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

FORM 10-K

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2010

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

Commission File Number: 000-30415

Health Enhancement Products, Inc.
(Name of Registrant as Specified in Its Charter)

Nevada	**87-0699977**
(State or Other Jurisdiction of Incorporation Organization)	(I.R.S. Employer Identification No.)

7740 East Evans Road, Scottsdale, Arizona 85260
(Address of Principal Executive Offices)

(480) 385-3800
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $.001 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large Accelerated Filer ☐ Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)
Accelerated Filer ☐ Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the issuer's voting and non-voting common equity held as of December 31, 2010 by non-affiliates of the issuer was $27,454,859 based on the closing price of the registrant's common stock on such date.

As of April 14, 2011, there were 95,571,693 shares of $.001 par value common stock issued and outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this report are 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. These statements involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to statements regarding:

- our ability to raise the funds we need to continue our operations;
- our goal to increase our revenues and become profitable;
- regulation of our product;
- our ability to expand the production of our product;
- market acceptance of our product;
- future testing of our product;
- the anticipated performance and benefits of our product; and
- our financial condition or results of operations.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. Business.

Business Development

We were incorporated under the laws of the State of Nevada on March 28, 1983, under the name of "L. Peck Enterprises, Inc." On May 27, 1999, we changed our name to "Western Glory Hole, Inc." ("WGH").

From 1990 until October 2003, we had no business operations; we were in the development stage and were seeking profitable business opportunities.

On October 30, 2003, we acquired 100% of the outstanding shares of Health Enhancement Corporation ("HEC") in exchange for 9,000,000 of our post-split shares, making HEC our wholly-owned Subsidiary. In connection with this transaction, we changed our name to Health Enhancement Products, Inc. ("HEPI"). We currently operate through our wholly-owned Subsidiaries, HEC and HEPI Pharmaceuticals, Inc.

We acquired HEC because it had the material necessary for the production of ProAlgaZyme®. We have since established a manufacturing plant, which consists of a laboratory and production facility, and hired production and research staff. Our product is currently sold through an exclusive distributorship agreement that calls for certain minimum payments subject to the satisfaction of certain conditions. We have agreed with our distributor, Ceptazyme, to waive the minimum payment provisions with respect to the first quarter of 2011, while packaging issues were being resolved. We have only limited revenue. We believe that additional future revenue from sales of ProAlgaZyme® will depend upon our ability to expand our production to meet product demand generated by our exclusive distributor, as well as the results of testing regarding, among other things, the product's composition and method of action. Accordingly, we intend to continue to focus our resources on (i) expanding our production capacity and (ii) testing directed toward determining the exact composition of the product and the method of action and effectiveness of the substances comprising the product.

In January 2007, we established HEPI Pharmaceuticals, Inc. as one of our wholly owned Subsidiaries ("HEPI Pharma"). The purpose of HEPI Pharma was to develop potential pharmaceutical applications for our primary product, ProAlgaZyme® (PAZ). In connection with the formation of HEPI Pharma, we entered into a Pharmaceutical Development Agreement with HEPI Pharma. Under the Development Agreement, we granted HEPI Pharma the right to develop the potential pharmaceutical applications of PAZ and its derivatives. In exchange for these rights, we became the sole stockholder of HEPI Pharma and are entitled to certain payments based on the attainment of specified development milestones and sales revenues. Although we are continuing our product research and development activities, HEPI Pharma is not independently pursuing pharmaceutical applications for our product.

Principal Product

We were founded on, and remain committed to, the principle of producing only products derived from natural ingredients. At present, our sole product is the enzyme-based, all natural dietary supplement known as ProAlgaZyme®.

ProAlgaZyme® is a naturally-generated liquid product derived from a natural plant culture grown in purified water with proprietary feeding.

Marketing and Sales

In the past we were only accustomed to nominal sales of our sole product, ProAlgaZyme. In September of 2010 we signed an exclusive distribution agreement to sell our product. This exclusive distribution agreement called for an initial licensing fee of $255,000 (received in October of 2010) and monthly orders which increase as our ability to produce product increases, subject to satisfaction of certain conditions, including our product meeting the FDA's GRAS (generally recognized as safe) standard, which we are currently working on. We recognized $5,000 in revenue for this licensing fee, and recorded deferred revenue of $250,000. An initial order of $51,100 was received in December of 2010. Due to several delays in the design of new packaging, we anticipate that this December order will be shipped in full during the month of April 2011. We anticipate delivering additional orders beginning towards the end of the second quarter of 2011, with monthly increases in the minimums each month as production will allow and subject to satisfaction of the FDA's GRAS standard. See Note 12 to the financial statements.

ProAlgaZyme has been subjected to extensive product testing, and we are currently in the process of pursuing additional external clinical trials that should provide us with further evidence of the potential of our product, and thus facilitate additional sales and marketing related activities. In addition, due to the research being conducted, in February of 2010, we filed a provisional patent application to protect biologically active molecules isolated from our compound. This research is still ongoing.

Competition

The dietary supplement industry is highly competitive, particularly in the area of undifferentiated products such as general-purpose multi-vitamins. The industry is also marked by the presence of often-unsubstantiated claims of product efficacy, by substantial discounting for the "standard" commodity-type products, such as multi-vitamins, and by relatively-expensive products with distinct and supportable claims to improved health or effective testimonials. It is not our intention to compete in the undifferentiated market. We believe that ProAlgaZyme® is a product that is readily differentiated, and we intend to emphasize these differences in connection with our marketing of the product.

The ProAlgaZyme® product is differentiated from other "algae-based" products in the nutraceutical market, in that:

- ProAlgaZyme® is not comprised of microbes or algae itself; that is, the source material that generates the beneficial liquid product is not processed or marketed in any way, either as a nutrient or as a food;

- the liquid product that is generated by ProAlgaZyme's source material is produced and marketed without additives, preservatives, or change. As such, it is a truly "natural" product, and does not undergo change in its nature or effectiveness as it is prepared for consumption; and

- the product has been subjected to internal laboratory testing and to external studies on animals and humans, with results that we believe support the product's potential effectiveness.

Other companies that we are aware of that sell algae-based products for human consumption include Cell Tech, which claims to sell a product derived from blue-green algae; and Cyanotech, a company selling a product purported to be derived from the cell wall of red algae.

Raw Materials

We own the microbial mixture, including algae, from which ProAlgaZyme® is derived, and these source materials are held in growing environments at our facility. Other raw materials used in the proprietary production process for ProAlgaZyme® are readily available commercially, and we do not believe that there is any risk of interruption or shortage of supply of these materials.

We have also completed the necessary testing to increase our production capabilities in order to meet the minimum distribution requirements under our exclusive distribution agreement. Research has determined that our grow cycle, previously thought to be 30 days, can be shortened to 15 days with the same quality and bioactive results, resulting in the ability to double our production.

Dependence on Customers

We are currently 100% dependent upon our exclusive distributor, Ceptazyme, LLC, for sales of our product, under terms of the agreement disclosed in Note 12. We are pursuing other avenues for sales and distribution of other forms of our product, and are awaiting the identification of our bioactive agents in order to proceed.

Manufacturing

We manufacture our ProAlgaZyme® product directly, using dedicated laboratory facilities on our own premises and qualified technical staff. We have leased a new facility that will include upgraded manufacturing capability, subject to completion of the build out of the facility which is ongoing. After production, ProAlgaZyme® is currently bottled by a third party under our supervision to ensure product safety and integrity. We believe that, subject to the availability of cash resources, manufacture of our product is scalable within a reasonable time to meet minimum distribution requirements of our exclusive sales agreement.

Backlog

As of December 31, 2010, we had a backlog of 9,940 bottles of product, and have recorded customer deposits of $25,194 to reflect the payment received for these backorders. Our exclusive distributor has rebranded our product and designed a new bottle and label. The backlog is due to the distributor's decision to wait until the new packaging was available, as well as production capacity limitations. This order will be shipped in full during the month of April, 2011.

Patents and Proprietary Rights

We have rights in certain patent applications and trademarks. With respect to trademarks, we have secured federal trademark registrations in the U.S. Patent and Trademark Office ("USPTO") for the following marks:

- PROALGAZYME (Reg. No. 3,229,753) which registered on April 17, 2007. This trademark's registration will remain in force for six years from the registration date and then can be renewed for additional 5 and then 10 year periods.

We also have an allowed pending trademark application for "HEPI BIOSCIENCE" and a Community trademark in Europe for "PROALGAZYME."

We may have other common law rights in other trademarks, trade names, service marks, and the like which will continue as long as we use those respective marks.

With respect to patents, we have one issued patent in the U.S. This patent issued as U.S Patent No. 7807,622 and is titled "Composition and Use of Phyto-Percolate for Treatment of Disease." . This patent generally discloses a method of preparation of phyto-percolate composition and use of this composition to treat various diseases.

We also have three non-provisional patent applications pending and two PCT applications pending that have not yet reached the national stage entry deadline. We also have the following applications pending in foreign countries: 2 Canadian applications, 1 European application, 1 Japanese application, and one Australian application. These applications are directed at various compositions of our Proalgazyme product, derivatives thereof, and various methods of use and treatment using such compositions and derivatives.

Mr. Howard R. Baer, our founder and a significant shareholder, has registered and permits us to use without charge the following Internet domain names:

- www.heponline.com;
- www.proalgazyme.com;
- www.mypaz.com
- www.healthenhancementproducts.com

Mr. Baer has agreed that he will not terminate our right to use these domain names as long as we are selling the ProAlgaZyme® product.

Regulation

We do not believe that the product that we manufacture and market is subject to regulation by the Food and Drug Administration ("FDA").Instead, we believe that our product is properly designated as a "dietary supplement" within the category of vitamins, minerals, dietary supplements, and herbal products covered within the U.S. by the Dietary Supplement Health and Education Act of 1994 - commonly referred to as "DSHEA". As such, the products fall under the jurisdiction of the Federal Trade Commission ("FTC"), and do not require FDA approval for release. We also believe, based on recent actions by the FDA and other governmental agencies, that public and legislative pressures upon the FDA will cause the FDA to extend its jurisdiction to cover the "nutraceutical" industry gradually over time, and that, as a result, we – along with others in the nutraceutical industry - will be subject to regulation as to product quality and manufacture, and product related claims. We will monitor carefully all such trends with the goal of ensuring that all necessary and appropriate governmental regulations relating to the safety and efficacy of our products will be observed as they are introduced and applied. If our product is sold internationally, our product may also be subject to approval by certain foreign regulatory and safety agencies. As a result, the export of our product to some countries may be limited or prohibited. Our manufacturing processes and facilities may also be subject to review by federal, state, or local health agencies or their representatives before export approval is granted. Adverse findings from such reviews could result in various actions against us, including restriction of trading privileges, withdrawal of approvals, and product recall. We cannot assure you that domestic or foreign regulatory agencies will give us the requisite approvals or clearances for any products under development on a timely basis, if at all. Moreover, after clearance is given, these agencies can later withdraw the clearance or require us to change the product or its manufacturing process or labeling, to supply proof of its safety and effectiveness, or to recall, replace or refund the cost of the product, if it is shown to be hazardous or defective. The process of obtaining clearance to market a product is costly and time-consuming and could delay the marketing and sale of such product.

Research and Development

Research

Our primary research emphasis has been on refinement of the ProAlgaZyme® product and on bio-chemical analyses and internal and external clinical studies with respect to the product. Our research efforts are being coordinated by Great Northern and Reserve Partners, a third party consulting firm. We spent approximately $396,000 for the year ended December 31, 2010 on research and development, as compared to $339,000 in 2009. Of the $396,000, $110,000 was spent on internal research, mainly involving in-house testing and development of the ProAlgaZyme® product (both 'in vitro" and "in vivo" testing) , and $286,000 has been spent on external research, mainly to independent facilities involved in the analysis of our bioactive ingredient. To date, all of these amounts have been directly expensed as they have been incurred.

Our research and development efforts have been directed toward analysis aimed at identifying the "class of compounds," and the "active ingredient;" that I, to identify the single molecule or molecules, if possible, responsible for the potential cholesterol benefits the company's testing has identified. Substantial time, money, and effort have been expended in this regard. The company believes that it is making substantial progress towards achieving these hoped for results, but more investigation is still needed. Subject to the availability of sufficient funding, we estimate that we will, in fiscal 2011, expend approximately $500,000 on research and development. We do not currently have these funds available. These expenditures will need to be met from external funding sources. We have had difficulty raising funds from external sources. Thus, we may not be able to raise the funding that we need to continue our research and development activities. In the event that these sources are not available or adequate to meet our research needs, we will be unable to pursue our research activities, in which case, our ability to market ProAlgaZyme® with objective clinical support for its characterization, method of action and efficacy, will continue to be impeded, thereby severely hindering our ability to generate sales revenue (or otherwise commercialize our ProAlgaZyme product) and adversely affecting our operating results.

We have engaged consultants on an "as needed" basis to assist in our research and development activities. If and when funds become available, and as the need arises, we may expand our use of consultants with appropriate qualifications and suitable experience to help administer the preparation and management of in-house clinical studies, the establishment of protocols for independent external studies, and the monitoring, interpretation, and submission of data as required to third parties conducting studies.

Compliance with Environmental Laws

We believe that we are, in all material respects, in compliance with local, state, and federal environmental laws applicable to our manufacturing, waste disposal, and bottling operations, and we have prepared appropriate documentation as to our current operational procedures, standards, and guidelines in order to comply with applicable environmental laws. The cost of this compliance activity to date has not been material, and has been absorbed within our general operations overhead.

Employees

As of December 31, 2010 we had four full-time employees, positioned as follows: two employees in manufacturing, one employee in research and development, and one employee in business development, marketing, sales and support services. In addition, we have one part-time employee in finance and administration. We believe that our employee relations are good. No employee is represented by a union.

Available Information

Our website is www.heponline.com. Information on our website is not incorporated by reference into this Form 10-K and should not be considered part of this report or any other filing we make with the SEC. We file annual, quarterly and current reports, and other information with the Securities and Exchange Commission. Our filings with the SEC can be viewed at www.sec.gov.

Item 1A. Risk Factors.

There is substantial doubt about our ability to continue as a going concern. Our independent registered public accounting firm has issued an opinion on our consolidated financial statements that states that the consolidated financial statements were prepared assuming we will continue as a going concern and further states that our recurring losses from operations, stockholders' deficit and inability to generate sufficient cash flow to meet our obligations and sustain our operations raise substantial doubt about our ability to continue as a going concern. Although we recently signed an exclusive distribution agreement for the sales of our product, this agreement may not provide us enough cash flow to sustain our operations or fund continued research.

We are materially dependent on external sources for continued funding. Until our sales reach a level to cover our expenses we are reliant upon external sources to fund our continued operations. There is no guarantee that this funding will continue. If we are unable to raise additional funds, there will be a material adverse effect on our business, financial condition and results of operations.

Our future success is dependent on either our ability to expand or establish strategic partnerships. There is no guarantee that we will be able to successfully establish additional strategic partnerships. Although we recently contracted with an exclusive distributor, we have not achieved the sales success needed to sustain our operations.

The ability to market our product is dependent upon proven, clinical research. While we are currently undergoing studies to further identify the active ingredients in our product, there is no guarantee that the research will successfully achieve this goal. If our current research does not return the results we expect, our business prospects will be materially and adversely affected.

Government regulation of our products may adversely affect sales. Nutraceutical products, although not subject to FDA approval, must follow strict guidelines in terms of advertising claims. Our ability to successfully market our product is dependent upon adhering to these requirements. If we fail to comply with applicable government regulations concerning the marketing of our product, we could be subject to substantial fines and penalties, which would have a material adverse affect on our business.

If we are unable to protect our intellectual property, we may lose a competitive advantage or incur substantial litigation costs to protect our rights. Our future success depends upon our proprietary technology. We currently have one issued patent application and several U.S and foreign patent applications pending for our product.

The Supplement industry is highly competitive. We are unable to compete with the advertising dollars that some supplement companies have at their disposal. We have had difficulty in the past with marketing our product.

Our sales are concentrated with one distributor. If our exclusive distributor does not have the cash to continue with the minimum orders, we will have to seek out other avenues for distribution.

We have limited production capacity. We may not be able to scale production of our product to meet the demand generated by our exclusive distributor. We have already encountered production capacity limitations in meeting such demand. If we continue to have difficulty meeting the product demand generated by our distributor, there will be a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

Not required for smaller reporting companies.

Item 2. Properties.

We are leasing office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer, pursuant to an Amended and Restated Sublease that expires on February 9, 2020, subject to our unilateral right to terminate the Lease on March 31, 2013. Under the original terms of the Amended and Restated Sublease, the annual base rent for the 15,000 square foot facility was approximately $237,000, payable in equal monthly installments of approximately $20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We paid an additional security deposit of approximately $110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) to reduce the base rent from $20,000 to $16,720 monthly (not including real estate taxes (currently $1,480 per month)). In addition, Mr. Baer has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse him for 70% of such expenses. We incurred approximately $305,000 in rent expense during fiscal 2010.

We recently leased a new facility which we intend to use for our headquarters and production space. Our objectives in seeking new space were threefold. First, we needed a space that we could more easily convert into a GMP (good manufacturing practice) compliant facility. Secondly, we were seeking a more efficient manufacturing space that could help us overcome production challenges. Thirdly, there was a desire to reduce operating expenses, if possible. The company believes that the new space meets all of the above objectives (including reduction of rent expense once we are able to sublease the space we are currently leasing from Mr. Baer). This new lease allows us to move our headquarters to smaller, more efficient space and will allow our bottling facility and administrative offices to be under one roof. The lease is for 9,868 square feet of space, commencing April 1, 2011. The annual base rent for this facility is $65,128 annually, subject to annual increases of approximately 5%.

The Company terminated its month to month lease for a space it was using for secondary warehousing and bottling. Monthly rent was $3,300 per month for 2,300 square feet. This building has been vacated and our bottling equipment has been moved to our new location.

We are in the process of locating a sub-lessor for our existing facility.

Item 3. Legal Proceedings.

We are currently not involved in any legal action.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is quoted on the Over-the-Counter Bulletin Board ("OTCBB") administered by the Financial Industry Regulatory Authority under the symbol "HEPI." The following table sets forth the range of high and low bid information as reported on the OTCBB by quarter for the last two fiscal years. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Year ended December 31, 2009	**HIGH**	**LOW**
First Quarter	0.10	0.06
Second Quarter	0.42	0.06
Third Quarter	0.54	0.20
Fourth Quarter	0.35	0.18
Year ended December 31, 2010		
First Quarter	1.24	0.17
Second Quarter	1.17	0.57
Third Quarter	0.58	0.37
Fourth Quarter	0.42	0.30

As of December 31, 2010 we have 160 shareholders of record.

We have not paid any dividends on our common stock during the last two fiscal years, due to our need to retain all of our cash for operations. We do not anticipate paying any cash dividends on our common stock for the foreseeable future.

Recent Sales of Unregistered Securities.

During the quarter ended March 31, 2010, we issued 5,587,416 shares of common stock and received proceeds of $671,729 upon the exercise of outstanding warrants, with exercise prices ranging from $.10 to $.25 and an average exercise price of $.12 per share. Convertible debentures and interest in the amount of $15,121 were converted into 302,425 shares of common stock during the quarter ended March 31, 2010. We also issued 215,154 shares of common stock for services (these shares were valued at $102,000). The Company also issued 95,000 shares of common stock, valued at $50,500, for finders' fees. The Company also issued 1,250,000 shares of common stock valued at $512,500 in satisfaction of an obligation to issue common stock.

During the quarter ended June 30, 2010, the Company issued 2,815,000 shares of common stock and received proceeds of $398,500 upon the exercise of warrants. The Company issued 126,795 shares of common stock for services, valued at $142,000. In addition, the Company issued 180,000 shares of common stock, valued at $149,550, in satisfaction of an obligation to issue common stock. The Company issued warrants to purchase 900,000 shares of common stock to consultants. These warrants have an exercise price between $.25 and $.50, and a term of 3 years. The warrants were valued at $596,852 using the Black Scholes pricing model. The Company issued warrants to purchase 500,000 shares each to each of its then executive officers who were also members of the Board of Directors as compensation for past services. These warrants have an exercise price of $.15 and a term of 3 years. The warrants were valued at $516,050 using the Black Scholes pricing model. The Company issued warrants to purchase 100,000 shares of common stock to our Chief Science Officer. These warrants have an exercise price of $.15 and a term of 3 years. The warrants were valued at $93,347 using the Black Scholes pricing model. The Company issued warrants to purchase 500,000 shares of common stock to a consultant valued at $477,554 in satisfaction of an obligation to issue common stock. Finally, the Company issued warrants to purchase 500,000 shares of common stock to a significant shareholder, as compensation for prior loan guarantees. These warrants have an exercise price of $.15 and a term of 3 years. The warrants were valued at $405,925 using the Black Scholes pricing model.

During the quarter ended September 30, 2010, the Company issued 707,716 shares of common stock at an average exercise price of $.15, and received proceeds of $107,500 upon the exercise of warrants. The Company issued 180,000 shares of common stock for services, valued at $75,900, and warrants to purchase 200,000 shares of common stock to a board member, valued at $82,343. In addition, the Company issued 206,032 shares of common stock in satisfaction of the conversion of $100,000 of convertible notes and accrued interest of $3,016.

During the quarter ended December 31, 2010, the Company issued an aggregate of 1,940,000 shares of common stock to a related party as follows: 838,986 shares were issued upon exercise of outstanding warrants at an average exercise price of $.23 per share and 1,101,014 shares were issued in full satisfaction of approximately $110,000 in principal amount plus accrued interest owing to this related party in connection with advances made to us. The Company issued 333,000 shares of common stock valued at $129,410 to consultants for services. 124,392 shares of common stock were issued to a science board member for his services, valued at $50,000. The Company issued 6,095 shares of common stock upon the exercise of a cashless warrant. The Company issued warrants to a board member valued at $55,587 for director's fees. These warrants have a term of three years at an exercise price of $.225 per share. In addition, the Company issued 250,000 warrants to an employee for services. These warrants have a term of three years at an exercise price of $.15 per share. Finally, the Company issued 200,000 warrants to a board member for science advisory services. These warrants have a term of three years at an exercise price of $.225 per share and were valued at $59,738.

The Company believes that the foregoing transactions were exempt from the registration requirements under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended ("the Act") or Section 4(2) under the Act, based on the following facts: in each case, there was no general solicitation, there was a limited number of investors, each of whom was an "accredited investor" (within the meaning of Regulation D under the "1933 Act", as amended) and/or was (either alone or with his/her purchaser representative) sophisticated about business and financial matters, each such investor had the opportunity to ask questions of our management and to review our filings with the Securities and Exchange Commission, and all shares issued were subject to restrictions on transfer, so as to take reasonable steps to assure that the purchasers were not underwriters within the meaning of Section 2(11) under the 1933 Act.

Item 6. Selected Financial Data.

Not required for smaller reporting companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

During November 2003, we acquired Health Enhancement Corporation, and changed our name from Western Glory Hole, Inc. to Health Enhancement Products, Inc. Western Glory Hole, Inc. was a development stage company and had no operations during the year ended December 31, 2002 or during the year ended December 31, 2003, until its acquisition of Health Enhancement Corporation in November 2003.

In the past we were only accustomed to nominal sales of our sole product, ProAlgaZyme. In September of 2010 we signed an exclusive distribution agreement to sell our product. This exclusive distribution agreement called for an initial licensing fee of $255,000 (received in October of 2010) and monthly orders which increase as our ability to produce product increases. An initial order of $51,100 was received in December of 2010. Due to several delays in the design of new packaging, we anticipate that this December order will be shipped in full during the month of April, 2011. We have agreed with our distributor, Ceptazyme, to waive the minimum payment provisions with respect to the first quarter of 2011, while packaging issues were being resolved. We anticipate delivering additional orders beginning towards the end of the second quarter of 2011, with monthly increases in the minimums each month as production will allow and subject to satisfaction of the FDA's GRAs standard. See Note 12 to the financial statements.

We continue to be engaged in and focused primarily on continuing our product related research and development. While we expect to realize limited revenue from our exclusive distribution agreement, we have been incurring significant operating losses and negative cash flow. We are also experiencing an ongoing and substantial working capital deficiency. We have from time to time had difficulty raising capital from third parties. These factors raise substantial doubt about our ability to continue as a going concern. If we are unable to obtain additional funding in the near term, we may be unable to continue as a going concern, in which case you would suffer a total loss of your investment in our company.

Results of Operations for Years Ended December 31, 2010 and 2009

Net Sales

Net sales for the year ended December 31, 2010 were $77,725, as compared to $25,140 for the year ended December 31, 2009. These sales reflect principally revenues from the ProAlgaZyme® product. The increase in our revenue for 2010 is due to our exclusive distributorship agreement with Ceptazyme, LLC to distribute our product. In the fourth quarter of 2010 we received an initial licensing fee payment of $255,000 under the terms of this exclusive distributorship agreement. We recognized $5,000 in revenue from this licensing fee, and recorded deferred revenue of $250,000.

Through September, 2009, we recognized $54,000 in guaranteed minimum payments under an exclusive distribution contract which was terminated on October 1, 2009. These minimum payments are not included in sales revenue. These amounts were accrued and offset against amounts that were owed to the distributor, which is controlled by a significant shareholder of the Company.

Although we anticipate the realization of increasing revenues from our exclusive distributorship agreement with Ceptazyme, LLC, our ability to realize any such increased revenue is dependent upon the satisfaction of certain conditions, including the expansion of our production capacity to meet increased product demand and our product's meeting the FDA's GRAS standard or receiving New Diet Ingredient ("NDI") status form the FDA, neither of which conditions we have satisfied as of this date, though we are working on meeting the GRAS standard. We are currently working on expanding our production capacity and meeting the FDA's GRAS standard. However, we have encountered some difficulty in expanding our production capacity and meeting the GRAs standard. If we are unable to timely and sufficiently expand our production capacity and meet he GRAS standard (or NDI status), there will be a material adverse affect on our business, financial condition and results of operations.

Throughout 2009 and 2010, we were adversely impacted by a shortage of funds which has severely impeded our ability to market, test and expand the production of our ProAlgaZyme® product, further contributing to a low level of net sales. Although we signed an exclusive distribution agreement in September of 2010, we intend to explore additional potential marketing opportunities, consistent with the limitations placed upon us by our exclusive distribution agreement with Ceptazyme, LLC. We believe that our ability to generate sales of the ProAlgaZyme® product will depend upon, among other things, expansion of our production capacity, further characterization of the product, identification of its method of action and further evidence of its efficacy, as well as advertising. The testing necessary to further characterize the product, identify its method of action and further substantiate its effectiveness is ongoing.

Cost of Sales

Cost of sales was $51,807 for the year ended December 31, 2010, as compared to $63,693 for the comparable period in 2009. The decrease in costs of sales is due primarily to better efficiencies in our production. Costs of sales are primarily costs related to raw materials, labor and the laboratory and controlled production environment necessary for the growing of the algae cultures that constitute the source of the ProAlgaZyme® product, and for conducting the necessary harvesting and production operations in preparing the product for sale.

Research and Development Expenses

For the year ended December 31, 2010, we incurred approximately $396,000 in research and development expenses, as compared to $339,000 for the comparable period in 2009. These expenses are comprised of costs associated with internal and external research. Internal research and development was $110,000 in 2010, compared to $129,000 in 2009. The decrease was due to the use of outside consultants. We expect internal research and development to increase in 2011, subject to the availability of sufficient funding, which we do not currently have for such purpose. External research and development increased approximately $76,000 in 2010 to $286,000, compared to $210,000 in 2009. This increase was due primarily to the increase in costs associated with external clinical trials. We expect external research and development to increase in 2011 as we pursue additional external trials, subject to the availability of sufficient funding, which we do not currently have.

Selling and Marketing Expenses

Selling and marketing expenses were $96,790 for the year ended December 31, 2010, as compared to $225,132 for the year ended December 31, 2009. The decrease in selling and marketing expenses was due primarily to our focus being directed towards product research and development.

In the past we were only accustomed to nominal sales of our sole product, ProAlgaZyme. In September of 2010, we signed an exclusive distribution agreement to sell our product. This exclusive distribution agreement called for an initial licensing fee of $255,000 (received in October of 2010) and monthly orders which increase as our ability to produce product increases, subject to satisfaction of certain conditions, including satisfaction of the GRAS standard (or NDI status). An initial order of $51,100 was received in December of 2010. Due to several delays in the design of new packaging, we anticipate that this December order will be shipped in full during the month of April, 2011. We anticipate delivering additional orders beginning towards the end of the second quarter of 2011, with monthly increases in the minimums each month as production will allow and subject to satisfaction of the FDA's GRAs standard. See Note 12 to the financial statements

We intend to explore additional third party distribution channels for our product, consistent with the limitations placed upon us by our exclusive distribution agreement with Ceptazyme, LLC. The limit on our ability thus far to advertise our product (due to the need for additional testing) has had and, until we are able to advertise our product based upon the results of "class of compound" and the bioactive ingredient, will continue to have, a material adverse effect on sales revenue and operating results. We intend to continue to pursue clinical study of our product and, subject to the results of such testing, increase advertising in 2011, subject to availability of sufficient funding, which we do not currently have.

General and Administrative Expenses

General and administrative expenses increased approximately $408,000 to $1,235,975 in 2010, compared to $827,000 in 2009. The increase in general and administrative expenses was due primarily to the issuance of stock and warrants to officers and directors (a non-cash expense).

We have leased a new facility which we intend to use for our headquarters and production space. This new lease allows us to move our headquarters to a smaller, more efficient space and will allow our bottling facility and administrative offices to be under one roof. The lease is for 9,868 square feet of space, commencing April 1, 2011 for a term of 42 months (with the first six months being rent free). The annual base rent for this facility is $65,128, subject to annual increases of approximately 5%. We are seeking a sub-lessor for our existing facility, which is under lease until February, 2020, subject to earlier termination by the Company in March, 2013. Accordingly, unless and until we are able to sublease our existing space, we expect to incur an additional $65,000 in rent expense, plus taxes and other occupancy costs (utilities, maintenance, etc.).

Professional Fees and Consulting Expense

Professional fees and consulting expense increased approximately $1,700,000 to $2,363,627 in 2010 compared to $624,000 in 2009. Of the $2.3 million paid in 2010, approximately $1.9 million was paid in stocks and warrants (non-cash expenses). The increase is due primarily to an increase in consulting fees. We anticipate continued compensation to outside consultants as we explore marketing opportunities for our product.

Contract Termination Fee

As disclosed elsewhere herein, we had previously entered into an exclusive distributorship agreement with CTV, a company controlled by Howard Baer, a significant shareholder who is one of our former CEOs. This Agreement granted exclusive rights to distribute our products across several consumer based channels. This contract was terminated by mutual agreement in October of 2009. In exchange for the termination of this contract, we incurred during 2009 a $650,000 contract termination fees as follows: CTV received cash payments of $300,000 and was issued 750,000 shares of common stock, valued for financial reporting purposes at $352,500.

Fair Value Adjustment of Derivative Liability.

Due to our issuing warrants at a time when we lacked sufficient authorized shares, we had reclassified certain outstanding warrants and options as derivative liabilities, which are marked to fair value periodically pursuant to Emerging Issues Task Force guidance EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company's Own Stock" ("EITF 00-19"). We valued these warrants utilizing the Black-Scholes method of valuation using the following assumptions: volatility from 128.47% to 138.84%, annual rate of dividends 0% and a risk free interest rate of 3.1%. For the year ended December 31, 2010, we recognized $2,223,991 in expense (non-cash) for financial statement purposes based on the change in fair value of these liabilities during the periods, as compared to $1,532,276 in a noncash item of revenue for the year ended December 31, 2009. As of December 31, 2010, the derivative liability has been reclassified to additional paid-in capital, since we obtained stockholder approval to increase the total authorized common stock to 150,000,000 shares, which was effective June 23, 2010.

Other Income/Expense

Finance Costs /Amortization of Bond Discount

During the year ended December 31, 2010, we incurred $665,219 of finance costs paid in stock and warrants, as compared to $74,000 for the year ended December 31, 2009, a $591,219 increase. The increase in finance charges paid with stocks and warrants was due to the issuance of warrants related to financing transactions. Amortization of bond discount decreased about $83,000 from $245,000 in 2009 to $162,000 in 2010. The decrease in bond amortization in 2010 was due primarily to a reduction in the principal amount of notes converted in 2010, compared to 2009.

Liquidity and Capital Resources

The consolidated financial statements contained in this report have been prepared on a "going concern" basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the reasons discussed herein, there is a significant risk that we will be unable to continue as a going concern, in which case, you would suffer a total loss of your investment in our company.

As of April 1, 2011, we had cash in the bank of $1,954. We have had only limited revenue ($82,725 for year ended December 31, 2010) and have incurred significant net losses since inception, including a net loss of $7,122,473 during the year ended December 31, 2010. Subject to our expanding our production capacity to meet increased product demand and our product's meeting the FDA's GRAS standard or receiving New Diet Ingredient ("NDI") status form the FDA, the revenue guaranteed to us under the exclusive distribution agreement is expected to contribute significantly to funding our normal operations. However, we have, since inception, consistently incurred negative cash flow from operations. During the year ended December 31, 2010, we incurred negative cash flows from operations of $1,439,726. As of December 31, 2010, we had a working capital deficiency of $743,531 and a stockholders' deficiency of $951,680. Although we recently raised a limited amount of capital, we have a near term and urgent need for additional capital.

During the year ended December 31, 2010, our operating activities used approximately $ 1.4 million in cash, compared with using approximately $1.2 million in cash during the comparable prior period. The approximate $300,000 increase in cash used by our operating activities was due primarily to an approximate $5.7 million increase in net loss, a $125,000 change (decrease) in accounts payable, and a $323,000 change (decrease in accrued payroll/payroll taxes), partially offset by an approximate $1.4 million increase in stocks/warrants issued for services (non-cash), a $534,000 increase in warrants issued in payment of finance costs (non-cash), a $3.8 million increase in fair value adjustment of derivative liability (a non-cash expense item) and a $250,000 increase in deferred revenue.

During the year ended December 31, 2010, our financing activities generated approximately $1.5 million in cash, as compared to generating approximately $1.2 million in cash during the comparable prior period. The approximate $300,000 increase in cash provided by financing activities was primarily attributable to a $374,000 increase in loan proceeds received from a significant shareholder and a $211,000 increase in proceeds from the sale of common stocks and warrants, partially offset by a $155,000 decrease in proceeds from sale of convertible notes and a $51,000 increase in repayments of loans payable.

Although we raised a limited amount of capital during 2010, we continue to experience a shortage of capital, which is materially and adversely affecting our ability to run our business. As noted above, we have been largely dependent upon external sources for funding. We have in the past had great difficulty in raising capital from external sources. Subject to our ability to expand our production capacity and meet the FDA's GRAS standard, our exclusive distribution agreement should generate revenue to help cover at least a portion of our normal operating expenses; however we will still be reliant upon external financing for the continuation of our research program. With the leasing of our new manufacturing and office facilities, we anticipate being able to increase our production as necessary to meet the minimum requirements called for in our distribution agreement.

We estimate that we will require approximately $1,500,000 in cash over the next 12 months in order to fund our normal operations. In addition, we are seeking additional funding in the range of $500,000 to $1,000,000 to fund our research initiatives. Based on this cash requirement, we have a near term need for additional funding. Historically, we have had great difficulty raising funds from external sources; however, we recently were able to raise a limited amount of capital from outside sources.

Significant elements of income or loss not arising from our continuing operations

We do not expect to experience any significant elements of income or loss other than those arising from our continuing operation.

Seasonality

Our product is directed to the improvement of the health of our consumers, and we do not expect that operating results will be affected materially by seasonal factors. In addition, ProAlgaZyme® is cultivated in a climate-controlled laboratory environment, not subject to seasonal growing effects or influences.

Staffing

We have conducted all of our activities since inception with a minimum level of qualified staff. We recently added two full time positions to our staff to coordinate and manage our exclusive distribution agreement. We currently do not expect a significant increase in staff.

Off-Balance Sheet arrangements

We have no off-Balance Sheet arrangements that would create contingent or other forms of liability.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

Reference is made to the Consolidated Financial Statements, the Reports thereon, and the Notes thereto, commencing on page F-1 of this report, which Consolidated Financial Statements, Reports, Notes and data are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.

Item 9A (T). Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. Based on their evaluation as of December 31, 2010, our Executive Vice President has concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), were effective as of the end of the period covered by this report to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions for Form 10-K. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Executive Vice President, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control Over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined by Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission20 (COSO) in *Internal Control-Integrated Framework*. Based on our assessment of those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2010.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

This Management's report is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, unless we specifically state in a future filing that such report is to be considered filed.

(c) Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The following table sets forth the name, age and position of each of our executive officers and directors:

Name	Age	Positions	Since
John Gorman	42	Executive Vice President/Director	2006
Steven J. Warner	71	Director	2010
John D. Crissman	71	Director	2010

John Gorman was appointed director on November 30, 2006**. I**n addition to serving as a director, he is our Executive Vice President – Operations and serves as our Head of Sales and Customer Relations. Before joining HEPI in 2003, he served as a private marketing and sales consultant for small to mid-sized businesses and various government entities. Between 1996 and 2001, Mr. Gorman worked as Regional Marketing Manager for the western region of CompassLearning, an educational software company with programs in use by over 20,000 schools nationwide. From 1989-1996, Mr. Gorman was Resort Manager of The Pointe Hilton Resorts in Phoenix, Arizona.

Steven Warner was appointed to the Board of Directors on August 15, 2010.Mr. Warner is a member of the board of directors of the following companies: Dyadic International, Inc. (biotechnology) (since 2004), Gulfstar Energy Corporation (gas pipeline) (since 2010), Rock Energy Resources (Oil&Gas) (since 2008), Search Transport Industries (specialty lubricants) (since 2008) and UCT Coatings, Inc. (metal finishing technology) (since 2001), and is an Advisor/Investment Committee member – Seraph Group (since 2005). Mr. Warner co-founded Crossbow Ventures Inc. ("Crossbow") in 1998 and was a managing director from 1998 to 2008. Crossbow managed $100 million of private equity money and $60 million of U.S. Government (SBA) funds through a licensed SBIC. Crossbow invested in early and expansion stage technology companies in Florida and the Southeast. Previously, Mr. Warner was founder and CEO Merrill Lynch Venture Capital Inc. which managed over $250 million. In this capacity, Mr. Warner has directly participated in over 100 venture capital transactions. Mr. Warner graduated from the Massachusetts Institute of Technology and the Wharton School of Business at the University of Pennsylvania.

Dr. John Crissman was appointed to the Board of Directors on October 15, 2010.Dr. Crissman has since 1999 served as a consultant to Wayne State University's Allen Park Veterans Administration Hospital. Dr. Crissman has held numerous faculty positions, including acting for ten years as Chair of the Department of Pathology at Wayne State University's School of Medicine (1990-1999). In addition, Dr. Crissman was Dean of Wayne State University's School of Medicine for more than five years (1999-2004). Dr. Crissman has also worked at numerous hospitals during his long medical career, including for ten years as Pathologist in Chief at the Detroit Medical Center (1990-1999). Dr. Crissman graduated from the Massachusetts Institute of Technology (Bachelor of Science in Mechanical Engineering) and the Western Reserve University Medical School.

Each of the officers/directors will serve as such until his respective successor is appointed and qualified, or until their earlier resignation or removal. All directors hold their positions for one year or until their successors are elected and qualified, subject to their earlier resignation or removal.

Family Relationships

There are no familial relationships between any of our officers and directors.

Audit Committee Financial Expert

We do not have an audit committee financial expert, because we do not have an audit committee.

Code of Ethics

We have adopted a Code of Ethics and Business Conduct that defines the standard of conduct expected of our officers, directors and employees. The Code is incorporated by reference as an exhibit to this Annual Report on Form 10-K. We will upon request and without charge provide a copy of our Code of Ethics. Requests should be directed to Principal Accounting Officer, Health Enhancement Products, Inc., 7740 E. Evans Road, Scottsdale, Arizona 85260.

Procedures for Security Holders to Nominate Directors

Our bylaws do not provide a procedure for Stockholders to nominate directors. The Board of Directors does not currently have a standing nominating committee. The Board of Directors currently has the responsibility of selecting individuals to be nominated for election to the Board of Directors. Qualifications considered by the Directors in nominating an individual may include, without limitation, independence, integrity, business experience, education, accounting and financial expertise, reputation, civic and community relationships and industry knowledge. In nominating an existing director for re-election to the Board of Directors, the Directors will consider and review an existing director's Board attendance, performance and length of service.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors, and beneficial owners of more than ten percent of a registered class of our equity securities ("Reporting Persons") to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Reporting Persons are required by regulation to furnish us with copies of all Section 16(a) forms they file. Based upon a review of Forms 3, 4 and 5 received by us with respect to the year ended December 31, 2010 and other information known to us, we believe that none of our Reporting Persons has failed to file required reports and/or made late filings during the most recent year, except that John Crissman, one of our directors did not file a Form 4 or Form 5 with respect to warrants granted to him in November, 2010.

Item 11. Executive Compensation

Summary Compensation Table

We have no written compensation agreements with our executives. The following table summarizes the compensation paid to our Chief Executive Officer, and our Executive Vice President (the "Named Executives") during or with respect to fiscal 2009 and 2010 for services rendered to us in all capacities.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Stock Awards* ($)		Option Awards* ($)	All Other Compensation ($)	Total ($)
Janet Crance	2010	71,853	-		$260,934(1)	-	332,787
CFO and CAO	2009	28,250	47,250	(2)	-	-	75,497
(resigned November 15, 2010)							
John Gorman	2010	86,059	-		$260,934 (3)	-	346,993
Executive Vice President	2009	30,000	29,326	(4)	-	-	59,322

*The amounts in these columns represent the compensation costs recognized for financial statement reporting purposes under FAS 123R for fiscal years 2010 and 2009 with respect to compensation paid in the form of restricted common stock (i.e. grant date fair value amortized over the requisite service period, but disregarding any estimate of forfeitures relating to service-based vesting conditions) and warrants granted. Grant date fair value is the closing price of our common stock on the date of grant for stock awards and, in the case of warrant awards, Black Scholes value (See Note 13 to the Financial Statements included with this Report.

(1) Ms. Crance resigned in November, 2010. She received warrants to purchase 500,000 shares of our common stock at an exercise price of $.15 per share (cashless) for a term of three years on June 23, 2010. Of these 500,000 warrants, 250,000 were for services as a director and 250,000 were for services as an officer. This warrant was valued at $260,934.

(2) Ms. Crance received 450,000 shares of stock in lieu of cash payments for payroll of $22,500 in 2009. This stock was valued at $.05 per share, the closing price on the day of the award.

(3) Mr. Gorman received warrants to purchase 500,000 shares of our common stock at an exercise price of $.15 per share for a term of three years on June 23, 2010. Of these 500,000 warrants, 250,000 were for services as a director and 250,000 were for services as an officer. This warrant was valued at $260,934.

(4) Mr. Gorman received 23,500 shares of stock in lieu of cash payments for payroll of $1,175 in 2009. This stock was valued at $.05 per share, the closing price on the day of the award.

Narrative Compensation Disclosure

We currently have no written employment agreements with any of our employees. John Gorman, our Executive Vice President, is paid a base salary of $87,000 for all services rendered to us in his capacity as an officer. Mr. Gorman has no bonus compensation plan. Any bonus awarded to any of our officers would be at the discretion of our board of directors. Historically the Company has awarded stock bonuses to its employees each year.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth certain information concerning outstanding equity awards at fiscal year end.

Name	Number of Securities underlying unexcercised warrants # Exercisable	Number of Securities Underlying Unexcercised warrants # Unexercisable	Warrant Exercise price	Warrant Expiration
Janet Crance	500,000	-	.15	06/28/2013
	140,000	-	.10	05/15/2011
John Gorman	500,000	-	.15	06/28/2013

Compensation of Directors

Our directors received warrants to purchase our common stock in exchange for board service during 2010. Otherwise, our directors do not receive any additional compensation for serving on our board.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Option Awards* ($)	All Other Compensation ($)	Total ($)
Steven Warner	2010	82,343 (1)	-	82,343
Director	2009	-	-	-
John Crissman	2010	55,587 (2)	59,738 (3)	115,325
Director	2009	-	-	-

*The amounts in this column represents the compensation costs recognized for financial statement reporting purposes under FAS 123R for fiscal year 2010 with respect to compensation paid in the form of warrants granted. The warrants were valued using the Black Scholes method (See Note 13 to the Financial Statements included with this Report.

(1) Mr. Warner received warrants to purchase 200,000 shares of our common stock at an exercise price of $.225 per share (cashless) for a term of three years on August 13, 2010. This warrant was valued at $82,343. Mr. Warner held 200,000 exercisable warrants at December 31, 2010.

(2) Mr. Crissman received warrants to purchase 200,000 shares of our common stock at an exercise price of $.225 per share (cashless) for a term of three years on October 15, 2010. This warrant was valued at $55,587.

(3) Mr. Crissman received warrants to purchase 200,000 shares of our common stock at an exercise price of $.225 per share (cashless) for a term of three years on November 30, 2010. These warrants were issued as compensation for science advisory services. This warrant was valued at $ 59,738_Mr. Crissman held 400,000 exercisable warrants at December 31, 2010.

Item 12.Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth, as of December 31, 2010, certain information regarding each person who is known to us to beneficially own more than 5% of our issued and outstanding shares of common stock, and the number of shares of our common stock beneficially owned by each of our directors and named executive officers, and all officers and directors as a group. All percentages are based on 92,705,026 shares issued and outstanding as of December 31, 2010, and where applicable, beneficial ownership includes shares which the beneficial owner has the right o acquire within sixty days.

Security Ownership of Certain Beneficial Owners:

Name and Address	Title of Class	Number of Shares Beneficially Owned (1)	% of Class
Chris Maggiore 6860 Chillingsworth Circle Canton, OH 44718	Common	5,104,514	5.5%
Howard Shapiro 109 Logtown Road Port Jervis, NY 12771	Common	6,823,000	7.4%

Security Ownership of Management:

Name and Address	Title of Class	Number of Shares Beneficially Owned (1)	% of Class
Mr. John Gorman	Common	1,136,912(2)	1.2%
Mr. Steven Warner	Common	200,000	*
Mr. John Crissman	Common	400,000	*
Directors and Officers as a Group	Common	1,736,512	1.7%

*** Less than 1%**

(1) "Beneficially" owned shares, as defined by the Securities and Exchange Commission, are those shares as to which a person has voting or investment power, or both, and which the beneficial owner has the right o acquire within sixty days. "Beneficial" ownership does not necessarily mean that the named person is entitled to receive the dividends on, or the proceeds from the sale of, the shares.

(2) Includes warrants to purchase 500,000 shares of common stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Investment in Convertible Debentures/Common Stock:

During the year ended December 31, 2009, we issued 740,000 shares of common stock and received $74,000 in proceeds from the exercise of warrants by Howard Shapiro (and related persons), a more than 5% shareholder. In addition, the Company issued warrants to purchase 740,000 shares of common stock at an exercise price of $.25 per share, with a term of three years. We received in the aggregate $155,000 from the sale of convertible debentures to Mr. Shapiro. These debentures are convertible at a range between $.10 and $.05 per share into shares of the Company's common stock, and include warrants to purchase 500,000 shares of stock. We restructured certain convertible notes held by Mr. Shapiro (and related persons), in connection with which the conversion price was reduced from $.10 to $.05per share and certain outstanding warrants were cancelled. During August, 2010, Mr. Shapiro purchased 333,333shares of our common stock, at a price per share of $.15.

Line of Credit Agreement/Investments:

During the year ended December 31, 2009, we issued 3,660,400 shares of common stock to Chris Maggiore, a significant shareholder, and received $218,020 in proceeds from the sale of stock and exercise of warrants. In addition, the Company issued warrants to purchase 700,000 shares of common stock at an exercise price of $.25 per share, with a term of three years.

During the year ended December 31, 2010 we issued 2,107,666 shares of common stock and received proceeds of $210,766 from the sale of common stock. In April of 2010, we entered into a line of credit agreement with Christopher Maggiore, a significant shareholder. Under the terms of this line of credit agreement, the shareholder agrees to advance, upon request, a maximum of $675,000 as needed. This Line of credit Agreement terminates by its terms April 24, 2011. The advances are to be repaid on or before April 24, 2012 with interest accrued at the rate of 7% annually. During 2010 we received advances totaling $373,600 , and accrued interest totaling $4,209. During the quarter ended December 31, 2010, we issued an aggregate of 1,940,000 shares of common stock to Mr. Maggiore as follows: (i) 838,986 shares were issued upon exercise of outstanding warrants at an average exercise price of $.23 per share (the shareholder paid the exercise price by forgiving $188,898 in indebtedness owing to the shareholder) and (ii) 1,101,014 shares (valued at $374,344) were issued in full satisfaction of the approximately $110,000 in remaining principal amount plus accrued interest owing to this related party in connection with advances made to us. In connection with this loan repayment we incurred finance charges of $259,293. As of December 31, 2010 there is a balance due of $12,000.

We have entered into several transactions with Mr. Howard R. Baer, a significant shareholder:

Office Space - We are leasing office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer, pursuant to an Amended and Restated Sublease expires on February 9, 2020, subject to our unilateral right to terminate the Lease on March 31, 2013. Under the original terms of the Amended and Restated Sublease, the annual base rent for the 15,000 square foot facility was approximately $237,000, payable in equal monthly installments of approximately $20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We paid an additional security deposit of approximately $110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) to reduce the base rent from $20,000 to $16,720 monthly (not including real estate taxes (currently $1,480 per month)). In addition, Mr. Baer has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse the lessor for 70% of such expenses. We incurred approximately $281,000 and $$196,000 in rent expense during fiscal 2009 and 2010, respectively.

Guarantees – In May, 2010, we entered into an indemnity agreement under which we indemnified Mr. Baer for any liability incurred in connection with guarantying company obligations. We also issued Mr. Baer warrants to purchase 500,000 shares of common stock as compensation for prior loan guarantees he made with respect to company indebtedness. These warrants have an exercise price of $.15 (cashless) and a term of 3 years. The warrants were valued at $405,925 using the Black Scholes pricing model with the following assumptions: volatility 137.66%; annual rate of dividends 0%; discount rate 3.1%.

Item 14. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed for each of the last two years for professional services rendered by our principal accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-Q and 10-K reports and services normally provided by the accountant in connection with statutory and regulatory filings or engagements were approximately $66,000 and $61,000 for 2010 and 2009, respectively.

Audit-Related Fees

There were no fees for assurance and related services for 2010 or 2009.

Tax Fees

There were no fees for tax compliance, tax advice or tax planning services during 2010 or 2009.

All Other Fees

There were no fees billed in either of the last two years for products and services provided by the principal accountant, other than the services reported above.

We do not currently have an audit committee. Our Board of Directors will evaluate and approve in advance the scope and cost of the engagement of our auditor before the auditor is engaged to render audit and non-audit services.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) (2) *Financial Statements*.

Financial Statements are listed in the Index to Consolidated Financial Statements on page F-1 of this report.

All schedules have been omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or Notes thereto.

(3) *Exhibits*.

The Exhibit Index and required Exhibits immediately following the Signatures to this Form 10-K are filed as part of, or hereby incorporated by reference into, this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

HEALTH ENHANCEMENT PRODUCTS, INC.

By: */s/ John Gorman*
Date: April 15, 2011 John Gorman
Executive Vice President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
By: /s/ *John Gorman* (John Gorman)	Director	April 15, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of Health Enhancement Products, Inc. and Subsidiaries (the "Company") as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' deficiency and cash flows for each of the two years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Also, an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Enhancement Products, Inc. and Subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred significant operating losses for the years ended December 31, 2010 and 2009 and, as of December 31, 2010, has a significant working capital and stockholders' deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ WOLINETZ, LAFAZAN & COMPANY, P.C.
WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York
April 15, 2011

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS	December 31, 2009	December 31, 2010
CURRENT ASSETS:		
Cash	$ -	$ 15,603
Inventories	4,197	10,554
Prepaid Expenses	90,607	10,855
Total Current Assets	94,804	37,012
PROPERTY AND EQUIPMENT, NET	177,190	170,259
OTHER ASSETS:		
Definite-life intangible Assets, net	9,134	8,168
Deposits	120,667	124,482
Total Other Assets	129,801	132,650
TOTAL ASSETS	$ 401,795	$ 339,921
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Cash Overdraft	$ 9,517	$ -
Accounts Payable	541,857	455,592
Loan payable, related party		12,000
Loan Payable, Other	58,117	-
Current portion, long term debt	5,585	3,516
Customer deposits		25,194
Deferred revenue, current	-	15,000
Obligation to Issue Common Stock	636,262	50,000
Convertible Debentures Payable, less discount of $15,229 and $18,936 at December 31, 2009 and 2010	84,771	157,064
Accrued Payroll	39,262	32,892
Accrued Payroll Taxes	144,130	5,305
Derivative liability	2,229,044	-
Accrued Liabilities	26,324	23,980
Total Current Liabilities	3,774,869	780,543
LONG TERM LIABILITIES:		
Notes payable, less current portion	3,168	-
Deferred revenue, non-current	-	235,000
Convertible Debenture Payable, net of Discount of $114,831 and $71,037 at December 31, 2009 and 2010	251,269	104,063
Deferred rent expense	158,091	171,995
Total Long term Liabilities	412,528	511,058
TOTAL LIABILITIES	4,187,397	1,291,601
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Common stock, $.001 par value, 100,000,000 shares authorized (December 31, 2009) 150,000,000 shares authorized (December 31, 2010) 78,636,332 and 92,705,351 issued and outstanding at December 31, 2009 and 2010	78,636	92,705
Additional Paid-In Capital	15,543,488	25,485,816
Accumulated deficit	(19,407,726)	(26,530,198)
Total Stockholders' Deficit	(3,785,602)	(951,680)
	$ 401,795	$ 339,921

The accompanying notes are an integral part of these financial statements

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31, 2009	For the year ended December 31, 2010
REVENUES:		
Net sales	$ 25,140	$ 77,725
Licensing fees	-	5,000
Minimum exclusive distribution fees	54,000	-
TOTAL REVENUES	79,140	82,725
COSTS AND EXPENSES:		
Cost of sales	63,693	51,807
Selling	225,132	96,790
General and Administrative	827,451	1,235,975
Professional fees and Consulting Expense	624,214	2,363,625
Contract termination fee	652,500	-
Research and Development	339,315	395,573
Total Operating Expenses	2,732,305	4,143,770
LOSS FROM OPERATIONS	(2,653,165)	(4,061,045)
OTHER INCOME (EXPENSE):		
Other income - rent	18,900	-
Fair Value of Derivative Liability	1,532,276	(2,223,991)
Amortization of Bond Interest	(245,060)	(162,371)
Vendor settlements	10,107	4,116
Finance costs paid in stocks and warrants	(74,165)	(665,218)
Interest Expense	(5,753)	(13,964)
Total Other Income (Expense)	1,236,305	(3,061,428)
NET LOSS	$ (1,416,860)	$ (7,122,473)
BASIC AND DILUTED LOSS PER SHARE	$ (0.02)	$ (0.08)
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	73,652,154	87,161,757

The accompanying notes are an integral part of these financial statements

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
FOR THE PERIOD JANUARY 1, 2009 THROUGH DECEMBER 31, 2010

	Common Stock		Additional Paid in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, January 1, 2009	59,478,045	$59,478	$17,411,793	$ 17,990,866)	$ (519,595)
Issuance of common stock to employees	2,549,381	2,549	252,389	-	254,938
Issuance of common stock warrants to employees	-	-	32,210	-	32,210
Issuance of common stock to consultants	3,498,000	3,498	335,572	-	339,070
Issuance of common stock warrants to consultants	-	-	95,125	-	95,125
Common stock issued pursuant to private placements	6,360,400	6,360	406,660	-	413,020
Conversion of convertible debentures	203,227	203	50,605	-	50,808
Common stock issued for finder's fees	800,000	800	(800)	-	-
Exercise of warrants	5,747,273	5,747	588,252	-	593,999
Discount on convertible debt	-	-	162,100	-	162,100
Finance costs paid in common stocks and warrants	-	-	74,165	-	74,165
Finder's fees - common stock and warrants to be issued	-	-	(103,263)	-	(103,263)
Derivative adjustments	-	-	(3,761,320)	-	(3,761,320)
Net loss	-	-	-	(1,416,860)	(1,416,860)
Balance, December 31, 2009	78,636,326	78,636	15,543,487	(19,407,726)	(3,785,603)
Issuance of common stock warrants for directors' fees	-	-	137,930	-	137,930
Issuance of common stock warrants to employees	-	-	87,500	-	87,500
Issuance of common stock for services	979,341	979	498,331	-	499,310
Issuance of common stock warrants for services	-	-	1,743,541	-	1,743,541
Conversion of convertible debentures	508,457	509	117,629	-	118,138
Issuance of common stock for finder's fees	225,000	225	36,175	-	36,400
Issuance of common stock warrants for finder's fees	-	-	66,863	-	66,863
Exercise of warrants	11,190,213	11,190	1,893,437	-	1,904,627
Discount adjustment on convertible debt	-	-	122,284	-	122,284
Warrants issued for indemnity agreement	-	-	405,925	-	405,925
Issuance of common stock in repayment of loan	1,166,014	1,166	379,679	-	380,845
Derivative adjustments	-	-	4,453,035	-	4,453,035
Net loss	-	-	-	(7,122,473)	(7,122,473)
	92,705,351	$92,705	$25,485,816	$(26,530,199)	$ (951.680)

The accompanying notes are an integral part of these consolidated financial statements.

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31, 2009	For the year ended December 31, 2010
Cash Flows for Operating Activities:		
Net Loss	$ (1,416,860)	$ (7,122,473)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stocks and warrants issued for services rendered	519,980	1,852,797
Warrants issued as payment of directors' fees		137,930
Warrants issued as payment of finance costs	74,165	607,568
Warrants issued for finders' fees		66,863
Amortization of prepaid consulting fees	66,225	85,400
Vendor settlements		(4,417)
Amortization of bond discount	245,060	162,371
Amortization of intangibles	967	966
Depreciation expense	32,392	36,560
Fair value adjustment of derivative liability	(1,532,276)	2,223,991
Increase in deferred rent	31,645	13,904
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	49,334	-
(Increase) Decrease in inventories	39,572	(6,357)
(Increase) in prepaid expenses	(10,982)	(5,648)
Increase in customer deposits		25,194
Increase (decrease) in accounts payable	47,082	(76,848)
Increase in payroll and payroll taxes	178,925	(145,074)
Increase in deferred revenue		250,000
(Increase) Decrease in deposits	1,348	(3,815)
Increase in obligation to issue common stock	533,000	460,692
Increase (Decrease) in accrued liabilities	(9,696)	671
Net Cash (Used) by Operating Activities	(1,150,119)	(1,439,727)
Cash Flows from Investing Activities:		
Capital expenditures	(14,387)	(29,629)
Net Cash (Used) by Investing Activities	(14,387)	(29,629)
Cash Flow from Financing Activities:		
Cash Overdraft	9,517	(9,517)
Proceeds from loans payable, others	41,500	-
Proceeds from loans payable, related party	-	373,600
Payments of other borrowings	(8,131)	(5,237)
Repayment of loans payable, others	-	(51,617)
Proceeds from issuance of convertible debentures	155,100	-
Proceeds from sale of common stock and warrants	966,520	1,177,730
Net Cash Provided by Financing Activities	1,164,506	1,484,959
Increase (Decrease) in Cash	(0)	15,603
Cash at Beginning of Period	-	-
Cash at End of Period	$ (0)	$ 15,603
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 2,734	$ 7,290
Income taxes	$ -	$ -

The accompanying notes are an integral part of these consolidated financial statements.

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the year ended December 31, 2009:

The Company converted $50,000 in debentures and $808 in accrued interest into 203,227 shares of common stock.

The Company issued convertible debentures for $170,100 in principal and recorded a discount on the debentures of $162,100. Included in the $170,100 is a debenture for which we previously received an advance of $15,000. In addition, the Company issued 2,549,381 shares of common stock to employees for payment of accrued salaries valued at $166,333, of which $55,750 was for accrued payroll. The Company also issued 923,000 shares of common stock for payment of accounts payable in the amount of $14,487 and services amounting to $75,583. The Company issued 810,000 shares of common stock in payment of common stock subscribed totaling $40,500.

The Company issued 800,000 shares of common stock, and warrants to purchase 800,000 shares of stock at an exercise price of $.10 per share, to a significant shareholder and former CEO as compensation for such shareholder having transferred property to third parties as inducement to make an equity investment in the Company. The total invested by these third parties was $35,000. The shares issued to the significant shareholder were valued at $96,000, and the warrants were valued at approximately $92,000 using the Black Scholes pricing model, with the following assumptions: volatility 227.05%, annual rate of dividends 0%, discount rate 3.1%.

The Company issued warrants to purchase 250,000 shares of common stock valued at $95,125 as prepaid consulting fees.

The Company agreed to issue 65,000 shares of stock valued at $36,400 and warrants to purchase 130,000 shares of stock valued at $66,862 for finder's fees. The Company recognized a derivative liability for warrants issued in excess of its authorized shares, valued at $3,761,320. The original issuance liability was calculated using the Black Scholes pricing model, with the following assumptions: volatility from 123.94% to 295.46%, annual rate of dividends 0%, discount rate 3.1%.

The Company issued 167,273 shares of common stock to an employee upon exercise of cashless warrants. The Company issued warrants to purchase 233,333 shares of common stock to Peter Vitulli, its former CEO. These warrants were valued at $74,165 using the Black Scholes pricing model, with the following assumptions: volatility 134.45, annual rate of dividends 0%, discount rate 3.1%

For the year ended December 31, 2010:

The Company converted $115,000 in debentures and $3,138 in accrued interest into 508,457 shares of common stock.

The Company issued 2,110,000 shares of stock, valued at $945,813, and warrants to purchase 500,000 shares of common stock, valued at $477,554, in satisfaction of an obligation to issue common stock. The Company issued 95,000 shares of common stock valued at $50,500 in payment of finder's fees.

The Company issued Changing Times Vitamins, Inc. (CTV) 750,000 shares (valued at $352,500) owing to CTV in connection with a termination agreement. In connection with this transaction, CTV waived its right to exercise warrants to purchase 750,000 shares of the Company's common stock until the number of its authorized shares was increased to at least 125,000,000. Effective June 23, 2010, the authorized shares were increased to 150,000,000.
The Company issued 1,970,000 shares of common stock in full satisfaction of a loan from a related party totaling $303,949. And the Company issued 6,095 shares of common stock upon the exercise of a cashless warrant. In addition, the Company issued 400,000 warrants valued at $137,930 for directors' fees, 200,000 warrants valued at $_59,738 to a director for science advisory services, and 250,000 warrants valued at $87,500 to an employee for services.

Additionally, the Company recognized an additional derivative liability valued at $3,048,306 for warrants issued in excess of its authorized shares for the year ended December 31, 2010.

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – DESCRIPTION OF BUSINESS

Health Enhancement Products, Inc. and Subsidiaries (the Company) produces and markets health products. Currently, the Company's sole product is ProAlgaZyme ("PAZ"). Its wholly owned subsidiary, HEPI Pharmaceuticals, Inc. intends to develop potential pharmaceuticals applications of PAZ.

NOTE 2 – BASIS OF PRESENTATION

The Company incurred net losses of $7,122,473 and $1,416,860 during the years ended December 31, 2010 and 2009, respectively. In addition, the Company had a working capital deficiency of $743,531 and a stockholders' deficiency of $951,680 at December 31, 2010. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Although we have recently signed an exclusive worldwide distribution agreement, there can be no assurance that sufficient funds required during the next year or thereafter will be generated from operations or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company's existing stockholders.

The accompanying consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

During the year ended December 31, 2010, the Company:

- generated approximately $78,000 in revenues;
- raised an aggregate amount of approximately $1,178,000 through the exercise of common stock warrants;
- received $255,000 as a license fee from our exclusive worldwide distributor. The Company is recognizing this income on a straight line basis over 17 years. During 2010 the Company recognized $5,000 of income and deferred $250,000.

The Company is attempting to address its lack of liquidity by raising additional funds, either in the form of debt or equity or some combination thereof. We anticipate that revenues from our exclusive distribution agreement will generate enough revenues to cover our ordinary operating expenses; however we will still need to rely upon outside sources of funding to continue our research initiatives. There can be no assurances that the Company will be able to raise the additional funds it requires.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of Health Enhancement Products, Inc. and its wholly-owned Subsidiaries, Health Enhancement Corporation and HEPI Pharmaceuticals, Inc. All significant inter-company transactions and accounts have been eliminated in consolidation.

Accounting Estimates - The Company's consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management uses its best judgment in valuing these estimates and may, as warranted, solicit external professional advice and other assumptions believed to be reasonable. The following critical accounting policies, some of which are impacted significantly by judgments, assumptions and estimates, affect the Company's consolidated financial statements.

Cash and Cash Equivalents - The Company considers all highly-liquid investments purchased with a maturity of three months or less to be cash equivalents.

Inventories – Inventories are stated at the lower of cost or market, on a first-in, first-out basis.

Property and Equipment – Property and equipment consists of furniture, office equipment, and leasehold improvements, and is stated at cost less accumulated depreciation and amortization. Repair and maintenance costs that do not improve service potential or extend the economic life of an existing fixed asset are expended as incurred. Depreciation and amortization is determined by using the straight-line method over the estimated useful lives of the related assets, generally five to seven years.

Fair Value of Financial Instruments – FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820 are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the assets or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

The Company's financial instruments include cash and equivalents, accounts payable, loans payable, obligations to issue common stock, accrued expenses and current portion of long-term debt. All these items were determined to be Level 1 fair value measurements.

The carrying amounts of cash and equivalents, accounts payable, loans payable, obligations to issue common stock, accrued expenses and current portion of long-term debt approximate fair value because of the short term maturity of these instruments. The recorded value of long-term debt approximates its fair value as the terms and rates approximate market rates.

Fair Value Measurements - In January 2010, the ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to i) transfers in and out of level 1 and 2 fair value measurements and ii) enhanced detail in the level 3 reconciliation. The guidance was amended to provide clarity about: i) the level of disaggregation required for assets and liabilities and ii) the disclosures required for inputs and valuation techniques used to measure fair value for both recurring and nonrecurring measurements that fall in either level 2 or level 3. The updated guidance was effective for the Company's fiscal year beginning January 1, 2010, with the exception of the Level 3 disaggregation, which is effective for the fiscal years beginning January 1, 2011. The Company adopted this guidance on the Company's consolidated financial position, results of operations and cash flows.

Revenue Recognition – For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB No. 104"), which superseded Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB No. 101"). SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company recognized no such provision for the 12 months ended December 31, 2008.

Research and Development - Research and development costs are expensed as incurred. The Company accounts for research and development expenses under two main categories:

- Research Expenses, consisting of salaries and equipment and related expenses incurred for product research studies conducted primarily within the Company and by Company personnel. Research expenses were approximately $110,000 and $129,000 for the years ended December 31, 2010 and 2009, respectively;

- Clinical Studies Expenses, consisting of fees, charges, and related expenses incurred in the conduct of clinical studies conducted with Company products by independent external entities. External clinical studies expenses were approximately $286,000 and $210,000 for the years ended December 31, 2010 and 2009, respectively.

Income Taxes - The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The tax effects of temporary differences that gave rise to the deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 were primarily attributable to net operating loss carry forwards. Since the Company has a history of losses, and it is more likely than not that some portion or all of the deferred tax assets will not be realized, a full valuation allowance has been established. In addition, utilization of net operating loss carry-forwards are subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code. The annual limitation may result in the expiration of net operating loss carry-forwards before utilization.

Stock Based Compensation –We account for stock-based compensation in accordance with FASB ASC 718, *Compensation – Stock Compensation.* Under the provisions of FASB ASC 718, stock-based compensation cost is estimated at the grant date based on the award's fair value and is recognized as expense over the requisite service period. The company generally issues grants to its employees, consultants and board members. At the date of grant, the company determines the fair value of the stock option award and recognizes compensation expense over the requisite service period. The fair value of the stock option or warrant award is calculated using the Black Scholes option pricing model.

During 2010 and 2009, warrants were granted to employees and consultants of the Company. As a result of these grants, the Company recorded compensation expense of $1,968,971 and $98,403 during the years ended December 31, 2010 and 2009 respectively.

The fair value of warrants was estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	Year Ended December 31,	
	2009	2010
Expected volatility	86.17% to 294.35%	123.94% to 297.46%
Expected dividends	0%	0%
Expected term	3.32 years	3.32 years
Risk free rate	4.32%	3.1%

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models may not necessarily provide a reliable single measure of the fair value of its employee options.

Loss Per Share - The computation of loss per share is based on the weighted average number of common shares outstanding during the period presented. Diluted loss per share is the same as basic loss per share, as the effect of potentially dilutive securities (warrants and convertible debt – 29,945,401 and 23,073,999 shares at December 31, 2009 and 2010 respectively) are anti-dilutive.

Concentrations of Credit Risk - Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents.

The Company maintains cash balances at financial institutions which exceed the current Federal Deposit Insurance Corporation ("FDIC") limit of $250,000 at times during the year.

In addition, in 2010 the company entered into an exclusive worldwide distribution agreement which makes them effectively reliant on one customer.

Shipping and Handling Costs – Shipping and handling costs of approximately $0 and $2,000 for the years ended December 31, 2010 and 2009 are included in cost of sales.

Advertising Costs – The Company expenses the costs of advertising in the period in which the advertising takes place. Advertising expense was approximately $7,000 and $15,000 for the years ended December 31, 2010 and 2009.

Reclassifications – Certain items in these consolidated financial statements have been reclassified to conform to the current period presentation.

Recently-Enacted Accounting Standards –

Recent Accounting Pronouncements

Effective August 1, 2009, the Company adopted a provision in accordance with ASC guidance for earnings per share (originally issued as FASB Staff Position No. EITF 03-6-1, "*Determining Whether Instruments Granted in Share-Based Transactions Are Participating Securities").* This guidance establishes that unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share under the two-class method. The adoption of the ASC did not have a material effect on the Company's consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This guidance amends the disclosure requirements related to recurring and nonrecurring fair value measurements and requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the reporting period beginning January 1, 2011. The Company's adoption of this updated guidance was not significant to our consolidated financial statements.

In February 2010, the FASB issued updated guidance related to subsequent events. As a result of this updated guidance, public filers must still evaluate subsequent events through the issuance date of their financial statements; however, they are not required to disclose the date in which subsequent events were evaluated in their financial statements disclosures. This amended guidance became effective upon its issuance on February 24, 2010 at which time the Company adopted this updated guidance.

Accounting Codification Standards - In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification 105, "Generally Accepted Accounting Principles" ("ASC 105"). On July 1, 2009, the FASB completed ASC 105 as the single source of authoritative U. S. generally accepted accounting principles ("GAAP"), superseding all then-existing authoritative accounting and reporting standards, except for rules and interpretive releases for the SEC under authority of federal securities laws, which are sources of authoritative GAAP for Securities and Exchange Commission registrants. ASC 105 reorganizes the authoritative literature comprising U. S. GAAP into a topical format that eliminates the current GAAP hierarchy. ASC 105 is effective for the company in its year ended December 31, 2010. ASC 105 is not intended to change U. S. GAAP and will have no impact on the company's consolidated financial position, results of operations or cash flows. However, since it completely supersedes existing standards, it will affect the way the Company references authoritative accounting pronouncements in its financial statements and other disclosure documents.

Share-Based Payment Transactions - The Company adopted a provision in accordance with ASC guidance for earnings per share (originally issued as FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities").* This guidance establishes that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share under the two-class method. The adoption of the ASC did not have a material effect on the Company's Consolidated Financial Statements.

Accounting for the Useful Life of Intangibles - In April 2008, the ASC guidance for goodwill and other intangibles was updated to amend the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this update is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under guidance for business combinations. The adoption had no impact on the Company's consolidated financial position, result of operations or cash flows.

NOTE 4 - INVENTORIES

Inventories at December 31, 2009 and 2010 consist of the following:

	December 31, 2010	December 31, 2009
Raw Materials	$ 5,650	$ 4,197
Finished Goods	4,904	-0-
	$ 10,554	$ 4,197

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2009 and 2010 consist of the following:

	December 31, 2010	December 31, 2009
Furniture & fixtures	$ 51,617	$ 49,466
Equipment	112,879	85,402
Leasehold improvements	143,639	143,639
	308,135	278,507
Less accumulated depreciation and amortization	(137,876)	(101,316)
	$ 170,259	$ 177,191

Depreciation and amortization was $32,392 and $36,561 for the years ended December 31, 2009 and 2010, respectively.

NOTE 6 – DEFINITE-LIFE INTANGIBLE ASSETS

Definite-life intangible assets at December 31, 2009 and 2010 consist of the following:

	December 31, 2010	December 31, 2009
Patent applications pending	$ 14,501	$ 14,500
Less: accumulated amortization	6,334	5,368
	$ 8,168	$ 9,132

The Company's definite-life intangible assets are being amortized, upon being placed in service, over 15 years, the estimated useful lives of the assets, with no residual value. Amortization expense was $967 and $967 for the years ended December 31, 2009 and 2010, respectively.

NOTE 7 – LOAN PAYABLE – RELATED PARTY

In April of 2010 the Company entered into a line of credit agreement with a significant shareholder. Under the terms of this line of credit agreement, the shareholder agrees to advance, upon request, a maximum of $675,000 as needed. The advances are to be repaid on or before April 24, 2012 with interest accrued at the rate of 7% annually. During 2010 the Company received advances totaling $299,700, and accrued interest totaling $4,209.During the quarter ended December 31, 2010, we issued an aggregate of 1,940,000 shares of common stock to Mr. Maggiore as follows: (i) 838,986 shares were issued upon exercise of outstanding warrants at an average exercise price of $.23 per share (the shareholder paid the exercise price by forgiving $188,898 in indebtedness owing to the shareholder), and 1,101,014 shares (valued at $374,344) were issued in full satisfaction of the approximately $110,000 in remaining principal amount plus accrued interest owing to this related party in connection with advances made to us. In connection with this loan repayment the Company incurred finance charges of $259,293. As of December 31, 2010 there is a balance due of $12,000, and the credit still available to the Company, until April 24, 2011, is $663,000.

NOTE 8 – LONG TERM DEBT

Long term debt at December 31, 2009 and 2010 consists of the following:

	December 31, 2010	December 31, 2009
Installment note bearing interest at 8.8% per annum and due March, 2011. The loan is secured by certain equipment of the Company	$ 3,516	$ 8,753
Less current portion	3,516	5,585
	$ -	$ 3,168

NOTE 9 – CONVERTIBLE DEBT

During the year ended December 31, 2010, $115,000 of convertible debentures and $3,137 in accrued interest was converted into 508,457 shares of common stock. In connection with the conversion, the Company wrote off unamortized discount of $10,625 Amortization of the debt discount on the remaining notes was $151,746 for the year ended December 31, 2010.

Convertible debt consists of the following:

	December 31, 2010	December 31 2009
Convertible notes payable, net of unamortized discount of $89,973 and $130,060 respectively	$ 261,127	$ 336,040
Less: Current portion	157,064	84,771
Long term portion	$ 104,063	$ 251,269

These notes bear interest at 1% per annum and are due at various dates from January 2, 2011 through November 9, 2012.

Amortization of the debt discount on all convertible debt was $245,060 and $162,371 for the year ended December 31, 2009 and 2010.

NOTE 10 - DERIVATIVE LIABILITY

The Company reclassified certain outstanding warrants and options as derivative liabilities, which are marked to fair value periodically pursuant to Emerging Issues Task Force guidance EITF 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company’s Own Stock” (“EITF 00-19”). We valued these options and warrants utilizing the Black-Scholes method of valuation using the following assumptions: volatility from 128.47% to 138.84%, annual rate of dividends 0% and a risk free interest rate of 3.1%. The valuation resulted in a reclassification from stockholders’ equity for the year ended December 31, 2010 of $3,048,306 . As of December 31, 2010, the derivative liability has been reclassified to additional paid in capital, since the Company obtained stockholder approval to increase the total authorized common stock to 150,000,000 shares, which was effective June 23, 2010.

Pursuant to ASC guidance, if a company has more than one contract subject to this issue, and partial reclassification is required, there may be different methods that could be used to determine which contracts, or portions of contracts, should be reclassified. The Company’s method for reclassification of such contracts is reclassification of contracts with the latest inception or maturity date first.

NOTE 11 - RELATED PARTY TRANSACTIONS

Line of Credit

In April, 2010, we obtained a $675,000 line of credit from Chris Maggiore, a significant shareholder (See Note 7). At November 16, 2010, $299,740 had been drawn against this line of credit and $4,209 in interest had been accrued. During the quarter ended December 31, 2010, we issued an aggregate of 1,940,000 shares of common stock to Mr. Maggiore as follows: (i) 838,986 shares were issued upon exercise of outstanding warrants at an average exercise price of $.23 per share (the shareholder paid the exercise price by forgiving $188,898 in indebtedness owing to the shareholder), and 1,101,014 shares (valued at $374,344) were issued in full satisfaction of the approximately $110,000 in remaining principal amount plus accrued interest owing to this related party in connection with advances made to us. Subsequently on December 27, 2010 Mr. Maggiore advanced the company $12,000, which represents the outstanding balance due on the balance sheet as of December 31, 2010.

Office Space

We are leasing office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer, pursuant to an Amended and Restated Sublease which expires on February 9, 2020, subject to our unilateral right to terminate the Lease on March 31, 2013. Under the original terms of the Amended and Restated Sublease, the annual base rent for the 15,000 square foot facility was approximately $237,000, payable in equal monthly installments of approximately $20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We paid an additional security deposit of approximately $110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) to reduce the base rent from $20,000 to $16,720 monthly (not including real estate taxes (currently $1,480 per month)). In addition, Mr. Baer has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse Mr. Baer for 70% of such expenses. We incurred approximately $196,000 in rent expense for the year ended December 31, 2010.

Marketing Consultant/Distributorship Agreement

In 2008, we entered into an agreement with Mr. Baer, a significant shareholder, to provide marketing services to us, in consideration for which we would pay commissions at the rate of $.50 per bottle for every bottle sold under this agreement. We paid no commissions under this Agreement. In April of 2009, we amended this agreement to grant to Changing Times Vitamins, Inc. ("CTV"), a company controlled by Mr. Baer, worldwide distribution and marketing rights to our product. This agreement called for minimum monthly sales levels and a term of two years. We recognized $54,000 in minimum distribution fees in 2009. This contract was terminated by mutual agreement in October of 2009. In exchange for the termination of this contract, CTV received cash payments of $300,000 and was issued 750,000 shares of common stock, which were valued for financial reporting purposes at $352,500. During the quarter ended March 31, 2010, prior to consummation of the increase in our authorized shares, the Company issued CTV the 750,000 shares owing to CTV in connection with the termination agreement. In connection with this transaction, Mr. Baer waived his right to exercise warrants to purchase 750,000 shares of the Company's common stock until the number of its authorized shares is increased to at least 125,000,000. Effective June 23, 2010, the authorized shares were increased to 150,000,000, by stockholder approval.

Board of Directors fees

During the third quarter, the Company issued warrants to purchase 200,000 shares of stock to a new board member. These warrants have an exercise price of $.225 (cashless) and a term of 3 years. The warrants were valued at $82,343 using the Black Scholes pricing model with the following assumptions: volatility 130.77%; annual rate of dividends 0%; discount rate 3.1%. During the fourth quarter the Company issued warrants to purchase 200,000 shares of stock to a new board member. These warrants have an exercise price of $.225 and a term of 3 years. The warrants were valued at $55,587 using the Black Scholes pricing model with the following assumptions: volatility 126.47%; annual rate of dividends 0%; discount rate 3.1%.

NOTE 12 – LICENSE AGREEMENT

On September 2, 2010, the Company entered into a multi-year exclusive worldwide License Agreement ("Agreement") for its ProAlgaZyme ® product ("Product") with a distributor of health and nutritional products, Zus Health, LLC ("Zus") (this agreement was assigned by Zus to Ceptazyme, LLC (Zus' successor). Under the terms of the Agreement, Ceptazyme, LLC has the exclusive right to distribute the Product to customers and distributors worldwide, excluding pharmaceutical applications and food, supplement and medicinal ingredient applications outside of multi-level, network or affiliate marketing ("MLM"). The Company reserved the right to market and sell isolates and natural and synthetic derivatives of the Product in pharmaceutical applications, as well as ingredient applications outside of MLM. The Agreement prohibits the Company from selling ProAlgaZyme for the benefit of customers and distributors worldwide, other than for pharmaceutical and ingredient applications. The Company is also prohibited from selling any product in the MLM market. The Company has received a payment of $255,000, as provided in the Agreement, for the exclusive distribution rights through December 31, 2010. $250,000 of this payment has been recorded as deferred revenue, and is being amortized over seventeen years,. Our receipt of minimum payments under the Ceptazyme, LLC Agreement is subject to among other conditions our product meeting the FDA's GRAS standard, which we are currently working on. The Agreement remains in effect until the expiration of the last patent with respect to the Product, subject to earlier termination as provided in the Agreement. The Company and Ceptazyme agreed to waive the minimum payment provisions with respect to the first quarter of 2011, while packaging issues were being resolved.

NOTE 13 - STOCKHOLDERS' DEFICIENCY

During the quarter ended March 31, 2009 the Company issued 1,618,333 shares of its common stock, valued at $161,833 to employees for both current and previously accrued salaries. The company issued 923,000 shares of common stock, valued at $83,070, to consultants for research. The Company issued 1,316,000 shares of stock for proceeds of $25,300 and $40,500 for previously paid subscriptions. The Company issued 1,500,000 shares, valued at $120,000, to a marketing consultant for services. Convertible debentures were converted during the quarter ended March 31, 2009, and the Company issued 203,227 shares of common stock and retired $50,000 of debt and $807 in accrued interest.

During the quarter ended June 30, 2009 the Company issued 931,048 shares of its common stock, valued at $93,105 to employees for both current and previously accrued salaries. The Company issued 2,944,400 shares of stock, received $109,210 in proceeds and applied an additional $38,010 from first quarter common stock subscribed. The Company issued 500,000 shares, valued at $45,000, to a marketing consultant for services. The Company issued 500,000 shares of stock, valued at $55,000, in payment of accounts payable and current services. These shares were valued at the closing price of the stock on the day of authorization.

In June of 2009 the Company issued 800,000 shares of common stock, and warrants to purchase 800,000 shares of stock at an exercise price of $.10 per share, to a significant shareholder and former CEO as compensation for such shareholder having transferred property to third parties as inducement to make an equity investment in the Company. The total invested by these third parties was $35,000. The shares were valued at $96,000, and the warrants were valued at approximately $92,000 using the Black Scholes pricing model, with the following assumptions: volatility 227.05%, annual rate of dividends 0%, discount rate 3.1%.

During the quarter ended September 30, 2009 the Company issued 6,550,000 shares of common stock and received $652,500 in proceeds for sales of common stock and upon exercise of warrants. In addition the Company issued 200,000 warrants in connection with the sale of certain of these shares. The Company issued 167,273 shares of common stock to a former employee upon exercise of a cashless warrant. The Company issued 75,000 shares of common stock to a consultant for services, valued at $36,000. The Company issued warrants to purchase 4,400,000 shares of common stock as an inducement for existing $.10 warrant holders to exercise outstanding warrants. The new warrants have an exercise price of $.25, and a term of three years. These warrants are not exercisable until the number of authorized shares of the Company's common stock is increased to at least 125,000,000. The Company issued warrants to purchase 250,000 shares of common stock at an exercise price of $.10 and a term of three years to a consultant for services. These warrants were valued at $95,125 using the Black Scholes pricing model, with the following assumptions: volatility 159.4%, annual rate of dividends 0%, discount rate 3.1%. The Company issued warrants to purchase 350,000 shares of common stock at an exercise price of $.10 and a term of three years to its CEO as a signing bonus. These warrants were valued at $131,766, using the Black Scholes pricing model, with the following assumptions: volatility 146.45%, annual rate of dividends 0%, discount rate 3.1%, and they were charged to expense in 2009. In addition, warrants to purchase 233,333 shares were issued to Peter Vitulli, our former CEO. These warrants were valued at $74,165, using the Black Scholes pricing model, with the following assumptions: volatility 134.4%, annual rate of dividends 0%, discount rate 3.1%.

During the fourth quarter of 2009, the Company issued 1,030,000 shares of common stock upon exercise of warrants, and received $131,500. In addition, the Company issued 100,000 shares of stock and received proceeds of $10,000.

During the quarter ended March 31, 2010, the Company issued 5,587,416 shares of common stock and received proceeds of $671,729 upon the exercise of warrants. Convertible debentures in the face amount of $15,000 (plus $121 in accrued interest) were converted during the quarter ended March 31, 2010, into 302,425 shares of common stock. The Company issued 215,154 shares of common stock for services valued at $102,000. The Company also issued 95,000 shares of common stock, valued at $50,500, for finders' fees. The Company also issued 500,000 shares of common stock, valued at $160,000, in satisfaction of an obligation to issue common stock. As noted above in Note 9, the Company issued CTV 750,000 shares (valued at $352,500) owing to CTV in connection with a termination agreement. In connection with this transaction, CTV waived its right to exercise warrants to purchase 750,000 shares of the Company's common stock until the number of its authorized shares was increased to at least 125,000,000. Effective June 23, 2010, the authorized shares were increased to 150,000,000.

During the quarter ended June 30, 2010, the Company issued 2,815,000 shares of common stock and received proceeds of $398,500 upon the exercise of warrants. The Company issued 126,795 shares of common stock for services, valued at $142,000. In addition, the Company issued 180,000 shares of common stock, valued at $149,550, in satisfaction of an obligation to issue common stock. The Company issued warrants to purchase 800,000 shares of common stock to consultants. These warrants have an exercise price between $.25 and $.50, and a term of 3 years. The warrants were valued at $596,852 using the Black Scholes pricing model, with the following assumptions: volatility 134.91%, annual rate of dividends 0%, discount rate 3.1%. The Company issued warrants to purchase 500,000 shares to each of its two directors (who are also executive officers) as compensation for past service. These warrants have an exercise price of $.15 and a term of 3 years. The warrants were valued at $516,050 using the Black Scholes pricing model, with the following assumptions: volatility 138.84%, annual rate of dividends 0%; discount rate 3.1%. The Company issued warrants to purchase 100,000 shares of common stock to its Chief Science Officer. These warrants have an exercise price of $.15 and a term of 3 years. The warrants were valued at $93,347 using the Black Scholes pricing model with the following assumptions: volatility 138.84%, annual rate of dividends 0%; discount rate 3.1%. Finally, the Company issued warrants to purchase 500,000 shares of common stock to a significant shareholder as compensation for prior loan guarantees. These warrants have an exercise price of $.15 and a term of 3 years. The warrants were valued at $405,925 using the Black Scholes pricing model with the following assumptions: volatility 137.66%; annual rate of dividends 0%; discount rate 3.1%.

During the quarter ended September 30, 2010, the Company issued 707,716 shares of common stock and received proceeds of $107,500 upon the exercise of warrants. The Company issued 180,000 shares of common stock for services, valued at $75,900. In addition, the Company issued 206,032 shares of common stock in satisfaction of the conversion of $100,000 of convertible notes and accrued interest of $3,016, and issued warrants for 200,00 shares of stock to a board member. These warrants have an exercise price of $.225 and a term of 3 years. The warrants were valued at $82,343 using the Black Scholes pricing model with the following assumptions: volatility 130.77%; annual rate of dividends 0%; discount rate 3.1%.

During the quarter ended December 31, 2010, we issued an aggregate of 1,940,000 shares of common stock to a related party as follows: (i) 838,986 shares were issued upon exercise of outstanding warrants at an average exercise price of $.23 per share (the shareholder paid the exercise price by forgiving $188,898 in indebtedness owing to the shareholder) and (ii) 1,101,014 shares (valued at $374,344) were issued in full satisfaction of the approximately $110,000 in remaining principal amount plus accrued interest owing to this related party in connection with advances made to us. In connection with this loan repayment we incurred finance charges of $259,293. The Company issued 333,000 shares of common stock valued at $129,410 to consultants for services. 124,392 shares of common stock were issued to a science board member for his services, valued at $50,000. The Company issued 6,095 shares of common stock upon the exercise of a cashless warrant. The Company issued warrants to a board member valued at $55,587 for director's fees. These warrants have a term of three years at an exercise price of $.225 per share. The warrants were valued using the Black Scholes pricing model with the following assumptions: volatility 126.47%; annual rate of dividends 0%; discount rate 3.1%. In addition, the Company issued 250,000 warrants to an employee valued at $87,500 for services. These warrants have a term of three years at an exercise price of $.15 per share. The warrants were valued using the Black Scholes pricing model with the following assumptions: volatility 126.47%; annual rate of dividends 0%; discount rate 3.1%. Finally, the Company issued 200,000 warrants valued at $59,738 to a board member for science advisory services. These warrants have a term of three years at an exercise price of $.225 per share. The warrants were valued using the Black Scholes pricing model with the following assumptions: volatility 129.00%; annual rate of dividends 0%; discount rate 3.1%.

A summary of the status of the Company's warrants is presented below.

	December 31, 2010		December 31, 2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	22,723,401	0.50	2,107,373	0.55
Issued	3,880,000	0..21	8,963,333	0.10
Exercised	(9,951,402)	0.13	5,820,000)	0.10
Expired	795,000	0.50	(527,305)	1.10
Outstanding, end of period	15,856,999	$ 0.17	22,723,401	$ 0.50

Warrants outstanding and exercisable by price range as of December 31, 2010 were as follows:

	Outstanding Warrants		Exercisable Warrants	
Range	Number	Average Weighted Remaining Contractual Life in Years	Number	Weighted Average Exercise Price
$0.10	7,168,666	0.56	7,168,666	$ 0.10
$0.15	2,083,333	1.40	2,083,333	$ 0.15
$0.23	600,000	2.83	600,000	$ 0.23
$0.25	4,990,000	1.69	4,990,000	$ 0.25
$0.50	1,015,000	1.14	1,015,000	$ 0.50
	15,856,999	1.14	15,856,999	$ 0.17

NOTE 14- INCOME TAXES

At December 31, 2010 the Company had available net-operating loss carry-forwards for Federal tax purposes of approximately $16,300,000, which may be applied against future taxable income, if any, at various dates from 2025 through 2030. Certain significant changes in ownership of the Company may restrict the future utilization of these tax loss carry-forwards.

At December 31, 2010 the Company had a deferred tax asset of approximately $6,500,000 representing the benefit of its net operating loss carry-forwards. The Company has not recognized the tax benefit because realization of the tax benefit is uncertain and thus a valuation allowance has been fully provided against the deferred tax asset. The difference between the Federal and State Statutory Rate of 40% and the Company's effective tax rate of 0% is due to an increase in the valuation allowance of approximately $500,000 in 2010.

NOTE 15 – CONCENTRATIONS

Major Customers - The Company has a significant dependence on its exclusive distributor, Xooma Worldwide, as previously disclosed in Note 12 to these financial statements.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Lease Commitment -- We are leasing office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer, pursuant to an Amended and Restated Sublease which expires on February 9, 2020, subject to our unilateral right to terminate the Lease on March 31, 2013. Under the original terms of the Amended and Restated Sublease, the annual base rent for the 15,000 square foot facility was approximately $237,000, payable in equal monthly installments of approximately $20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We paid an additional security deposit of approximately $110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) to reduce the base rent from $20,000 to $16,720 monthly (not including real estate taxes (currently $1,480 per month)). In addition, Mr. Baer has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse Mr. Baer for 70% of such expenses. We incurred approximately $197,000 in rent expense during fiscal 2010.

The future minimum lease payments related to the Amended and Restated Sublease, as revised in October 2009, and the new lease occupied April 2011, are as follows:

Year Ending December 31,	
2011	$ 258,359
2012	281,063
2013	123,882
2014	48,156
	$ 711,460

Business Services Agreement - On October 19, 2009, the Registrant and Great Northern Reserve Partners, LLC ("GNRP") entered into a Business Services Agreement ("Agreement"), which supersedes the prior agreement between them entered into in February, 2009 ("February Agreement").

The Registrant entered into the Agreement to continue the pursuit of its strategic product and business development objectives. GNRP was issued 500,000 shares of the Registrant's Common Stock in connection with the execution of the Agreement, in full payment of any and all amounts owing under the February Agreement (approximately $142,000 per GNRP) and in recognition of GNRP's contribution to the achievement of recent product testing results. In addition, GNRP will be compensated based on hours expended, sales and other payments (licensing payments, etc.) received by the Registrant, and the achievement of specified milestones.

Workers' Compensation – The Company does not carry workers' compensation insurance, which covers on the job injury.

Guarantees – In May, 2010, we entered into an indemnity agreement under which we indemnified Mr. Baer for any liability incurred in connection with guarantying company obligations. We also issued Mr. Baer warrants to purchase 500,000 shares of common stock as compensation for prior loan guarantees he made with respect to company indebtedness. These warrants have an exercise price of $.15 (cashless) and a term of 3 years. The warrants were valued at $405,925 using the Black Scholes pricing model with the following assumptions: volatility 137.66%; annual rate of dividends 0%; discount rate 3.1%.

NOTE 17 – SUBSEQUENT EVENTS

During the first quarter of 2011, the Company issued 1,800,000 shares of stock and received $180,000 in proceeds for warrant exercises. The Company issued 400,000 shares of common stock and warrants to purchase 600,000 shares and received proceeds of $50,000. The Company issued 100,000 shares of common stock, valued at $24,000, for services.

The Company signed a lease for a new facility. This lease is for 9,868 square feet of office/manufacturing space, is effective April 1, 2011 and is for a 42 month term. The monthly rental is $5,427 with annual increases of approximately 5%.

The Company terminated its month to month lease for its bottling facility. Monthly rent was $3,300 per month for 2,300 square feet. This building has been vacated and our bottling equipment has been moved to our new location.

In addition, the Company sold convertible notes in the principal amount of $62,500 and warrants to purchase 750,000 shares of common stock. The notes/warrants have a conversion/exercise price of $.125 per share.

EXHIBIT INDEX

Exhibit Number	Title	
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	
3.2	By-laws of the Company	(1)
4.1	Form of Convertible Note Subscription Agreement dated July/August 2007	(2)
4.2	Form of Convertible Note dated July/August 2007	(3)
4.3	Form of Warrant (Convertible Note Offering)	(4)
4.4	Form of Amended and Restated Convertible Note	
4.5	Form of Common Stock Purchase Warrant (issued as inducement to warrant exercise)	
10.02	Amended and Restated Sublease between Howard R. Baer and the Company, dated April 12, 2006	(5)
10.03	Letter Agreement amending Amended and Restated Sublease between Howard R. Baer and the Company, dated April6, 2006	
10.06	Termination and Mutual Release Agreement between Changing Times Vitamins, Inc. and the Company, dated October 1, 2009, terminating Distribution and Services Agreement between them	
10.07	Contract for Services between Great Northern and Reserve Partners, LLC and the Company, dated October 19, 2009	
10.08	Indemnity Agreement between Howard R. Baer and the Company, dated May 11, 2010	(6)
10.09	Warrant Agreement issued to Howard R. Baer and dated May 11, 2010	(7)
10.09	Line of credit Agreement between Chris Maggiore and the company dated April 24, 2010.	(8)
10.10	License Agreement between Zus Health LLC and the Company dated September 2, 2010	
14.1	Code of Ethics	
21	Subsidiaries of the Registrant	(9)
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

(1) Filed as Exhibit 3.2 to our Form 10SB, filed with the Commission on April 20, 2000 and incorporated by this reference.

(2) Filed as Exhibit 4.1 to our Form 10-QSB, filed with the Commission on November 14, 2007 and incorporated by the reference.

(3) Filed as Exhibit 4.2 to our Form 10-QSB, filed with the Commission on November 14, 2007 and incorporated by this reference.

(4) Filed as Exhibit 4.3 to our Form 10-QSB, filed with the Commission on November 14, 2007 and incorporated by this reference.

(5) Filed as Exhibit 10.02 to our Form 10-KSB, filed with the Commission on April 17, 2006, and incorporated by this reference.

(6) Filed as Exhibit 10.1 to our 10Q filed with the Commission May 17, 2010 and incorporated by this reference.

(7) Filed as Exhibit 10.2 to our 10Q filed with the Commission May 17, 2010 and incorporated by this reference.

(8) Filed as Exhibit 10.3 to our 10Q filed with the Commission August 12, 2010 and incorporated by this reference.

(9) Filed as the same Exhibit number to our Form 10-KSB, filed with the Commission on May 17, 2005, and incorporated by this reference.

LICENSE AGREEMENT

THIS LICENSE AGREEMENT (the "Agreement") is made and entered into as of this 2nd day of September, 2010 (the "Effective Date"), by and among Zus Health, LLC, a Utah limited liability company ("Zus"), and Health Enhancements Products, Inc., a Nevada corporation ("HEPI"). HEPI and Zus are also referred to herein individually, as "Party" and collectively, as "Parties"

RECITALS

WHEREAS, HEPI has certain intellectual property and know-how relating to nutritional products known and trademarked as ProAlgaZyme (the "Product" as defined in Section 1.6 below); and

WHEREAS, Zus wishes to obtain a world-wide exclusive license to distribute and market the Product subject to the exclusions, terms and conditions set forth herein; and

WHEREAS, HEPI is willing to license to Zus the Product subject to the terms and conditions herein.

NOW THEREFORE, in consideration of the respective representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

ARTICLE 1.
DEFINITIONS

1.1 "Affiliate" means any person or entity that directly, or indirectly, through one or more intermediaries, controls or is controlled by, or under common control of a Party.

1.2 "Confidential information" shall be defined as the HEPI's proprietary information, Intellectual Property, or Product information which under the circumstances, in good faith and conscience, should be treated as confidential, which includes, but is not limited to, information regarding the Intellectual Property and/or Product, methods of sale, trade secrets, secret processes, price lists, customer lists or other information regarding HEPI's business affairs which Zus, its representatives or affiliates may acquire in connection with, incident to or as a result of the performance of its obligations under this Agreement.

1.3 "Exclusive" shall have the meaning set forth in Section 2.3 of this Agreement.

1.4 "Improvements" shall be defined as variations, concentrates, filtration or desiccation of PAZ in its liquid form as delivered to Zus, mixed with inert or active ingredients that do not compromise or inhibit the efficacy of PAZ. Improvements available for Licensed Use do not include individual molecules, isolates or synthetic or natural derivatives of PAZ.

1.5 "Intellectual Property" or "IP" means the intellectual property associated with the Product, including the patents, trademarks, customer lists, know how, etc.

1.6 "Licensed Use" means sale and use of the Product for the nutritional benefit of customers and distributors through worldwide sales channels, subject to limitations imposed by U.S. and international regulatory bodies, but specifically excluding with respect to the Product (or any isolate or derivative (whether natural or synthetic)) (i) any and all pharmaceutical applications (substances that are characterized by the FDA as a drug) and (ii) any and all food ingredient, supplement ingredient and medicinal ingredient applications (collectively, "Ingredient Applications") outside multilevel marketing, network or affiliate marketing (collectively referred to as "MLM").

1.7 "Product" means HEPI's ProAlgaZyme ("PAZ") in its current liquid form, and any natural variant thereof that Zus can create or mix with other products/ingredients for sale in the WW sales channels, however still limited to PAZ in its natural form, and not as isolates, synthetic derivatives or naturally derived products as prescription remedies. Zus can market the Product as "over-the-counter" type health and diet remedies, subject to the terms hereof.

1.8 "Quality Agreement" means the form of industry standard quality agreement to be agreed between the parties within thirty days of the Effective Date of this Agreement.

1.9 “Regulatory Agency” means any US, state, foreign country or international agency that regulates nutraceuticals.

1.10 “Term” has the meaning set forth in Section 9.1 below.

1.11 “Territory” means anywhere throughout the world.

1.12 “Trademarks” means any mark used hereafter to market sell or distribute the Product used in conjunction with the Product. Trademarks shall include all trademarks developed during the Term of this agreement by either Party.

1.13 “Unit” – a four-ounce (4 oz.) dose of PAZ in its currently produced liquid form at its currently produced concentration.

ARTICLE 2.
GRANT

2.1 Product License. Subject to the terms and conditions of this Agreement, HEPI hereby grants to Zus an exclusive, world-wide license to market, sell and distribute the Product during the Term of this Agreement solely for the Licensed Use within the Territory.

2.2 Trademark License. Subject to the terms and conditions of this Agreement, HEPI hereby grants to Zus an exclusive license to use the Trademarks to market, sell and distribute the Product during the Term solely for the Licensed Use within the Territory. This grant of license does not convey ownership in the Intellectual Property that HEPI holds or an interest in the production or ownership of the Product.

2.3 Definition of Exclusive. For purposes of this Agreement, “exclusive” shall mean that HEPI will not directly or indirectly market, sell or distribute the Product in any form to any other person or entity for the Licensed Use in the Territory. Further, HEPI will not, for the term of this Agreement, offer for sale or license any product using the trademark “ProAlgaZyme”, which will be reserved for the exclusive use of Zus. HEPI will maintain ownership of the trademark ProAlgaZyme during the term or this agreement. HEPI will not, for the term of this Agreement, sell or market the Product directly or through other marketers as free-standing branded nutraceuticals. HEPI retains all other rights outside the Licensed Use and Territory, including, for example, the right to make, have made and market isolates, synthetics and natural derivatives for specific applications that are branded and resold to other manufacturers or marketers (that are not affiliated with HEPI) under their own brand names outside the Licensed Use of the Product.

HEPI will not sell or market natural derivatives for specific applications within the scope of multilevel marketing, network or affiliate marketing (collectively referred to as “MLM”). HEPI retains all other rights to make, have made and market isolates, synthetics and natural derivatives for specific applications that are branded and resold to other manufacturers or marketers under their own brand names outside MLM markets and sales channels.

2.4 First Option/Right of First Refusal. HEPI agrees to give Zus first option/right of review to license additional products developed by HEPI based on HEPI’s PAZ technology for the MLM markets. This First Option/Right of First Refusal is not applicable to PAZ isolates or synthetic or natural derivatives intended for Ingredient Applications to be included in products made and marketed under third-party brand names outside MLM or pharmaceutical applications. Zus has ninety (90) days to consider the product and arrive at terms acceptable to both HEPI and Zus. Otherwise, HEPI shall be free to market the product in any market except within MLM and affiliate marketing structures.

ARTICLE 3.
PAYMENTS

3.1 Option Payment. Upon execution of the Agreement, Zus shall deposit into a client trust account the sum of $255,000 as an Option Payment, with instructions that such funds are released to HEPI provided terms and conditions contained herein are met. Zus will have 30 days after the Effective Date to conduct such due diligence as it shall deem necessary regarding its rights and obligations under this Agreement. During said 30-day due diligence period, HEPI agrees not to pursue discussions with any other party for the marketing and licensing of the Product. Upon satisfactory completion of due diligence by Zus and on or before 5:00 p.m., Pacific Daylight Saving Time, on the 31-day after the Effective Date, Zus agrees to release from the client trust account to HEPI the sum of $255,000 as a non-refundable option to bind HEPI to an exclusive license for WW marketing for a period of four (4) calendar months beginning on the Effective Date. Once the 4-month option period has lapsed (December 31, 2010), the license shall be kept in force by Zus' payment of the minimum monthly revenue guarantee and minimum sales targets for the PAZ product as set forth in Section 3.2 below. Zus' failure to timely pay HEPI the $255,000 non-refundable option payment shall be cause for the termination of this Agreement. During the 30 day due diligence period HEPI will confirm its ability to scale manufacturing volumes (through the engagement of an independent Aquaculturist) to a satisfactory quantity that may reasonably be requested by Zus and that HEPI will be obliged to meet during the term of the Agreement. If HEPI is unable to confirm to Zus during the due diligence period that it is able to meet the expected projected volumes, Zus and HEPI will work together, in good faith, to establish volumes and a plan to meet reasonable scalable volumes that HEPI will be obliged to meet during the term of the Agreement. HEPI will not be obligated to meet manufacturing volumes above the agreed upon plan to be mutually established during the 30 due diligence period. If HEPI is only able to confirm its ability to produce the Minimum Monthly units of 320,000 in the 30 day due diligence period, then Zus and HEPI agree to renegotiate the minimum purchases.

3.2 Purchase Minimums. Zus agrees to purchase a minimum of 3,960,000 units in the first year, 14,160,000 units in the second year and 17,808,000 annually in all subsequent years according to the following table:

MONTH	OPTION	MINIMUM/MO	ROYALTY/UNIT	UNITS MIN/MO	COST/UNIT
August 2010	$255,000	NA	$0.25	NA	
September	0	NA	$0.25	NA	
October	0	NA	$0.25	NA	
November	0	NA	$0.25	NA	
December	NA	$80,000	$0.25	320,000	$0.50
January	NA	$80,000	$0.25	320,000	$0.50
February	NA	$80,000	$0.25	320,000	$0.50
March	NA	$150,000	$0.25	600,000	$0.40
April-July 2011	NA	$150,000	$0.25	600,000	$0.40
August 2011-July 2012	NA	$295,000	$0.25	1,180,000	$0.40
August 2012 & after	NA	$371,000	$0.25	1,484,000	$0.40

During the 30-day due diligence period, Zus and HEPI will negotiate, in good faith, monthly and annual minimums, based on market potential and manufacturing capacities, for years three and after (the negotiated minimums will not be less than 17,808,000 annually nor more than 53,424,000 units annually). However, if Zus and HEPI are unable to agree to higher minimums during the 30-day due diligence period the minimums will be 17,808,000.

The option payment is satisfied in the first month and monthly minimums are waived for three months to allow for product repackaging, marketing materials and the like. "Royalty", "Units" and "Cost" are per four-ounce (4 oz.) dose in current production format. "Cost" includes the $.25 royalty payment to HEPI.

If Zus elects to use alternative packaging, the total cost of the product will be direct manufacturing cost plus $.25 royalty.

If unit sales fall below the levels in the above table, Zus may, at its sole option, make additional payments to meet the minimum purchase requirement described herein and not be obligated to accept the Product for which payment has been made.

If Zus does not meet the minimum purchases described above, Zus and HEPI will renegotiate, in good faith but within a period of less than 30 days, minimum purchase amounts based on market conditions. If the Parties are unsuccessful in renegotiating minimum purchase amounts the License, at HEPI's sole discretion, may become a non-exclusive agreement

These costs are based on HEPI packaging Product in current plastic quart bottles. Zus and HEPI agree to negotiate new costs, in good faith, if Zus elects to take delivery of Product in other packaging forms (e.g., bulk totes).

3.3 Costs. HEPI agrees to use its best efforts to assist Zus in developing additional delivery forms of PAZ. Zus will be responsible for all development and manufacturing costs related to additional delivery forms of PAZ. Zus will purchase product from HEPI by paying HEPI its stated manufacturing cost/unit (if HEPI is manufacturing the Product), plus twenty-five cents ($.25) per four-ounce (4 oz.) dose in current concentrations. This pricing is based on a minimum monthly order of three hundred twenty thousand (320,000) four-ounce (4 oz.) doses. Zus will pay HEPI a royalty of $0.25 (twenty-five cents) per four (4) ounce dose in current concentrations. A minimum monthly revenue guarantee of $80,000 for the first three (3) months after option period has expired are required to keep the exclusive license and in force. After the first three (3) months, the minimum monthly revenue guarantees required to keep the exclusive license in force are set forth in the Minimum Monthly payments in Section 3.2, Column 3. However, Zus will not be obligated to meet the Minimum Monthly payments to maintain exclusivity until GRAS or NDI status has been granted by the Food and Drug Administration (FDA) or if regulatory agencies restrict the sale of PAZ.

3.4 Payment. Monthly minimums payments as described in Section 3.2 above are due on the 1st day of each month. If payment is not received by said date, Zus shall be in breach of this Agreement. Payment terms for additional orders are 50% at time of order and 50% due within forty-five days of shipment, FOB Scottsdale, for any single order. These terms do not apply to the Purchase Monthly Minimum payments, which are due the 1st day of each month. See table in Section 3.2. HEPI shall in no event be required to deliver any Product during the pendency of any payment default by Zus.

3.5 Maintenance of Records. Zus shall maintain accurate, complete, and detailed accounts on all matters relating to the Product. HEPI shall, upon written notice, be allowed to inspect and audit copies of all such information to insure compliance with the terms and conditions of this Agreement. The cost of such inspection and audit shall be borne by HEPI and shall not occur more than once annually.

ARTICLE 4.
INVENTIONS, IMPROVEMENTS, PATENT RIGHTS AND TRADEMARKS

4.1 Title to Inventions. Patentable improvements and/or modifications to the Product or its use and application, regardless of whether made by an employee of HEPI, Zus, or jointly made, shall be owned by HEPI. Zus shall cooperate with HEPI to sign and execute all documents, deeds, instruments and acknowledgments relating to ownership of inventions, and insure that its employees execute such documentation to insure its employees/contractors are legally compelled do so as set forth in Section 4.3.

4.2 Rights to Improvements: All Improvements shall become part of HEPI's Intellectual Property and shall therefore be subject to this Agreement. Zus will have the right to market and sell such Improvements in any form or application within the Licensed Use and Territory. Improvements do not include individual molecules, isolates or natural or synthetic derivatives of PAZ. HEPI retains all ownership, right and title to Improvements. HEPI will have the option to market such Improvements in other channels and applications outside the Licensed Use, but must provide Zus forty-five (45) days notice prior to public announcement of HEPI's intent to do so.

4.3 Employees. Zus represents that each of its officers, directors, employees and contractors has entered into a contract with Zus that provides for assignment to Zus of all inventions made by such employee during the course of his or her employment. If any officer, director or employee of Zus makes a discovery or invention while performing research using or involving HEPI's Product, Zus will promptly make such discovery or invention known to HEPI. If HEPI has an ownership interest in such discovery or invention, on the request and at the expense of HEPI, and through attorneys named by HEPI, the employee shall make application for letters patent. Zus and its employees shall thereafter assign the application and any rights to the discovery or invention to HEPI under the conditions of this Agreement.

4.4 Further Assurances. Upon disclosure of each and every improvement or modification to the Product or new application for the Product, Zus will, during the Term, or at any time thereafter, at the request and cost of HEPI, sign and execute such documents, deeds, instruments and acknowledgments and make and do all such acts and things as HEPI or its duly authorized agents may reasonably require:

a) to apply for, obtain and vest in the name of HEPI alone (unless HEPI otherwise directs) letters patent, copyrights or other analogous protection in any country throughout the world and when so obtained or vested to renew and restore the same;

b) to defend any opposition proceedings in respect of such applications and any opposition proceedings or petitions or applications for revocation for such letters patent, copyright or other analogous protection.

In the event HEPI is unable, after reasonable effort, to secure Zus' signature on any letters patent, copyright or other analogous protection relating to an improvement, modification to a Patent or new application for the Product for any reason whatsoever, Zus hereby irrevocably designates and appoints HEPI and its duly authorized officers and agents as its agent and attorney-in-fact, to act for and in Zus' behalf and stead to execute and file any such application or applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent, copyright or other analogous protection thereon with the same legal force and effect as if executed by Zus.

4.5 Maintenance of Patent Rights. HEPI shall pay all required maintenance fees for patents within the scope of patent rights relating to the Product during the Term of this Agreement.

4.6 Use of Trademark. Zus agrees to use the Trademarks in accordance with good customary trademark practice, and to avoid taking any action that would in any manner impair or detract from the value of the trademark or the goodwill and reputation of HEPI. HEPI and Zus shall work together to develop new trademarks, including, without limitation, names, logos and designs for the Product.

ARTICLE 5.
MARKETING AND PROMOTION

5.1 Marketing and Promotion. Zus shall promote, market, and sell the Product for the Licensed Use in the Territory at its own expense.

5.2 Marketing Materials and Advertising. HEPI hereby agrees to provide Zus with a copy of all training and collateral materials developed by HEPI including, without limitation, a sales binder, all literature and presentation materials and in-service training materials. HEPI shall provide Zus with reasonable access to HEPI employees that may assist Zus with technical and clinical input and advice in connection with Zus' development of its marketing and advertising materials.

HEPI shall be responsible for providing final regulatory approval of all marketing materials after Zus conducts its own regulatory review, which HEPI will conduct in writing promptly upon request, but in no event more than seven (7) business days after receipt, unless review by a Regulatory Agency is required. HEPI's regulatory approval shall be at no cost or expense to Zus.

5.3 Packaging and Branding. Zus shall be responsible for developing packaging and branding materials at its own cost. Zus shall be responsible for packaging the Product in accordance with applicable law.

5.4 Public Announcements. Neither Zus nor HEPI shall issue or make any reports, statements or releases to the public with respect to this Agreement or the transactions contemplated hereby without the other Party's approval of the text of any public report, statement or release to be made on behalf of such Party prior to making the same.

If either Party is unable to obtain the approval of its public report, statement or release from the other Party and such report, statement or release is, in the opinion of legal counsel to such Party, necessary to discharge such Party's disclosure obligations under law, then such Party may make or issue the legally required report, statement or release and promptly furnish the other Party a copy thereof. Nothing herein shall prohibit any Party from responding to questions presented by the press or media without first obtaining prior written consent of the other Party.

ARTICLE 6.
MANUFACTURING AND ORDERS

6.1 Purchase Orders. Zus will provide HEPI with monthly Purchase Orders covering Zus' purchase requirements. Purchase Orders for a specific calendar month will be provided to HEPI at least Sixty (60) days prior to the beginning of said calendar month. Release dates will be Fifteen (15) days prior to each month's purchase needs. Zus may submit supplemental Purchase Orders to HEPI as needed. Purchase orders shall be submitted in writing, whether by mail, facsimile, or electronic mail. Each Purchase Order shall identify the quantity to be purchased and shipping instructions. Upon receipt of a purchase order for Product from Zus, HEPI will provide confirmation and verification of delivery dates and shall use reasonable commercial efforts to meet the requested delivery schedule. The acceptance of any Purchase Order by HEPI shall not constitute its acceptance of any such document's terms except the ordered Product identification, quantity, delivery date, and price per the terms of this Agreement; all other terms thereof shall be without effect.

6.2 Rolling Forecast. Forty-Five (45) days prior to the beginning of each calendar quarter, Zus shall provide to HEPI a good-faith, rolling, six (6) month forecast of projected Product purchases to be made by Zus over the six (6) month forecast period. Each forecast shall identify the quantities projected to be purchased by month. HEPI shall be responsible for meeting Zus' purchase requirements.

6.3 Delivery. HEPI shall provide appropriate Lot Number certifications and notifications with each shipment. All deliveries of Product will be F.O.B. HEPI's shipping point. HEPI will have no further financial responsibility for the Product, and all risk of damage to or loss or delay of the Product will pass to Zus upon their delivery at the F.O.B. point to a common carrier specified by Zus or, in the event that no carrier shall have been specified by Zus on or before fifteen (15) days prior to the requested shipment date, a common carrier reasonably selected by HEPI shall be used.

6.4 Inspection. HEPI shall provide Product to Zus that satisfy the quality requirements. Zus, or its distributors/fulfillment centers, shall upon delivery of Product, immediately confirm quantity and check for visible damage or defects.

6.5 Discrepancy. Zus shall notify HEPI of any shortage or discrepancy within ten (10) days after receipt of Product. If HEPI is responsible, HEPI shall correct such shortage or discrepancy by delivering substitute Product to Zus within ten (10) days after Zus' notice.

6.6 Product Price.

a) Price. The per unit price to be paid to HEPI by Zus for the Product manufactured by HEPI (the "Product Price"), in its current packaging shall be at HEPI's stated manufacturing cost as evidenced in the table below, plus Zus will pay a royalty to HEPI of twenty-five cents ($0.25) per four-ounce (4 oz.) dose, or two dollars ($2.00) per quart bottle. If Zus elects to manufacture Product, Zus will pay Hepi $.25 per Unit as a royalty. Minimum monthly revenue guarantees are evidenced in Article 3, Section 3.2 in order to keep the exclusive license in force.

Quarts Monthly	Manufacturing Cost
20,000	3.10 per quart bottle
40,000	2.50 per quart bottle
80,000	2.25 per quart bottle
140,000	2.00 per quart bottle

Zus must provide artwork for labels in digital form acceptable to HEPI's label printer.

b) Price Adjustments. Notwithstanding Section 6.6(a) above, HEPI shall be entitled to adjust the Product Price of the Product but not the guaranteed royalty or minimum guaranteed monthly revenues immediately following a change to the design or required manufacturing processes of the Product when requested by Zus. The Product Price of the Product, the royalty paid and minimum monthly revenue guarantees shall be adjusted for inflation on January 1 of each year by multiplying the applicable minimum amounts by the numerator of which shall be the Consumer Price Index ("CPI") for the preceding calendar year and the denominator of which shall be the CPI for the calendar year 2010. As used herein the term "CPI" shall mean the United States Department of Labor's Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers, city average, all items (1982-84=100), or the successor of such index.

6.7 Manufacturing Standards. HEPI shall be responsible for maintaining commercially acceptable quality control standards in all manufacturing relating to the Product it delivers to Zus pursuant to the Quality Agreement to be entered into by the Parties. Unless Zus or its employees, representatives, or agents are at fault, including but not limited to, because of a failure to take reasonably prudent steps, or other steps reasonably suggested by HEPI, to protect the delivered Product, HEPI shall be responsible for and replace any Product failing to meet the Quality Agreement.

6.8 Option to Assume Product Manufacturing. The option to assume Product manufacturing cannot be assumed in the first 9 months of the contract. After the first nine months have concluded then in the event that HEPI fails to supply to Zus eighty (80%) percent of Zus' Purchase Order requirements for two (2) consecutive calendar quarters, or fails to deliver a minimum of seventy (70%) percent of Zus' Purchase Order for two (2) consecutive months, then Zus shall have the right to exercise the Manufacturing Option. Both parties must agree, in a good faith and commercially reasonable manner, to document and effectuate an orderly transition of manufacturing to Zus and in so doing, adequately protect HEPI's intellectual property. Zus shall further pay all costs related to technology transfer of manufacturing processes. Technology transfer shall refer solely to the means of growing, harvesting, feeding and filtering the algae cultures.

6.9 Expiration Date. HEPI will produce Product with one-year expiration date. Zus may wish to fund research to stabilize the product beyond one year.

ARTICLE 7.
REGULATORY MATTERS

7.1 Zus' Responsibility. ZUS shall be responsible for all decisions and actions regarding regulatory matters relating to or involving the marketing, sale and use of the Product for the Licensed Use. Zus shall, with respect to any such regulatory matters, (a) act as liaison with the FDA or other governmental authority; (b) prepare and make all submissions regarding the regulatory matters; (c) monitor all marketing collateral materials and studies pertinent to the regulatory matters; (d) obtain regulatory approvals, as reasonably deemed necessary by Zus; (e) manage customer complaints; (f) maintain a quality system sufficient to provide for GMP; and (g) perform those actions customary and reasonable in maintaining Zus and the Product in good standing with the FDA and all other regulatory bodies connected with the authority to manufacture and sell the Product.

7.2 HEPI's Responsibility. HEPI shall promptly cooperate with Zus with respect to all regulatory matters by providing data and information at Zus' reasonable request. Nevertheless, HEPI shall maintain its own counsel for FDA or other regulatory matters, for the sole purpose of advising HEPI with regard to such regulatory matters and to any data, information, or suggestions that HEPI may provide to Zus, either at Zus' request or at HEPI's discretion. HEPI shall maintain a quality system sufficient to perform those actions customary and reasonable in maintaining the Product in good standing with the FDA and all other regulatory bodies connected with the authority to sell the Product.

7.3 Adverse Event Notification. Zus shall notify HEPI, in writing, within two (2) business days of the receipt by Zus of any complaints or adverse events ("AE") associated with the Product, and shall submit to HEPI a copy of any records or other documentation, which Zus has received or created relating thereto. HEPI and Zus shall develop a mutually acceptable referral system under which Zus shall refer and forward to HEPI for appropriate resolution any complaints or adverse events ("AE") related to the Product. An acceptable referral system means a formalized, well-defined process set forth within each Party's quality system defining appropriate work instructions and procedures. HEPI shall have the right to review and audit, at any time, the complaint and AE handling procedures at Zus. Without limitation of the foregoing, upon HEPI's request Zus shall provide HEPI with a copy of its complaint and AE handling procedures and quality system manual. HEPI shall be responsible for making all decisions and undertaking any reporting obligations or other actions with respect to communicating with any governmental regulatory agency as a result of any AEs or other reports or inquiries, or taking any other action that HEPI may deem necessary or appropriate under all applicable government rules and regulations. HEPI understands that such information provided to it will be as reported as required and will not be deemed to be determinative as to whether or not the Product contributed to the AE.

7.4 Governmental Actions. Beginning as of the Effective Date of this Agreement, each party shall promptly notify the other party in writing of any order, request or directive of a court or other governmental authority to recall, issue a field notification, conduct an audit relating to Product safety, or withdraw the Product in any jurisdiction. HEPI shall be responsible, at its sole cost and expense, for the costs (including any costs incurred by Zus) of any recall, field notification or withdrawal of the Products arising from HEPI's activities. Zus shall be responsible for the costs of any recall, field notification, or withdrawal of the Products arising from Zus activities.

7.5 Traceability. Zus shall have in place appropriate process and inventory controls and procedures to ensure its and HEPI's ability to trace each Product sold to each purchaser in the event of any recall, safety notice, or to address any other legal or quality concerns. Zus' inventory control system shall ensure that the status (e.g., location, release/hold, etc.) of each Product is identified and known.

7.6 Employee Training and Record-Keeping. Zus shall have in place adequate record-keeping and employee training to ensure compliance with the requirements set forth in this Article 7. Such records shall be available to HEPI on demand within 24 hours.

7.7 Material Term. Zus' failure to maintain the procedures and/or requirements set forth in this Article 7 and/or to provide HEPI with any of the records/documents identified in this Article 7 shall be a breach of material term of this Agreement as defined in Section 9.3.

ARTICLE 8.
REPRESENTATIONS AND WARRANTIES

8.1 Indemnification by HEPI. During the Term, HEPI agrees to defend, indemnify and hold harmless Zus and its successors, licensees and assigns (if any), as well as the officers, directors, employees, agents and representatives thereof, from and against any liability, damage, cost loss, or expense (including reasonable attorneys' fees) based on a claim that the Intellectual Property infringe any patent issued in the United States. In the event any such infringement, claim, action, or allegation is brought or threatened, HEPI may, at its sole option and expense:

a) procure for Zus the right to continued use of the Product or any infringing part thereof;

b) modify, amend, or replace the Product or any infringing part thereof with other suitable and reasonable equivalent products so that the Product becomes non-infringing; or,

c) if (a) and (b) are not commercially practicable, the executive officers of the Parties shall meet within sixty (60) days of the indemnification notice and negotiate in good faith an acceptable solution. If an acceptable resolution is not reached within said 60 day period, this Agreement shall terminate and the provisions of Section 9.4 shall apply.

8.2 Indemnification by Zus. Zus agrees to defend, indemnify and hold harmless HEPI and its successors, licensees and assigns (if any), as well as the officers, directors, employees, agents and representatives thereof, from and against any liability, damage, cost, loss, or expense (including reasonable attorneys' fees) occasioned by or arising out of (a) any claim, demand, action, suit or proceeding that is related to acts or omissions of Zus, or any of its directors, officers, employees or agents, arising from or in connection with the marketing, sale or use of the Product, and/or (b) as a result of any alleged intellectual property infringement or unauthorized use of trade secrets or other property rights (other than the Patents) in connection with modifications, enhancements or versions of the Product developed by or at the request of Zus.

8.3 Notice; Defense of Claim. To receive the benefits of the indemnity under this Article 8, as applicable, the indemnified party must give the indemnifying party written notice of any claim or potential claim, within 24 hours after the indemnified party receives notice of any such claim. The indemnifying party shall have the right to assume the defense of any such claim if it assumes responsibility to the indemnified party under this Article 8. If the indemnifying party defends the claim, the indemnified party may participate in, but not control, the defense of such claim at its sole costs and expense. An indemnifying party shall have no liability under this Article 8 as to any claim for which settlement or compromise or an offer of settlement or compromise is made by the indemnified party without the prior written consent of the indemnifying party.

8.4 HEPI's Representations and Warranties. HEPI represents and warrants to Zus that a) all Product to be delivered to Zus pursuant to this Agreement shall be substantially the same in quality and composition as the Product that is now produced by HEPI; b) the Intellectual Property is valid and in full force and affect; c) HEPI has not received any notice of invalidity or infringement of rights of others with respect to any patent rights.

EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT, HEPI MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED, IN FACT OR IN LAW, INCLUDING THE IMPLIED WARRANTIES OR MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT SHALL HEPI BE LIABLE FOR SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES OR FOR LOSS OF PROFITS OR REVENUES, EVEN IF HEPI HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

8.5 Zus' Representations and Warranties. Zus represents and warrants to HEPI that a) it has sufficient funds and/or shall take all requisite action to provide sufficient funds with which to meet its financial obligations under this Agreement; b) it has full power and authority to execute this Agreement and to consummate the transactions contemplated by this Agreement; and c) the execution and delivery of this Agreement and the compliance with the terms and provisions of this Agreement will not result in any violation of, or be in conflict with, or result in the breach of the terms, conditions, or provisions of, or constitute a default under any instrument, contract or agreement to which Zus is a party or require any authorization, consent, approval or other action by any 3rd party.

8.6 Insurance. Both Zus and HEPI agree that they will each maintain product liability insurance coverage in the amount of at least $1,000,000 for bodily injury to any one person for any one occurrence and $3,000,000 in the aggregate. Zus and HEPI shall be an additional named insured on such insurance policies owned by the other Party. Each Party shall furnish the other Party upon the issuance and upon each renewal of such policy a certificate of insurance establishing that such insurance is in effect.

ARTICLE 9.
TERM AND TERMINATION

9.1 Term. The term of this Agreement shall commence on the Effective Date above and shall continue until expiration of the last valid patent claim regarding the Product with the United States Patent and Trademark Office. A list of the applicable patents is attached hereto as Attachment A (which list shall be completed within thirty (30) days of the Effective Date and will to included all patents and patent applications relating to the Product) and may be amended to reflect any new applicable patents or patent applications that may be applied for or approved during the Term of this Agreement.

9.2 Termination By Zus. Zus may terminate this Agreement upon ninety (90) days written notice to HEPI, and such termination shall be effective ninety (90) days after the giving of such notice. Termination by Zus during the initial 90-day option period would oblige Zus to no additional payments or penalties. Termination by Zus beyond the option period is subject to Zus reimbursing HEPI for a charge equal to 1-1/2 times HEPI's documented capital expenditures, plus leases, overhead and staff wind-down costs reasonably related to Zus' termination of this Agreement, but in no way less than $250,000.

9.3 Termination By Either Party. This Agreement may also be immediately terminated by either party (a) if the other party files a petition in bankruptcy, (b) if the other party becomes insolvent or makes an assignment for the benefit of its creditors, (c) if the other party has an involuntary proceeding or other arrangement pursuant to any bankruptcy law, (d) if the other party discontinues its business, (e) if the other party breaches a material non-monetary term of this Agreement and such breach remains uncured for a period of thirty (30) days after written notification of such breach is given by the non-breaching Party, or (f) if the other party breaches a monetary term of this Agreement and such breach remains uncured for a period of fifteen (15) days after written notification of such breach is given by the non-breaching Party.

9.4 Obligations Upon Termination. Upon Termination, neither party will be released from their obligations to pay monies due or to become due hereunder and both parties shall immediately pay, perform and discharge all debts, obligations and liabilities hereunder. Notice of Termination shall not cancel any unfilled orders for Product. Within thirty (30) days after Termination becomes effective, Zus agrees to transfer to HEPI ownership to any and all trademarks in Zus' name developed prior to the termination of this Agreement relating to the Product, return to HEPI all promotional, sales and other literature relating to the Product, and all Confidential Information and all copies thereof. Zus also agrees that after Termination becomes
effective for any reason, it will remove from its property all marks, legends, decals and other insignia indicating any association with the Product, property and/or trademarks of HEPI. In the event Zus has assumed responsibility for manufacturing, Zus agrees to cooperate with HEPI to effect and orderly transition of manufacturing back to HEPI.

ARTICLE 10.
CONFIDENTIALITY AND NON-COMPETITION

10.1 Confidentiality. Zus and HEPI each agree that all proprietary and confidential information (including, without limitation, any and all intellectual property, data, ideas and marketing, pricing, and other information or the other party) communicated by one party to the other party, whether before or after the date of this Agreement, will be received in confidence, and will not be disclosed by the receiving party, its agents, independent contractors, subcontractors or employees, to third parties without the prior written consent of the disclosing party or as required by law by a court having jurisdiction over the receiving party. The receiving party shall take all reasonable steps and precautions to ensure that only those of its officers, employees, independent contractors, representatives and permitted agents with a need to know or a need to have access to such information shall have access to such information and that such persons shall keep the information confidential in accordance with the provisions of this section. In no event will the receiving party divulge any proprietary or confidential information to any competitor of the disclosing party. Notwithstanding the foregoing, the obligation of confidentiality shall not apply to information that at the time of disclosure (a) was known to the receiving party; (b) is published or otherwise generally or publicly available and which was not disclosed through any act or omission of the receiving party; or (c) was rightfully received by the receiving party from a third party who had the right to disclose such information.

10.2 Non-Competition. During the Term of this Agreement and during any period that Zus is paying the Purchase Price, HEPI and its managers, officers, employees, and Affiliates shall not market, distribute, or sell any product in MLM.

ARTICLE 11.
MISCELLANEOUS

11.1 Consulting Services. HEPI employees, scientists and contracted personnel can be made available to Zus for consulting services subject to their availability with reasonable advance notice, and for compensation at a mutually agreeable rate. The inventors of the Product and certain key employees and contractors of HEPI shall remain available on a consulting basis to Zus. Zus and HEPI shall coordinate with one another to make such persons available at mutually agreeable times and conditions.

11.2 Entire Agreement. The Agreement constitutes the entire agreement and understanding of the parties with respect to the subject matter hereof, and supersedes all prior agreements, arrangements and understandings related to the subject matter hereof. No representation, promise, inducement or statement of intention has been made by either of the parties that is not embodied in this Agreement or in the documents referred to herein, and neither of the parties shall be bound by or be liable for any alleged representation, promise, inducement or statement of intention not set forth or referred to herein.

11.3 Notice. All notices, demands and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given and received (a) immediately if delivered personally; or (b) the following business day, if sent by overnight courier. All such notices shall be addressed to the parties at the addresses listed below. Either party may change the address to which communications are to be directed by giving written notice to the other party in the manner provided herein.

To HEPI: Health Enhancement Products, Inc.

Fax No. (480) 385 - 3801
E-mail Address: jcrance@janetcrance.com
Attn:

To Zus: ZUS HEALTH, LLC
1265 East Fort Union Blvd., Suite #350
Cottonwood Heights, Utah 84047
Attention: Bradley C. Robinson

Fax No. (_) ___

E-mail address: brad@zushealth.com

11.4 Compliance with Law. The Parties shall comply with all applicable laws, regulations, ordinances, and rules concerning their activities under this Agreement, including those pertaining to the promotion and sale of the Product and medical device registration, state and federal fraud and abuse laws, the Health Information Portability and Accountability Act of 1996, and all other applicable laws, regulations, ordinances, and rules. The Parties shall also maintain in full force and effect all necessary licenses, permits and other authorizations required by law to carry out their respective duties and obligations under this Agreement.

11.5 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the state of Arizona irrespective of the addresses of the respective Parties.

11.6 Amendments; Waiver. This Agreement may not be amended, modified, superseded or canceled, nor may any of the terms, covenants, representations, warranties, conditions or agreements herein be waived, except by a written instrument executed by both parties. The failure of either of the parties at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by either of the parties of any condition, or of any breach of any term, covenant, representation, warranty, condition or agreement contained herein, shall be deemed to be or shall be construed to be a waiver or continuing waiver of any such condition or breach or a waiver of any other condition or of the breach of any other term, covenant, representation, warranty, condition or agreement hereof.

11.7 Attorneys' Fees. In the event of any action at law or equity to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees and court costs in addition to any other relief to which such party may be entitled.

11.8 Independent Contractor. It is expressly understood and agreed that Zus (including any of its employees, representatives, subcontractors or agents) shall at all times during the term of this Agreement be an independent contractor. Neither Zus nor any of its employees, representatives, subcontractors or agents shall be considered an employee of or joint venture with HEPI for any purpose. Zus and its employees, representatives, subcontractors and agents shall not have authority to make representations on behalf of HEPI or to bind HEPI in any manner.

11.9 Headings; Construction. The captions and headings contained herein are for convenience of reference only, and shall not in any way affect the meaning or interpretation of this Agreement. Notwithstanding any rule or maxim of construction to the contrary, any ambiguity or uncertainty in this Agreement shall not be construed against either of the parties based upon authorship of any of the provisions hereof.

11.10 Severability. In the event any provision hereof is determined to be illegal or unenforceable for any reason whatsoever, such determination shall not affect the validity or enforceability of the remaining provisions hereof, all of which shall remain in full force and effect.

11.11 Force Majeure. Neither party shall be responsible or liable to the other hereunder for failure or delay in performance of the Agreement due to any war, fire, accident, acts of terrorism or other casualty, or any labor disturbance or act of God or the public enemy, or any other contingency beyond such party's reasonable control.

11.12 Assignability. Parties agree that this Agreement imposes personal obligations on Zus, and is not assignable or delegable in whole or in part by Zus without the written consent of HEPI, which consent shall not be unreasonably withheld. Notwithstanding the foregoing sentence, Zus shall have the right to sublicense to a viable 3rd party all or a part of its rights and obligations under this Agreement, but any such sublicense shall not, in any way, release or discharge Zus from its liabilities and obligations to HEPI hereunder. Zus, at is sole option, shall have the right to form a new entity, which may or may not be affiliated with Zus, to which Zus may assign this Agreement. This Agreement may be delegated or assigned in whole or in part by HEPI and, in such case the terms of this Agreement shall inure to the benefit of, be assumed by, and be binding upon the entity to which this Agreement is assigned.

11.13 Counterparts. This Agreement may be executed by facsimile and may be executed in one or more counterparts, each of which shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument.

11.14 Further Assurances. The parties each hereby covenant and agree that, from time to time, after the date hereof, at the reasonable request of either party, and without further consideration, they will execute and deliver such other documents and instruments and take such other action as may be reasonably required to carry out in all respects the subject matter hereof and the intent of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the day and year first above written.

HEALTH ENHANCEMENT PRODUCTS, INC. a Nevada corporation	**ZUS HEALTH, LLC** a Utah limited liability company
By: *S/Janet L. Crance*	By: *S/Bradley C. Robinson*
Name: Janet L. Crance	Name: Bradley C. Robinson
Title: Chief administrative Officer	Title: Chairman of the Board/Manager
Date: September 2, 2010	Date: September 2, 2010

Attachment "A"

Patents

Exhibit 31.1

Certification Pursuant to pursuant to Rule 13a-14(a) or Rule 15d-14(a)
of the Securities Exchange Act of 1934, as amended

I, John Gorman, certify that:

1. I have reviewed this Annual report on Form 10-K of Health Enhancement Products, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The Registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly through the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations, and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2011

/s/ John Gorman
John Gorman
Executive Vice President

Exhibit 31.2

Certification Pursuant to pursuant to Rule 13a-14(a) or Rule 15d-14(a)
of the Securities Exchange Act of 1934, as amended

I, John Gorman certify that:

1. I have reviewed this Annual report on Form 10-K of Health Enhancement Products, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The Registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly through the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations, and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2011

/s/ John Gorman
John Gorman, Executive Vice President

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(Subsections (a) and (b) of Section 1350,
Chapter 63 of Title 18, United States Code)

In connection with the Annual Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission (the "Report"), I, John Gorman, Chief Administrative Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: April 15, 2011

/s/ John Gorman
John Gorman
Executive Vice President

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 HAS BEEN PROVIDED TO HEALTH ENHANCEMENT PRODUCTS, INC. AND WILL BE RETAINED BY HEALTH ENHANCEMENT PRODUCTS, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(Subsections (a) and (b) of Section 1350,
Chapter 63 of Title 18, United States Code)

In connection with the Annual Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-K for the period ended December 31, 2010 as filed with the Securities and Exchange Commission (the "Report"), I, John Gorman, Chief Accounting Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: April 15, 2011

/s/ John Gorman
John Gorman
Executive Vice President

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 HAS BEEN PROVIDED TO HEALTH ENHANCEMENT PRODUCTS, INC. AND WILL BE RETAINED BY HEALTH ENHANCEMENT PRODUCTS, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.