

Edgar Filing: Healthsport, Inc. - Form 10QSB

Healthsport, Inc.
Form 10QSB
August 10, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

For Quarter Ended: JUNE 30, 2006

Commission File Number: 0-23100

HEALTHSPORT, INC.

(Exact name of small business issuer as specified in its charter)

IDEA SPORTS ENTERTAINMENT GROUP, INC.

(Former name of small business issuer as specified in its charter)

DELAWARE

(State of Incorporation)

22-2649848

(IRS Employer ID No)

3930 GLADE ROAD, STE 108-200, COLLEYVILLE, TEXAS 76034

(Address of principal executive office)

4514 COLE AVE, SUITE 200, DALLAS, TEXAS 75205

(Former address of principal executive office)

(817) 675-4319

(Issuer's telephone number)

Check whether the issuer (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 No .

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

The number of shares outstanding of registrant's common stock, par value \$.0001 per share, as of June 30, 2006 was 1,157,288.

Transitional Small Business Disclosure Format (Check one): Yes No .

HEALTHSPORT, INC. AND SUBSIDIARIES
INDEX

Edgar Filing: Healthsport, Inc. - Form 10QSB

		Page

PART I	FINANCIAL INFORMATION (Unaudited)	
Item 1.	Condensed Consolidated Balance Sheet as of June 30, 2006	3
	Condensed Consolidated Statements of Operations for the three months ended June 30, 2006 and 2005	4
	Condensed Consolidated Statements of Operations for the six months ended June 30, 2006 and 2005 and the period from inception (September 9, 2004) through June 30, 2006	5
	Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005, and the period from inception (September 9, 2004) through June 30, 2006	6
	Notes to Condensed Consolidated Financial Statements	7-13
Item 2.	Management's Discussion and Analysis or Plan of Operation	14-17
Item 3.	Controls and Procedures	18
PART II	OTHER INFORMATION	19-21

2

HEALTHSPORT, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2006
(UNAUDITED)

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 421,671

Total current assets	421,671
Goodwill	1,175,000

Total assets	\$ 1,596,671
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Convertible promissory notes	\$ 4,617,572
Accounts payable and accrued expenses	196,845
Due to related party	291,913
Accrued interest payable	343,013

Total liabilities	5,449,343

Commitments and contingencies	
Minority interest	225,000

Edgar Filing: Healthsport, Inc. - Form 10QSB

STOCKHOLDERS' DEFICIT

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; issued 1,157,882 shares and outstanding 1,157,288 shares	116
Additional paid-in capital	18,740,401
Common stock warrants	1,200
Accumulated deficit	(22,819,389)

Total stockholders' deficit	(4,077,672)

Total liabilities and stockholders' deficit	\$ 1,596,671
	=====

See accompanying notes to condensed consolidated financial statements.

3

HEALTHSPORT, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

	2006	2005
	-----	-----
EXPENSES		
Administrative expense	\$ 198,014	\$ 158,1254
Equity in joint venture loss	--	50,000
Interest income	(1,963)	--
Interest expense	196,214	95,399
	-----	-----
NET LOSS	\$ (392,265)	\$ (303,524)
	=====	=====
NET LOSS PER SHARE, BASIC AND DILUTED	\$ (0.34)	\$ (0.49)
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	1,157,288	617,600
	=====	=====

See accompanying notes to condensed consolidated financial statements.

4

HEALTHSPORT, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005, AND THE PERIOD
FROM INCEPTION (SEPTEMBER 9, 2004) THROUGH JUNE 30, 2006
(UNAUDITED)

FROM INCEP
(9/9/200
THROUGH

SIX MONTHS ENDED

Edgar Filing: Healthsport, Inc. - Form 10QSB

	JUNE 30,		JUNE 30
	2006	2005	2006
	-----	-----	-----
CONTINUING OPERATIONS			
Administrative expense	\$ 216,060	\$ 310,4720	\$ 1,494,2
Asset impairments	--	--	311,0
Abandoned asset	1,491	--	1,4
Equity in joint venture loss	--	50,000	134,6
Interest income	(1,963)	--	(1,9
Interest expense	332,123	192,889	830,2
	-----	-----	-----
LOSS FROM CONTINUING OPERATIONS	(547,711)	(553,361)	(2,769,7
	-----	-----	-----
DISCONTINUED OPERATIONS			
Earnings from discontinued operations	--	70,242	
Income tax benefit	--	--	
	-----	-----	-----
NET EARNINGS FROM DISCONTINUED OPERATIONS	--	70,242	
	-----	-----	-----
NET LOSS	\$ (547,711)	\$ (483,119)	\$ (2,769,7
	=====	=====	=====
NET LOSS PER SHARE, BASIC AND DILUTED, FROM:			
CONTINUING OPERATIONS	\$ (0.60)	\$ (1.06)	\$ (4.
DISCONTINUED OPERATIONS	--	0.14	
	-----	-----	-----
TOTAL	\$ (0.60)	\$ (0.92)	\$ (4.
	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING,			
BASIC AND DILUTED	914,194	522,668	643,1
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

5

HEALTHSPORT, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005, AND THE PERIOD
FROM INCEPTION (SEPTEMBER 9, 2004) THROUGH JUNE 30, 2006
(UNAUDITED)

	SIX MONTHS ENDED		
	JUNE 30,		
	2006	2005	
	-----	-----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (547,711)	\$ (483,119)	\$
Earnings from discontinued operations	--	70,242	
	-----	-----	-----
Loss from continuing operations	(547,711)	(553,361)	
Adjustment to reconcile net loss to net cash used in operating activities:			
Amortization of beneficial conversion feature	57,355	--	
Depreciation	--	186	
Asset impairments	--	--	

Edgar Filing: Healthsport, Inc. - Form 10QSB

Equity in joint venture loss	--	50,000
Common stock issued for services	--	--
Abandoned asset	1,491	--
Accounts payable	190,618	104,613
Due from related parties	--	175
Accrued expenses	269,970	197,130
	-----	-----
Net cash used in continuing operations	(28,277)	(201,257)
	-----	-----
Net cash used in discontinued operations	--	(163,002)
	-----	-----
Net cash used in operations	(28,277)	(364,259)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of computer equipment	--	--
Investment in joint venture	--	(115,500)
	-----	-----
Net cash used in investing activities	--	(115,500)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	448,600	367,692
Loan repayment	--	--
Sale of common stock	--	135,000
Cash received in acquisition of IMG I	--	--
	-----	-----
Net cash provided by financing activities	448,600	502,692
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	420,323	22,933
CASH AND CASH EQUIVALENTS, beginning of period	1,348	2,692
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 421,671	\$ 25,625
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Issuance of common stock for investment in Health Strip Solutions, LLC	\$ 900,000	\$ --

See accompanying notes to condensed consolidated financial statements.

6

HEALTHSPORT, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
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

Edgar Filing: Healthsport, Inc. - Form 10QSB

such as "expects", "anticipates", "approximates", "believes", "estimates", "hopes", "intends", and "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. Important factors that could result in such differences, in addition to other factors noted with such forward-looking statements, include those discussed in Exhibit 99.1 filed with the Securities and Exchange Commission as an exhibit to the Company's Annual Report on Form 10-KSB for fiscal year 2002.

NOTE 1--BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of Healthsport, Inc. ("Healthsport") and its wholly owned subsidiaries, Idea Management Group, Inc. ("IMGI"), 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") and Health Strip Solutions, LLC ("Health Strip") the 80% subsidiary of Healthsport (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation. Developing the Company's film strip product containing electrolytes represents the primary continuing operations of the Company and the current development stage operations.

On April 24, 2006, the Company filed a Definitive Information Statement pursuant to Section 14C which provided that effective May 15, 2006; 1) the name of the Company would be changed to Healthsport, Inc.; 2) the Company's issued and outstanding shares would be reverse-split one share for each 200 shares; and 3) the Company's Certificate of Incorporation would be restated to reflect these amendments. These amendments were approved by the Company's Board of Directors and in writing by 52.33% of the Company's shareholders on March 31, 2006. Accordingly, the Company has made the change in outstanding shares and all references to shares retroactive for all periods presented in the financial statements.

7

On March 29, 2006, the Company entered into a Unit Purchase Agreement with the majority of the unit holders of Health Strip, a Nevada limited liability company, to acquire 80% of Health Strip in exchange for 500,000 shares of the Company's \$.0001 par value common stock. The seller has the right to rescind this transaction by May 31, 2006, if the Company is unable to cause a minimum of \$4,000,000 of its outstanding liabilities to convert into the Company's common stock by May 15, 2006, which was extended until August 31, 2006. Health Strip holds certain proprietary technology for the formulation of a thin film electrolyte strip which is the subject of a provisional patent filed in the U.S. Patent and Trademark office on June 14, 2006. In addition, Health Strip has tentatively agreed with InnoZen to manufacture and distribute the electrolyte strips through its California based manufacturing facility. Through the use of InnoZen's patented manufacturing process the electrolyte strips should be available to the public by September 1, 2006.

On September 9, 2004, Healthsport acquired IMGI and subsequently acquired Gaming, both of which are non-operating development stage enterprises within the meaning of Statement of Financial Accounting Standards No. 7, ("SFAS No. 7") "Accounting and Reporting by Development Stage Enterprises." The Company follows the AICPA SOP 98-5, "Reporting on the Costs of Start-Up Activities" in accounting for its start-up activities. Accordingly, the costs associated with the new development stage activities have a new inception date of September 9,

Edgar Filing: Healthsport, Inc. - Form 10QSB

2004, and all prior development stage costs associated with the discontinued automotive racing league have been transferred to accumulated deficit.

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, 2005, which is included in the Company's Form 10-KSB for the year ended December 31, 2005. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

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

8

NOTE 2--GOING CONCERN

The Company has not established any sources of revenue to fund the development of business, projected operating expenses and commitments for the next twelve months. Since August 26, 2003, when the Company discontinued its plans to begin a racing league, the Company attempted to locate and negotiate with a business entity for the merger of that target business into the Company. As discussed below, the Company has acquired new development stage businesses commencing on September 9, 2004. Since September 9, 2004, the Company incurred losses in the amount of \$2,222,081 through December 31, 2005 and \$547,711 during the six months ended June 30, 2006. A group of the note holders have agreed to advance funds to allow the Company to develop its health strip product which management believes will be a business capable of generating revenues sufficient to fund projected operating expenses and commitments. However, there can be no assurance that the group of note holders will be able to continue to provide sufficient funding to develop the Company's current business plan.

In addition, current liabilities of the Company exceed its current assets by approximately \$5,028,000, and substantially all of its convertible promissory notes payable obligations are now due. Pursuant to the acquisition of Health Strip, the Company is required to convert at least \$4,000,000 of its outstanding liabilities into its common stock by May 15, 2006, which was extended until August 31, 2006. It is the Company's intention to convert substantially all of its outstanding liabilities into common stock upon completion of a formal manufacturing agreement with InnoZen. However, there can be no assurance that this will be accomplished by that date.

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

NOTE 3--ACQUISITIONS

Edgar Filing: Healthsport, Inc. - Form 10QSB

ELECTROLYTE STRIP

On April 19, 2005, the Company entered into a joint development agreement with InnoZen to jointly develop a film strip product containing electrolytes to replenish the body while under physical stress (the "electrolyte strip"). InnoZen had experience in the formulation, development, manufacturing and sale of edible thin strips containing drug active ingredients. The Company has the ability to assist in obtaining endorsements for the electrolyte strips by well-known athletes and coaches. The Company contributed \$115,500 in cash and 1,250 shares of its common stock, valued at \$19,191 using the Black-Scholes valuation model, for its 50% interest in the joint venture. The Company would be required to issue an additional 1,250 shares of its common stock upon completion of the development of a saleable product.

As of September 30, 2005, the joint venture had completed a product formulation of an acceptable thin film prototype containing electrolytes and had completed laboratory stability testing for the oral dosage product. The joint venture

9

produced initial electrolyte strips capable of holding a deliverable load of electrolytes equal to approximately one fluid ounce of most recognized sports drinks. The electrolyte strips were produced for flavor testing with initial flavors to be lemon-lime, orange and sour orange. InnoZen had been unable to complete a saleable product and all joint venture funds were expended by December 31, 2005.

On March 29, 2006, the Company entered into a Unit Purchase Agreement with the majority of the unit holders of Health Strip, a Nevada limited liability company, to acquire 80% of Health Strip in exchange for 500,000 shares of the Company's \$.0001 par value common stock. The seller has the right to rescind this transaction by May 31, 2006, if the Company is unable to cause a minimum of \$4,000,000 of its outstanding liabilities to convert into the Company's common stock by May 15, 2006, which was extended until August 31, 2006. Health Strip holds certain proprietary technology for the formulation of a thin film electrolyte strip which is the subject of a provisional patent filed in the U.S. Patent and Trademark office on June 14, 2006. In addition, Health Strip has tentatively agreed with InnoZen to manufacture and distribute the electrolyte strips through its California based manufacturing facility. Through the use of InnoZen's patented manufacturing process the electrolyte strips should be available to the public by September 1, 2006.

Health Strip did not have any tangible assets or liabilities, nor did it have any specific intangible assets to which a portion of the cost could be allocated. Accordingly, Health Strip recorded goodwill in the amount of \$1,125,000 (\$900,000 or 80% of which is equal to the value of the Company's stock issued on the date of the transaction). The Company's stock closed at \$1.80 per post-split share on the date of the acquisition.

POKER

On June 28, 2005, the Company issued 19,250 shares of its common stock, which were valued at \$295,544 using the Black-Scholes valuation model, to acquire Poker, whose principal asset is the rights to a proprietary fantasy football format, with the working title, Vegas Roll'em(TM) Fantasy Football ("Vegas Roll'em"). The Company recorded the investment of \$295,544 as goodwill on the books of Poker.

In January 2005, the Rules of Competition for Vegas Roll'em received a copyright

Edgar Filing: Healthsport, Inc. - Form 10QSB

from the United States Copyright Office. This format allows live filming of the high stakes action as it unfolds. Each player will have a roll of the dice to determine which of his players will make up his team. According to the Fantasy Sports Trade Association, fantasy football was played by nearly fifteen million participants last year. This internet-based phenomenon has created a four billion dollar industry.

The Company began its initial sales and commenced operations during the quarter ended September 30, 2005. However, due to delays encountered in developing a functional website which delayed the date for commencing sales, the Company determined it would not have sufficient participants to have a viable program during the 2005 season. Accordingly, the Company returned all fees collected and cancelled the program. While the Company may still pursue the project for the 2006 season, its principal focus is on the agreement with Health Strip. Accordingly, at December 31, 2005, the Company elected to impair its investment in the goodwill associated with Poker to the \$50,000 amount it had determined to be the fair value of the investment.

10

TELEVISION PROGRAMS

On October 15, 2004, the Company acquired two television programs entitled "America's Top Drivers" and "Women's Racing League" in exchange for warrants to acquire 8,750 shares of the Company's common stock at an exercise price of \$20.00 per share. The transaction was valued at \$65,458 using the Black-Scholes option pricing model. As of December 31, 2005, the Company was unable to locate a venue to produce the shows. Accordingly, the Company fully impaired its investment of \$65,458 at December 31, 2005.

On September 28, 2005, the Company completed the modification of its television program purchase agreement in order to recognize the compensation element of the agreement. The warrants to acquire 8,750 shares of the Company's common stock at \$20.00 per share were cancelled and the Company issued 18,000 shares of its common stock to the seller of the programs. The 18,000 shares of common stock were valued at \$251,640, utilizing the Black-Scholes valuation model. The \$251,640 was reduced by the original calculated value of the warrants, which were cancelled, of \$65,458 and a net consulting fee expense of \$186,182 was recorded.

GAMING

On October 27, 2004, the Company acquired all of the issued and outstanding memberships of Gaming, a Nevada limited liability company, in exchange for warrants to acquire 3,750 shares of the Company's common stock at an exercise price of \$20.00 per share. In addition, in the event Gaming generates \$2,000,000 in gross revenue within 36 months of closing, the sellers of Gaming would receive additional warrants to acquire 3,750 shares of the Company's common stock at an exercise price of \$20.00. Gaming had no prior operations and has no assets. Accordingly, the transaction was recorded with no value. Gaming is not currently active and has not had any activity since its inception.

NOTE 4--DISCONTINUED OPERATIONS

The Company, which has been in the development stage since its inception, May 15, 2001, did not establish sources of revenue sufficient to fund the development of business and pay operating expenses, resulting in a net loss of \$15,054,021 from inception through December 31, 2003. Accordingly, on August 26, 2003, the Board of Directors of the Company unanimously approved a plan to

Edgar Filing: Healthsport, Inc. - Form 10QSB

immediately discontinue its racing operation.

In March 2005, the Company and all other parties to the litigation agreed to dismiss with prejudice all claims and counterclaims. As a result, the Company was relieved of previously recorded liabilities in the amount of \$281,181. The Company recorded \$210,939 in additional legal fees, which resulted in a net gain from discontinued operations of \$70,242 during the six months ended June 30, 2005.

11

NOTE 5--STOCK OPTION PLANS

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)). Among other things, SFAS 123(R) requires expensing the fair value of stock options, previously optional accounting. For transition, upon adoption on January 1, 2006, SFAS 123(R) would require expensing any unvested options and will also require the Company to change the classification of certain tax benefits from option deductions to financing rather than operating cash flows. No options were granted during the six months ended June 30, 2006 or 2005 and there are no unvested options outstanding.

Until December 31, 2005, the Company applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 (APB No. 25), "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its stock option plan. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

NOTE 6--CONVERTIBLE PROMISSORY NOTES

Activity in convertible promissory notes for the six months ended June 30, 2006 is as follows:

	Principal	Accrued Interest
Balance, January 1, 2006	\$ 4,530,309	\$ 68,244
Loan proceeds	448,600	--
Accrued interest	--	274,769
	-----	-----
Balance principal and accrued interest, June 30, 2006	\$ 4,978,909	\$ 343,013
	-----	=====
Beneficial conversion feature	(418,692)	--
Amortization of beneficial conversion feature	57,355	--

Balance of beneficial conversion feature	(361,337)	--

Net convertible promissory notes, June 30, 2006	\$ 4,617,572	--
	=====	

At December 31, 2005, note agreements with a principal balance of \$4,300,375 were amended and are due June 30, 2006, including interest of 12%, payable monthly commencing on January 31, 2006. Accrued interest has not been paid. The remaining balance of notes outstanding at December 31, 2005, in the principal

Edgar Filing: Healthsport, Inc. - Form 10QSB

amount of \$229,934, is in default and the default rate of interest is 12% since the default occurred.

12

During the three months ended June 30, 2006, the Company issued a 12%, one-year convertible promissory note payable for \$500,000 and received advances on this loan in the amount of \$448,600. The note is convertible into common shares at the rate of \$1.00 per share. Management has determined that this note qualifies as conventional convertible debt pursuant to SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" and accordingly the embedded conversion option is not a derivative. The Company computed a beneficial conversion value of \$418,692 based on the quoted stock price on the grant date of \$1.80 per share. The \$418,692 was recorded as a debt discount and credited to additional paid-in capital. The debt discount is being amortized to interest expense over the one-year term of the loan. At June 30, 2006, \$57,355 had been amortized to interest expense and \$361,337 remains to be amortized.

NOTE 7--COMMITMENTS AND CONTINGENCIES

The Company, which has been in the development stage since its inception, May 15, 2001, did not establish sources of revenue sufficient to fund the development of business and pay operating expenses, resulting in a net loss of \$15,054,021 from inception through December 31, 2003. As a result of the continuing losses, on August 26, 2003, the Board of Directors of the Company unanimously approved a plan to immediately discontinue its racing operation. This discontinued operation had a loss of \$28,960 and \$671,289 during the years ended December 31, 2005 and 2004, respectively. While the Company does not expect any additional liability, the Company had agreements in place for racing car design and construction, team sales brokerage and broadcasting which have not been formally terminated.

NOTE 8--RELATED PARTIES

During 2005, Godley Morris Group, LLC ("GMG"), a company 50% owned and managed by the Company's former CEO notified the Company they were claiming reimbursement for \$291,913 for expenditures they claimed to have made on behalf of the Company. The Company recorded this amount in due to related party in December 2005.

The Company's CEO is currently providing office space for the Company at no charge.

The Company's CEO was paid a consulting fee of \$3,500 during the six months ended June 30, 2006.

13

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

We have been in the development stage for our planned racing operation since our inception, May 15, 2001, and did not establish sources of revenue sufficient to fund the development of business and pay operating expenses, resulting in a net loss of \$15,054,021 from inception through December 31, 2003. On August 26, 2003, our Board of Directors unanimously approved a plan to immediately discontinue its racing operation. Since August 26, 2003 and until September 9,

Edgar Filing: Healthsport, Inc. - Form 10QSB

2004, we attempted to find a suitable acquisition candidate. On September 9, 2004, with the acquisition of IMGI, we ceased one development stage and commenced a new development stage operation.

ELECTROLYTE STRIP

On April 19, 2005, we entered into a joint development agreement with InnoZen, Inc. ("InnoZen") to jointly develop a film strip product containing electrolytes to replenish the body while under physical stress (the "electrolyte strip"). InnoZen had experience in the formulation, development, manufacturing and sale of edible thin strips containing drug active ingredients. We have the ability to assist in obtaining endorsements for the electrolyte strips by well-known athletes and coaches. We contributed \$115,500 in cash and 1,250 shares of our common stock, valued at \$19,191 using the Black-Scholes valuation model, for our 50% interest in the joint venture. We would be required to issue an additional 1,250 shares of our common stock upon completion of the development of a saleable product.

As of September 30, 2005, the joint venture had completed a product formulation of an acceptable thin film prototype containing electrolytes and had completed laboratory stability testing for the oral dosage product. The joint venture produced initial electrolyte strips capable of holding a deliverable load of electrolytes equal to approximately one fluid ounce of most recognized sports drinks. The electrolyte strips were produced for flavor testing with initial flavors to be lemon-lime, orange and sour orange. InnoZen had been unable to complete a saleable product and all joint venture funds were expended by December 31, 2005.

On March 29, 2006, the Company entered into a Unit Purchase Agreement with the majority of the unit holders of Health Strip, a Nevada limited liability company, to acquire 80% of Health Strip in exchange for 500,000 shares of the Company's \$.0001 par value common stock. The seller has the right to rescind this transaction by May 31, 2006, if the Company is unable to cause a minimum of \$4,000,000 of its outstanding liabilities to convert into the Company's common stock by May 15, 2006, which was extended until August 31, 2006. Health Strip holds certain proprietary technology for the formulation of a thin film electrolyte strip which is the subject of a provisional patent filed in the U.S. Patent and Trademark office on June 14, 2006. In addition, Health Strip has tentatively agreed with InnoZen to manufacture and distribute the electrolyte strips through its California based manufacturing facility. Through the use of InnoZen's patented manufacturing process the electrolyte strips should be available to the public by September 1, 2006.

14

Health Strip did not have any tangible assets or liabilities, nor did it have any specific intangible assets to which a portion of the cost could be allocated. Accordingly, Health Strip recorded goodwill in the amount of \$1,125,000 (\$900,000 or 80% of which is equal to the value of our common stock issued on the date of the transaction). Our common stock closed at \$1.80 per post-split share on the date of the acquisition.

IMGI

On September 9, 2004, we acquired all of the issued and outstanding common stock of IMGI, a concept development company.

POKER

On June 28, 2005, we issued 19,250 shares of our common stock, which were valued at \$295,544 using the Black-Scholes valuation model, to acquire Poker, whose

Edgar Filing: Healthsport, Inc. - Form 10QSB

principal asset is the rights to a proprietary fantasy football format, with the working title, Vegas Roll'em(TM) Fantasy Football ("Vegas Roll'em"). Poker recorded the investment of \$295,544 as goodwill.

In January 2005, the Rules of Competition for Vegas Roll'em received a copyright from the United States Copyright Office. This format allows live filming of the high stakes action as it unfolds. Each player will have a roll of the dice to determine which of his players will make up his team. According to the Fantasy Sports Trade Association, fantasy football was played by nearly fifteen million participants last year. This internet-based phenomenon has created a four billion dollar industry.

We began our initial sales during the quarter ended September 30, 2005 and believed we had commenced operations and completed our development stage as of that date. However, due to delays encountered in developing a functional website, which delayed the date for commencing sales, we determined we would not have sufficient participants to have a viable program during the 2005 season. Accordingly, we returned all fees collected and cancelled the program. We have re-instituted the development stage for our business from the original inception date of September 9, 2004. While we may still pursue the project for the 2006 season, our principal focus is on the agreement with Health Strip. Accordingly, at December 31, 2005, we elected to impair our investment in the goodwill associated with Poker to the \$50,000 amount we have determined to be the fair value of the investment.

COST OF OPERATIONS DURING DEVELOPMENT

THREE MONTHS ENDED JUNE 30, 2006 AS COMPARED TO JUNE 30, 2005

Administrative expenses increased \$39,889 (25%) in 2006 from 2005. The majority of the increase is a result of an increase of \$87,382 in consulting and other professional services offset by a reduction in gross payroll of \$54,834.

During 2005 we recognized a loss of \$50,000 as our share of the loss incurred by the joint venture with InnoZen. All funds were expended by December 31, 2005, and we have not incurred any additional cost.

15

Interest expense increased \$100,815 (106%) in 2006 as compared to 2005. The principal balance of the debt was \$3,240,873 at June 30, 2005, as compared to \$4,978,909 at June 30, 2006, an increase of 54%. In addition, the 2006 amount includes amortization of the beneficial conversion feature associated with the new convertible promissory note issued in 2006 in the amount of \$57,355.

Net loss from continuing operations increased from \$303,524 in 2005 to \$392,265 in 2006 as a result of the above factors.

SIX MONTHS ENDED JUNE 30, 2006 AS COMPARED TO JUNE 30, 2005

Administrative expense decreased \$94,412 (30%) in 2006 as compared to 2005. The decline is primarily a result of shutting down the operation in Lake City, South Carolina at June 30, 2005. This reduced quarterly operating expenses by over \$50,000. We were substantially shut down in the first quarter of 2006, and have since hired three employees in April and May 2006 to oversee the electrolyte strip development.

As noted above, we recognized a \$50,000 loss on our joint venture with InnoZen in 2005.

Interest expense increased \$139,234 (72%) in 2006 as compared to 2005 as a

Edgar Filing: Healthsport, Inc. - Form 10QSB

result of the increase in the principal balance of the debt noted above and the 2006 amount includes amortization of the beneficial conversion feature associated with the new convertible promissory note issued in 2006 in the amount of \$57,355.

Net loss from continuing operations decreased \$5,650 (1%) in 2006 as compared to 2005 primarily as a result of the factors discussed above.

GOING CONCERN FACTORS--LIQUIDITY

We have not established any sources of revenue to fund the development of business, projected operating expenses and commitments for fiscal year 2006. Since August 26, 2003, when we discontinued our plans to begin a racing league, we attempted to locate and negotiate with a business entity for a merger with that target business. As discussed below, we acquired new development stage businesses commencing on September 9, 2004. Since September 9, 2004, we incurred losses in the amount of \$2,222,081 through December 31, 2005 and \$547,711 during the six months ended June 30, 2006. A group of the note holders have agreed to advance funds to allow us to develop our health strip product which management believes will be a business capable of generating revenues sufficient to fund projected operating expenses and commitments. However, there can be no assurance that the group of note holders will be able to continue to provide sufficient funding to develop our current business plan.

16

In addition, our current liabilities exceed our current assets by approximately \$5,028,000, and substantially all of our convertible promissory notes payable obligations are now due. Pursuant to the acquisition of Health Strip, we are required to convert at least \$4,000,000 of our outstanding liabilities into our common stock by May 15, 2006, which was extended to August 31, 2006. It is our intention to convert substantially all of our outstanding liabilities into common stock upon completion of a formal manufacturing agreement with InnoZen. However, there can be no assurance that this will be accomplished by that date.

These conditions raise substantial doubt about our 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.

DISCONTINUED OPERATIONS

We have been in the development stage since our inception, May 15, 2001, and we did not establish sources of revenue sufficient to fund the development of business and pay operating expenses, resulting in a net loss of \$15,054,021 from inception through December 31, 2003. As a result of the continuing losses, on August 26, 2003, our Board of Directors unanimously approved a plan to immediately discontinue our racing operation. This discontinued operation had a loss of \$28,960 and \$671,289 during the year ended December 31, 2005 and 2004, respectively. While we do not expect any additional liability, we were a party to a racing car design and construction agreement, a team sales brokerage agreement and a broadcasting agreement which have not been formally cancelled.

In March 2005, all parties to the litigation agreed to dismiss with prejudice all claims and counterclaims. As a result, we were relieved of previously recorded liabilities in the amount of \$281,181. We recorded \$210,939 in additional legal fees, which resulted in a net gain from discontinued operations of \$70,242 during the six months ended June 30, 2005.

17

Edgar Filing: Healthsport, Inc. - Form 10QSB

ITEM 3: CONTROLS AND PROCEDURES

A third-party consultant has been retained to communicate to management the disclosures required by reports that are filed under the Exchange Act.

(a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that are filed under the Exchange Act is accumulated and communicated to management, including the principal executive officer, as appropriate to allow timely decisions regarding required disclosure. Under the supervision of and with the participation of management, including the principal executive officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2006, and, based on its evaluation, our principal executive officer has concluded that these controls and procedures are effective.

(b) Changes in Internal Controls

Other than as discussed above, 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.

18

PART II--OTHER INFORMATION

ITEM 6: EXHIBITS

(a) Exhibits--

Exhibit 31.1 Certification pursuant to 18 U.S.C. Section 1350
Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 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 4, 2006

By: /s/ Terry Washburn

Terry Washburn, Chief Executive Officer
and principal financial and accounting
officer