Healthsport, Inc.
Form 10QSB
November 17, 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: SEPTEMBER 30, 2006

Commission File Number: 0-23100

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

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

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

3930 GLADE ROAD, STE 108-200, COLLEYVILLE, TEXAS 76034
(Former address of principal executive office)

(877) 570-4776
(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 [X] No [ ].

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 September 30, 2006 was 15,430,788.

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

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

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 244,343
Inventory	3,500
Inventory deposit	72,750
Total current assets	320,593
Goodwill	50,000
Patent costs	1,112,611
Total assets	$ 1,483,204
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Convertible promissory note	$ 448,600
Accounts payable and accrued expenses	38,293
Total liabilities	486,893
Minority interest	205,180
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;	

issued 15,431,382 shares and outstanding 15,430,788 shares	1,543
Additional paid-in capital	24,370,228
Common stock warrants	1,200
Deferred compensation	(164,855)
Accumulated deficit	(23,416,985)
Total stockholders' equity	791,131
Total liabilities and stockholders' equity	$ 1,483,204

See accompanying notes to condensed consolidated financial statements.

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

	2006	200
CONTINUING OPERATIONS		
Administrative expense	$ 176,922	$ 38
Equity in joint venture loss	-	
Interest income	(3,669)	
Interest expense	142,638	1
NET LOSS FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	(315,891)	(5
MINORITY INTEREST	19,820	
NET LOSS FROM CONTINUING OPERATIONS	(296,071)	(5
DISCONTINUED OPERATIONS		
Loss from discontinued operations	-	(
Income tax benefit	-	
NET LOSS FROM DISCONTINUED OPERATIONS	-	(
NET LOSS	$ (296,071)	$ (6
NET LOSS PER SHARE, BASIC AND DILUTED		
CONTINUING OPERATIONS	$ (0.25)	$
DISCONTINUED OPERATIONS	-	
TOTAL	$ (0.25)	$
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	1,198,864	6

See accompanying notes to condensed consolidated financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30, 2006	NINE MONTHS ENDED SEPTEMBER 30, 2005
CONTINUING OPERATIONS		
Administrative expense	$ 392,982	$ 695,6142
Asset impairments	-	-
Abandoned asset	1,491	-
Equity in joint venture loss	-	75,000
Interest income	(5,633)	-
Interest expense	776,287	295,905
NET LOSS FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	(1,165,127)	(1,066,519)
MINORITY INTEREST	19,820	-
NET LOSS FROM CONTINUING OPERATIONS	(1,145,307)	(1,066,519)
DISCONTINUED OPERATIONS		
Loss from discontinued operations	-	(28,960)
Income tax benefit	-	-
NET LOSS FROM DISCONTINUED OPERATIONS	-	(28,960)
NET LOSS	$ (1,145,307)	$ (1,095,479)
NET LOSS PER SHARE, BASIC AND DILUTED, FROM:		
CONTINUING OPERATIONS	$ (1.13)	$ (1.90)
DISCONTINUED OPERATIONS	-	(0.05)
TOTAL	$ (1.13)	$ (1.95)
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	1,010,127	562,002

See accompanying notes to condensed consolidated financial statements.

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HEALTHSPORT, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005, AND THE PERIOD
FROM INCEPTION (SEPTEMBER 9, 2004) THROUGH SEPTEMBER 30, 2006
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2006	NINE MONTHS ENDED SEPTEMBER 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,145,307)	$ (1,095,479)
Loss from discontinued operations	-	(28,960)
Loss from continuing operations	(1,145,307)	(1,066,519)
Adjustment to reconcile net loss to net cash used in operating activities:		
Minority interest	(19,820)	-
Beneficial conversion feature of convertible note	358,880	-
Amortization of deferred stock compensation	4,084	-
Depreciation and amortization	16,605	279
Asset impairments	-	-
Equity in joint venture loss	-	75,000
Common stock issued for services	58,500	186,182
Abandoned asset	1,491	-
Inventory	(3,500)	-
Prepaid expenses and other assets	(78,457)	-
Accounts payable	164,539	(81,816)
Due from related parties	-	22,466
Accrued expenses	437,380	400,555
Net cash used in continuing operations	(205,605)	(463,853)
Net cash used in discontinued operations	-	(63,800)
Net cash used in operations	(205,605)	(527,653)
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	570,356
Loan repayment	-	(7,500)
Sale of common stock	-	135,000
Cash received in acquisition of IMGI	-	-
Net cash provided by financing activities	448,600	697,856
NET INCREASE IN CASH AND CASH EQUIVALENTS	242,995	54,703
CASH AND CASH EQUIVALENTS, beginning of period	1,348	2,692
CASH AND CASH EQUIVALENTS, end of period	$ 244,343	$ 57,395

See accompanying notes to condensed consolidated financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
SUPPLEMENTAL CASH FLOW INFORMATION		
CASH PAID FOR INTEREST AND INCOME TAXES:		
Interest	$ -	$ 270
Income taxes	-	-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock for:		
Investment in Health Strip Solutions, LLC	$ 900,000	$ -
Investment in World Championship Poker	-	295,544
Investment in joint venture	-	19,191
Conversion of convertible notes and accrued interest	5,006,281	569,516
Accounts payable	161,507	47,937
Accounts payable and Idea Management Group, Inc.	295,840	-
Amount due related party	-	-
Issuance of common stock warrants for:		
Acquisition of IMGI and Gaming	-	-
Acquisition of television programs	-	-
Cancellation of common stock warrants	-	65,458
Issuance of convertible notes for accounts payable and accrued expenses	-	503,800

See accompanying notes to condensed consolidated financial statements.

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 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, 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 only active 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, effective May 15, 2006, the Company's name was changed 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.

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 had the right to rescind this transaction by May 31, 2006, if the Company was 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 September 30, 2006. Effective September 30, 2006, $5,463,628 of convertible debentures, accounts payable and accrued expenses were converted into the Company's common stock. 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 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 have now been produced. Product names and packaging should be finalized by early November 2006, at which time sales should commence.

On September 9, 2004, Healthsport acquired Idea Management Group, Inc. ("IMGI") and subsequently acquired Gaming, both of which were 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, 2004, and all prior development stage costs associated with the discontinued automotive racing league have been transferred to accumulated deficit. The acquisition of Health Strip, discussed above, is a continuation of activities originally started in the joint venture with InnoZen. Health Strip anticipates sales will commence during the fourth quarter of 2006 and the Company will no longer be in the development stage.

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.

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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 $1,145,307 during the nine months ended September 30, 2006. Management believes the electrolyte strip product will be a business capable of generating revenues sufficient to fund projected operating expenses and commitments. The Company currently plans to borrow additional funds and also to sell its 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 commencement of sales will provide sufficient funding to develop the Company's current business plan.

During the quarter ended September 30, 2006, the Company issued 14,273,500 shares of its common stock in exchange for convertible debentures, accounts

payable and accrued expenses in the amount of $5,463,628 and services in the amount of $58,500. As a result, the Company's working capital deficit has been reduced to $166,300 at September 30, 2006. The Company expects to convert its remaining convertible debenture into common stock during the fourth quarter of 2006. However, there can be no assurance that this will be accomplished.

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

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.

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 and orange. All joint venture funds were expended by December 31, 2005.

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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. 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 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 have now been produced. Product names and packaging should be finalized by early November 2006, at which time sales should commence.

At the time it was acquired, Health Strip did not have any tangible assets or liabilities, but it did have certain proprietary technology for the formulation of a thin film electrolyte strip 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 stock issued on the date of the transaction. As stated above, the Company has filed a provisional patent in the US Patent & Trademark office and has twelve months to file a final application. The Company commenced amortization of the total patent costs in July 2006 over seventeen years, the life of the expected patent. The Company will periodically evaluate the unamortized balance of the patent and technology costs and record an impairment loss if warranted.

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 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.

While the Company may still pursue this project , 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.

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.

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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.

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 immediately discontinue its racing operation.

In March 2005, the Company and all other parties to the litigation, which initiated in February 2004, 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 three months ended March 31, 2005. The Company recorded additional legal fees of $99,202 during the September 2005 quarter which

resulted in a loss from discontinued operations of $99,202 and $28,960 for the three and nine months ended September 30, 2005, respectively.

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.

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 No. 123R (Revised 2004), "Share-Based Payment" ("SFAS 123R") using the modified prospective transition method for all stock options issued. SFAS 123R requires 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 quarter ended September 30, 2006, includes the estimated expense for stock options granted on or subsequent to July 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 deferred compensation. The deferred compensation 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 recognizes compensation expense on a straight-line basis over the requisite service period for each stock option grant. Total stock-based compensation expense recognized for the quarter ended September 30, 2006, was $4,084.

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.

SFAS 123 as amended by SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure" requires disclosure of the effect on net income and earnings per share had stock-based compensation cost been recognized based upon the fair value on the grant date of stock options for the comparable prior year period. The Company had no options outstanding during the quarter ended September 30, 2005. Disclosures for the quarter ended September 30, 2006, are

not presented as the amounts are recognized in the consolidated financial statements.

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 quarter ended September 30, 2006:

Expected term	2-3 years
Expected volatility	146.12%
Expected dividend yield	0%
Risk-free interest rate	4.75%
Expected annual forfeiture rate	0%

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NOTE 6--CONVERTIBLE PROMISSORY NOTE

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

	Principal	Accrued Interest
Balance, January 1, 2006	$ 4,530,309	$ 68,244
Loan proceeds	448,600	-
Accrued interest	-	417,407
Converted to common stock	(4,530,309)	(475,972)
Balance, September 30, 2006	$ 448,600	$ 9,679

At the end of September 2006, the Company issued 11,450,000 shares of its common stock for convertible debentures in the principal amount of $4,530,309 plus accrued interest of $475,972.

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 restricted common shares at the rate of $1.00 per share. Management has determined that this note qualifies as conventional convertible debt pursuant to APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants" and EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and accordingly the embedded conversion option is not a derivative. The Company computed a beneficial conversion value of $358,880 based on the quoted stock price on the grant date of $1.80 per share. The $358,880 was credited to additional paid-in capital and charged to interest expense when the agreement commenced since the convertible promissory note can be converted upon issuance.

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. Effective August 29, 2006, the Company issued 65,000 shares of its common stock to the former CEO in full satisfaction of all amounts due the former CEO, including this claim. The Company also transferred its stock in IMGI to the former CEO, which had no assets and net liabilities of $295,840.

At this time, the Company's current CEO is providing office space for the Company at no charge.

The Company's former CEO was paid consulting fees of $3,500 and payroll of $7,000 during the nine months ended September 30, 2006. The Company's current CEO received a consulting fee of $1,000 during the nine months ended September 30, 2006.

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

We had 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 the racing operation. Since August 26, 2003 and until September 9, 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, 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.

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 and orange. 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. 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 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 have now been produced. Product names and packaging should be finalized by early November 2006, at which time sales should commence.

At the time it was acquired, Health Strip did not have any tangible assets or liabilities, but it did have certain proprietary technology for the formulation of a thin film electrolyte strip 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 stock issued on the date of the transaction. As stated above, we have filed a provisional patent in the US Patent & Trademark office and have twelve months to file a final application. We commenced amortization of the total patent costs in July 2006 over seventeen years, the life of the expected patent. We will periodically evaluate the unamortized balance of the patent and technology costs and record an impairment loss if warranted.

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IMGI

On September 9, 2004, we acquired all of the issued and outstanding common stock of IMGI, a concept development company. 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. Effective August 29, 2006, the Company issued 65,000 shares of its common stock to the former CEO in full satisfaction of all amounts due the former CEO, including this claim. The Company also transferred its stock in IMGI to the former CEO, which had no assets and net liabilities of $295,840.

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 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.

While we may still pursue the project, 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 SEPTEMBER 30, 2006 AS COMPARED TO SEPTEMBER 30, 2005

Administrative expenses decreased $208,220 (54%) in 2006 from 2005. The majority of the decrease is a result of a decrease of $166,015 in consulting and other professional services, a decline in sponsorship sales expense of $101,300 and offset by an increase in gross payroll of $31,000.

During 2005 we recognized a loss of $25,000 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.

Interest expense increased $39,622 (38%) in 2006 as compared to 2005. The principal balance of the debt was $3,443,537 at September 30, 2005, as compared to $4,978,909 at September 30, 2006, immediately prior to the conversion of $4,530,309 in debt to equity, an increase of 45%.

Net loss from continuing operations decreased from $513,158 in 2005 to $296,071 in 2006 as a result of the above factors.

NINE MONTHS ENDED SEPTEMBER 30, 2006 AS COMPARED TO SEPTEMBER 30, 2005

Administrative expense decreased $302,632 (44%) in 2006 as compared to 2005. The decline is partially a result of shutting down the IMGI operation in Lake City, South Carolina at June 30, 2005. This reduced direct quarterly operating expenses by over $50,000. We were substantially inactive in the first quarter of 2006, and have since hired three employees/consultants in April and May 2006 to oversee the electrolyte strip development. Legal, professional and consulting fees declined $102,940, sponsorship sales expense declined $101,300, gross payroll declined $23,880 and travel and entertainment expense declined $29,138, accounting for the majority of the decline in administrative expense.

As noted above, we recognized a $75,000 loss on our joint venture with InnoZen in 2005.

Interest expense increased $480,382 (162%) in 2006 as compared to 2005 as a result of the increase in the principal balance of the debt noted above and in addition, the 2006 amount includes the beneficial conversion feature associated with the new convertible promissory note issued in 2006 in the amount of $358,880.

Net loss from continuing operations increased $78,788 (7%) 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 in the notes to the financial statements, 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 $1,145,307 during the nine months ended September 30, 2006. Management believes the electrolyte strip product will be a business capable of generating revenues sufficient to fund projected operating expenses

and commitments. We currently plan to borrow additional funds and also to sell our common stock in private placement transactions to raise the additional capital required to complete our business plan. However, there can be no assurance that the planned loans and sales of common stock will provide sufficient funding to develop our current business plan.

During the quarter ended September 30, 2006, we issued 14,273,500 shares of our common stock in exchange for convertible debentures, accounts payable and accrued expenses in the amount of $5,463,628 and services in the amount of $58,500. As a result, our current assets exceed our current liabilities by $91,799 at September 30, 2006. It is our intention to convert our remaining convertible debenture into common stock during the fourth quarter of 2006. However, there can be no assurance that this will be accomplished.

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.

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DISCONTINUED OPERATIONS

We had been in the development stage for our planned racing operation 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, the Company and all other parties to the litigation, which initiated in February 2004, 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 three months ended March 31, 2005. The Company recorded additional legal fees of $99,202 during the September 2005 quarter which resulted in a loss from discontinued operations of $99,202 and $28,960 for the three and nine months ended September 30, 2005, respectively.

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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, 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 September 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

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

PART II--OTHER INFORMATION

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

During the three months ended September 30, 2006, we issued 11,450,000 shares of our common stock in exchange for convertible debentures and accrued interest in the amount of $5,006,281, 2,713,500 shares for accounts payable and accrued expenses in the amount of $161,507, 65,000 shares to a former CEO for accounts payable in the amount of $295,840 and the stock of IMGI, 45,000 shares for consulting services valued at $58,500.

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

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

On September 11, 2006, pursuant to a Consent to Action in Lieu of Annual Meeting of the Shareholders of Healthsport, Inc., the majority shareholders of the Corporation elected a new Board of Directors to replace the then current Board of Directors. The new directors of the Company are Hank Durschlag, Ross Silvey and Jason Freeman.

ITEM 5: OTHER MATTERS

Ross Silvey was elected to replace Terry Washburn as Chief Executive Officer and Chief Financial Officer on September 7, 2006.

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

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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 15, 2006

BY: /s/ Ross E. Silvey

Ross E. Silvey, Chief Executive Officer and principal financial and accounting officer

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