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Healthsport, Inc.  
Form 10QSB  
November 19, 2007

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: SEPTEMBER 30, 2007

Commission File Number: 0-23100

HEALTHSPORT, INC.

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

DELAWARE  
(State of Incorporation)

22-2649848  
(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)

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 September 30, 2007, was 41,766,897.

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

HEALTHSPORT, INC. AND SUBSIDIARIES  
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HEALTHSPORT, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEET  
 SEPTEMBER 30, 2007  
 (UNAUDITED)

ASSETS

Current assets:	
Cash and cash equivalents	\$
Accounts receivable	
Inventory	
Prepaid expenses	
	-----
Total current assets	
Property and equipment, net	
Goodwill	
Patent costs and other intangible assets, net	
Other assets	
	-----
Total assets	\$ =====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	\$
Accrued expenses	
Current portion of capital lease obligation	
Deferred revenue	
	-----
Total current liabilities	
	-----
Capital lease obligation, less current portion	
	-----
Total liabilities	
	-----

Commitments and contingencies

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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;  
41,766,897 shares issued and outstanding  
Additional paid-in capital  
Intrinsic value of common stock options  
Stock subscriptions receivable  
Accumulated deficit

Total stockholders' equity

Total liabilities and stockholders' equity

-----  
-----  
\$  
=====

See accompanying notes to condensed consolidated financial statements.

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HEALTHSPORT, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006  
(UNAUDITED)

	2007	
	-----	-----
Revenue		
Product sales	\$ 110,473	\$
License fees, royalties and services	45,134	
	-----	-----
Total revenues	155,607	
	-----	-----
Costs and expenses		
Cost of product sold	53,774	
General and administrative expense	1,373,358	
Marketing and selling expense	670,264	
Non-cash compensation expense	600,789	
Manufacturing costs	303,096	
Research and development costs	130,614	
	-----	-----
Total costs and expenses	3,131,895	
	-----	-----
Net loss from operations	(2,976,288)	
	-----	-----
Other income (expense):		
Interest income	21,968	
Interest expense	(6,618)	
	-----	-----
Other income (expense)	15,350	
	-----	-----
Net loss before income taxes and minority interest	(2,960,938)	
Provision for income taxes	-	
	-----	-----
Net loss before minority interest	(2,960,938)	
Minority interest	-	
	-----	-----
Net loss	\$ (2,960,938)	\$

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NET LOSS PER SHARE, BASIC AND DILUTED	\$ (0.07)
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	41,766,897

See accompanying notes to condensed consolidated financial statements.

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HEALTHSPORT, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006  
(UNAUDITED)

	2007	
Revenue		
Product sales	\$ 135,058	\$
License fees, royalties and services	109,156	
Total revenues	244,214	
Costs and expenses		
Cost of product sold	83,542	
General and administrative expense	2,472,485	
Marketing and selling expense	1,652,489	
Non-cash compensation expense	1,546,380	
Manufacturing costs	433,594	
Research and development costs	1,020,672	
Total costs and expenses	7,209,162	
Net loss from operations	(6,964,948)	
Other income (expense):		
Interest income	65,589	
Abandoned asset	-	
Interest expense	(11,725)	
Other income (expense)	53,864	
Net loss before income taxes and minority interest	(6,911,084)	
Provision for income taxes	-	
Net loss before minority interest	(6,911,084)	
Minority interest	-	
Net loss	\$ (6,911,084)	\$
NET LOSS PER SHARE, BASIC AND DILUTED	\$ (0.22)	\$
WEIGHTED AVERAGE SHARES OUTSTANDING,		

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BASIC AND DILUTED

31,964,819

See accompanying notes to condensed consolidated financial statements.

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HEALTHSPORT, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006  
 (UNAUDITED)

	2007
	-----
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (6,911,084)
Adjustment to reconcile net loss to net cash used in operating activities:	
Minority interest	-
Amortization of non-cash stock compensation	1,546,380
Intrinsic value of beneficial conversion feature of convertible promissory note	-
Depreciation and amortization	616,928
Common stock issued for services	-
Acquired research and development cost	847,336
Abandoned asset	-
Change in other assets and liabilities:	
Accounts receivable	(103,594)
Inventory	(562,004)
Prepaid expenses and other assets	(368,354)
Accounts payable	584,630
Accrued expenses	85,826
	-----
Net cash used in operating activities	(4,263,936)
	-----
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received in excess of cash paid in acquisition of InnoZen	16,832
Legal fees associated with acquisition of Neutraceuticals	(15,811)
Loans to InnoZen prior to acquisition	(500,000)
Acquisition of property and equipment	(187,477)
	-----
Net cash used in investing activities	(686,456)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES	
Loan proceeds	-
Collect stock subscription receivable	250,000
Loan repayment to related party	(108,285)
Capital lease payments	(79,494)
Sale of common stock	5,446,974
	-----
Net cash provided by financing activities	5,509,195
	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	558,803
CASH AND CASH EQUIVALENTS, beginning of period	318,144
	-----

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CASH AND CASH EQUIVALENTS, end of period	\$	876,947
		=====

See accompanying notes to condensed consolidated financial statements.

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HEALTHSPORT, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED  
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006  
(UNAUDITED)

		2007
SUPPLEMENTAL CASH FLOW INFORMATION		
CASH PAID FOR INTEREST AND INCOME TAXES:		
Interest	\$	11,725
Income taxes		-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock for:		
Investment in Health Strip Solutions, LLC	\$	-
Investment in InnoZen, Inc.:		
Current assets, excluding cash		584,993
Property and equipment		471,188
Goodwill and other intangible assets		27,643,918
Research and development		847,336
Other assets		10,583
		-----
Total assets		29,558,018
Liabilities assumed		(1,449,922)
Liabilities to HealthSport, Inc.		(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
		=====
Trade names and web site		74,000
Stock subscriptions receivable		172,754
Prepaid royalties		204,000
Accrued expense		15,000
Conversion of convertible notes and accrued interest		-
Accounts payable		-
Accounts payable and Idea Management Group, Inc.		-
Property and equipment acquired with a capital lease		99,172

See accompanying notes to condensed consolidated financial statements.

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(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. 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: ORGANIZATION AND NATURE OF BUSINESS

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### 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"), 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.

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, effective May 15, 2006, the Company's name was changed from Idea Sports Entertainment Group, Inc. to HealthSport, Inc., the shares were reverse-split one for 200 and the Company's Certificate of Incorporation was restated to reflect these amendments. The Company has made the change in outstanding shares and all references to shares retroactive for all periods presented in the financial statements.

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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

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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, 2006, which is included in the Company's Form 10-KSB for the year ended December 31, 2006. 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.

### 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 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.

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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.

### NEW ACCOUNTING POLICIES

The following accounting policies have been established and adopted by the Company due to the recent acquisition of InnoZen and the Company's increasing level of operations.

RESEARCH AND DEVELOPMENT COSTS - Research and development costs are charged to operations when incurred.



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REVENUE RECOGNITION - Revenue is recognized on the sale of licensed products when title has transferred.

License fees received in advance in exchange for the right to use assets are recognized over the term of the licensing agreement. Royalties are based on actual sales of licensed product which are recognized when reported as earned. Royalty agreements currently provide for rates ranging from 5% to 8%.

Deferred revenue is comprised of advance payments received under various licensing, royalty and manufacturing agreements, the terms of which range from five to fifteen years. The payments are not creditable against royalties and are generally not refundable.

CUSTOMER REBATES AND INCENTIVES - The Company offers various rebates and incentives to its customers based on customer sales volumes and advertising plans. The amounts incurred are subject to changes in market conditions, customer marketing strategies and changes in the profitability or sale of the related merchandise. These rebates and incentives are offered at the later of the date at which the related revenue is recognized or the date at which the rebate or incentive is offered and are recorded as reductions of sales in accordance with EITF 1-09.

### NOTE 2: ACQUISITIONS

#### 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.

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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 when it completed the development of Chloraseptic(R) Sore Throat Relief Strips in June 2003. With Chloraseptic Relief Strips, InnoZen established a new process which prevented irritants and incorporated additional compounds to make the strips more suitable for various drug delivery needs. Relying on its expertise in the development of edible film strips that deliver drug actives, InnoZen moved forward with its proprietary technology to develop two new thin film strip products for cough. InnoZen launched its two new film strip products under its own Suppress(R) brand (<http://www.suppress.com>) in September 2004.

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

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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 and nine-month periods ended September 30, 2007 and 2006, as if the Company and InnoZen had been combined as of the beginning 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.

	THREE MONTHS ENDED SEPTEMBER 30, 2007	SEPTEMBER 30, 2006
	-----	-----
Net revenues	\$ 155,607	\$ 366,794
Net loss	2,960,938	1,109,686
Net loss per share, basic and diluted	\$ (0.07)	\$ (0.06)

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	NINE MONTHS ENDED SEPTEMBER 30, 2007	SEPTEMBER 30, 2006
	-----	-----
Net revenues	\$ 654,509	\$ 526,638
Net loss	7,464,949	2,951,565
Net loss per share, basic and diluted	\$ (0.19)	\$ (0.15)

### HEALTH STRIP

On March 29, 2006, the Company entered into a Unit Purchase Agreement with the majority of the unit holders of Health Strip to acquire 80% of Health Strip in exchange for 500,000 shares of the Company's common stock. Health Strip, in conjunction with InnoZen, holds certain proprietary technology for the formulation of a film strip product containing electrolytes to replenish the body while under physical stress (the "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 reached an agreement for 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 have now been produced. Product names and packaging were finalized and initial sales began at the end of 2006.

At the time it was acquired, Health Strip did not have any tangible assets or

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liabilities, but it did have certain proprietary technology for an electrolyte replenishment system and the rights to file for a patent of this process. Accordingly, Health Strip recorded \$1,125,000 as an intangible asset for patent technology rights, 80% of which is equal to the value of the Company's common stock issued on the date of the transaction. The Company commenced amortization of its total patent costs in July 2006 over seventeen years. The Company will periodically evaluate the unamortized balance of the patent and technology costs and record an impairment loss if warranted.

During December 2006, the Company issued 925,000 shares of its common stock to acquire the remaining 20% of Health Strip, which was valued at \$1,871,250, based upon the trading price of the Company's stock on the acquisition date. This amount was reduced by the book value of the associated minority interest of \$135,252 and the resulting \$1,735,998 was recorded as goodwill.

### NUTRACEUTICALS

On December 6, 2006, the Company issued 375,000 shares of its common stock to acquire 100% of Nutraceuticals. At the time it was acquired, Nutraceuticals had a receivable for \$3,750 and did not have any liabilities, but it did have certain 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 Company's 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. This transaction was recorded based upon the trading price of the Company's common stock on the date of the purchase and the resulting \$806,250 was allocated \$3,750 to accounts receivable and \$802,500 to an intangible asset for patent technology rights. The Company commenced amortization of the patent costs over seventeen years, the life of the expected patent in January 2007. The Company will periodically evaluate the unamortized balance of the patent and technology costs and record an impairment loss if warranted.

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In June 2007, the Company issued 50,000 shares of its common stock, valued at \$74,000, and a warrant to acquire 50,000 shares of its common stock at \$2.25 per share to acquire the trade name for HANGOVER FIX(R), FIX STRIPS(TM) and the website and related domain names.

### NOTE 3: INVENTORY

-----

Inventory at September 30, 2007, consists of the following:

Raw materials	\$	246,506
Work in progress		312,200
Finished goods		450,392
		-----
Total	\$	1,009,098
		=====

### NOTE 4: INTANGIBLE ASSETS

-----

The Company accounts for goodwill and intangible assets in accordance with SFAS 142. Goodwill and other intangible assets are tested annually, at a minimum, for impairment. Patent costs are amortized over their life of seventeen years from

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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 September 30, 2007:

Goodwill	\$	10,326,948
		=====

Patent costs and other intangible assets:

Patent and trade secret costs	\$	19,122,283
Trademarks		1,188,365
Client lists		846,000
Web site costs in progress		65,675
		-----
Total		21,222,323
Accumulated amortization		(606,784)
		-----
Net	\$	20,615,539
		=====

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### NOTE 5: SHARE-BASED PAYMENTS

-----

#### STOCK OPTIONS

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

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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.

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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 nine months ended September 30, 2007 (none in the corresponding 2006 period):

Expected term	2-5 years
Expected volatility	95.77 to 102.91%
Expected dividend yield	0%
Risk-free interest rate	4.75%
Expected annual forfeiture rate	0%

A summary of option activity as of September 30, 2007, and changes during the nine months then ended is presented below:

OPTIONS -----	SHARES -----	WEIGHTED AVERAGE EXERCISE PRICE -----	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM (YRS) -----
Outstanding, December 31, 2006	425,000		
Granted	3,540,390		
Exercised	-		
Forfeited or expired	-		
	-----		
Outstanding, September 30, 2007	3,965,390	\$ 1.60	2.49
	=====	=====	=====
Exercisable at September 30, 2007	3,945,390	\$ 1.60	2.48
	=====	=====	=====

The weighted-average grant date fair value of options granted during the nine months ended September 30, 2007, was \$1.07 and \$1.18 during the 2006 period. No options have been exercised.

As of September 30, 2007, there was \$3,383,423 of total unrecognized compensation cost related to share-based option compensation arrangements. The cost is expected to be recognized over a weighted-average period of 27.75 months.

As of September 30, 2007, there were 3,750 warrants with an exercise price of

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\$20 per share which expire in November 2007.

Options granted include 2,825,390 which were granted to employees and consultants of InnoZen to replace its outstanding options on the date of acquisition of InnoZen.

### STOCK GRANTS

In addition to stock options awarded to employees, consultants and spokespersons, the Company has made stock grants to these parties. These stock grants are for future services over terms of one to two years, are being amortized over the period the services are being provided and are summarized below.

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### NON-CASH STOCK COMPENSATION

The intrinsic value of stock option grants and the value of stock grants are being amortized as non-cash stock compensation on a straight-line basis over the relevant period. A summary of the activity follows:

	OPTIONS	GRANTS	TOTAL
	-----	-----	-----
Balance, December 31, 2006	\$ 457,190	\$ 694,521	\$ 1,151,711
Grants	3,785,845	545,750	4,331,595
Forfeiture	-	(236,250)	(236,250)
Amortization	(859,612)	(686,768)	(1,546,380)
	-----	-----	-----
Balance, September 30, 2007	\$ 3,383,423	\$ 317,253	\$ 3,700,676
	=====	=====	=====

#### NOTE 6: 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. 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 September 30, 2007.

Total minimum lease payments:	
Three months ended December 31, 2007	\$ 59,193
Year ended December 31, 2008	236,772
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
	-----
	379,643
Amount representing interest	(40,575)
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Present value of minimum lease payments	339,068
Less current obligations	(212,700)
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Non-current obligations under capital lease	\$ 126,368

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The lease covers equipment with a cost of \$617,618 and accumulated depreciation of \$129,612 at September 30, 2007.

NOTE 7: COMMITMENTS AND CONTINGENCIES

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

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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. Minimum lease commitments at September 30, 2007 are as follows: 2007 - \$31,893; 2008 - \$143,700; and 2009 - \$158,828.

The Company has the following royalty obligations:

1. Royalty agreement for 2 years of .5% of sales of the ENLYTEN(TM) SPORTSTRIPS. Annual minimum royalty of \$18,000 and maximum of \$75,000;
2. Royalty agreement for 2 years 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.

The Company is a party to a number of endorsement contracts requiring minimum payments which average approximately \$44,000 per month.

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.

NOTE 8: RELATED PARTIES

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The Company's acting CFO was paid consulting fees of \$4,500 and \$13,500 during the three and nine months ended September 30, 2007, respectively, and none during 2006.

InnoZen repaid a loan from a principal shareholder of the Company in the amount of \$108,285 after it was acquired by the Company.

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### NOTE 9: GOING CONCERN

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The Company has not established sources of revenue sufficient to fund the development of business, projected operating expenses and commitments for the next twelve months. During 2006, the Company acquired Health Strip and Nutraceuticals to obtain the technology for the formulation of certain film strip products. Initially the Company contracted with InnoZen to manufacture the film strip products and acquired InnoZen in early May 2007. Management believes the electrolyte strip products will be a business capable of generating revenues sufficient to fund projected operating expenses and commitments. Since September 30, 2007, the Company has collected \$1,126,000 from private placement sales of its common stock and plans to borrow additional funds and also to sell additional common stock in private placement transactions to raise the additional capital required to complete its business plan. However, there can be no assurance that the planned loans, sales of common stock or anticipated sales will provide sufficient funding to develop the Company's current business plan.

As of September 30, 2007, the Company had working capital of \$1,084,744 and had incurred losses of \$2,960,938 and \$6,911,084 (pro forma \$7,464,949) during the three and nine months ended September 30, 2007, respectively. In addition, the Company had revenues of \$155,607 and \$244,214 (pro forma \$654,509) during the three and nine months ended September 30, 2007, respectively. The Company began sales of two new products in the fourth quarter, FIX STRIPS(TM) and a lower dose electrolyte strip for children. However, while the Company expects substantial sales growth from these and its other products, it is unlikely sales will generate sufficient cash flow to fund the development of business, projected operating expenses and commitments before 2008.

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 10: SUBSEQUENT EVENT

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On October 30, 2007, HealthSport, Inc.'s 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.

On November 16, 2007, the Company completed a non-binding letter of intent ("LOI") with Migami, Inc. ("MIGA") for a potential joint venture to construct two new film strip manufacturing facilities in California and Japan. Terms of the joint venture have not been finalized and those terms outlined in the LOI



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may be subject to change.

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

>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

During the quarter ended June 30, 2007, we completed our sales and marketing materials for the ENLYTEN(TM) SPORTSTRIPS allowing our sales staff to begin marketing the product to retailers nationwide beginning June 15, 2007. In addition, marketing and packaging materials were completed early in the fourth quarter introducing our two newest products, FIX STRIPS(TM) and a lower dose electrolyte strip for children. Marketing efforts for the sale of these two products began in August 2007 with deliveries expected to start in the fourth quarter. Due to the seasonal nature of our suppress products, we expect to begin making deliveries to our retailers at the beginning of the fourth quarter of 2007.

#### GOING CONCERN

We have not established sources of revenue sufficient to fund the development of business, projected operating expenses and commitments for the next twelve months. During 2006, we acquired Health Strip and Nutraceuticals to obtain the technology for the formulation of certain film strip products. Initially we contracted with InnoZen to manufacture the film strip products and acquired InnoZen in early May 2007. Management believes the electrolyte strip products business will become a business capable of generating revenues sufficient to fund projected operating expenses and commitments. Since September 30, 2007, we have collected \$1,126,000 from private placement sales of our common stock and plan to borrow additional funds and also to sell additional common stock in private placement transactions to raise the additional capital required to

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complete our business plan. However, there can be no assurance that the planned loans, sales of common stock or anticipated sales will provide sufficient funding to develop our current business plan.

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As of September 30, 2007, we had working capital of \$1,084,744 and had incurred losses of \$2,960,938 and \$6,911,084 (pro forma \$7,464,949) during the three and nine months ended September 30, 2007, respectively. In addition, we had revenues of \$155,607 and \$244,214 (pro forma \$654,509) during the three and nine months ended September 30, 2007, respectively. We began sales of two new products in the fourth quarter, FIX STRIPS(TM) and a lower dose electrolyte strip for children. However, while we expect substantial sales growth from these and our other products, it is unlikely sales will generate sufficient cash flow to fund the development of business, projected operating expenses and commitments before 2008.

These conditions raise substantial doubt about our 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.

### ACQUISITION OF INNOZEN

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.

### 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.

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### COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

#### REVENUES

During the three months ended September 30, 2007, we had product sales of \$110,473 and revenues from license fees, royalties and services of \$45,134, a total of \$155,607. There were no sales in the corresponding 2006 period.

#### COSTS AND EXPENSES

Cost of product sold includes the direct cost of product sold plus distribution center costs, freight and shipping supplies.

General and administrative expenses ("G&A") increased to \$1,373,358 in the three months ended September 30, 2007, from \$176,922 in the 2006 period. We had minimal operations in 2006 until completing the acquisition of Health Strip at the end of March 2006. The major component of the increase is the \$979,361 in

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G&A for the three months InnoZen was included in the consolidated financial statements.

Selling and marketing costs are \$670,264 in the three months ended September 30, 2007, as compared to none in the 2006 period. Selling and marketing costs did not commence until the end of 2006. The major components of the 2007 selling and marketing costs include payments on endorsement contracts, minimum royalty payments, research fees and sponsorship fees of \$208,394, staff payroll of \$164,421, advertising and package development costs of \$117,406 and costs associated with initial trade shows, conferences and events of \$84,785.

Non-cash compensation expense of \$670,264 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. These agreements were not in place during the 2006 period.

Manufacturing costs represent the costs incurred during the manufacturing process that are not capitalized into inventory based on current production volume for InnoZen in the three months it was included in the consolidated financial statements.

Research and development ("R&D") costs include \$130,614 in R&D was contract services, supplies, materials and analytical testing costs incurred by InnoZen during the three months it was included in the consolidated financial statements.

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### COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

#### REVENUES

During the nine months ended September 30, 2007, we had product sales of \$135,058 and revenues from license fees, royalties and services of \$109,156, a total of \$244,214. There were no sales in the corresponding 2006 period.

#### COSTS AND EXPENSES

Cost of product sold includes the direct cost of product sold plus distribution center costs, freight and shipping supplies.

General and administrative expenses ("G&A") increased to \$2,472,485 in the nine months ended September 30, 2007, from \$392,982 in the 2006 period. We had minimal operations in 2006 until completing the acquisition of Health Strip at the end of March 2006. The major components of the increase include \$1,553,078 in G&A for the five months InnoZen was included in the consolidated financial statements, salaries and wages of \$248,295, depreciation and amortization of \$87,818, legal and professional fees of \$340,154 and travel and entertainment of \$91,578.

Selling and marketing costs are \$1,652,489 in the nine months ended September 30, 2007, as compared to none in the 2006 period. Selling and marketing costs did not commence until the end of 2006. The major components of the 2007 selling and marketing costs include payments on endorsement contracts, minimum royalty payments, research fees and sponsorship fees of \$532,297, staff payroll of \$414,385, advertising and package development costs of \$270,289 and costs associated with initial trade shows, conferences and events of \$201,301.

Non-cash compensation expense of \$1,546,380 includes both the amortization of

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stock grants to employees and stock grants as part of endorsement contracts over the relevant service periods and amortization of the intrinsic value of stock options to both employees and as a part of endorsement contracts.

Manufacturing costs represent the costs incurred during the manufacturing process that are not capitalized into inventory based on current production volume for InnoZen in the five months it was included in the consolidated financial statements.

Research and development ("R&D") costs include \$847,336 in R&D which was capitalized as a part of the purchase of InnoZen and expensed pursuant to the required method of accounting for R&D. The remaining \$173,336 in R&D was contract services, supplies, materials and analytical testing costs incurred by InnoZen during the five months it was included in the consolidated financial statements.

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### 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 and principal financial 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 and the principal financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of September 30, 2007, and, based on its evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective.

#### (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.

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## PART II - OTHER INFORMATION

### ITEM 6: EXHIBITS

#### (a) Exhibits

Exhibit 31          Certification pursuant to 18 U.S.C. Section 1350

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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

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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.

November 19, 2007

By: /s/ Daniel J. Kelly  
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Daniel J. Kelly, Chief Executive Officer  
(Principal Executive Officer)

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