independent distributors decreased to 20% of net sales for the current period compared to 42% for the comparable period.

We expect a significant decrease in commission expense resulting from the termination of our multilevel distributor model, which decrease is anticipated to be offset by increases in other sales and marketing expenses incurred to launch the Company's direct to consumer, affiliate and retail model.

**General and Administrative Expenses.** General and administrative expenses for the six months ended June 30, 2010 decreased to \$970,510 as compared to \$1,180,703 for the six months ended June 30, 2009. The decrease is a result of lower administrative and executive salary expenses as a result of reduction of certain executives, and the restructuring of additional management contracts. The decrease was also a result of decrease in the costs associated with eliminating investor relations consultants. The decrease was offset by the increase in web related expenses and stock based compensation for awards to Board members and executives.

**Interest Expense.** Interest expense for the for the six months ended June 30, 2010 increased to \$115,240 as compared to \$0 for the six months ended June 30, 2009. This was a result of the interest, amortization of the beneficial conversion feature and the amortization of the deferred loan costs associated with the Senior Secured Notes.

**Net Loss.** Our net loss for the six months ended June 30, 2010 was \$1,391,746, as compared to \$921,515 for the six months ended June 30, 2009. Our net loss per share for the six months ended June 30, 2010 was (\$0.09) per share as compared to (\$0.06) per share for the six months ended June 30, 2009, an increase of 50%. The increased net loss is principally the result of lower revenue during the six months ended June 30, 2010 compared to the comparable period in 2009, and the costs of terminating the multilevel marketing channel, which were offset by the resultant decreases in commission payments to distributors, and by the decrease in salaries and public company expenses incurred during the six months ended June 30, 2010 compared to six months ended June 30, 2009. The per share increase was also a result of a higher loss per share.

## **Liquidity and Capital Resources**

To date, our operating funds have been provided primarily from sales of our common stock and from the recent sale of certain debt securities, as described below, and to a lesser degree, cash flow provided by sales of our products.

On January 11, 13 and 29, 2010, the Company issued Series A Convertible Notes (the "Bridge Notes"), in the principal amount of \$90,000, \$90,000 and \$50,000 (\$230,000 in aggregate), respectively, to two accredited investors. The Bridge Notes were converted into Senior Secured Convertible Notes ("Senior Notes"), as more particularly described below, on March 5, 2010. The Bridge Notes contained a beneficial conversion feature at the date of issue as a result of the market price of the stock trading at a price higher than the conversion price of \$0.15, resulting in the recording of the Bridge Notes at a discount of \$21,333. The discount was amortized on a straight-line basis over the term of the note, resulting in additional interest expense of \$21,333 during the quarter.



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On March 5, 2010, the Company consummated the sale of a Senior Notes, in the aggregate principal amount of \$1.23 million (“Note Financing”) to a limited number of accredited investors. The purchase price of the Senior Notes consisted of \$1,000,500 of gross proceeds before deferred financing costs of \$318,311 and the cancellation of \$230,000 in aggregate principal amount (and related accrued interest of \$3,019) of the Bridge Notes previously issued by the Company, in which Bridge Notes were converted into Senior Notes in connection with the Note Financing. Net proceeds to the Company after both the deduction of selling commissions and expenses of the Note Financing, were approximately \$915,000 after giving effect to the issuance of the Bridge Notes. The Senior Notes contained a beneficial conversion feature at the date of issue as a result of the market price of the stock trading at a price higher than the conversion price of \$0.15, resulting in the recording of the Senior Note at a discount of approximately \$411,000. The discount will be amortized on a straight-line basis over the term of the note, resulting in additional interest expense of \$47,679 for the six months ended June 30, 2010. The Senior Notes are due March 5, 2015.

On June 7, 2010, the Company completed a second closing of Senior Notes resulting in gross proceeds of \$500,000 (“Second Closing”), and before deferred financing costs of \$120,198. Both issuances of Senior Notes accrue interest at the rate of 10% per annum payable semi-annually in arrears on June 15 and December 15 of each year. Interest is payable on both issuances at the option of holders of a majority of the aggregate principal amount of outstanding Senior Notes, in either cash or additional Senior Notes. At any given time (prior to the maturity date) the holders of the Senior Notes may elect to convert the outstanding principal and accrued interest from either issuance into shares of the Company’s common stock, \$0.001 par value (the “Common Stock”), at a conversion price of \$0.15 per share or 11,556,793 shares, subject to certain adjustments. The Senior Notes are secured by the intangible assets of the Company.

Subsequent to the balance sheet date, on July 2, 2010, the Company completed Note Financing by issuing \$500,000 of Senior Notes (the “Final Closing”) and before deferred finance costs of \$80,256. Net proceeds to the Company from the Final Closing after the deduction of selling commissions, and expenses of the Final Closing, were approximately \$419,744. The Senior Notes issued at the Final Closing contained a beneficial conversion feature at the date of issue as a result of the market price of Common Stock trading at a price higher than the conversion price of \$0.15, which will result in the recording of the Senior Notes at a discount of \$233,333. The Secured Notes are due July 2, 2015 and accrue interest at the rate of 10% per annum payable semi-annually in arrears on June 15 and December 15 of each year.

We used \$1,080,828 of cash for operations in the six months ended June 30, 2010, as compared to \$747,456 in the six months ended June 30, 2009. 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 and the termination costs of the multilevel marketing program. As of June 30, 2010, we had \$241,278 in cash and cash equivalents available to fund future operations. Net working capital deficit improved to (\$238,473) at June 30, 2010, as compared to (\$414,329) at December 31, 2009.

Our existing cash resources may be insufficient to permit management to successfully execute its current business plan. As a result, we may be required to seek additional capital. In connection with the Note Financing, the Placement Agent may exercise its over-allotment option to raise an additional \$1.0 million in Senior Notes prior to September 30, 2010. No assurance can be given that the Placement Agent will exercise the over-allotment option or that we will be successful in selling additional Senior Notes or otherwise obtaining additional financing. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Company is unable to continue as a going concern.

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

Off-Balance Sheet Items. We have no off-balance sheet items as of June 30, 2010.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

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

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

PART II  
OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On December 3, 2009, the Company was served with a complaint filed in the United States Bankruptcy Court for the Southern District of New York by the Chapter 7 Trustee of SW Bach & Company (the "Debtor"). The complaint, filed as an adversary proceeding, alleges amounts due from the Company under an engagement letter between the Company and the Debtor. The amount claimed by the Trustee, \$200,000, relates to a private offering that the Company completed on March 5, 2007 following the termination of the Company's relationship with the Debtor. The Trustee claims that the Company owes the debtor \$200,000, which the Company has disputed. The Company does not believe that there is any basis for the claim. We have answered the complaint denying all claims, and intend to vigorously defend the allegations set forth in the complaint. We cannot express with any certainty at this time an opinion as to the outcome of this matter.

We are from time to time involved in various additional legal proceedings incidental to the conduct of our business. We believe that the outcome of all such pending legal proceedings will not in the aggregate have a material adverse effect on our business, financial condition, results of operations or liquidity.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, "Risk Factors", of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

Item 5. OTHER INFORMATION

On July 2, 2010, the Company completed Note Financing by issuing \$500,000 of Senior Notes (the "Final Closing"), and before deferred finance costs of \$80,256. Net proceeds to the Company from the Final Closing after the deduction of selling commissions, and expenses of the Final Closing, were approximately \$419,744. The Secured Notes are due July 2, 2015 and accrue interest at the rate of 10% per annum payable semi-annually in arrears on June 15 and December 15 of each year. Interest is payable, at the option of holders of a majority of the aggregate principal amount of outstanding Secured Notes, in either cash or additional Secured Notes. At any given time (prior to the maturity date) the holders of Senior Notes may elect to convert the outstanding principal and accrued interest into shares of the Company's Common Stock, at a conversion price of \$0.15 per share, subject to certain adjustments. We have the option, after effectiveness of the Registration Statement (as defined below), to repay all outstanding principal and interest under the Secured Notes if the volume weighted average price of our shares of Common Stock has exceeded \$1.00 for the preceding 30 consecutive trading days.

In connection with the initial closing of the issuance of Senior Notes, we entered into a Placement Agency Agreement with the placement agent involved in the offering (the "Placement Agent"). The Placement Agent agreed to act on a best efforts basis with respect to the sale of Secured Notes in an aggregate principal amount of up to \$2,000,000 (with an over-allotment option of up to \$1,000,000). Under the Placement Agency Agreement, the Placement Agent receives a placement fee equal to 10% of the gross proceeds of the Secured Notes sold by the Placement Agent and a non-accountable expense allowance of 3% of the gross proceeds of the Note Financing. As a result of the consummation of the Final Closing, we issued 2,500,000 shares of Common Stock to the Placement Agent.

Item 6. EXHIBITS

| Exhibit<br>No | Description                                                                                                                                                       |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1          | Certification of CEO as Required by Rule 13a-14(a)/15d-14                                                                                                         |
| 31.2          | Certification of CFO as Required by Rule 13a-14(a)/15d-14                                                                                                         |
| 32.1          | Certification of CEO as Required by Rule 13a-14(a) and Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code |
| 32.2          | Certification of CFO as Required by Rule 13a-14(a) and Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City and County of Denver, State of Colorado, on August 16, 2010.

BAZI INTERNATIONAL, INC.

By: /s/ Kevin Sherman  
Kevin Sherman  
Chief Executive Officer

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