Healthsport, Inc.
Form 10-Q
August 13, 2008

U.S. 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 Quarter Ended: JUNE 30, 2008

Commission File Number: 0-23100

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

DELAWARE 22-2649848
(State of Incorporation) (IRS Employer ID No)

7633 EAST 63RD PLACE, SUITE 220, TULSA, OKLAHOMA 74133
(Address of principal executive office)

(716) 691-6763
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) filed all reports required 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 [ ].

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

Large accelerated filer [ ]   Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)

Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X].

The number of shares outstanding of registrant's common stock, par value $.0001 per share, as of June 30, 2008, was 45,183,397.

HEALTHSPORT, INC. AND SUBSIDIARIES
INDEX

PART I	FINANCIAL INFORMATION (Unaudited)
Item 1:	Condensed Consolidated Balance Sheet as of June 30, 2008 and December 31, 2007
	Condensed Consolidated Statements of Operations for the three months ended June 30, 2008 and 2007
	Condensed Consolidated Statements of Operations for the six months ended June 30, 2008 and 2007
	Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007
	Notes to Condensed Consolidated Financial Statements
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 3:	Quantitative and Qualitative Disclosures About Market Risk
Item 4T:	Controls and Procedures
PART II	OTHER INFORMATION
	Exhibits

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

HEALTHSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

	2008 UNAUDITED	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 74,828	$ 16
Accounts receivable	87,321	10
Inventory	1,016,326	1,40
Prepaid expenses and other assets	388,244	73
Total current assets	1,566,719	2,41
Property and equipment, net	716,916	63

Goodwill	10,326,948	10,32
Patent costs and other intangible assets, net	19,137,369	20,30
Other assets	116,132	2
Total assets	$ 31,864,084	$ 33,70
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,520,106	$ 1,03
Accrued expenses	453,621	11
Current portion of capital lease obligation	119,739	21
Secured convertible debentures	300,000	
Deferred revenue	695,240	69
Total current liabilities	3,088,706	2,06
Capital lease obligation, less current portion	62,795	7
Total liabilities	3,151,501	2,13
Minority interest	907,574	
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: $2.75 par value; authorized 2,000,000 shares; no shares issued and outstanding	--	
Common stock: $.0001 par value; authorized 500,000,000 shares; 45,183,397 and 42,898,397 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	4,518	
Additional paid-in capital	69,134,591	67,98
Intrinsic value of common stock options	(1,714,163)	(2,86
Stock subscription receivable	(500)	
Accumulated deficit	(39,619,437)	(33,55
Total stockholders' equity	27,805,009	31,56
Total liabilities and stockholders' equity	$ 31,864,084	$ 33,70

See accompanying notes to condensed consolidated financial statements.

3

HEALTHSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
Revenue		
Product sales	$ 134,652	$ 18,689
License fees, royalties and services	18,750	64,022
Total revenues	153,402	82,711

Costs and expenses		
Cost of product sold	76,360	25,891
General and administrative expense	1,143,955	836,356
Marketing and selling expense	222,214	573,051
Non-cash compensation expense	627,773	557,648
Asset impairment	648,600	--
Inventory obsolescence	274,840	--
Manufacturing costs	101,372	130,498
Research and development costs	67,533	890,058
Total costs and expenses	3,162,647	3,013,502
Net loss from operations	(3,009,245)	(2,930,791)
Other income (expense):		
Other income	--	--
Interest income	362	34,394
Interest expense	(17,011)	(5,107)
Other income (expense)	(16,649)	29,287
Net loss before income taxes and minority interest	(3,025,894)	(2,901,504)
Provision for income taxes	--	--
Net loss before minority interest	(3,025,894)	(2,901,504)
Minority interest	33,526	--
Net loss	$ (2,992,368)	$ (2,901,504)
NET LOSS PER SHARE, BASIC AND DILUTED	$ (0.07)	$ (0.09)
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	43,127,793	33,893,002

See accompanying notes to condensed consolidated financial statements.

HEALTHSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
Revenue		
Product sales	$ 232,093	$ 24,585
License fees, royalties and services	37,500	64,022
Total revenues	269,593	88,607
Costs and expenses		
Cost of product sold	117,101	29,768

General and administrative expense	2,294,832	1,099,127
Marketing and selling expense	697,557	982,225
Non-cash compensation expense	1,681,578	945,591
Asset impairment	648,600	--
Inventory obsolescence	274,840	--
Manufacturing costs	517,300	130,498
Research and development costs	139,112	890,058
Total costs and expenses	6,370,920	4,077,267
Net loss from operations	(6,101,327)	(3,988,660)
Other income (expense):		
Other income	5,584	--
Interest income	770	43,621
Interest expense	(20,165)	(5,107)
Other income (expense)	(13,811)	38,514
Net loss before income taxes and minority interest	(6,115,138)	(3,950,146)
Provision for income taxes	--	--
Net loss before minority interest	(6,115,138)	(3,950,146)
Minority interest	52,426	--
Net loss	$ (6,062,712)	$ (3,950,146)
NET LOSS PER SHARE, BASIC AND DILUTED	$ (0.14)	$ (0.15)
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	45,140,979	26,982,547

See accompanying notes to condensed consolidated financial statements.

HEALTHSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)

	2008	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(6,062,712)	$(3,
Adjustment to reconcile net loss to net cash used in operating activities:		
Minority interest	(52,426)	
Amortization of non-cash stock compensation	1,459,828	
Depreciation and amortization	758,331	
Acquired research and development cost	--	
Common stock issued for services	221,750	
Asset impariment	648,600	
Inventory obsolescence	274,840	
Change in other assets and liabilities:		
Accounts receivable	89,992	

Inventory	111,364	(
Prepaid expenses and other assets	187,326	(
Accounts payable	482,934	
Accrued expenses	267,862	
Net cash used in operating activities	(1,612,311)	(2,
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received in excess of cash paid in acquisition of InnoZen	--	
Legal fees associated with acquisition of Neutracuticals	--	
Loans to InnoZen prior to acquisition	--	(
Acquisition of property and equipment	(316,301)	(
Net cash used in investing activities	(316,301)	(
CASH FLOWS FROM FINANCING ACTIVITIES		
Collect stock subscription receivable	22,500	
Capital contribution by joint venture partner	960,000	
Loan proceeds	300,000	
Loan repayment to shareholder	--	(
Capital lease payments	(106,383)	
Sale of common stock	660,000	5,
Net cash provided by financing activities	1,836,117	5,
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,495)	2,
CASH AND CASH EQUIVALENTS, beginning of period	167,323	
CASH AND CASH EQUIVALENTS, end of period	$ 74,828	$ 3,

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See accompanying notes to condensed consolidated financial statements.

6

HEALTHSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)

	2008	
Supplemental cash flow information		
Cash paid for interest and income taxes:		
Interest	$ 4,032	$
Income taxes	--	
Non-cash investing and financing activities: Issuance of common stock for:		
Investment in InnoZen, Inc.:		
Current assets, excluding cash	--	
Property and equipment	--	
Goodwill and other intangible assets	--	
Research and development	--	
Other assets	--	

Total assets	--
Liabilities assumed	--
Liabilities to HealthSport, Inc.	--
Purchase price (net assets acquired)	--
Common stock issued	--
Cash acquired in excess of cash paid	--
Trade names and web site	--
Stock subscription receivable	500
Prepaid royalties	--
Accrued expense	--

See accompanying notes to condensed consolidated financial statements.

HEALTHSPORT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following notes to the condensed consolidated financial statements and management's discussion and analysis or plan of operation contain "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may include projections or expectations of future financial or economic performance of the Company, and statements of the Company's plans and objectives for future operations. Words such as "expects", "anticipates", "approximates", "believes", "estimates", "hopes", "intends", "plans", and variations of such words and similar expressions are intended to identify such forward-looking statements. No assurance can be given that actual results or events will not differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements.

NOTE 1: ORGANIZATION AND NATURE OF BUSINESS

ORGANIZATION AND BASIS OF PRESENTATION
The condensed consolidated financial statements include the accounts of HealthSport, Inc. ("HealthSport") and its wholly owned subsidiaries: Enlyten, Inc. ("Enlyten"); InnoZen, Inc. ("InnoZen") and InnoZen's majority owned subsidiary Pacific Manufacturing Group LLC ("PMG"); Health Strip Solutions, LLC ("Health Strip"); Cooley Nutraceuticals, Inc. ("Nutraceuticals"); and the following inactive subsidiaries, World Championship Poker, Inc. ("Poker"), Strategic Gaming Consultants, LLC ("Gaming") and Maxx Motorsports, Inc. ("Maxx"), and its wholly owned subsidiary, Team Racing Auto Circuit, LLC ("TRAC") (collectively, the "Company" or the "Companies"). All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and include all adjustments (consisting only of normal recurring adjustments) that are, in the

opinion of management, necessary for a fair presentation. These condensed consolidated financial statements have not been audited.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2007, which is included in the Company's Form 10-K for the year ended December 31, 2007. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

8

Certain reclassifications of the amounts presented for the comparative period have been made to conform to the current presentation.

NATURE OF BUSINESS

HealthSport is a holding company with the following active wholly owned subsidiaries.

Enlyten was formed to market and sell the Company's ENLYTEN(TM) edible film strip products.

InnoZen is the preeminent formulator, developer and manufacturer of edible thin film strips that deliver drug actives and was the first company to deliver a drug active ingredient in a thin film strip. InnoZen completed the development of Chloraseptic(R) Sore Throat Relief Strips in June 2003 and launched two new film strip products under its own Suppress(R) brand (HTTP://WWW.SUPPRESS.COM) in September 2004. All manufacturing operations will be performed by PMG commencing during 2008 and InnoZen will primarily be involved in research and development of new products.

All patent applications for the Companies are processed by InnoZen.

Health Strip, in conjunction with InnoZen, holds the proprietary technology for the formulation of a thin film electrolyte strip and has filed a provisional patent for this process. Along with water, electrolytes such as those found in Health Strip's ENLYTEN(TM) SPORTSTRIPS, can be used in oral rehydration therapy to replenish the body's electrolyte levels after dehydration caused by exercise, diarrhea or vomiting. Health Strip and InnoZen also hold the proprietary technology for ENLYTEN(TM) SURVIVAL STRIPS which are formulated with antioxidants, non-cavity causing sweeteners, vitamins, herbal extracts, electrolytes, caffeine and other proven beneficial compounds as a remedy to fatigue, drowsiness and dehydration.

Nutraceuticals holds the proprietary technology for the formulation of a nutritional supplement that quickly and effectively provides natural energy enhancers, caffeine, electrolytes, antioxidants and other essential vitamins and minerals. In conjunction with InnoZen, Nutraceuticals has designed the FIX STRIPS(TM), as a formulation to supply the body with a healthy boost in energy, while replenishing and maintaining the essential vitamins and minerals lost during activity, after a long flight, bad night of sleep or over indulgence of alcohol.

NOTE 2: ACQUISITION

INNOZEN, INC.

On May 4, 2007, the Company completed the acquisition of InnoZen through a merger of InnoZen with InnoZen Acquisition Sub, Inc. ("Acquisition Sub"), the Company's wholly owned subsidiary, all Delaware corporations, in exchange for 18,249,952 shares of the Company's common stock. In accordance with Delaware General Corporate Law and pursuant to the terms and conditions of the Merger Agreement, Acquisition Sub was merged with and into InnoZen, after which, InnoZen became the Company's wholly owned subsidiary and continues as the surviving corporation and the separate existence of Acquisition Sub ceased. InnoZen's business is described in Note 1.

The acquisition was accounted for using the purchase method of accounting and, accordingly, the consolidated statements of operations include the results of InnoZen beginning May 4, 2007. The assets acquired and the liabilities assumed were recorded at estimated fair values as determined by the Company's management based on information currently available and on current assumptions as to future operations. A summary of the estimated fair value of assets acquired and liabilities assumed in the acquisition follows:

Current assets, excluding cash and cash equivalents	$ 584,993
Property and equipment	471,188
Other assets	10,583
Intangible assets	19,102,968
Goodwill	8,540,950
Research and development cost	847,336
Total assets	29,558,018
Liabilities assumed	(1,449,922)
Liabilities to HealthSport	(750,000)
Purchase price (net assets acquired)	27,358,096
Common stock issued	(27,374,928)
Cash acquired in excess of cash paid	$ 16,832

Unaudited pro forma results of operations for the three-month period and the six-month period ended June 30, 2007, as if the Company and InnoZen had been combined as of the beginning of each of the periods follows. The pro forma results include estimates and assumptions which management believes are reasonable. However, pro forma results are not necessarily indicative of the results that would have occurred if the business combination had been in effect on the dates indicated, or which may result in the future. The Company and InnoZen are combined in 2008. Accordingly pro forma results are not necessary for 2008.

	THREE MONTHS ENDED JUNE 30, 2007	SIX MONTHS ENDED JUNE 30, 2007
Net revenues	$ 164,393	$ 637,150
Net loss	2,998,307	4,318,687
Net loss per share, basic and diluted	$ (0.07)	$ (0.11)

On February 1, 2008 HealthSport and InnoZen executed a Limited Liability Company Operating Agreement ("LLC Agreement") with Migami, Inc. ("Migami") for PMG. Among other things, the LLC Agreement calls for Migami to contribute $3,000,000 in cash to PMG for its intended 48% ownership and InnoZen to license its technology to PMG for its 52% ownership. In summary, the agreement provides that PMG will manufacture all strip and other products for each member at cost plus 25%. PMG's cash balance of $59,075 is not available for use for obligations of

HealthSport and its other subsidiaries. At June 30, 2008, Migami had paid $960,000 of the $3,000,000 commitment and an additional $30,000 was received in July 2008. It is unknown at this time if Migami will honor its commitment.

NOTE 3: INVENTORY

Inventory at June 30, 2008 and December 31, 2007, consists of the following:

	2008	2007
Raw materials	$ 499,245	$ 395,239
Work in progress	210,189	169,016
Finished goods	306,892	838,275
	$1,016,326	$1,402,530

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2008 and December 31, 2007 consists of the following:

	2008	2007
Office furniture and equipment	$ 84,134	$ 83,393
Computer software	106,800	101,150
Manufacturing equipment	427,507	487,578
Leasehold improvements	39,561	39,561
Construction in progress	235,000	--
	893,002	711,682
Accumulated depreciation and amortization	(176,086)	(75,312)
	$ 716,916	$ 636,370

NOTE 5: INTANGIBLE ASSETS

The Company accounts for goodwill and intangible assets in accordance with SFAS 142 and SFAS 144. Goodwill and other intangible assets are tested annually, at a minimum, for impairment. Patent costs are amortized over their life of seventeen years from the date the patent application is filed. Patent costs include the costs allocated to the proprietary technology for the formulation of thin film

electrolyte strip products and associated legal costs. Trade secrets include costs allocated to InnoZen's formulations and are being amortized over seventeen years. Trademarks represent the cost of acquired trademarks, which are not being amortized. Client lists represents the cost of acquired client lists which are being amortized over five years.

The Company's intangible assets consist of the following at June 30, 2008 and December 31, 2007:

	2008	2007
Goodwill	$ 10,326,948	$ 10,326,948
Patent costs and other intangible assets:		
Patent and trade secret costs	$ 19,284,886	$ 19,155,124
Trademarks	1,188,000	1,188,365
Client lists	--	846,000
Web site	65,675	65,675
	20,538,561	21,255,164
Accumulated amortization		
Patent and trade secret costs	(1,388,981)	(828,176)
Client lists	--	(112,800)
Web site	(12,211)	(5,643)
	(1,401,192)	(946,619)
	$ 19,137,369	$ 20,308,545

The Company recorded an impairment loss of $648,600 at June 30, 2008, for the carrying value of its client list.

NOTE 6: SHARE-BASED PAYMENTS

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment" (SFAS 123R). Among other things, SFAS 123R requires expensing the fair value of stock options, previously optional accounting. For transition, upon adoption on January 1, 2006, SFAS 123R required expensing any unvested options and also required the Company to change the classification of certain tax benefits from option deductions to financing rather than operating cash flows.

Prior to January 1, 2006, the Company accounted for options granted under its employee compensation plan using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25." Under APB 25, compensation expense was recognized for the difference between the market price of the Company's common stock on the date of grant and the exercise price. As permitted by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS

123"), stock-based compensation was included as a pro forma disclosure in the notes to the consolidated financial statements.

Effective January 1, 2006, the Company adopted the provisions of SFAS 123R using the modified prospective transition method for all stock options issued. SFAS 123R required measurement of compensation cost for all options granted based on fair value on the date of grant and recognition of compensation over the service period for those options expected to vest. The Company had no unvested options outstanding prior to July 1, 2006. Stock-based compensation expense recorded for the nine months ended September 30, 2007, includes the estimated expense for stock options granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The Company recorded the cost of stock options by increasing additional paid-in capital and increasing intrinsic value of common stock options. The deferred intrinsic value of common stock options is being amortized over the period which the awards are expected to be exercised. As prescribed under the modified prospective and prospective transition methods, results for the prior period have not been restated.

The Company currently fully reserves all of its tax benefits. Accordingly, the adoption of SFAS 123R, which requires the benefits of tax deduction in excess of the compensation cost recognized for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis, will have no current impact on the Company.

The fair value of each option on the date of grant is estimated using the Black Scholes option valuation model. The following weighted-average assumptions were used for options granted during the six months ended June 30, 2008 and 2007:

	2008	2007
Expected term	1-3 years	2 years
Expected volatility	79.21%	102.91%
Expected dividend yield	0%	0%
Risk-free interest rate	4.75%	4.75%
Expected annual forfeiture rate	0%	0%

A summary of option activity as of June 30, 2008, and changes during the six months then ended is presented below:

OPTIONS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM (YRS)	AGGREGATE INTRINSIC VALUE ($000)
Outstanding, December 31, 2007	4,115,390			
Granted	2,250,000			
Exercised	--			
Forfeited or expired	(285,000)			

Outstanding, June 30, 2008	6,080,390	$ 1.40	2.61	$ 4,282
Exercisable at June 30, 2008	3,975,390	$ 1.43	1.89	$ 4,081

Options which are not a part of the Plans and are included in the option table above, include fully vested options to acquire 325,000 shares of the Company's common stock at an average exercise price of $1.86, an option to acquire 1,000,000 shares of the Company's common stock at an exercise price of $1.00 which vests in March 2009 and an option to acquire 1,000,000 shares of the Company's common stock at an exercise price of $1.50 which vests in March 2010.

The weighted-average grant date fair value of options granted during the six months ended June 30, 2008 and 2007 was $0.12 and $1.08, respectively. No options have been exercised.

As of June 30, 2008, there was $1,714,163 of total unrecognized compensation cost related to share-based option compensation arrangements.

As of June 30, 2008, there were 500,000 warrants with an exercise price of $0.80 per share which expire in the first quarter of 2011.

NOTE 7: CAPITAL LEASE OBLIGATION

During the year ended December 31, 2005, InnoZen entered into a sale-leaseback agreement, under which it sold certain manufacturing equipment and leased it back for a period of three years. The leaseback was accounted for as a capital lease and no gain was recognized on the transaction. During 2007, InnoZen entered into a five-year lease agreement for manufacturing software. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2008.

13

Total minimum lease payments:	
Six months ended December 31, 2008	118,386
Year ended December 31, 2009	23,352
Year ended December 31, 2010	23,352
Year ended December 31, 2011	23,352
Year ended December 31, 2012	13,622
	202,064
Amount representing interest	(19,530)
Present value of minimum lease payments	182,534
Less current obligations	(119,739)
Non-current obligations under capital lease	$ 62,795

The lease covers equipment and software with a cost of $518,866 and accumulated depreciation of $103,257 at June 30, 2008.

NOTE 8: SECURED CONVERTIBLE DEBENTURES

The Company issued three secured convertible debentures in the total amount of $300,000, dated May 15, 2008, which mature on November 14, 2008 with interest at 8%. The debentures are secured by substantially all assets of the Company and are convertible, at the option of the holder for three years, into the Company's common stock at the rate of $0.40 per share.

NOTE 9: COMMITMENTS AND CONTINGENCIES

The Company maintains its corporate office in the office of its accountant at no cost to the Company.

In January 2007, the Company executed a three-year non-cancelable lease agreement for the Enlyten office in Amherst, New York. The lease requires monthly payments of $2,364 for the year ending January 31, 2008, $2,409 for the year ending January 31, 2009 and $2,455 for the year ending January 31, 2010.

InnoZen leases its facility in Woodland Hills, California pursuant to a non-cancelable agreement which expires on January 1, 2010. InnoZen has the option to extend the term for one additional year.

The Company leases a manufacturing facility in Ventura, California which contains approximately 25,000 square feet. The lease term is from December 1, 2007 through January 31, 2015. No rent was due for January and February 2008 while the Company was working on equipment installation. This is the facility which PMG occupies and the rent will be paid by PMG.

Future minimum lease payments for operating leases are: 2008 (6 months) - $247,500; 2009 - $381,000; 2010 - $199,000; 2011 - $202,000; 2012 - $206,000; and thereafter - $447,000.

The Company has the following royalty obligations:

1. Royalty agreement expiring in October 2008 of .5% of sales of the ENLYTEN(TM) SPORTSTRIPS. Annual minimum royalty of $18,000 and maximum of $75,000;
2. Royalty agreement expiring in October 2008 of .5% of sales of the ENLYTEN(TM) SPORTSTRIPS. Annual minimum royalty of $15,000 and maximum of $50,000;
3. Royalty agreement for an indefinite period of .5% of sales of the ENLYTEN(TM) SPORTSTRIPS. Annual minimum royalty of $36,000 and maximum of $100,000;
4. Royalty agreement for an indefinite period of 1.0% of the first $100,000,000 in sales of the ENLYTEN(TM) SPORTSTRIPS and .5% of the next $150,000,000 in sales;
5. Royalty agreement for an indefinite period of 1.0% of the first $20,000,000 in sales of the FIX STRIPS(TM) and ENLYTEN(TM) Energy strips and .5% of the next $80,000,000 in sales; and
6. Royalty agreement for 2 years of 1.5% of sales of the ENLYTEN(TM) SURVIVAL STRIP with annual minimUM royalty payments of $4,200.

During 2006, InnoZen entered into a distribution contract with Schering-Plough PTY Limited ("Schering") whereby InnoZen granted to Schering an exclusive, royalty-free license to distribute, market, offer to sell and import InnoZen's

film strip products in Australia, New Zealand, Singapore, Indonesia, Pakistan, Hong Kong, Taiwan, Vietnam, Malaysia, Thailand, Korea, Philippines, India and China ("territories"). Schering appointed InnoZen as the exclusive supplier of film strip products in the cough and cold market to Schering for distribution in the territories. With respect to all purchase orders submitted by Schering to InnoZen, Schering shall pay InnoZen 50% of the invoice amount upon submitting the purchase order and the remaining 50% of the invoice amount when Schering receives shipping notification of the order. The contract expires in May 2011.

On October 30, 2007, our wholly-owned subsidiary, Enlyten, Inc., filed a lawsuit against The Gatorade Company and PepsiCo, Inc. (collectively referred to as Gatorade) in the State of New York Supreme Court, County of Erie. The Complaint alleges that Gatorade has tortiously interfered with Enlyten's contractual agreement with the Buffalo Bills and with Enlyten's business relationships with various third parties including other NFL teams, in an attempt to wrongfully restrain trade. Enlyten is represented by Michael B. Powers of the law firm of Phillips Lytle, LLP in Buffalo, New York. The alleged interference has severely limited our ability to market and sell the ENLYTEN(TM) SPORT STRIP. The case is currently in the early discovery phase with no hearing scheduled untIL discovery is substantially complete.

NOTE 10: GOING CONCERN

At June 30, 2008 and December 31, 2007 we had current assets of $1,566,719 and $2,411,410; current liabilities of $3,088,706 and $2,066,125; and negative working capital of $1,521,987 and working capital of $345,285, respectively. We incurred a loss of $3,070,344 during the first quarter of 2008, which included depreciation and amortization of $365,463 and amortization of non-cash stock compensation of $1,053,805. We incurred a loss of $2,992,368 during the second quarter of 2008, which included depreciation and amortization of $392,868; amortization of non-cash stock compensation of $627,773; an asset impairment loss of $648,600; and inventory obsolescence loss of $274,840.

15

On February 1, 2008 HealthSport and InnoZen executed a Limited Liability Company Operating Agreement ("LLC Agreement") with Migami, Inc. ("Migami") for Pacific Manufacturing Group, LLC ("PMG"). Among other things, the LLC Agreement calls for Migami to contribute $3,000,000 in cash to PMG for its intended 48% ownership and InnoZen to license its technology to PMG for its 52% ownership. In summary, the agreement provides that PMG will manufacture all strip and other products for each member at cost plus 25%. As of June 30, 2008, $960,000 of Migami's contribution had been received by PMG. InnoZen owned 92% of PMG at March 31, 2008 and 84.64% at June 30, 2008. We received $30,000 from Migami in July 2008, which increased its ownership to 15.84%. It is unknown at this time if Migami will honor its commitment.

Our only capital equipment requirements were planned to be in PMG for which the agreed $3 million capital to be contributed by Migami would have been adequate to fund PMG's requirements. However, with the uncertain status of Migami's investment, additional capital equipment purchases have been delayed.

In 2007, the Company projected sales to be as high as $10 million, based on forecasts for SPORTSTRIPS, PediaStrips and FIX STRIPS. The alleged tortuous interference by Gatorade in our agreement with the Buffalo Bills, other NFL teams and NFL players substantially hindered our ability to market and sell our SPORTSTRIPS product, which was our first product to market. PEDIASTRIPS and FIX STRIPS sales did not commence until the fourth quarter of 2007 and were

substantially below initial forecasts from consultants. At the end of the fourth quarter of 2007 the Company changed its sales direction and reduced staff with the goal of selling product through distributors rather than making all sales directly to its customers.

On March 11, 2008, we completed a five-year distribution deal with Unico Holdings, Inc. ("Unico"), wherein they will market our PEDIASTRIPS product as well as negotiate for our electrolyte strips to be manufactured for private label usage. Unico markets its products through numerous sales channels, including large retail merchandisers, drug store chains, grocery stores and pharmaceutical distributors. Unico's customers include most of the larger retailers and distributors in the U.S. in each of these sales channels. The agreement calls for a minimum of $22 million of product purchases over the five-year term in order for Unico to maintain its exclusive distribution right.

The Unico distribution deal is initially for PEDIASTRIPS and commenced in the third quarter of 2008. We are attempting to establish similar arrangements for our SPORTSTRIPS and FIX STRIPS. In addition, we expect to begin sales of our ENERGY FILM STRIPS and SURVIVAL STRIPS before the end of 2008. The Company is also seeking opportunities to establish film strip products for a number of products which are currently delivered in a different manner, such as liquids and pills. The Company expects this to develop into a large part of its business in the future.

In July 2008 the Company generated its initial sales with Unico of $174,450 with a second order scheduled for mid-August 2008 in the amount of $80,640. The Company also generated revenues from another new customer in July 2008 for $36,253 with a second order in the first week of August for $30,763. The Company

also expects to ship an order for $125,000 in August 2008, which was prepaid in 2007 and on which the revenue has been deferred.

The Company will continue to require substantial working capital until sales develop to the level required to support operations. The current level of overhead is approximately $392,000 per month, which includes the PMG manufacturing operation of approximately $101,000 per month. The PMG amount should be funded separately by PMG, assuming its funding is completed and the Company would be responsible for approximately $291,000 per month. This is a decrease of $34,000 per month from the overhead level at March 31, 2008. The Company is analyzing its current costs and is attempting to make additional cost reductions where possible. Current sales will not be adequate to support this level of operating costs. We estimate that sales will develop to the level necessary to be at or near cash flow break-even before the end of the first quarter of 2009. Based on this time-frame, the Company would need from $2 to $3 million to meet its minimum requirements, including PMG. The Company has made private placements of its common stock and as of June 30, 2008 had received $660,000 in net proceeds from the sale of its common stock and had borrowed $300,000 pursuant to convertible debentures. The Company expects to continue to make private placements of its common stock or to borrow additional funds as needed.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

From time to time, we may publish forward-looking statements relative to such matters as anticipated financial results, business prospects, technological developments and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements appearing earlier in this report. All statements other than statements of historical fact included in this report are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, but are not limited to, the following: our current liquidity needs, as described in our periodic reports; changes in the economy; our inability to raise additional capital; our involvement in potential litigation; volatility of our stock price; the variability and timing of business opportunities; changes in accounting policies and practices; the effect of internal organizational changes; adverse state and federal regulation and legislation; and the occurrence of extraordinary or catastrophic events and terrorist acts. These factors and others involve certain risks and uncertainties that could cause actual results or events to differ materially from management's views and expectations. Inclusion of any information or statement in this report does not necessarily imply that such information or statement is material. We do not undertake any obligation to release publicly revised or updated forward-looking information, and such information included in this report is based on information currently available and may not be reliable after this date.

PLAN OF OPERATION AND GOING CONCERN

At June 30, 2008 and December 31, 2007 we had current assets of $1,566,719 and $2,411,410; current liabilities of $3,088,706 and $2,066,125; and negative working capital of $1,521,987 and working capital of $345,285, respectively. We incurred a loss of $3,070,344 during the first quarter of 2008, which included depreciation and amortization of $365,463 and amortization of non-cash stock compensation of $1,053,805. We incurred a loss of $2,992,368 during the second quarter of 2008, which included depreciation and amortization of $392,868; amortization of non-cash stock compensation of $627,773; an asset impairment loss of $648,600; and inventory obsolescence loss of $274,840.

On February 1, 2008 HealthSport and InnoZen executed a Limited Liability Company Operating Agreement ("LLC Agreement") with Migami, Inc. ("Migami") for Pacific Manufacturing Group, LLC ("PMG"). Among other things, the LLC Agreement calls for Migami to contribute $3,000,000 in cash to PMG for its intended 48% ownership and InnoZen to license its technology to PMG for its 52% ownership. In summary, the agreement provides that PMG will manufacture all strip and other products for each member at cost plus 25%. As of June 30, 2008, $960,000 of Migami's contribution had been received by PMG. InnoZen owned 92% of PMG at March 31, 2008 and 84.64% at June 30, 2008. We received $30,000 from Migami in July 2008, which increased its ownership to 15.84%. It is unknown at this time if Migami will honor its commitment.

Our only capital equipment requirements were planned to be in PMG for which the agreed $3 million capital to be contributed by Migami would have been adequate

to fund PMG's requirements. However, with the uncertain status of Migami's investment, additional capital equipment purchases have been delayed.

In 2007, the Company projected sales to be as high as $10 million, based on forecasts for SPORTSTRIPS, PediaStrips and FIX STRIPS. The alleged tortuous interference by Gatorade in our agreement with the Buffalo Bills, other NFL teams and NFL players substantially hindered our ability to market and sell our SPORTSTRIPS product, which was our first product to market. PEDIASTRIPS and FIX STRIPS sales did not commence until the fourth quarter of 2007 and were substantially below initial forecasts from consultants. At the end of the fourth quarter of 2007 the Company changed its sales direction and reduced staff with the goal of selling product through distributors rather than making all sales directly to its customers.

On March 11, 2008, we completed a five-year distribution deal with Unico Holdings, Inc. ("Unico"), wherein they will market our PEDIASTRIPS product as well as negotiate for our electrolyte strips to be manufactured for private label usage. Unico markets its products through numerous sales channels, including large retail merchandisers, drug store chains, grocery stores and pharmaceutical distributors. Unico's customers include most of the larger retailers and distributors in the U.S. in each of these sales channels. The agreement calls for a minimum of $22 million of product purchases over the five-year term in order for Unico to maintain its exclusive distribution right.

The Unico distribution deal is initially for PEDIASTRIPS and commenced in the third quarter of 2008. We are attempting to establish similar arrangements for our SPORTSTRIPS and FIX STRIPS. In addition, we expect to begin sales of our ENERGY FILM STRIPS and SURVIVAL STRIPS before the end of 2008. The Company is also seeking opportunities to establish film strip products for a number of products which are currently delivered in a different manner, such as liquids and pills. The Company expects this to develop into a large part of its business in the future.

In July 2008 the Company generated its initial sales with Unico of $174,450 with a second order scheduled for mid-August 2008 in the amount of $80,640. The Company also generated revenues from another new customer in July 2008 for $36,253 with a second order in the first week of August for $30,763. The Company also expects to ship an order for $125,000 in August 2008, which was prepaid in 2007 and on which the revenue has been deferred.

The Company will continue to require substantial working capital until sales develop to the level required to support operations. The current level of overhead is approximately $392,000 per month, which includes the PMG manufacturing operation of approximately $101,000 per month. The PMG amount should be funded separately by PMG, assuming its funding is completed and the Company would be responsible for approximately $291,000 per month. This is a decrease of $34,000 per month from the overhead level at March 31, 2008. The Company is analyzing its current costs and is attempting to make additional cost reductions where possible. Current sales will not be adequate to support this level of operating costs. We estimate that sales will develop to the level necessary to be at or near cash flow break-even before the end of the first quarter of 2009. Based on this time-frame, the Company would need from $2 to $3

million to meet its minimum requirements, including PMG. The Company has made private placements of its common stock and as of June 30, 2008 had received $660,000 in net proceeds from the sale of its common stock and had borrowed $300,000 pursuant to convertible debentures. The Company expects to continue to make private placements of its common stock or to borrow additional funds as needed.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties.

ACQUISITION OF INNOZEN AND FORMATION OF PMG

On May 4, 2007, we issued 18,249,952 shares of our common stock to the shareholders of InnoZen and completed the acquisition of InnoZen through a merger of InnoZen with our wholly owned subsidiary, Acquisition Sub.

On February 1, 2008 HealthSport and InnoZen executed a Limited Liability Company Operating Agreement ("LLC Agreement") with Migami, Inc. ("Migami") for Pacific Manufacturing Group, LLC ("PMG"). Among other things, the LLC Agreement calls for Migami to contribute $3,000,000 in cash to PMG for its intended 48% ownership and InnoZen to license its technology to PMG for its 52% ownership. In summary, the agreement provides that PMG will manufacture all strip and other products for each member at cost plus 25%. At June 30, 2008, Migami had made a total of $960,000 of its contribution and at July 31, 2008, had made a total of $990,000 of its required contribution. It is unknown at this time if Migami will honor its commitment.

LAWSUIT

On October 30, 2007, our wholly-owned subsidiary, Enlyten, Inc., filed a lawsuit against The Gatorade Company and PepsiCo, Inc. (collectively referred to as Gatorade) in the State of New York Supreme Court, County of Erie. The Complaint alleges that Gatorade has tortiously interfered with Enlyten's contractual agreement with the Buffalo Bills and with Enlyten's business relationships with various third parties including other NFL teams, in an attempt to wrongfully restrain trade. Enlyten is represented by Michael B. Powers of the law firm of Phillips Lytle, LLP in Buffalo, New York. The alleged interference has severely limited our ability to market and sell the ENLYTEN(TM) SPORT STRIP. The case is currently in the early discovery phase with no hearing planned untIL substantial completion of discovery.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2008 AND 2007

REVENUES

During the three months ended June 30, 2008, we had product sales of $134,652 and revenues from license fees, royalties and services of $18,750, a total of $153,402. There were product sales of $18,689 in the corresponding 2007 period.

20

COSTS AND EXPENSES

Cost of product sold includes the direct cost of product sold plus freight.

General and administrative expenses ("G&A") increased to $1,143,955 in the three months ended June 30, 2008, from $836,356 in the 2007 period. The increase of $307,599 in G&A is primarily the G&A of InnoZen (included for two months in 2007) and PMG in the amount of $453,008. PMG was not a part of the Company in 2007. The Companies have made some cost reductions which will be more evident in the third quarter.

Selling and marketing costs ("SMC") are $222,214 in the three months ended June 30, 2008, as compared to $573,051 in the 2007 period. SMC decreased $350,837 in

the 2008 period as compared to the 2007 period. SMC costs are down from the year earlier period, primarily due to the elimination of endorsements and sponsorship fees as a result of re-directing our marketing efforts toward distributors rather than direct sales to customers.

Non-cash compensation expense was $627,773 in 2008 and $557,648 in 2007 and includes the amortization of stock grants and amortization of the intrinsic value of stock options to employees, consultants and spokespersons over the relevant service periods to both employees and as a part of endorsement contracts. The 2008 amount also includes $221,750 as the cost of stock granted for consulting fees in the current quarter. Exclusive of this grant, the amortization cost for the quarter would have been $151,625 less, which is principally the result of contract terminations in the first quarter.

The Company determined to fully impair the client list acquired in the InnoZen acquisition in the net amount of $648,600. In addition, the Company recorded a charge in the amount of $274,840 for inventory obsolescence.

Manufacturing costs represent the costs incurred during the manufacturing process that are not capitalized into inventory based on current production volume. The Company had only nominal production in 2007 and in 2008 it began preparing the new manufacturing facility for operation.

Research and development ("R&D") costs amounted to $67,533 in 2008 and include contract services, supplies, materials and analytical testing costs incurred for new products to be developed by the Company. The 2007 amount included expensing of R&D purchased from InnoZen in the amount of $847,336.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2008 AND 2007

REVENUES

During the six months ended June 30, 2008, we had product sales of $232,093 and revenues from license fees, royalties and services of $37,500, a total of $269,593. There were product sales of $24,585 in the corresponding 2007 period and revenues from license fees, royalties and services of $64,022, a total of

$88,607. While revenues have increased over 200%, the volume is inadequate to support the Company operations. The Company recorded its first revenues in July 2008 from the Unico contract discussed above and expects substantial sales growth in the future.

COSTS AND EXPENSES

Cost of product sold includes the direct cost of product sold plus freight.

G&A increased to $2,294,832 in the six months ended June 30, 2008, from $1,099,127 in the 2007 period. The increase of $1,195,705 in G&A is primarily the G&A of InnoZen (included for two months in 2007) and PMG in the amount of $1,260,856. PMG was not a part of the Company in 2007. The Companies have made some cost reductions which will be more evident in the third quarter.

SMC are $697,557 in the six months ended June 30, 2008, as compared to $982,225 in the 2007 period. SMC decreased $284,668 in the 2008 period as compared to the 2007 period. SMC costs are down from the year earlier period, primarily due to the elimination of endorsements and sponsorship fees as a result of re-directing our marketing efforts toward distributors rather than direct sales to customers.

Non-cash compensation expense was $1,681,578 in 2008 and $945,591 in 2007 and

includes the amortization of stock grants and amortization of the intrinsic value of stock options to employees, consultants and spokespersons over the relevant service periods to both employees and as a part of endorsement contracts. The 2008 amount also includes $221,750 as the cost of stock granted for consulting fees in the second quarter. Exclusive of this grant, the amortization cost for the period would have been $514,237 more than the 2007 period, which is principally the result of contract terminations in the first quarter.

The Company determined to fully impair the client list acquired in the InnoZen acquisition in the net amount of $648,600. In addition, the Company recorded a charge in the amount of $274,840 for inventory obsolescence.

Manufacturing costs represent the costs incurred during the manufacturing process that are not capitalized into inventory based on current production volume. The Company had only nominal production in 2007 and in 2008 it began preparing the new manufacturing facility for operation.

Research and development ("R&D") costs amounted to $139,112 in 2008 and include contract services, supplies, materials and analytical testing costs incurred for new products to be developed by the Company. The 2007 amount included expensing of R&D purchased from InnoZen in the amount of $847,336.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4T: CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Acting Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 240.13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) as of June 30, 2008. Based on that review and evaluation, which included inquiries made to certain other employees of the Company, the CEO and Acting CFO concluded that the Company's current disclosure controls and procedures, as designed and implemented, are effective in ensuring that information relating to the Company required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including insuring that such information is accumulated and communicated to the Company's management, including the CEO and Acting CFO, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation described above, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

Not applicable.

ITEM 1A: RISK FACTORS

Not applicable.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company sold 400,000 shares of its common stock for $160,000 in cash during the three months ended June 30, 2008. In addition, the Company issued 635,000 shares for services valued at $221,750 plus a stock subscription receivable in the amount of $500.

All of the shares issued were sold pursuant to an exemption from registration under Section 4(2) promulgated under the Securities Act of 1933, as amended.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5: OTHER INFORMATION

Not applicable.

ITEM 6: EXHIBITS

The following exhibits are filed with this report on Form 10-Q.

Exhibit 31	Certification pursuant to 18 U.S.C. Section 1350 Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification pursuant to 18 U.S.C. Section 1350 Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with 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.

HEALTHSPORT, INC.

August 13, 2008

BY: /s/ Robert Kusher

Robert Kusher, Chief Executive Officer

(Principal Executive Officer)