Dreyfus Municipal Bond Infrastructure Fund, Inc.
Form N-Q
January 23, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-22784

Dreyfus Municipal Bond Infrastructure Fund, Inc.
(Exact name of Registrant as specified in charter)

c/o The Dreyfus Corporation

200 Park Avenue

New York, New York 10166
(Address of principal executive offices) (Zip code)

John Pak, Esq.

200 Park Avenue

New York, New York 10166
(Name and address of agent for service)

Registrant's telephone number, including area code: (212) 922-6000

Date of fiscal year end: 2/28

Date of reporting period: 11/30/14

FORM N-Q

Item 1. Schedule of Investments.

STATEMENT OF INVESTMENTS

Dreyfus Municipal Bond Infrastructure Fund Inc.

November 30, 2014 (Unaudited)

Long-Term Municipal Investments--142.1%	Coupon Rate (%)	Maturity Date	Principal Amount ($)	Value ($)
Alabama--1.2%				
Alabama Public School and College Authority, Capital Improvement Revenue	5.00	1/1/26	2,500,000	3,040,750
Arizona--6.1%				
Pima County Industrial Development Authority, Education Revenue (American Charter Schools Foundation Project)	5.63	7/1/38	5,585,000	5,036,274
Pima County Industrial Development Authority, Education Revenue (Arizona Charter Schools Refunding Project)	5.38	7/1/31	4,465,000	4,662,085
Salt Verde Financial Corporation, Senior Gas Revenue	5.00	12/1/37	5,000,000	5,714,750
California--11.0%				
California Statewide Communities Development Authority, Revenue (California Baptist University)	6.38	11/1/43	2,035,000	2,304,556
Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	5.75	6/1/47	8,000,000	6,750,640
Long Beach Bond Finance Authority, Natural Gas Purchase Revenue	5.50	11/15/37	5,000,000	6,119,800
Riverside County Transportation Commission, Senior Lien Toll Revenue	5.75	6/1/44	3,250,000 a	3,710,850
San Buenaventura, Revenue (Community Memorial Health System)	7.50	12/1/41	2,500,000	3,004,775
University of California Regents, Medical Center Pooled Revenue	5.00	5/15/43	5,000,000	5,574,300

Colorado--4.2%				
City and County of Denver, Airport System Subordinate Revenue	5.25	11/15/43	5,000,000 a	5,528,350
Colorado Health Facilities Authority, Health Facilities Revenue (The Evangelical Lutheran Good Samaritan Society Project)	5.63	6/1/43	2,000,000	2,253,940
Colorado Health Facilities Authority, Revenue (Sisters of Charity of Leavenworth Health System)	5.00	1/1/44	2,500,000	2,788,750
District of Columbia--.8%				
District of Columbia, Revenue (Knowledge is Power				

Program, District of Columbia				
Issue)	6.00	7/1/43	1,700,000	1,975,179
Florida--3.8%				
Broward County,				
Airport System Revenue	5.00	10/1/42	3,750,000 a	4,152,975
Davie,				
Educational Facilities Revenue				
(Nova Southeastern University				
Project)	5.63	4/1/43	4,805,000	5,428,449
Illinois--4.0%				
Chicago,				
Customer Facility Charge				
Senior Lien Revenue (Chicago				
O'Hare International Airport)	5.75	1/1/43	3,750,000 a	4,181,850
Chicago,				
GO (Project and Refunding				
Series)	5.00	1/1/36	3,000,000	3,046,980
University of Illinois Board of				
Trustees, Auxiliary Facilities				
System Revenue (University of				
Illinois)	5.00	4/1/44	2,500,000	2,772,325
Indiana--7.0%				
Indiana Finance Authority,				
HR (The King's Daughters'				
Hospital and Health Services)	5.50	8/15/40	7,425,000	8,163,416
Indiana Finance Authority,				
Private Activity Bonds (Ohio				
River Bridges East End				
Crossing Project)	5.00	7/1/40	5,000,000	5,308,050
Indiana Finance Authority,				
Revenue (Baptist Homes of				
Indiana Senior Living)	6.00	11/15/41	3,500,000	3,955,350
Iowa--4.2%				
Iowa Finance Authority,				
Midwestern Disaster Area				
Revenue (Alcoa Inc. Project)	4.75	8/1/42	3,000,000	3,109,140
Iowa Finance Authority,				
Midwestern Disaster Area				
Revenue (Iowa Fertilizer				

Company Project)	5.25	12/1/25	7,000,000	7,406,560
Kentucky--1.1%				
Louisville/Jefferson County Metro				
Government, Health System				
Revenue (Norton Healthcare,				
Inc.)	5.75	10/1/42	2,370,000	2,708,436
Louisiana--3.1%				
Louisiana Public Facilities				
Authority, Dock and Wharf				
Revenue (Impala Warehousing				
LLC Project)	6.50	7/1/36	2,000,000 a,b	2,232,040
New Orleans,				
Sewerage Service Revenue	5.00	6/1/44	2,000,000	2,209,340
New Orleans,				
Water Revenue	5.00	12/1/34	1,000,000	1,118,120
New Orleans,				

Water Revenue	5.00	12/1/44	2,000,000	2,192,140
Massachusetts--4.1%				
Massachusetts Development Finance Agency, Revenue (North Hill Communities Issue)	6.50	11/15/43	2,000,000	2,118,220
Massachusetts Port Authority, Special Facilities Revenue (Delta Air Lines, Inc. Project) (Insured; AMBAC)	5.00	1/1/27	8,210,000	8,210,493
Michigan--9.9%				
Detroit, Water Supply System Senior Lien Revenue	5.25	7/1/41	2,250,000	2,390,692
Kent Hospital Finance Authority, Revenue (Metropolitan Hospital Project)	6.25	7/1/40	5,750,000	5,836,135
Michigan Finance Authority, HR (Trinity Health Credit Group)	5.00	12/1/39	5,000,000	5,467,400
Michigan Finance Authority, Local Government Loan Program Revenue (Detroit Water and Sewerage Department, Sewage Disposal System Revenue Senior Lien Local Project Bonds) (Insured; Assured Guaranty Municipal Corp.)	5.00	7/1/30	1,500,000	1,673,520
Michigan Finance Authority, Local Government Loan Program Revenue (Detroit Water and Sewerage Department, Water Supply System Revenue Senior Lien Local Project Bonds) (Insured; National Public Finance Guarantee Corp.)	5.00	7/1/36	2,250,000	2,458,642
Michigan Tobacco Settlement Finance Authority, Tobacco Settlement Asset-Backed Bonds	6.00	6/1/34	5,000,000	4,310,850
Wayne County Airport Authority,				

Airport Revenue (Detroit Metropolitan Wayne County Airport) (Insured; Build America Mutual Assurance Company)	5.00	12/1/39	2,250,000 a	2,560,388
Missouri--2.4%				
Missouri Health and Educational Facilities Authority, Educational Facilities Revenue (Saint Louis College of Pharmacy)	5.50	5/1/43	2,000,000	2,198,460
Saint Louis County Industrial Development Authority, Senior Living Facilities Revenue (Friendship Village Sunset Hills)	5.00	9/1/42	3,500,000	3,695,405

New Jersey--4.8%				
New Jersey Economic Development Authority, Private Activity Revenue (The Goethals Bridge Replacement Project)	5.38	1/1/43	2,500,000	2,729,875
New Jersey Economic Development Authority, Special Facility Revenue (Continental Airlines, Inc. Project)	5.13	9/15/23	2,500,000 a	2,688,100
New Jersey Economic Development Authority, Special Facility Revenue (Continental Airlines, Inc. Project)	5.25	9/15/29	4,500,000 a	4,780,125
Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement Asset-Backed Bonds	5.00	6/1/41	2,330,000	1,783,359
New York--17.8%				
Deutsche Bank Spears/Lifers Trust (Series DBE-1177) Recourse (Metropolitan Transportation Authority, Transportation Revenue)	5.00	11/15/38	15,000,000 a,b,c	16,734,600
New York City Industrial Development Agency, PILOT Revenue (Queens Baseball Stadium Project) (Insured; AMBAC)	5.00	1/1/36	8,000,000	8,263,440
New York Liberty Development Corporation, Revenue (3 World Trade Center Project)	5.00	11/15/44	3,500,000 b	3,571,540
New York State Dormitory Authority, Revenue (Saint John's University)	5.00	7/1/44	2,000,000	2,210,720
New York State Dormitory Authority, State Personal Income Tax Revenue (General Purpose)	5.00	3/15/32	5,000,000	5,834,600
Niagara Area Development				

Corporation, Solid Waste				
Disposal Facility Revenue				
(Covanta Energy Project)	5.25	11/1/42	7,870,000	8,107,674
Ohio--6.4%				
Buckeye Tobacco Settlement				
Financing Authority, Tobacco				
Settlement Asset-Backed Bonds	6.25	6/1/37	7,000,000	5,929,630
Muskingum County,				
Hospital Facilities Revenue				
(Genesis HealthCare System				
Obligated Group Project)	5.00	2/15/44	7,000,000	7,074,690
Southeastern Ohio Port Authority,				
Hospital Facilities				
Improvement Revenue (Memorial				
Health System Obligated Group				
Project)	6.00	12/1/42	3,000,000	3,092,190

Pennsylvania--10.4%				
Clairton Municipal Authority, Sewer Revenue	5.00	12/1/37	4,000,000	4,315,840
Clairton Municipal Authority, Sewer Revenue	5.00	12/1/42	1,500,000	1,607,760
Deutsche Bank Spears/Lifers Trust (Series DBE-1179) Recourse (Pennsylvania Turnpike Commission, Motor License Fund-Enhanced Turnpike Subordinate Special Revenue)	5.00	12/1/42	13,000,000 a,b,c	14,673,990
Pennsylvania Turnpike Commission, Motor License Fund-Enhanced Turnpike Subordinate Special Revenue (Insured; Assured Guaranty Municipal Corp.)	5.00	12/1/42	5,000,000 a	5,503,350
South Carolina--2.9%				
South Carolina Jobs-Economic Development Authority, Health Facilities Revenue (The Lutheran Homes of South Carolina, Inc.)	5.13	5/1/48	1,750,000	1,775,147
South Carolina Public Service Authority, Revenue Obligations (Santee Cooper)	5.13	12/1/43	5,000,000	5,556,700
Texas--16.3%				
Austin Convention Enterprises, Inc., Convention Center Hotel First Tier Revenue (Insured; XLCA)	5.00	1/1/34	5,000,000	5,082,100
Clifton Higher Education Finance Corporation, Education Revenue (IDEA Public Schools)	6.00	8/15/43	1,500,000	1,796,145
Clifton Higher Education Finance Corporation, Revenue (Uplift Education)	4.25	12/1/34	2,000,000	2,001,620
Deutsche Bank Spears/Lifers Trust (Series DBE-1182) Recourse (Dallas and Fort Worth, Joint				

Improvement Revenue (Dallas/Fort Worth International Airport))	5.00	11/1/45	15,000,000 a,b,c	15,978,450
JPMorgan Chase Putters/Drivers Trust (Series 4314) Non-recourse (Tarrant County Cultural Education Facilities Finance Corporation, HR (Baylor Health Care System Project))	5.00	11/15/20	7,410,000 b,c	8,203,755
North Texas Education Finance Corporation, Education Revenue (Uplift Education)	5.13	12/1/42	3,000,000	3,226,590
San Antonio, General Improvement GO	5.00	2/1/21	1,500,000	1,804,110
Texas Transportation Commission,				

Central Texas Turnpike System				
First Tier Revenue	5.00	8/15/41	2,500,000 a	2,699,675
Virginia--7.6%				
Lexington Industrial Development				
Authority, Residential Care				
Facilities Mortgage Revenue				
(Kendal at Lexington)	5.50	1/1/37	5,400,000	5,525,928
Virginia Small Business Financing				
Authority, Senior Lien Revenue				
(95 Express Lanes LLC Project)	5.00	1/1/40	7,640,000 a	7,987,391
Virginia Small Business Financing				
Authority, Senior Lien Revenue				
(Elizabeth River Crossing				
Opco, LLC Project)	5.50	1/1/42	5,000,000 a	5,441,950
Washington--2.2%				
Washington Health Care Facilities				
Authority, Revenue (Providence				
Health and Services)	5.00	10/1/42	5,000,000	5,522,850
Wisconsin--9.4%				
Public Finance Agency of				
Wisconsin, Senior Airport				
Facilities Revenue				
(Transportation Infrastructure				
Properties, LLC Obligated				
Group)	5.00	7/1/42	5,000,000 a	5,146,100
Public Finance Authority of				
Wisconsin, Senior Living				
Revenue (Rose Villa Project)	4.50	11/15/20	1,500,000	1,513,515
Wisconsin Health and Educational				

Dividend Yields
0%
Volatility
121%

The following is a reconciliation of the derivative liability for 2010:

Value at January 1, 2010	$ 79,266
Decrease in Value	(79,266)
Value at June 30, 2010	$

-12-

Table of Contents

NOTE 5: NOTES PAYABLE

As of June 30, 2010, the Company was in default with several of our convertible promissory notes. Convertible promissory notes consisted of the following at June 30, 2010 and December 31, 2009:

	2010	2009
Senior secured convertible promissory notes of $625,000 due March 31, 2010 with an option to extend for another 6 months at the discretion of the holders and $450,000 due September 30, 2009; interest payable at 12% per annum and a default rate of 18% per annum; secured by technology and patent rights; principal and accrued interest convertible into common stock at $0.15 per share (subject to adjustment if the Company sells stock or grants conversion rates at a lower price); accrued interest due on March 31, 2010 (13 holders) and accrued interest due on January 1, April 1, July 1 and Oct 1, 2009 (11 holders) paid through May 31, 2010	$ 1,075,000	$ 1,075,000
Convertible loan from Migami due September 22, 2009 with interest at 10% payable quarterly; secured; convertible into common stock at $0.10 per share; interest due December 22, 2008, March 22, 2009 and June 22, 2009, principal and interest not paid due to litigation involving Migami and SMI Manufacturing, LLC (litigation does not involve the Company)	100,000	100,000
Convertible promissory note to an individual due December 24, 2010 including interest at 8% per annum; unsecured; convertible into common stock at $0.15 per share; interest due February 1, 2009, not paid	48,000	48,000
Convertible promissory note to the Company s former counsel due April 11, 2011 including interest at 8% per annum; unsecured; convertible into common stock at $0.15 per share; accrued interest due March 29, 2009, not paid	144,646	144,646
Convertible promissory note to a company due November 15, 2010 including interest at 12% per annum; unsecured; convertible into common stock at $0.15 per share; accrued interest due monthly commencing December 1, 2008, not paid	51,450	51,450
Convertible promissory note to a company due December 24, 2010 including interest at 10% per annum; unsecured; convertible into common stock at $0.20 per share; accrued interest due semi-annually commencing November, 21, 2009	112,500	112,500
Convertible promissory note to an individual dated October 21, 2008 and due October 21, 2009 including interest at 12% per annum; unsecured; convertible into common stock at $0.15 per share, not paid	5,000	5,000
Convertible promissory note to a company due March 11, 2010 including interest at 6% per annum; unsecured; convertible into common stock at $0.20 per share; accrued interest due March 11, 2010, not paid	2,500	2,500
Convertible promissory note to a company due April 30, 2010 including interest at 12% per annum; unsecured; convertible into common stock at $0.15 per share; accrued interest due April 30, 2010	15,000	15,000
Note payble to a company due February 8, 2011 including interest at 7% per annum; principal and interest due monthly	51,702	
Note payble to a company due November 19, 2010 including interest at 7.25% per annum; principal and interest due monthly	13,393	
	1,619,191	1,554,096
Current portion of notes payable	1,619,191	1,409,450
Notes payable, less current portion	$	$ 144,646

Substantially all promissory notes are with shareholders.

Table of Contents

NOTE 6: COMMON STOCK OPTIONS

On April 30, 2010, we issued 4,000,000 common stock options to officers of the Company at an exercise price of $0.09 per share that will expire on April 30, 2017. The fair value of the options on the date of grant was $233,704 and was estimated by using the Black Scholes option valuation model. The following weighted-average assumptions were used for options granted during the six months ended June 30, 2010:

Expected term	4 years
Expected average volatility	102.24%
Expected dividend yield	0%
Risk-free interest rate	0.45%
Expected annual forfeiture rate	0%

NOTE 7: RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2010, we entered into two consulting agreements with SMI, a majority shareholder, for construction management and cGMP management related to our new manufacturing facility in Oxnard, California. Monthly fees relating to the construction and cGMP management agreements are $8,100 per month and $10,417 per month, respectively. The term of the construction management agreement will end at the completion of our new manufacturing facility and the term of the cGMP management agreement is 12 months. During the three months ended June 30, 2010, $32,400 and $83,336 have been paid towards the construction and cGMP management agreements, respectively, of which $52,085 has been prepaid towards the cGMP management agreement.
We entered into several short-term loans totaling $409,001 that are due on demand from SMI. These loans are recorded as part of the subscription receivable balance. As of June 30, 2010, the balance outstanding on the subscription receivable from SMI was $6,088,003. Subsequent to June 30, 2010 and through August 13, 2010, SMI has paid $343,350 towards the balance of the subscription receivable.

NOTE 8: COMMITMENTS AND CONTINGENCIES

We lease a 25,000 square foot manufacturing facility in Oxnard, California. The lease term is from December 1, 2007 through January 31, 2015 at lease rates of $12,812 to $14,853 per month.
We have a commission agreement with Hank Durschlag, our former CEO, which calls for us to pay Mr. Durschlag a commission of 0.5% of net sales revenues we received from the sale of dietary supplement/nutritional supplement edible film strip products for a period of seven (7) years and 50,000 shares of our unregistered stock for each $1,000,000 in net sales revenues we receive on the sale of any and all dietary supplement/nutritional supplement edible film strip products up to a maximum of 500,000 shares.
We have a broker agreement with Jeffrey Wattenberg, our former President, which calls for us to pay Mr. Wattenberg a commission of 4% of the net sales revenues we receive for products and customers that Mr. Wattenberg brings to the Company and that we approve. In addition, Mr. Wattenberg will receive 75,000 shares of unregistered common stock of the Company for each $1,000,000 in JV-attributable Sales that we receive under the terms of our July 2009 sales and distribution agreement with Destiny Productions and Content Marketing Solutions (Destiny) up to a maximum of 1,000,000 shares.
On March 11, 2008, we entered into a five-year distribution agreement with Perrigo Florida, Inc. (Perrigo), formerly known as Unico Holdings, Inc. Perrigo s customers include most of the largest retailers and distributors in the U.S. in each of these sales channels. The distribution agreement grants Perrigo certain exclusivity over its term, provided that Perrigo achieves minimum annual sales requirements totaling $22 million during the term of the agreement.
On July 14, 2009, we entered into a sales and distribution agreement with Destiny. Under the terms of the agreement we agree to pay Destiny a commission for sales delivered by Destiny. In addition, we have agreed to advance to Destiny commissions in the amount of $20,000 per month, subject to Destiny meeting certain minimum sales requirements. The advances are offset against commissions earned by Destiny under the agreement.

Under the terms of an amendment to the Stock Purchase Agreement with SMI, we have committed to pay SMI for certain consulting fees of $10,417 per month and $8,100 per month in cash or shares of our common stock valued at $0.15 per share. In the event that SMI s designees fail to constitute a majority of our board of directors for any reason, SMI has the right under the Amendment to demand payment of all unpaid consulting fees in cash and repayment of any expenses advanced for construction of the Oxnard facility under the Amended Promissory Note. In the event of such a demand, we have agreed to promptly deliver a short term promissory note to SMI evidencing our repayment obligation. Payments under the short-term note shall start no earlier than four months after SMI makes demand for payment. We have agreed to secure our payment obligation under the short term note with a lien on all of our assets subject to senior security interests. To the extent that we have previously released shares of common stock to SMI from the Stock Pledge Agreement on the basis of expenses advanced for our Oxnard facility, SMI will reconvey any such released shares to us for cancellation.

We have a capital lease obligation relating to manufacturing software. The lender has filed a complaint against us, which is more fully described below. As of June 30, 2010, $27,319 of this obligation was reflected as an account payable. In addition to this amount, we could owe an additional $45,137 over the balance of the capital lease.

We have failed to remit payroll tax payments of $93,036, as required by various taxing authorities. When we make these payments, we expect that there will be various penalties and interest for the delayed payments. As of June 30, 2010, management was unable to estimate the amount of penalties and interest that we expect to incur as a result of these unpaid taxes.

At June 30, 2010, we were party to two significant litigation matters, the *Gatorade* matter and the *Kusher* matter, which we reported in previous public filings with the Securities and Exchange Commission. In the *Gatorade* matter, the parties entered into a stipulation of discontinuance on July 21, 2010 which effectively terminated the litigation by discontinuing the case on the merits with prejudice and without costs to any party as against the other. Other than as stated, there have been no material developments in the *Gatorade* or *Kusher* matters since last reported in our annual report on Form 10-K for the year ended December 31, 2009.

On February 10, 2009, Gary Thomas filed suit against the Company in the State of New York Supreme Court: Erie County. Mr. Thomas served as the Vice President of Sales for the Company s subsidiary, Enlyten, Inc. from on or around December 2006 until on or around June 2008. The complaint alleges breach of contract under a separation agreement entered into between Mr. Thomas and the Company. On May 4, 2010, judgment was entered in the action against the Company in the amount of $211,842. The parties entered into an agreement not to enforce judgment that precludes Mr. Thomas from seeking to enforce such judgment in any manner prior to October 31, 2010.

On May 25, 2010, Bank of America Leasing & Capital, LLC filed suit against the Company in the Superior Court of the State of California for the County of Ventura. The complaint alleges damages of $74,830 for breach of contract related to the Company s acquisition and financing of certain software and services. The Company intends to file a responsive pleading in this action and to defend the lawsuit.

On May 26, 2010, Fourth Street Holdings, LLC d/b/a Fourth Street Fund, LP filed suit against the Company in the Superior Court of Fulton County State of Georgia. The complaint alleges damages of only $112,500 of principal and unpaid interest, which is accrued for as of June 30, 2010, for breach of an unsecured promissory note issued to the Company. On July 22, 2010, the Company filed an answer asserting multiple defenses.

On June 15, 2010, the Company filed suit against T. Lynn Mitchell Companies, LLC in the United States District Court for the Central District of California, Western Division. The complaint requests damages and injunctive relief for claims alleging breach of contract and breach of implied covenant of good faith and fair dealing relating to a trademark assignment agreement entered into between the parties. On July 28, 2010, T. Lynn Mitchell Companies filed a Notice of Motion and Motion to Dismiss for Lack of Personal Jurisdiction. On August 9, 2010, we filed plaintiff s opposition to defendant s motion to dismiss for lack of personal jurisdiction, or, in the alternative, request for limited jurisdiction of discovery. On August 17, 2010, we filed an amended complaint to add Enlyten, LLC as a defendant in the action.

Table of Contents

NOTE 9: SUBSEQUENT EVENTS

On July 14, 2010, we entered into amendments to the (i) Merger Agreement amongst us, HealthSport Subsidiary, LLC and SMI, (ii) the Promissory Note issued by SMI to us, and (iii) the Pledge Agreement between us and SMI. The amendment to the Merger Agreement extended the termination date of the Merger Agreement from July 15, 2010 to August 15, 2010 to provide more time for the parties to negotiate the proposed business combination and to secure the $10 million financing. In accordance with the amendment to the Merger Agreement, we amended the Promissory Note and Pledge Agreement to provide that the due date for the $2.5 million payment due from SMI to us on July 15, 2010 is extended to August 15, 2010.

As amended, the payments under the Amended Promissory Note are payable in four installments as follows:

$500,000 on or before November 15, 2009 (previously paid);

$2,050,000 on or before May 15, 2010 (previously paid);

$2,500,000 on or before August 15, 2010 (not yet paid);

$2,950,000 on or before September 15, 2010; and

all remaining principal and interest due on September 15, 2010.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements

Statements in the following discussion and throughout this report that are not historical in nature are forward-looking statements. Please see Special Note Regarding Forward Looking Statements at the beginning of this report. The following discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes and other financial information appearing elsewhere in this report.

Overview

HealthSport is a technology company specializing in the development and manufacture of proprietary, oral thin film products for the delivery of nutritional supplements and pharmaceuticals.

A pioneer in the industry, we were the first company to deliver a drug active via oral thin film with the development of the Chloraseptic® Sore Throat Relief Strips® in June 2003. Utilizing our patent pending, bi-layer technology, we have proceeded to develop and launch a variety of dietary supplement and over-the-counter pharmaceutical thin film products, including those containing vitamins, minerals, electrolytes, sleep aids, caffeine, antioxidants and various over-the-counter drug actives.

Our thin film, which for most applications is similar in size and shape to a postage stamp, dissolves rapidly and utilizes patent pending bi-layer technology and other novel processes, including proprietary micro-encapsulation methods to mask the taste of actives in the film products. The result of this superior technology is higher quality, more stable products that support a platform capable of carrying larger product volumes and a more diverse array of active ingredients. We believe these qualities render our thin film effective, easy to use and suited for a multitude of consumer products in both the dietary supplement and pharmaceutical arenas. We are dedicated to improving the quality of life through innovative delivery technologies for pharmaceutical, nutraceutical and veterinary products.

We manufacture and distribute a number of nutritional supplement products formulated to contain electrolytes, vitamins, melatonin, caffeine, and other supplements. We are also currently conducting research and development related to future potential products that will contain over-the-counter and prescription drug actives.

Based on our existing portfolio of intellectual property, we believe there are significant potential opportunities to develop business with pharmaceutical companies. We believe our thin film technology can be used to create new, more effective drug products that should enjoy strong physician, patient and consumer acceptance. One unique opportunity involves using our technology to enable pharmaceutical companies to better manage the life cycle of their products. By combining our thin film delivery technology with existing drugs, we may be able to strategically differentiate existing or soon-to-be generic drugs from potential generic competitors or provide branded prescription products with additional patent protection or exclusivity in the marketplace.

Our strategic plan is to continue to make revolutionary advances in producing high-quality products that successfully address medical and consumer health needs while minimizing the risk of side effects.

Recent Developments

During the quarter ended June 30, 2010, we continued to focus on the development of our new manufacturing facility. Until December 2009, we operated a 9,500 square foot manufacturing facility in Woodland Hills, California. In December 2009, we relocated to a new 25,000 square foot facility in Oxnard, California. We are currently completing the build-out of our facility to become a fully operational, cGMP thin film manufacturing facility capable of producing both dietary supplement and over-the-counter drug products. The expected build-out completion date is September 15, 2010.

Table of Contents

In addition to our own new facility, we have entered into a manufacturing license agreement with SMI, pursuant to which SMI has agreed to manufacture certain products for us. SMI is currently constructing a 45,000 square foot, state-of-the-art, cGMP, thin film manufacturing facility in Tempe, Arizona that will be capable of producing both dietary supplement and pharmaceutical products. The facility is being designed and built to meet all domestic and international regulatory requirements and we believe will be capable of producing over 2 billion oral thin film strips annually. The projected completion date for the Tempe facility is March 31, 2011.

During the construction and development of these two facilities, we do not have manufacturing capabilities. We did not generate revenues for the six months ended June 30, 2010 and do not expect significant revenues for the third quarter of 2010 as we continue with facility construction. During this period, our sales efforts have been directed to identifying and engaging nationally and internationally recognized pharmaceutical and nutritional supplement companies with product lines that we believe are amenable to, and that can benefit from, our technology. We expect to have orders in hand that will let us generate revenues immediately following completion of our cGMP manufacturing facilities. However, we do not have any significant orders or backlog at this time.

We have funded our operations during this period from the proceeds of the sale of our common stock to SMI. On December 1, 2009, we entered into Securities Purchase Agreement with SMI (the Securities Purchase Agreement) pursuant to which we sold 66,666,667 shares of our common stock to SMI for an aggregate of $10 million. To date we have received $4,550,000 under this Agreement. The remaining amount due is represented by a promissory note (the Promissory Note). SMI s obligations under the Promissory Note are secured by a pledge of the shares under a stock pledge agreement (the Pledge Agreement). On March 19, 2010, we entered into amendments to the Securities Purchase Agreement, the Promissory Note and the Pledge Agreement to extend the payment terms for the final payment under the promissory note until September 15, 2010.

On May 21, 2010, we entered into a merger agreement with SMI (the Merger Agreement) pursuant to which we agreed to combine with SMI if certain conditions are met. The Merger Agreement contemplates that, upon satisfaction of closing conditions, SMI will merge with and into our newly formed subsidiary HealthSport Subsidiary, LLC (HealthSport Subsidiary). HealthSport Subsidiary will survive the merger. Immediately following the merger, HealthSport Subsidiary will be renamed Supplemental Manufacturing & Ingredients LLC. As consideration for our acquisition of SMI, we will issue to the members of SMI a total of 251,257,841 shares of our common stock.

The closing of the Merger Agreement is contingent upon the satisfaction of certain conditions, including SMI obtaining a commitment from a third party investor to invest $10 million in HealthSport in exchange for shares of our common stock at a price equal to or greater than $0.21 per share. Such commitment of investment by a third party must close concurrently with or immediately following the closing of the merger with SMI. We have the right to terminate the Merger Agreement if SMI is unable to obtain a commitment from a third party investor to invest $10 million in HealthSport on the terms set forth in the merger agreement, as amended, by August 15, 2010. If the Merger Agreement closes, then at that time certain agreements between us and SMI would terminate including the Amended Promissory Note, the Amended Stock Purchase Agreement and the Amended Stock Pledge Agreement.

On July 14, 2010, we entered into amendments to the (i) Merger Agreement, the Promissory Note and the Pledge Agreement. The amendment to the Merger Agreement extended the termination date from July 15, 2010 to August 15, 2010 in order to provide more time for the parties to complete the negotiations of the proposed business combination and to secure the $10 million in financing. The amendments to the Promissory Note and Pledge Agreement extended the due date for the $2.5 million payment due from SMI to us on July 15, 2010 to August 15, 2010. As amended, the payments under the Amended Promissory Note are payable in four installments as follows:

$500,000 on or before November 15, 2009 (previously paid);

Table of Contents

$2,050,000 on or before May 15, 2010 (previously paid);

$2,500,000 on or before August 15, 2010 (not yet paid);

$2,950,000 on or before September 15, 2010; and

all remaining principal and interest due on September 15, 2010.

Comparison of the Three Months Ended June 30, 2010 to the Three Months Ended June 30, 2009

The following table sets forth certain selected condensed consolidated statement of operations data for the periods indicated:

	For the three months ended June 30,	
	2010	**2009**
Revenue		
Product sales	$	$ 545,091
License fees, royalties and services	250,000	18,750
Total revenues	250,000	563,841
Costs and expenses		
Cost of product sold and manufacturing costs	191,910	695,527
Selling, general and administrative expenses	871,594	5,117,717
Research and development costs	11,377	8,083
Total costs and expenses	1,074,881	5,821,327
Net loss from operations	(824,881)	(5,257,486)
Other income (expense):		
Interest income		10
Settlement income	35,529	440,331
Change in fair value of derivative liability		1,242,543
Other income	204	
Other expense	(212,622)	
Loss on disposal of property & equipment	(9,147)	
Interest expense	(67,832)	(50,009)
Other income (expense)	(253,868)	1,632,875
Net loss before income taxes	(1,078,749)	(3,624,611)
Provision for income taxes		
Net loss	$ (1,078,749)	$ (3,624,611)

Revenues

During the three months ended June 30, 2010, we did not generate any product sales; however, we did generate $250,000 from license fees. We had sales of $545,091 and revenue from license fees, royalties and services of

$18,750, for a total of $563,841 in the corresponding 2009 period. Revenues have significantly decreased during this period primarily due to our inability to manufacture products as we await completion of two state-of-the-art manufacturing facilities. One is our facility which is currently being constructed in Oxnard, California, and the second is currently under development and construction by our contract manufacturer, SMI, in Tempe, Arizona. During this construction phase, we are actively seeking additional distribution channels and revenue opportunities.

Table of Contents

Costs and Expenses

Since we did not generate any revenues during the three months ended June 30, 2010, we were not able absorb any of the fixed manufacturing costs incurred during this period. During the same period in 2009, we were not able to absorb all of our manufacturing costs due to the decrease in volume during the quarter. Sales will need to increase substantially to absorb all of the manufacturing costs at our current and anticipated level of manufacturing operations.

Selling, general and administrative expenses (SG&A) decreased to $871,594 in the three months ended June 30, 2010, from $5,117,717 in the 2009 period. The decrease of $4,246,123 in SG&A is the result of the following:

Because of the significant reduction in business volume and a decline in the quoted market price of our stock during the three months ended June 30, 2009, management determined that the fair value of our goodwill had declined. Based on management s analysis, we recorded an impairment loss of $4,000,000 for the carrying value of our goodwill during the 2009 period. We did not record an impairment loss for the three months ended June 30, 2010.

Non-cash compensation expense was $42,168 in 2010 and $191,080 in 2009 and includes the amortization of the grant date fair value of stock options granted to employees, consultants and spokespersons over the relevant service periods. The decline is primarily the result of options expiring in the 2009 period as well as majority of stock options becoming fully vested during the 2009 period.

Depreciation and amortization expense decreased from $335,634 in 2009 to $183,888 in 2010, primarily as a result of the impairment loss of $6,714,477 for the net carrying value of our patents, trade secrets and web site during the year ended December 31, 2009, which reduced the net carrying value of intangibles subject to amortization.

Selling and marketing costs were $1,657 in the three months ended June 30, 2010, as compared to $52,646 in the 2009 period, a decrease of $50,989. The reduction is primarily due to a decrease in marketing and promotion expenses for products since we did not generate any revenues during the 2010 period.

We reduced corporate overhead and payroll, as well as decreased other SG&A costs due to the decrease in revenue and operations during the 2010 period.

Research and development (R&D) costs amounted to $11,377 in 2010 and $8,083 in 2009. These include contract services, supplies, materials and analytical testing costs incurred for new products. R&D expenses remain low due to limited available funding. As we secure additional working capital, we anticipate that R&D expenses will increase.

Other Income (Expense)

During the second quarter of 2009 we were able to settle a debt with a former customer which resulted in a gain of $440,331. During the same period in 2010, we were able to settle debts with several of our vendors for a total gain of $35,529.

We issued convertible secured notes in 2008. Certain provisions of the convertible notes require us to record the value of the conversion feature as a liability, at fair value, pursuant to FASB accounting rules, including provisions in the notes that protect the holders from declines in our stock price, which is considered outside the control of the Company. The derivative liability is marked-to-market each reporting period and changes in fair value are recorded as a non-operating gain or loss in our statement of operations, until they are completely settled. The fair value of the conversion feature is determined each reporting period using the Black-Scholes option pricing model, and is affected by changes in inputs to that model including our stock price, expected stock price volatility, interest rates and expected term. Based on the determination of the fair value of the derivative liability at the beginning of 2010 and 2009 and for the three months ended June 30, 2010 and 2009, we recognized a gain of $0 and $1,242,543, respectively, as the fair value of the derivative liabilities decreased.

Table of Contents

Included in other expense and accrued for as of June 30, 2010 is a court judgment entered against the Company in the amount of $211,842 related to a lawsuit by a former employee. Please refer to Part II, Item 1 for further details.

Interest expense increased from $50,009 in 2009 to $67,832 in 2010 due to the Company paying a higher interest rate relating to our secured convertible promissory notes. These secured convertible promissory notes are currently in default.

Comparison of the Six Months Ended June 30, 2010 to the Six Months Ended June 30, 2009

The following table sets forth certain selected condensed consolidated statement of operations data for the periods indicated:

	For the six months ended June 30, 2010	2009
Revenue		
Product sales	$	$ 2,153,250
License fees, royalties and services	250,000	77,500
Total revenues	250,000	2,230,750
Costs and expenses		
Cost of product sold and manufacturing costs	384,889	1,869,939
Selling, general and administrative expenses	4,303,197	6,300,320
Research and development costs	20,438	44,210
Total costs and expenses	4,708,524	8,214,469
Net loss from operations	(4,458,524)	(5,983,719)
Other income (expense):		
Interest income	75,036	298
Settlement income	42,132	440,331
Change in fair value of derivative liability	79,266	2,360,545
Other income	491	8,905
Other expense	(248,362)	
Loss on disposal of property & equipment	(16,923)	
Interest expense	(123,008)	(119,279)
Other income (expense)	(191,368)	2,690,800
Net loss before income taxes	(4,649,892)	(3,292,919)
Provision for income taxes		
Net loss	$ (4,649,892)	$ (3,292,919)

-21-

Revenues

During the six months ended June 30, 2010, we did not generate any product sales; however, we did generate $250,000 from license fees. We had sales of $2,153,250 and revenue from license fees, royalties and services of $77,500, for a total of $2,230,750 in the corresponding 2009 period. Revenues have significantly decreased during this period primarily due to our inability to manufacture products as we await completion of two state-of-the-art manufacturing facilities. One is our facility which is currently being constructed in Oxnard, California, and the second is currently under development and construction by our contract manufacturer, SMI, in Tempe, Arizona. During this construction phase, we are actively seeking additional distribution channels and revenue opportunities.

Costs and Expenses

Since we did not generate any revenues during the six months ended June 30, 2010, we were not able absorb any of the fixed manufacturing costs incurred during this period. However, during the same period in 2009, we were able to absorb all manufacturing costs. Sales will need to increase substantially to absorb all of the manufacturing costs at our current and anticipated level of manufacturing operations.

Selling, general and administrative expenses (SG&A) decreased to $4,303,197 in the six months ended June 30, 2010, from $6,300,320 in the 2009 period. The decrease of $1,997,123 in SG&A is the result of the following:

Because of the significant reduction in business volume and a decline in the quoted market price of our stock during the six months ended June 30, 2010, management determined that the fair value of certain of our intangible assets had declined. Based on management s analysis, we recorded an impairment loss of $2,792,880 for the net carrying value of some of our patents, trade secrets and web site during the 2010 period. We record an impairment loss of $4,000,000 for the carrying value of our goodwill during the 2009 period.

Non-cash compensation expense was $45,385 in 2010 and $367,911 in 2009 and includes the amortization of the grant date fair value of stock options granted to employees, consultants and spokespersons over the relevant service periods. The decline is primarily the result of options expiring in the 2009 period as well as majority of stock options becoming fully vested during the 2009 period.

Depreciation and amortization expense decreased from $669,083 in 2009 to $417,443 in 2010, primarily as the result of the impairment loss of $6,714,477 for the net carrying value of our patents, trade secrets and web site during the year ended December 31, 2009, which reduced the net carrying value of intangibles subject to amortization.

Selling and marketing costs were $5,178 in the six months ended June 30, 2010, as compared to $210,148 in the 2009 period, a decrease of $204,970. The reduction is primarily due to a decrease in marketing and promotion expenses for products since we did not generate any revenues during the 2010 period.

We reduced corporate overhead and payroll, as well as decreased other SG&A costs due to the decrease in revenue and operations during the 2010 period.

Research and development (R&D) costs amounted to $20,438 in 2010 and $44,210 in 2009. These include contract services, supplies, materials and analytical testing costs incurred for new products. R&D expenses remain low due to limited available funding. As we secure additional working capital, we anticipate that R&D expenses will increase.

Other Income (Expense)

Interest income increased from $298 during the six months ended June 30, 2009 to $75,036 during the same period in 2010. The increase was primarily attributable to an accrued interest receivable from SMI stemming from the promissory notes issued in connection with the SMI Financing.

Table of Contents

During the six months ended June 30, 2009 we were able to settle a debt with a former customer which resulted in a gain of $440,331. During the same period in 2010, we were able to settle debts with several of our vendors for a total gain of $42,132.

We issued convertible secured notes in 2008. Certain provisions of the convertible notes require us to record the value of the conversion feature as a liability, at fair value, pursuant to FASB accounting rules, including provisions in the notes that protect the holders from declines in our stock price, which is considered outside the control of the Company. The derivative liability is marked-to-market each reporting period and changes in fair value are recorded as a non-operating gain or loss in our statement of operations, until they are completely settled. The fair value of the conversion feature is determined each reporting period using the Black-Scholes option pricing model, and is affected by changes in inputs to that model including our stock price, expected stock price volatility, interest rates and expected term. Based on the determination of the fair value of the derivative liability at the beginning of 2010 and 2009 and at June 30, 2010 and 2009, we recognized a gain of $79,266 and $2,360,545, respectively, as the fair value of the derivative liabilities decreased.

Included in other expense and accrued for as of June 30, 2010 is a court judgment entered against the Company in the amount of $211,842 related to a lawsuit by a former employee. Please refer to Part II, Item 1 for further details.

Interest expense increased from $119,279 in 2009 to $123,008 in 2010 due to us paying a higher interest rate relating to our secured convertible promissory notes, which are currently in default. In addition, we were able to reduce interest charges relating to late payments as we are processing payments on a timelier basis during the six months ended June 30, 2010 compared to the previous period in 2009.

Liquidity, Capital Resources and Going Concern

Liquidity

At June 30, 2010, we had cash and cash equivalents of $43,043, accounts receivable of $63,650 and a working capital deficit of $3,870,777. This compares to cash and cash equivalents of $1,205,945, accounts receivable of $64,726 and a working capital deficit of $3,102,664 at December 31, 2009.

For the six months ended June 30, 2010, operating activities consumed $2,235,116 of cash. This was primarily the result of a net loss for the year of $4,649,892, offset by depreciation and amortization of $417,443 and asset impairment of $2,792,880.

Investment activities used an additional $594,874 of cash during the six months ended June 30, 2010, primarily as a result of payments for patent costs, property and equipment, construction in progress and deposits made on leasehold improvements for the Oxnard facility.

Financing activities provided $1,667,088 of cash during the six months ended June 30, 2010, primarily as the result from collection of our stock subscription receivable from SMI.

We are not currently generating sufficient income or cash flow to fund current operations. We did not generate any sales of product during the six months ended June 30, 2010. We are continually analyzing our current costs and are attempting to make additional cost reductions where possible. However, in order to support our current level of operations, substantial sales will be required. We expect that we will continue incurring losses from operations throughout 2010.

Capital Resources

Other than cash and cash equivalents and cash flows provided by operations, our primary source of working capital has been financing activities through the sale of debt or equity securities. We do not have any unused sources of credit presently available to us.

Table of Contents

We currently have $450,000 of convertible promissory notes that were due by September 30, 2009 and an additional $625,000 that were due by March 31, 2010. As of the date of this report, we do not have the funds to repay these convertible promissory notes. We plan to negotiate with the holders of those notes to extend the terms and to repay them from the proceeds of the SMI Financing and SMI merger. However, if we are unsuccessful in extending the term of the convertible promissory notes, or if we do not receive payment under the SMI Financing or SMI merger discussed below, we will not have the capital resources to repay the convertible promissory notes and their holders may bring action against us to collect on them.

On December 1, 2009, we completed the sale of 66,666,667 shares (the Shares) of our common stock (the SMI Financing) to SMI pursuant to the Stock Purchase Agreement. In connection with the completion of the SMI Financing and in accordance with the Stock Purchase Agreement, SMI paid to the Company $2,000,000 and issued a promissory note (the Promissory Note) to the Company in the amount of $8,000,000. The Promissory Note, which was amended on March 19, 2010 and on July 14, 2010 (the Amended Promissory Note), will be payable in four installments as follows:

$500,000 on or before November 15, 2009 (previously paid);

$2,050,000 on or before May 15, 2010 (previously paid);

$2,500,000 on or before August 15, 2010 (not yet paid);

$2,950,000 on or before September 15, 2010; and

all remaining principal and interest due on September 15, 2010.

The Amended Promissory Note will mature on September 15, 2010 and amounts outstanding under the Amended Promissory Note bear interest at the rate of 4% per annum. We have issued a total of 30,333,333 of the shares to SMI under the Securities Purchase Agreement. The remainder have been issued in the name of SMI but are being held in escrow, pending receipt of payments under the Amended Promissory Note. The remaining balance due under the Amended Promissory Note has been recorded as a stock subscription receivable on the accompanying balance sheet.

We are dependent upon receipt of payments from SMI under the Amended Promissory Note to continue our operations. If SMI were to suspend payments or default on their obligations under the Amended Promissory Note, we would not have sufficient capital to continue the build-out of our manufacturing facility or to conduct our operations. In such an event we would seek to raise additional capital through the sale of debt or equity securities. However, we do not have any such financing arrangements in place at this time, cannot provide any assurances that such financing would be available if needed, and do not know the terms upon which any such financing may be made available to us.

On May 21, 2010, we entered into the Merger Agreement with SMI pursuant to which we agreed to combine with SMI if certain conditions are met. The merger agreement contemplates that, upon satisfaction of closing conditions, SMI will merge with and into our newly formed subsidiary HealthSport Subsidiary. HealthSport Subsidiary will survive the merger. Immediately following the merger, HealthSport Subsidiary will be renamed Supplemental Manufacturing & Ingredients LLC. As consideration for our acquisition of SMI, we will issue to the members of SMI a total of 251,257,841 shares of our common stock.

The closing of the Merger Agreement is contingent upon the satisfaction of certain conditions, including SMI obtaining a commitment from a third party investor to invest $10 million in HealthSport in exchange for shares of our common stock at a price equal to or greater than $0.21 per share. Such commitment of investment by a third party must close concurrently with or immediately following the closing of the merger with SMI. We have the right to terminate the merger agreement if SMI is unable to obtain a commitment from a third party investor to invest $10 million in HealthSport on the terms set forth in the merger agreement, as amended, by August 15, 2010. If the Merger Agreement closes, then at that time certain agreements between us and SMI would terminate including the Amended Promissory Note, the Amended Stock Purchase Agreement and the Amended Stock Pledge Agreement.

As of August 16, 2010, SMI has not made the August 15, 2010 payment under the Promissory Note and has not completed the conditions to the consummation of the Merger Agreement. The parties continue to work together in an effort to complete the business combination. No other arrangements or commitments for any such financing are in place at this time, and we cannot give any assurances about the availability or terms of any future financing. We believe the recent worldwide financial crisis has significantly decreased the market for private financing. The number of investment funds committing capital to microcap issuers has decreased and costs for financing both debt and equity have increased.

Table of Contents

Going Concern

Because of our history of net losses and our negative working capital position, our independent auditors, in their reports on our financial statements for the years ended December 31, 2009 and 2008, expressed substantial doubt about our ability to continue as a going concern.

Recent Accounting Pronouncements

Please see the section entitled Recent Accounting Pronouncements contained in Note 1 Organization and Nature of Business to our financial statements included in Part I Item 1. Financial Statements of this report.

Off-Balance Sheet Arrangements

At June 30, 2010, we did not have any off-balance sheet arrangements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide the information specified by this item.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, on a timely basis; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934, as amended.

Our management, with the participation of our chief executive officer and chief accounting officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2010. Based on such evaluation, our chief executive officer and chief accounting officer concluded that our disclosure controls and procedures were effective for their intended purpose described above.

Changes in Internal Controls Over Financial Reporting

In our annual report on Form 10-K for the year ended December 31, 2009, management reported on weaknesses that it identified in our internal control over financial reporting as of December 31, 2009. The matters involving internal controls and procedures that our management considered to be material weaknesses under the standards of the Public Company Accounting Oversight Board were:

- lack of a functioning audit committee due to a lack of a majority of independent members and a lack of a majority of outside directors on our board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures;

- lack of a whistleblower policy for employees to report suspected internal control issues; and

- inadequate segregation of duties due to the limited size of the accounting department and the lack of experienced accountants caused by the Company s limited financial resources.

Table of Contents

In an effort to remediate the identified material weaknesses and other deficiencies and enhance our internal controls, the Company appointed Mark Udell, a certified public accountant, as the principal accounting officer on March 19, 2010. Mr. Udell s appointment has partially addressed the issue of the lack of segregation of duties. In addition, Mr. Udell will oversee implementation of additional internal controls and procedures.

We plan to adopt corporate governance guidelines including a code of ethics and a whistleblower policy, but have not done so at this time. We also plan to appoint two or more independent directors to our board. We intend to identify and retain independent directors that would be qualified to serve as audit committee members.

No changes were made in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations of Internal Controls and Disclosure Controls and Procedures

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we may become involved in legal proceedings relating to claims arising out of our operations in the normal course of business. Litigation in general can be expensive disruptive to normal business operations and difficult to predict. An unfavorable resolution of one or more legal proceedings could have a material adverse affect our business, results of operations or financial condition; moreover, the need to defend claims in such proceedings could require payments of legal fees that, given our financial condition, negatively impacts our ability to defend such claims. As of the date of this report, except as discussed below, we are not a party to any litigation which we believe would have a material adverse effect on our business operations or financial condition.

At June 30, 2010, we were party to two significant litigation matters, the *Gatorade* matter and the *Kusher* matter, which we reported in previous public filings with the SEC. In the *Gatorade* matter, the parties entered into a stipulation of discontinuance on July 21, 2010 which effectively terminated the litigation by discontinuing the case on the merits with prejudice and without costs to any party as against the other. Other than as stated, there have been no material developments in the *Gatorade* or *Kusher* matters since we last reported on them in our annual report on Form 10-K for the year ended December 31, 2009.

On February 10, 2009, Gary Thomas filed suit against the Company in the State of New York Supreme Court, Erie County. Mr. Thomas served as the Vice President of Sales for the Company s subsidiary, Enlyten, Inc. from on or around December 2006 until on or around June 2008. The complaint alleges breach of contract under a separation agreement entered into between Mr. Thomas and the Company. On May 4, 2010, judgment was entered in the action against the Company in the amount of $211,842. The parties entered into an agreement not to enforce judgment that precludes Mr. Thomas from seeking to enforce such judgment in any manner prior to October 31, 2010.

On May 25, 2010, Bank of America Leasing & Capital, LLC filed suit against the Company in the Superior Court of the State of California for the County of Ventura. The complaint alleges damages of $74,830 for breach of contract related to the Company s acquisition and financing of certain software and services. The Company intends to file a responsive pleading in this action and to defend the lawsuit.

On May 26, 2010, Fourth Street Holdings, LLC d/b/a Fourth Street Fund, LP filed suit against the Company in the Superior Court of Fulton County State of Georgia. The complaint alleges damages of only $112,500 of principal and unpaid interest for breach of an unsecured promissory note issued by the Company. On July 22, 2010, the Company filed an answer asserting multiple defenses.

On June 15, 2010, the Company filed suit against T. Lynn Mitchell Companies, LLC in the United States District Court for the Central District of California, Western Division. The complaint requests damages and injunctive relief for claims alleging breach of contract and breach of implied covenant of good faith and fair dealing relating to a trademark assignment agreement entered into between the parties. On July 28, 2010, T. Lynn Mitchell Companies filed a motion to dismiss for lack of personal jurisdiction. On August 9, 2010, we filed plaintiff s opposition to defendant s motion to dismiss for lack of personal jurisdiction, or, in the alternative, request for limited jurisdiction of discovery. On August 17, 2010, we filed an amended complaint to add Enlyten, LLC as a defendant in the action.

Item 1A. RISK FACTORS

Investment in our common stock involves a high degree of risk. The risk factors set forth below update the risk factors in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed on March 31, 2010. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results and future prospects. If any of these risks actually occur, our business, financial condition or results of operations could suffer. In that case, the value of our common stock could decline, and you may lose all or part of your investment. The risk factors described in our Annual Report on Form 10-K and below are not exhaustive. These risk factors represent only some of the risks associated with investment in our common stock.

Table of Contents

We currently do not have any arrangement for the manufacturing of our products and will not have revenue until we are able to complete our manufacturing facility in Oxnard, California or arrange for an alternative means of manufacturing our products.

Until December 2009, we operated a 9,500 square foot manufacturing facility in Woodland Hills, California. In December 2009, we completed relocation to a new 25,000 square foot facility in Oxnard, California. The plant is currently under design and construction to become a fully operational, cGMP film strip manufacturing facility capable of producing both dietary supplement and over-the-counter drug products. The expected construction completion date is September 15, 2010. Until such time as our new manufacturing plant is completed or we arrange for an alternative means for manufacturing our products, we are not able to manufacture or sell any of our products and will not generate any revenue. Although we anticipate that we will begin manufacturing our product after the expected completion date for our new manufacturing facility, there can be no assurance that the development of the manufacturing facility will not be delayed or that our new manufacturing facility will meet all of our needs when completed. In such case, and if we are not able to secure an alternative means for manufacturing our products, our financial condition and results of operations may be impaired.

We will require additional capital in order to fund our operating expenses, and if we fail to raise sufficient additional capital we may be forced to curtail or cease operations.

On December 1, 2009, we entered into a stock purchase agreement with SMI which provided for payment to us of $10 million, $2 million payable at closing and $8 million under the terms of a Promissory Note. The Promissory Note called for installment payments to be made to us of the $8 million. SMI has paid to us an aggregate of $4,550,000. On March 19, 2010 and July 14, 2010, we entered into amendments to the Promissory Note and related agreements to restructure the payment obligations to us. Under the amended Promissory Note, SMI is to pay us $2,500,000 on or before August 15, 2010 and $2,950,000 on or before September 15, 2010. As of the date of this report, SMI has not made the August 15, 2010 payment under the Promissory Note. If SMI fails to make the installments payments under the amended Promissory Note, we will need to secure capital from other sources in order to continue our operations. Even if SMI makes the installment payments under its Amended Promissory Note, we expect to require further capital to execute our current business plan.

In addition, on May 21, 2010, we entered into a Merger Agreement with SMI pursuant to which we agreed to combine with SMI in a merger transaction if certain conditions are met. The closing of the merger agreement is contingent upon the satisfaction of certain conditions, including SMI obtaining a commitment from a third party investor to invest $10 million in HealthSport in exchange for shares of our common stock at a price equal to or greater than $0.21 per share. Such investment by a third party must close concurrently with or immediately following the closing of the merger with SMI. We have the right to terminate the merger agreement if SMI is unable to obtain a commitment from a third party investor to invest $10 million in HealthSport on the terms set forth in the Merger Agreement, as amended, by August 15, 2010. If the Merger Agreement closes, then at that time certain agreements between us and SMI would terminate including the Amended Promissory Note, the Amended Stock Purchase Agreement and the Amended Stock Pledge Agreement. There can be no assurance that SMI will be able to obtain a commitment from a third party investor to invest in HealthSport on the terms set forth in the merger agreement or at all. Consequently, there can be no assurance that the merger contemplated by the merger agreement or any other merger involving HealthSport and SMI will take place.

Our ability to secure any other financing will depend upon a number of factors, including our financial condition, business operations and prospects, as well as general economic conditions, and conditions in the relevant financial markets. We cannot assure you that we will be able to secure financing, as needed, and if we cannot we will be forced to curtail or cease operations. Moreover, even if we identify a possible financing, the terms may not be favorable to us, or may involve substantial dilution to our existing stockholders.

Table of Contents

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not sell any shares of our common stock during the three months ended June 30, 2010.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

We have secured convertible promissory notes outstanding at June 30, 2010 in the aggregate principal amount of $1,075,000. Of this amount, notes in the aggregate principal amount of $625,000 were due March 31, 2010, and notes in the aggregate principal amount of $450,000 were due September 30, 2009. All of our outstanding secured convertible promissory notes are currently in default. The amount of accrued and unpaid interest under all of these secured convertible promissory notes at June 30, 2010 was $27,973. However, as a result of the default, the holders of the secured convertible promissory notes have the right to demand payment in full of all amounts outstanding under those secured convertible promissory notes.

Item 4. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS.

See the exhibit index immediately following the signature page of this report.

Table of Contents

SIGNATURES

Pursuant to 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.

Date: August 23, 2010	HEALTHSPORT, INC.
	By: /s/ Kevin Taheri Kevin Taheri Chief Executive Officer

-30-

EXHIBIT INDEX

Exhibit No.	Document Description	Incorporation by Reference
4.1	Second Amendment to Promissory Note issued by HealthSport, Inc. to Supplemental Manufacturing & Ingredients, LLC dated July 14, 2010.	Incorporated by reference to the exhibits to the Company s report on Form 8-K filed with the SEC on July 15, 2010.
10.1	Merger Agreement Among HealthSport, Inc., HealthSport Subsidiary, LLC and Supplemental Manufacturing & Ingredients, LLC dated May 21, 2010.	Incorporated by reference to the exhibit to the Company s report on Form 8-K filed with the SEC on May 24, 2010.
10.2	Amendment to Merger Agreement Among HealthSport, Inc., HealthSport Subsidiary, LLC and Supplemental Manufacturing & Ingredients, LLC dated July 14, 2010.	Incorporated by reference to the exhibits to the Company s report on Form 8-K filed with the SEC on July 15, 2010.
10.3	Second Amendment to Pledge Agreement between HealthSport, Inc. and Supplemental Manufacturing & Ingredients, LLC dated July 14, 2010.	Incorporated by reference to the exhibits to the Company s report on Form 8-K filed with the SEC on July 15, 2010.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.