Healthsport, Inc.
Form 10-Q
May 13, 2009

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For Quarter Ended: MARCH 31, 2009

Commission File Number: 0-23100

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

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

10130 MALLARD CREED ROAD, SUITE 331, CHARLOTTE, NC 28262
(Address of principal executive office)

(704) 944-3574
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_].

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes |_| No |_|

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

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

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

The number of shares outstanding of registrant's common stock, par value $.0001 per share, as of March 31, 2009, was 50,766,120.

HEALTHSPORT, INC. AND SUBSIDIARIES
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HEALTHSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 2009 (UNAUDITED) AND DECEMBER 31, 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 151,221	$ 433,57
Accounts receivable	423,529	486,96
Inventory	579,041	585,74
Prepaid expenses and other assets	422,616	293,31
Total current assets	1,576,407	1,799,60
Property and equipment, net	814,567	756,08
Non-current accounts receivable	207,769	225,00
Goodwill	10,276,948	10,276,94
Patent costs and other intangible assets, net	18,364,689	18,621,76
Other assets	214,768	137,17
Total assets	$ 31,455,148	$ 31,816,56

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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,462,860	$ 1,462,14
Accrued expenses	950,432	900,83
Current portion of capital lease obligation	66,385	64,46
Current portion of convertible promissory notes	1,368,000	1,268,00
Deferred revenue	652,059	832,25
Total current liabilities	4,499,736	4,527,70
Convertible promissory notes, less current portion	177,450	277,45
Capital lease obligation, less current portion	257,089	274,72
Total liabilities	4,934,275	5,079,88
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: $2.75 par value; authorized 2,000,000 shares; no shares issued and outstanding	--	-
Common stock: $.0001 par value; authorized 500,000,000 shares; 50,766,120 and 49,366,120 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	5,077	4,93
Additional paid-in capital	70,600,606	69,946,25
Intrinsic value of common stock options	(817,085)	(733,08
Common stock warrants	28,681	28,68
Stock subscription receivable	(250)	(25
Accumulated deficit	(43,296,156)	(42,509,84
Total stockholders' equity	26,520,873	26,736,68
Total liabilities and stockholders' equity	$ 31,455,148	$ 31,816,56
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See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)

	2009	2008
Revenue		
Product sales	$ 1,608,158	$ 97,441
License fees, royalties and services	58,750	18,750
Total revenues	1,666,908	116,191
Costs and expenses		
Cost of product sold and manufacturing costs	1,249,411	429,718
General and administrative expense	439,821	815,843
Marketing and selling expense	157,502	471,865
Non-cash compensation expense	176,831	1,053,805

Depreciation and amortization expense	333,449	365,463
Research and development costs	36,127	71,579
Total costs and expenses	2,393,141	3,208,273
Net loss from operations	(726,233)	(3,092,082)
Other income (expense):		
Interest income	288	408
Miscellaneous income	8,905	5,584
Interest expense	(69,270)	(3,154)
Other income (expense)	(60,077)	2,838
Net loss before income taxes and minority interest	(786,310)	(3,089,244)
Provision for income taxes	--	--
Net loss before minority interest	(786,310)	(3,089,244)
Minority interest	--	18,900
Net loss	$ (786,310)	$ (3,070,344)
NET LOSS PER SHARE, BASIC AND DILUTED	$ (0.02)	$ (0.07)
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	50,352,787	43,127,793

See accompanying notes to condensed consolidated financial statements.

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HEALTHSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (786,310)	$(3,070,344)
Adjustment to reconcile net loss to net cash used in operating activities:		
Minority interest	--	(18,900)
Amortization of non-cash stock compensation	142,498	1,053,805
Depreciation and amortization	333,449	365,463
Common stock issued for services	9,000	--
Inventory obsolescence reserve	75,000	--
Change in other assets and liabilities:		
Accounts receivable	(131,660)	109,881
Inventory	(68,295)	182,117
Prepaid expenses and other assets	111,419	121,698
Accounts payable	195,810	378,855
Accrued expenses	49,593	232,143
Deferred revenue	(180,196)	4,302
Net cash used in operating activities	(249,692)	(640,980)

CASH FLOWS FROM INVESTING ACTIVITIES		
Patent costs incurred	(26,615)	(52,881)
Acquisition of property and equipment	(105,327)	(186,163)
Net cash used in investing activities	(131,942)	(239,044)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collect stock subscription receivable	--	22,500
Funding from joint venture partner	--	505,000
Capital lease payments	(15,718)	(52,558)
Sale of common stock	115,000	500,000
Net cash provided by financing activities	99,282	974,942
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(282,352)	94,918
CASH AND CASH EQUIVALENTS, beginning of period	433,573	167,323
CASH AND CASH EQUIVALENTS, end of period	$ 151,221	$ 262,241
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest and income taxes:		
Interest	$ 23,012	$ 3,154
Income taxes	--	--
Non-cash investing and financing activities:		
Common stock issued for consulting contracts	314,000	--

See accompanying notes to condensed consolidated financial statements.

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

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

NOTE 1: ORGANIZATION AND NATURE OF BUSINESS

ORGANIZATION AND BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of HealthSport, Inc. ("HealthSport") and its wholly owned subsidiaries: Enlyten, Inc. ("Enlyten"); InnoZen, Inc. ("InnoZen") and InnoZen's majority owned subsidiary Pacific Manufacturing Group LLC ("PMG") until its sale on December 30, 2008; Health Strip Solutions, LLC ("Health Strip"); and HealthSport Nutraceutical Products, Inc. ("Nutraceutical") (collectively, the "Company" or the "Companies"). All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and include all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation. These condensed consolidated financial statements have not been audited.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2008, which is included in the Company's Form 10-K for the year ended December 31, 2008. 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 three operating subsidiaries. Substantially all of the Company's sales are to two customers.

InnoZen is a 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. All patent applications for the Company 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 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 SURVIVAL STRIPS which are formulated with antioxidants, non-cavity causing sweeteners, vitamins, herbal extracts, electrolytes, caffeine and other proven beneficial compounds as a remedy for fatigue, drowsiness and dehydration.

Nutraceutical 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, Nutraceutical has designed our formulation to supply the body with a healthy boost in energy, while replenishing and maintaining the essential vitamins and minerals lost during activity, after a long flight, bad night of sleep or over indulgence of alcohol.

NOTE 2: DISPOSITION

On February 1, 2008 HealthSport and InnoZen executed a Limited Liability Company Operating Agreement ("LLC Agreement") with Migami for PMG. Among other things, the LLC Agreement called for Migami to contribute $3,000,000 in cash to PMG for its intended 48% ownership and InnoZen licensed its technology to PMG for its 52% ownership. The agreement provided that PMG was to manufacture all strip and other products for each member at cost plus 25%. Migami made a total contribution of $990,000 of its $3,000,000 commitment. Migami's default resulted in its loss of rights under the agreement and any rights that were intended to transfer from InnoZen to PMG were returned to InnoZen. InnoZen sold its interest in PMG for nominal consideration on December 30, 2008, and recognized a book gain of $869,453 on the transaction. The gain was the difference between the Company's share of the PMG loss which was included in the consolidated financial statements and its investment. Subsequently these operations have continued in InnoZen. Accordingly, no separate disclosure of PMG is included as the operations would have been included in InnoZen if PMG had not been formed.

NOTE 3: INVENTORY

Inventory at March 31, 2009 and December 31, 2008, consists of the following:

	2009	2008
Raw materials	$ 219,030	$ 173,980
Work in progress	315,815	286,711
Finished goods	119,196	125,055
	654,041	585,746
Reserve for obsolescence	(75,000)	--
	$ 579,041	$ 585,746

NOTE 4: COMMITMENTS AND CONTINGENCIES

Since April 1, 2009, the Company has maintained its corporate office at 10130 Mallard Creek Road, Suite 331, Charlotte, NC 28262. Previously, the Company maintained its corporate office in the office of its accountant at no cost to the Company.

In January 2007, the Company executed a three-year lease agreement for 2,182 square feet of office space in Amherst, New York for the Enlyten office. The Company closed this office during 2008 and is attempting to sub-lease the space for the remainder of the lease term.

InnoZen leases its office and current manufacturing facility in Woodland Hills, California. The lease expires on January 1, 2010 and has a one-year renewal option. InnoZen believes it has found a qualified party to assume the lease and plans to consolidate all operations in the Oxnard location as soon as possible.

The Company leased a manufacturing facility in Oxnard, California which contains approximately 25,000 square feet. The lease term is from December 1, 2007 through January 31, 2015. The Company began manufacturing at this location in January 2009 and plans to consolidate all of InnoZen's operations as soon as possible.

The Company has the following royalty agreements:

1. Royalty agreement for an indefinite period covering all strip products except FIX STRIPS and ENLYTEN(TM) ENERGY STRIPS of 1.0% of the first $100,000,000 in sales and 0.5% of the next $150,000,000 in sales.
2. Royalty agreement for an indefinite period of 1.0% of the first $20,000,000 in sales of the FIX STRIPS and ENLYTEN(TM) ENERGY strips and 0.5% of the next $80,000,000 in sales of the FIX STRIPS and ENLYTEN(TM) ENERGY strips.

On March 11, 2008, we entered into a five-year distribution agreement with Unico Holdings, Inc. ("Unico"). Unico markets its products through numerous sales channels, including large retail merchandisers, drug store chains, grocery stores and pharmaceutical distributors. Unico's customers include most of the

largest retailers and distributors in the U.S. in each of these sales channels. The agreement calls for a minimum of $22 million of product purchases over a five-year term in order for Unico to maintain its exclusive distribution right.

On September 11, 2008, the Company entered into an exclusive distributor agreement with T. Lynn Mitchell Companies, LLC ("T Lynn"). Pursuant to the agreement, T Lynn, for a period of ten years, was granted the exclusive worldwide rights for the four initial products which use the Company's patent pending bi-layered strip technology. In addition, the agreement contemplates that the Company can formulate other bi-layered products which T Lynn may market in the future, subject to pricing or other constraints. The Company began sales of Antioxidant Strips, Electrolytes Plus, Energy Strips and Melatonin & Theanine Strips during the fourth quarter of 2008. National marketing of the products began in the first quarter of 2009. These sales are subject to a 5% commission.

The Company has a license agreement and two distribution agreements which cover the majority of Asia and South and Central America. The agreements cover the Company's cough products, provide for minimum purchases and require the distributor to obtain product approval in each country before sales can commence in those countries. No sales have been made pursuant to these agreements as of March 31, 2009.

In the normal course of business, the Company may become a party in a legal proceeding. The only significant matter of which the Company is aware is the Gatorade case discussed below.

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 SPORT STRIP. The case is still in the early stages of discovery. On December 4, 2008, the Company was forced to bring a motion to compel discovery from the defendants and, on February 24, 2009, the Court ordered the defendant to produce discovery within 60 days.

The Company has settled several contracts through verbal agreements and the

Company believes all of these contracts have been terminated without any remaining liability to the Company.

NOTE 5: GOING CONCERN

At March 31, 2009 and December 31, 2008, the Company had current assets of $1,576,407 and $1,799,604; current liabilities of $4,499,736 and $4,527,706; and a working capital deficit of $2,923,329 and $2,728,102, respectively. The Company incurred a loss of $786,310 during the three months ended March 31, 2009, which included depreciation and amortization of $333,449 and amortization of non-cash stock compensation of $176,831.

On March 11, 2008, we entered into a five-year distribution agreement with Unico. Unico markets its products through numerous sales channels, including large retail merchandisers, drug store chains, grocery stores and pharmaceutical distributors. Unico's customers include most of the largest retailers and distributors in the U.S. in each of these sales channels. The agreement calls for a minimum of $22 million of product purchases over a five-year term in order for Unico to maintain its exclusive distribution right. The Unico distribution agreement is initially for PEDIASTRIPS and commenced during the third quarter of 2008.

We are attempting to establish similar arrangements for our SPORTSTRIPS and other products. The Company has established other film strip products for a number of products which were previously only delivered in a different manner, such as liquids and pills. The Company expects this to develop into a large part of its business in the future.

On September 11, 2008, the Company entered into an exclusive distributor agreement with T. Lynn. Pursuant to the agreement, T Lynn, for a period of ten years, was granted the exclusive worldwide rights for the four initial products which use the Company's patent pending bi-layered strip technology. In addition, the agreement contemplates that the Company can formulate other bi-layered products which T Lynn may market in the future, subject to pricing or other constraints. The Company began sales of Energy Strips, Antioxidant Strips, Electrolytes Plus and Melatonin & Theanine Strips during the fourth quarter of 2008 and has several other products in development which are expected to begin shipping later in 2009.

The Company will continue to require substantial working capital until sales develop to the level required to support operations. The current level of overhead is approximately $170,000 per month and manufacturing costs total approximately $240,000 per month. The Company is continually analyzing its current costs and is attempting to make additional cost reductions where possible. Sales of product amounted to $1,608,158 during the first quarter of 2009. This sales level represents a substantial improvement from prior periods but will require additional increases to support the current level of operations. We estimate that sales will develop to the level necessary to be at or near cash flow break-even by the beginning of the third quarter of 2009. Based on this time-frame, the Company would need from $375,000 to $1,375,000 to meet its minimum requirements, including operating cash short-falls and completing a globally compliant manufacturing plant. The Company expects to continue to make private placements of its common stock or to borrow additional funds as needed.

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

NOTE 6: SUBSEQUENT EVENT

The Company entered into an agreement to develop four initial nutraceutical products using its proprietary concentrated liquid drops. Initial laboratory samples are due for delivery by May 14, 2009.

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

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

PLAN OF OPERATION AND GOING CONCERN

At March 31, 2009 and December 31, 2008, the Company had current assets of $1,576,407 and $1,799,604; current liabilities of $4,499,736 and $4,527,706; and a working capital deficit of $2,923,329 and $2,728,102, respectively. The Company incurred a loss of $786,310 during the three months ended March 31, 2009, which included depreciation and amortization of $333,449 and amortization of non-cash stock compensation of $176,831.

The Company will continue to require substantial working capital until sales develop to the level required to support operations. The current level of overhead is approximately $170,000 per month and manufacturing costs total approximately $240,000 per month. The Company is continually analyzing its current costs and is attempting to make additional cost reductions where possible. Sales of product amounted to $1,608,158 during the first quarter of 2009. This sales level represents a substantial improvement from prior periods but will require additional increases to support the current level of operations. We estimate that sales will develop to the level necessary to be at or near cash flow break-even by the beginning of the third quarter of 2009. Based on this time-frame, the Company would need from $375,000 to $1,375,000 to meet its minimum requirements, including operating cash short-falls and completing a globally compliant manufacturing plant. The Company expects to continue to make private placements of its common stock or to borrow additional funds as needed.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties. Also see Note 5 to the condensed consolidated financial statements.

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 SPORT STRIP. The case is still in the early stages of discovery. On December 4, 2008, the Company was forced to bring a motion to compel discovery from the defendants and, on February 24, 2009, the Court ordered the defendant to produce discovery within 60 days.

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2009 AND 2008

REVENUES

During the three months ended March 31, 2009, we had product sales of $1,608,158 and revenues from license fees, royalties and services of $58,750, a total of $1,666,908. There were product sales of $97,441 and revenue from license fees, royalties and services of $18,750, a total of $116,191 in the corresponding 2008 period. Revenues have increased substantially from the prior year as a result of the actions discussed in the Notes to the condensed consolidated financial statements.

COSTS AND EXPENSES

Costs and expenses are as follows for the three months ended March 31, 2009 and 2008:

	2009	2008
Cost of product sold and manufacturing costs	$1,249,411	$ 429,718
General and administrative expense	439,821	815,843
Marketing and selling expense	157,502	471,865
Non-cash compensation expense	176,831	1,053,805
Depreciation and amortization expense	333,449	365,463
Research and development expense	36,127	71,579
	$2,393,141	$3,208,273

Cost of product sold and manufacturing costs amounted to 78% of product sales in 2009 and 441% of product sales in 2008. The Company had under-absorbed manufacturing costs of approximately $401,000 at March 31, 2008 based on projected levels of operations. Sales will need to continue to increase to absorb all of the manufacturing costs at the current size of operation.

General and administrative expenses ("G&A") decreased to $439,821 in the three months ended March 31, 2009, from $815,843 in the 2009 period. The decrease of $376,022 (46%) in G&A is the result of decreases at all levels of the Company, including corporate overhead and the G&A costs at the manufacturing operation, which were reduced $311,955.

Selling and marketing costs ("SMC") are $157,502 in the three months ended March 31, 2009, as compared to $471,865 in the 2008 period. SMC decreased $314,363 in the 2009 period as compared to the 2008 period. SMC costs are down from the year earlier period, primarily due to the elimination of endorsements and sponsorship fees as a result of re-directing our marketing efforts toward distributors rather than direct sales to customers and elimination of the New York office. The 2009 amount includes $89,701 in commissions and royalties, which vary with sales, that were only nominal amounts in 2008. Accordingly, the decrease in previous costs was actually $404,064.

Non-cash compensation expense was $176,831 in 2009 and $1,053,805 in 2008 and includes the amortization of stock grants and amortization of the intrinsic value of stock options to employees, consultants and spokespersons over the relevant service periods to both employees and as a part of endorsement contracts. The decline is primarily the result of expensing the balance on expired options in the 2008 period.

Depreciation and amortization expense decreased from $365,463 in 2008 to $333,449 in 2009, primarily due to the impairment of the client list in June of 2008. The client list amortization was included in the 2008 period, but not in the 2009 period.

Research and development ("R&D") costs amounted to $36,127 in 2009 and $71,579 in 2008. These include contract services, supplies, materials and analytical testing costs incurred for new products to be developed by the Company.

OTHER INCOME (EXPENSE)

Interest expense increased from $3,154 in 2008 to $69,270 in 2009 as a result of the increase in debt after the end of the March 2008 quarter.

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ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Not applicable.

ITEM 4T: CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Acting Chief Financial Officer has reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 240.13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) as of March 31, 2009. Based on that review and evaluation, which included inquiries made to certain other employees of the Company, the CEO and Acting CFO concluded that the Company's current disclosure controls and procedures, as designed and implemented, are effective in ensuring that information relating to the Company required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including insuring that such information is accumulated and communicated to the Company's management, including the CEO and Acting CFO, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

The Company continued to implement its perpetual inventory system at its manufacturing operations. There have been no other significant changes in internal controls or in other factors that could significantly affect these controls during the quarter ended March 31, 2009, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

Not applicable.

ITEM 1A: RISK FACTORS

Not applicable.

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

The Company sold 500,000 shares of its common stock for $115,000 (net of selling costs of $10,000) in cash during the three months ended March 31, 2009. In addition, the Company issued 900,000 shares of its common stock for consulting services valued at $314,000.

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

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5: OTHER INFORMATION

Not applicable.

ITEM 6: EXHIBITS

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

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

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

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEALTHSPORT, INC.

May 12, 2009

BY: /s/ M.E. "Hank" Durschlag

M.E. "Hank" Durschlag, Chief Executive Officer
(Principal Executive Officer)