



Company Newsletter – Third Quarter 2008

It's hard to believe that we are nearly halfway through 2008, and that I have now been with the Company for 3 months as its CEO. In my short tenure with the Company, major strides have been made within the Company as we move forward in offering our technology to numerous pharmaceutical companies and drugstore chains and away from branding our own products and the expensive marketing costs associated with that process. As a result of our initiatives, HealthSport is in a position to increase revenues as edible film strips continue to rapidly gain market acceptance. Below, I would like to outline the progress that has been made over the first half of this year.

Private Label Pediatric Electrolyte Strips in Distribution

The second quarter marked the company's receipt of its first purchase order for its private label pediatric electrolyte strips. Through its distribution partnership with Unico, the strips will hit the shelves of the country's largest drug retailers and wholesalers in July. Unico is the premier distributor of electrolyte replacement products to the drug, food and mass merchandise retailers, including CVS, Walgreen's, Rite-Aid, Wal-Mart and Target to name a few. As a showcased product in the upcoming National Association of Chain Drug Stores (NACDS) trade meeting, a large number of drugstore chains are expected to add the product in the coming weeks. The trade show will also be an opportunity for the company to promote the availability of its electrolyte Sport Strips on a private label basis, as well as pre-booking orders for its caffeinated Energy Strips.

Stars and Strips

In the second quarter, the company enlisted the aid of Liberator BDC to position the Company's Sport Strip and Survival Strip products for purchase and use by the United States military. We have recently sent our products to Iraq and Fort Bragg for field testing and have submitted a proposal that, if approved, could put our electrolyte Sport Strips and Survival Strips in the hands of our soldiers, both domestically and abroad. Our prior evaluations by the military in tests performed in conjunction with Duke University Sports Medicine, K-Lab have yielded positive results, and we are anticipating further feedback in early third quarter. If adopted by the military, the strips could be rapidly deployed in the Middle East, as well as becoming standard issue for soldiers in training and combat throughout all branches of the military.

International Distributors Added, Orders Increased

The company has recently received certificates of free trade in 28 countries around the globe and is currently finalizing agreements with new distributors in the Middle East and the Mediterranean for both PediaStrips and Sport Strips. The hot, humid temperatures in these regions pose a serious dehydration concern for residents and should create a large demand for electrolyte supplementation. These agreements could result in substantial orders to meet the needs of the long, hot summer. Several of our international distributors have also expressed interest in adding our Energy and FIX products to their agreements.

Concurrently, our existing distributor in Japan, who has already placed orders this year in excess of \$60,000, is realizing higher than anticipated sales volume of Sport Strips and is estimating a ten fold increase in its order size for the third quarter. They will be adding PediaStrips to their product offering in the third quarter as well.

Customers Lining Up For Energy Strips

The newest addition to the HealthSport film strip line is Energy Strips. The energy products marketplace has been on fire, growing by over 30% annually over the last five years. Sales opportunities in the pipeline include more than a dozen clients and feature drugstore chains, convenience store distributors, casinos, a multi-level marketing organization, and energy beverage manufacturers. With film strips providing portability, multiple doses per cassette, and delivering a faster boost than beverages, retailers are projecting a large shift in market share to strips. We expect delivery of our first orders to customers in early fourth quarter.

What's Going On With Gatorade?

As was anticipated, Gatorade continues to deny any liability for its purported actions to hamper the marketing and sale of our Sport Strips. Our legal team is moving forward through the process of discovery and will be scheduling Gatorade executives for deposition shortly. We are confident that our claims will be upheld, and will continue to aggressively pursue legal remedy, while keeping the door open for a potential business resolution should one be available. Our claims are being handled on a contingency basis, so the ongoing pursuit of this litigation is not a significant cost to the Company.

What's Next?

Our R&D staff continues to create new strip products for pain relief, stomach upset, sore throats, nutritional products and homeopathic remedies. Our flavor specialists are constantly testing new formulations to make our new products enticing and our current products even better. We continue to push ahead with the development of our worldwide regulatory compliant manufacturing facility, and anticipate site visits by our prospective pharmaceutical development partners in the early part of the fourth quarter. We are currently in discussions with several pharmaceutical companies regarding product development. These companies understand that clinical advantages of our delivery technology and recognize the economic potential of extending patent life through the conversion to new dosing systems.