UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14C

Information Statement Pursuant to Section 14(c)
of the Securities Exchange Act of 1934 (Amendment No. _____)

Check the appropriate box:

☒ Preliminary Information Statement

☐ Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))

☐ Definitive Information Statement

Health Enhancement Products, Inc.

(Name of Registrant As Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

☐ No fee required

☒ Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11

(1) Title of each class of securities to which transaction applies:
Common Stock, $.01 par value

(2) Aggregate number of securities to which transaction applies:
4,226,231

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
$14,087 based on 1/3 of the par value of the securities being distributed

(4) Proposed maximum aggregate value of transaction:
$14,087

(5) Total fee paid:
$3.00

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

HEPI PHARMACEUTICALS, INC.

PART I

INFORMATION INCLUDED IN INFORMATION STATEMENT
OF HEALTH ENHANCEMENT PRODUCTS, INC.

CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT
AND ITEMS OF FORM 10-SB

FORM 10-SB

ITEM	ITEM CAPTION	CAPTION IN INFORMATION STATEMENT
	PART I	
1.	Description of Business	Summary - The Company; Management's Discussion and Analysis or Plan of Operation; Description of Business
2.	Management’s Discussion and Analysis or Plan of Operation	Management's Discussion and Analysis or Plan of Operation
3.	Description of Property	Description of Property
4.	Security Ownership of Certain Beneficial Owners and Management	Voting Securities and Principal Holders thereof
5.	Directors, Executive Officers, Promoters And Control Persons	Directors, Executive Officers, And Control Persons
6.	Executive Compensation	Executive Compensation
7.	Certain Relationships and Related Transactions and Director Independence	Risk Factors; Certain Relationships and Related Transactions.
8	Description of Securities	Description of Securities
	PART II	
1.	Market Price of and Dividends on the HEPI Pharmaceuticals, Inc. Common Stock; Other Shareholder Matters	The Distribution -- Listing and Trading of Registrant's Common Equity and Other Shareholder Matters Other Risk Factors; Market Price of and Dividends on the Registrant’s Common Equity and Other Shareholder Matters

2.	Legal Proceedings	Legal Proceedings
3.	Changes in and Disagreements with Accountants	Not Applicable
4.	Recent Sales of Unregistered Securities	Recent Sales of Unregistered Securities
5.	Indemnification of Directors and Officers	Indemnification of Directors and Officers

PART F/S

Information Required by Item 310 of Regulation SB	Index to Financial Statements

PART III

1.	Index to Exhibits	Index to Exhibits
2.	Description of Exhibits	Description of Exhibits

PRELIMINARY INFORMATION STATEMENT

Health Enhancement Products, Inc.

7740 E. Evans Road
Scottsdale, AZ 85260

_____, 2007

Dear HEPI Shareholders:

As previously announced, the Board of Directors of Health Enhancement Products, Inc. ("HEPI") has authorized HEPI to distribute (the "Distribution") to its shareholders of record on March 15, 2007 (the "Record Date"), 1 share of common stock of HEPI Pharmaceuticals, Inc.("HPharma"), its wholly-owned subsidiary, for each 10 shares of HEPI common stock outstanding on the record date.

Thus, if you were a shareholder of record of HEPI common stock on the Record Date, you will receive one share of HPharma common stock for every ten shares of HEPI common stock you own. Fractional shares of HPharma will be rounded up to the next whole share. You will receive your HPharma stock certificates in a separate mailing following the effectiveness of HPharma's Form 10-SB Registration Statement.

It is anticipated that HPharma's common stock will be quoted on the NASD Inc's OTC Bulletin Board.

HPharma is engaged in the research, development and commercialization of potential pharmaceutical opportunities derived from HEPI"s nutraceutical product, ProAlgaZyme ("PAZ"). Recent clinical trial results concerning PAZ indicate that PAZ has the potential to have a significant impact on cholesterol levels, markers of inflammation, and immune system function The HEPI Board of Directors believes that the Distribution is in the best interests of HEPI and HEPI's shareholders because the Distribution, among other things, should: (i) permit the management of each of HEPI and HPharma to focus on their respective core businesses without regard to the corporate objectives and policies of the other company; (ii) improve the near-term unconsolidated financial performance of HEPI by eliminating from HEPI's results of operations the expenses associated with developing HPharma's technologies; (iii) permit the financial community to focus separately on HEPI and HPharma and their respective business opportunities; (iv) provide HPharma with the potentially greater access to capital to finance its business; and (v) enhance the ability of HPharma to attract, retain and motivate its employees by offering economic incentives and rewards tied more directly to HPharma's performance.

The fair market value of the HPharma stock distributed to shareholders will be treated as a dividend for Federal income tax purposes to the extent of HEPI's current or accumulated earnings and profits ("E&P Amount"). To the extent the value of the HPharma stock distributed exceeds such E&P Amount, each shareholder's adjusted basis in its HEPI stock will be reduced by the value of the HPharma stock received. If the value of the HPharma stock received by a shareholder exceeds its basis in its HEPI stock, such excess would be treated as gain on the sale or exchange of HEPI stock. It is not anticipated that HEPI will have any E&P Amount. Accordingly, the distribution of HPharma stock is not expected to result in a dividend to shareholders. Rather, it is expected that shareholders will reduce their adjusted basis in HEPI stock by the value of HPharma stock received (and recognize gain only to the extent such value exceeds such basis).

This Registration/Information Statement, which is being distributed to all owners of HEPI common stock in connection with the Distribution, describes the distribution transaction in detail and contains important information about HPharma, including financial statements and other financial information. Shareholders are encouraged to read this material carefully.

Holders of HEPI common stock are not required to take any action to participate in the Distribution. HEPI is not soliciting your proxy because shareholder approval of the Distribution is not required.

Very truly yours,

Thomas D. Ingolia
Chairman of the Board of Directors
Health Enhancement Products, Inc. and HEPI Pharmaceuticals, Inc.

PRELIMINARY INFORMATION STATEMENT

Health Enhancement Products, Inc.

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This Registration/Information Statement is being furnished to the shareholders of Health Enhancement Products, Inc., a Nevada corporation ("HEPI"), in connection with HEPI's distribution (the "Distribution") of shares of its wholly owned subsidiary, HEPI Pharmaceuticals, Inc. ("HPharma") to holders of record of HEPI common stock on March 15, 2007 (the "Record Date"). HEPI will be distributing to persons who were shareholders on the Record Date one share of HPharma common stock, par value $.01 per share ("Common Stock"), for every ten shares of HEPI common stock owned on the Record Date. Fractional shares of Common stock will be rounded up to the next whole share. Following the Distribution, HEPI will own 90% of the outstanding shares of Common Stock and the HEPI shareholders who participated in the Distribution will own in the aggregate 10% of the outstanding Common Stock. It is anticipated that the Distribution will be effected as soon as practicable after the effectiveness of HPharma's Registration Statement on Form 10-SB (the "Distribution Date"). Certificates representing the shares of Common Stock will be mailed to shareholders on the Distribution Date or as soon thereafter as practicable.

No consideration will be required to be paid by HEPI shareholders for the shares of Common Stock to be received by them in the Distribution, nor will they be required to surrender or exchange shares of HEPI common stock in order to receive HPharma Common Stock. The fair market value of the HPharma stock distributed to shareholders will be treated as a dividend for Federal income tax purposes to the extent of HEPI's current or accumulated earnings and profits ("E&P Amount"). To the extent the value of the HPharma stock distributed exceeds such E&P Amount, each shareholder's adjusted basis in its HEPI stock will be reduced by the value of the HPharma stock received. If the value of the HPharma stock received by a shareholder exceeds its basis in its HEPI stock, such excess would be treated as gain on the sale or exchange of HEPI stock. It is not anticipated that HEPI will have any E&P Amount. Accordingly, the distribution of HPharma stock is not expected to result in a dividend to shareholders. Rather, it is expected that shareholders will reduce their adjusted basis in HEPI stock by the value of HPharma stock received (and recognize gain only to the extent such value exceeds such basis).

There is no current public trading market for the Common Stock. It is anticipated that HPharma's common stock will be quoted on the NASD Inc's OTC Bulletin Board.

IN REVIEWING THIS REGISTRATION/INFORMATION STATEMENT, YOU SHOULD CAREFULLY CONSIDER THE MATTERS DESCRIBED UNDER THE CAPTION "RISK FACTORS".

NO VOTE OF SHAREHOLDERS IS REQUIRED IN CONNECTION WITH THE DISTRIBUTION. THUS, WE AR ENOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

THE DATE OF THIS REGISTRATION/INFORMATION STATEMENT IS _____, 2007.

Following the Distribution, HPharma will be required to comply with the reporting requirements of the Exchange Act and will file annual, quarterly and other reports with the Commission. HPharma will also be subject to the proxy solicitation requirements of the Exchange Act and will furnish holders of Common Stock annual reports containing consolidated financial statements prepared in accordance with generally accepted accounting principles and audited and reported on, with an opinion expressed, by an independent public accounting firm.

No person is authorized to give any information or to make any representations other than those contained in this Registration/Information Statement, and if given or made, such information or representations must not be relied upon as having been authorized. This Registration/Information Statement does not constitute an offer to sell or a solicitation of any offer to buy any securities. This Registration/Information Statement presents information concerning HPharma believed by HEPI to be accurate as of the date set forth on the cover hereof. This Registration/Information Statement presents information concerning HEPI believed by HEPI to be accurate as of the date set forth on the cover hereof. Changes may occur in the presented information after that date. Neither HPharma nor HEPI plans to update said information except in the course of fulfilling their respective normal public reporting and disclosure obligations.

FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties, including, but not limited to:

- inability to raise funds for product research and development;
- inability to identify, develop or obtain, and introduce new products;
- inability to successfully conduct clinical and preclinical trials for any new products;
- competitive pressures from existing competitors and new entrants;
- enactment of adverse state or federal legislation or regulation that increases the costs of compliance or requisite regulatory approvals, or adverse findings by a regulator with respect to existing operations;
- our ability to obtain required regulatory approvals to develop and market potential products;
- our ability to execute our development plan on time and on budget; and
- inability to secure partners for development and marketing of pharmaceutical opportunities

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “desire,” “goal,” “should,” “objective,” “seek,” “plan,” “strive” or “anticipate,” as well as variations of such words or similar expressions, or the negatives of these words. These forward-looking statements present our estimates and assumptions only as of the date of this Registration/Information Statement. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

We caution readers not to place undue reliance on any such forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes will likely vary materially from those indicated. For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please refer to the section entitled “Risk Factors.”

For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "intends" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the Company's actual results to differ materially from those indicated by such forward-looking statements. The factors that could cause or contribute to such differences include without limitation those discussed in "Risk Factors" herein, as well as those discussed elsewhere in this Registration /Information Statement.

SUMMARY

The following summary is qualified in its entirety by the more detailed information, including "Risk Factors," and the Financial Statements and the Notes thereto, appearing elsewhere in this Registration/Information Statement. This Registration/Information Statement serves as the Registration Statement on Form 10-SB of HEPI Pharmaceuticals, Inc. and as an Information Statement of Health Enhancement Products, Inc. under Regulation 14C of the Securities Exchange Act of 1934, as amended.

References to “this Registration/Information Statement” include the Form 10-SB of HEPI Pharmaceuticals, Inc. and the Information Statement of Health Enhancement Products, Inc.

THE COMPANY

HEPI Pharmaceuticals, Inc. (“HPharma” or the “Company”) was incorporated January 10, 2007. Our executive offices are located at 7740 E. Evans Road, Scottsdale, AZ 85260. Our telephone number is (480) 385-3800. ProAlgaZyme ® and PAZ ® are registered trademarks of Health Enhancement Products, Inc. Any other trade names and trademarks appearing in this Registration/Information Statement are the property of their respective owners

We are engaged in the research, development and commercialization of the potential pharmaceutical drug opportunities, principally derived from HEPI’s nutraceutical product ProAlgaZyme (“PAZ”). Based on biochemical, cellular, animal, and human clinical data derived using PAZ, we believe that value can be created through the characterization, patenting and pre-clinical and clinical testing of individual chemicals derived from PAZ. We entered into a Pharmaceutical Development Agreement with HEPI to secure the exclusive rights to the potential pharmaceutical opportunities presented by PAZ.

Our strategy is to utilize Contract Research Organizations (“CRO’s) to carry out the research necessary to establish and develop potential pharmaceutical opportunities. Our management has experience managing such projects, and will endeavor to advance the research and development until sufficient value is created to facilitate a suitable collaboration with a pharmaceutical or biotechnology company to complete the development and regulatory approval process for the potential pharmaceutical opportunities. We believe that this strategy will create significant marketing and financial advantages for us.

THE DISTRIBUTION

Distributing Company	Health Enhancement Products, Inc. (“HEPI”). As used in this Registration/Information Statement, the term"HEPI" refers to Health Enhancement Products, Inc. and its subsidiaries(other than HEPI Pharmaceuticals, Inc.), unless the context requires otherwise. As used in this Registration/Information Statement, the term "the Company" or "HPharma" refers to HEPI Pharmaceuticals, Inc. and its subsidiaries, unless the context requires otherwise.
Common Stock to be Distributed	Approximately 4.2 million shares of common stock of HEPI Pharmaceuticals, Inc (“HPharma”), representing 10% of the outstanding shares of Common Stock of HPharma. Immediately after the Distribution, HEPI will own 90% of the outstanding shares of Common Stock.
Distribution	On the Distribution Date or as soon thereafter as practicable, the Distribution Agent (as defined below) will begin distributing certificates representing Common Stock to the shareholders of HEPI on the Record Date. HEPI shareholders will not be required to make any payment or to take any other action to receive Common Stock.
Distribution Ratio	One share of Common Stock for every ten shares of HEPI common stock owned on the Record Date.
Record Date	March 15, 2007.
Distribution Date	As soon as practicable after the effectiveness of our registration statement on Form 10-SB.
Distribution Agent	Interwest Transfer Company, Inc.
Fractional Share Interests	No certificates representing fractional shares of Common Stock will be issued. HEPI shareholders entitled to receive less than a full share of Common Stock will have the number of shares rounded up to the next whole number of shares. See "The Distribution -- Manner of Effecting the Distribution."
Trading Market	It is anticipated that the Common Stock will be quoted on the NASD Inc.’s OTC Bulletin Board. There is no current public trading market for the Common Stock.

Reasons for formation of HPharma.	HEPI Board of Directors believes that the formation of HPharma is in the best interests of HEPI and HEPI's shareholders because, among other things, it should (i) permit the financial community to focus separately on HEPI and the Company and their respective business opportunities; (ii) provide the Company with the opportunity to obtain greater access to capital to finance its business; and (iii) enhance the ability of the Company to attract, retain and motivate its employees by offering economic incentives and rewards tied more directly to the Company's performance.
Reasons for the Distribution	The HEPI Board of Directors believes that the Distribution is in the best interests of HEPI and HEPI's shareholders because the Distribution, among other things, will give shareholders the investment flexibility to focus their investment in the pharmaceutical area (HPharma stock) or in the nutraceutical area (HEPI stock), or participate in both.
Tax Consequences	The fair market value of the HPharma stock distributed to shareholders will be treated as a dividend for Federal income tax purposes to the extent of HEPI's current or accumulated earnings and profits ("E&P Amount"). To the extent the value of the HPharma stock distributed exceeds such E&P Amount, each shareholder's adjusted basis in its HEPI stock will be reduced by the value of the HPharma stock received. If the value of the HPharma stock received by a shareholder exceeds its basis in its HEPI stock, such excess would be treated as gain on the sale or exchange of HEPI stock. It is not anticipated that HEPI will have any E&P Amount. Accordingly, the distribution of HPharma stock is not expected to result in a dividend to shareholders. Rather, it is expected that shareholders will reduce their adjusted basis in HEPI stock by the value of HPharma stock received (and recognize gain only to the extent such value exceeds such basis).

Relationship with HEPI	HPharma has under the Pharmaceutical Development Agreement with HEPI the exclusive right to develop the potential pharmaceutical applications related to ProAlgaZyme, the principal product of HEPI. HPharma intends to execute a Services Agreement with HEPI under which it will rent space and utilize services including management, accounting, and operational support provided by HEPI.
Dividend Policy	The Company currently does not intend to pay cash dividends on the Common Stock. See "Risk Factors - Absence of Dividends."
Risk Factors	The shares of Common Stock to be issued in the Distribution involve a high degree of risk. Shareholders should carefully consider the matters discussed under the section entitled "Risk Factors."

THE REGISTRATION AND DISTRIBUTION

BACKGROUND OF HPHARMA AND THE REGISTRATION AND DISTRIBUTION

In January, 2007, HEPI announced the formation of a wholly owned subsidiary, HEPI Pharmaceuticals, Inc (the Company, or “HPharma”). In March 2007, HEPI announced its intent, subject to the satisfaction of certain conditions, to distribute partial ownership interest in the Company by means of the Distribution.

The HEPI Board of Directors believes that formation of HPharma was in the best interests of HEPI and HEPI's shareholders because , among other reasons, it should (i) permit the financial community to focus separately on HEPI and the Company and their respective business opportunities; (ii) provide the Company with the opportunity to obtain greater access to capital to finance its business; and (iii) enhance the ability of the Company to attract, retain and motivate its employees by offering economic incentives and rewards tied more directly to the Company’s performance.

The HEPI Board of Directors believes that the Distribution is in the best interests of HEPI and HEPI's shareholders because the Distribution, among other things, will give shareholders the investment flexibility to focus their investment in the pharmaceutical area (HPharma stock) or in the nutraceutical area (HEPI stock), or participate in both.

Thomas D. Ingolia, our CEO and Chairman, Janet C Crance, our Chief Accounting Officer and a director, and John Gorman, a director, will each receive shares in the Distribution by virtue of their ownership of HEPI shares, on the same basis of all other HEPI shareholders.

The Company believes that there are a number of risks and uncertainties associated with ownership of the Common Stock, including risks related to the Company’s inability to access any resources of HEPI following the Distribution, as well as HEPI’s current inability to fund HPharma. For a discussion of these risks and uncertainties, see "Risk Factors”.

The Company and HEPI have entered into or will, on or prior to the completion of the Distribution, enter into agreements that govern various interim and ongoing relationships. These agreements include (i) a Pharmaceutical Development Agreement defining the terms and conditions under which HPharma will develop the potential pharmaceutical applications of ProAlgaZyme and (ii) a Services Agreement, pursuant to which HEPI will continue on an interim basis to provide specified services to the Company for specified consideration.

MANNER OF EFFECTING THE DISTRIBUTION

HEPI will effect the Distribution following the Distribution Date by providing for the delivery of the Common Stock to the Distribution Agent for distribution to the owners of record of HEPI common stock on the Record Date. The Distribution will be made on the basis of one share of Common Stock for every ten shares of HEPI Common Stock outstanding on the Record Date. The shares of Common Stock will be fully paid and non-assessable, and the owners thereof will not be entitled to preemptive rights. See "Description of Capital Stock." Certificates representing Common Stock will be mailed to HEPI shareholders on the Distribution Date or as soon thereafter as practicable. No certificates or scrip representing fractional shares of Common Stock will be issued to HEPI shareholders as part of the Distribution.

After the Distribution, holders of HEPI common stock will continue to hold their shares of HEPI common stock and, if such shareholders were shareholders of record on the Record Date, they will also hold shares of Common Stock. No holder of HEPI common stock will be required to pay any cash or other consideration for the shares of Common Stock received in the Distribution or to surrender or exchange shares of HEPI common stock in order to receive shares of Common Stock. The Distribution will not affect the number of, or the rights attached to, outstanding shares of HEPI common stock.

After the Distribution, HEPI and the HEPI stockholders on the Record Date will own 90% and 10%, respectively, of the shares of Common Stock and it is anticipated that the Company will operate as a publicly owned corporation.

FEDERAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTION

The fair market value of the HPharma stock distributed to shareholders will be treated as a dividend for Federal income tax purposes to the extent of HEPI's current or accumulated earnings and profits ("E&P Amount"). To the extent the value of the HPharma stock distributed exceeds such E&P Amount, each shareholder's adjusted basis in its HEPI stock will be reduced by the value of the HPharma stock received. If the value of the HPharma stock received by a shareholder exceeds its basis in its HEPI stock, such excess would be treated as gain on the sale or exchange of HEPI stock. It is not anticipated that HEPI will have any E&P Amount. Accordingly, the distribution of HPharma stock is not expected to result in a dividend to shareholders. Rather, it is expected that shareholders will reduce their adjusted basis in HEPI stock by the value of HPharma stock received (and recognize gain only to the extent such value exceeds such basis).

THE SUMMARY OF FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE IS FOR GENERAL INFORMATION ONLY AND DOES NOT PURPORT TO COVER ALL FEDERAL INCOME TAX CONSEQUENCES THAT MAY APPLY TO ALL CATEGORIES OF SHAREHOLDERS. ALL SHAREHOLDERS SHOULD CONSULT THEIR TAX ADVISORS AS THE PARTICULAR TAX CONSEQUENCES OF THE DISTRIBUTION TO THEM, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND FOREIGN LAWS.

LISTING AND TRADING OF HPHARMA COMMON STOCK

Prior to the Registration and Distribution, there has been no public market for the Common Stock, and no history of trading prices to report. There can be no assurance that any trading market will develop or, if a market develops, the prices at which the Common Stock will trade after the Distribution Date.

It is anticipated that the Common Stock will be quoted on the NASD Inc.'s OTC Bulletin. Based on the number of holders of record of HEPI common stock as of March 15, 2007, HPharma is expected to initially have approximately 600 shareholders of record on the Distribution Date. The transfer agent and registrar for the Common Stock will be Interwest Transfer Company, Inc. No cash dividends have ever been declared on the Common Stock. There are no restrictions on our ability to pay dividends, subject to compliance with applicable laws.

There are no outstanding warrants or options to purchase, or securities convertible into, our common equity. We have not agreed to register any shares of Common stock for resale under the Securities Act of 1933, as amended ("Securities Act"). There are no compensation plans (including individual compensation arrangements) under which our equity securities are presently authorized for issuance.

It is anticipated that the Common Stock distributed to HEPI's shareholders will be freely Transferable, except for shares received by persons who may be deemed to be "affiliates" of HPharma or HEPI, within the meaning of the Securities Act. Persons who may be deemed to be affiliates of HPharma after the Distribution generally include individuals or entities that control, are controlled by, or are under common control with HPharma, and include the directors and executive officers of HEPI and HPharma and affiliates of HEPI. All the shares of Common Stock held by affiliates of HPharma may generally only be resold (i) in compliance with the applicable provisions of Rule 144 under the Securities Act, (ii) under an effective registration statement under the Securities Act, or (iii) pursuant to an exemption from the registration requirements of the Securities Act. Under Rule 144, an affiliate is entitled to sell, within any three-month period, a number of shares of Common Stock that does not exceed the greater of 1% of the then outstanding shares of Common Stock or the average weekly trading volume of the Common Stock during the four calendar weeks preceding the date on which notice of such sale was filed under Rule 144, provided certain requirements concerning availability of public information, manner of sale and notice of sale are satisfied.

After the Distribution, the approximate number of shares of HPharma Common Stock issued and outstanding will be 42 million, of which approximately 2 million shares will be held by affiliates and eligible for resale under Rule 144 of the Securities Act.

RISK FACTORS

Holding the Common Stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this Registration Statement. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that case, the trading price (if any) of the Common Stock could decline, and you may lose all or part of your investment.

Risks Related To Our Business

WE HAVE A NO OPERATING HISTORY AND OUR FINANCIAL RESULTS ARE UNCERTAIN.

We have no operating history and face all of the risks inherent to a new business. Because of our lack of operating history and the uncertainty associated with our business, it is difficult to accurately forecast our potential revenue. Our revenue and income potential is unproven and we may never develop a salable pharmaceutical product. Therefore, there can be no assurance that we will provide a return on investment in the future. An investor in our Common Stock must consider the challenges, risks and uncertainties frequently encountered in the establishment of new technologies and products in the pharmaceutical sector. These challenges include our ability to:

- access capital when required;
- execute our business model;
- achieve our key research and development milestones;
- enter into relationships with other pharma companies; and
- attract and retain key personnel.

Our lack of operating history and the uncertainty associated with the development of potential pharmaceutical applications makes an investment in the Common Stock highly risky.

WE WILL NEED FUNDING ALMOST IMMEDIATELY , AND IF WE ARE UNABLE TO RAISE CAPITAL WHEN NEEDED, WE MAY BE FORCED TO DELAY, REDUCE OR ELIMINATE OUR PRODUCT DEVELOPMENT PROGRAMS OR COMMERCIAL EFFORTS. ADDITIONAL FINANCING WILL BE DILUTIVE.

Developing pharmaceutical products and seeking approvals for such products from regulatory authorities is costly. The Company has no near-term expectation of revenues, and expects to incur substantial losses and negative cash flows until one or more of the components of PAZ can be sold or licensed. It is expected that this process will take up to one to two years. We will need to raise substantial additional capital almost immediately in order to execute our business plan and fund the development and commercialization of our potential pharmaceutical product candidates. We may not be able to obtain the funding we need on terms acceptable to us. If we are unable to obtain necessary funding, we will be unable to continue as a going concern, in which case you will suffer a total loss of your investment.

We may need to finance future cash needs through public or private equity offerings, debt financings or strategic collaboration and licensing arrangements. To the extent that we raise additional funds by issuing equity securities, our stockholders will experience dilution, and debt financing, if available, may involve restrictive covenants. If we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to any products, technologies or our development projects or to grant licenses on terms that are not favorable to us. We cannot be certain that additional funding will be available on acceptable terms, or at all. If adequate funds are not available , we may consider additional strategic financing options, including sales of assets (such as rights to any specialty pharmaceutical products we may develop), or we may be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or curtail some of our commercialization efforts. We may seek to access the public or private equity markets whenever conditions are favorable, even if we do not have an immediate need for additional capital.

THERE IS SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN.

Our auditor's report indicates that certain factors raise substantial doubt about our ability to continue as a going concern. Our auditors issued a going concern opinion because:

- we incurred a substantial loss from operations;
- we have a working capital deficiency; and
- we have not generated any revenue.

As of May 31, 2007, we had no cash and a working capital deficiency of $130,568. These conditions raise substantial doubt about our ability to continue as a going concern. HEPI, on which we are highly dependent for financial support and resources, has an immediate and urgent need for capital and is not currently in a position to provide us funds. If HEPI is unable to raise capital almost immediately, it will be unable to provide us with the support and resources we need to continue our operations, in which case our operations would probably cease and you would lose your entire investment.

We cannot assure you that we will be able to generate internally or raise sufficient funds from external sources to continue our operations, or that our auditor's will not issue another going concern opinion. Our failure to generate sufficient additional funds when required, either through external financing or from operations, would have a material adverse effect on our business and financial condition and on our ability to continue as a going concern.

ACHIEVING POSITIVE CLINICAL RESULTS IS HIGHLY UNCERTAIN

The clinical results to date from testing of PAZ have indicated the potential for useful activity and suitable safety. Additional testing is necessary and is underway. If activity is not found, or safety issues are observed in the new trials, the ability of individual components to be developed as pharmaceutical agents will be compromised, which would adversely affect our business. In addition, negative results may make it more difficult, if not impossible, for us to get the funding to carry out our strategic plan and to maintain our operations.

OUR TECHNICAL SUCCESS DEPENDS ON OUR ABILITY TO IDENTIFY SUITABLE NOVEL AGENTS FROM PAZ

The Company's principal asset is the license to the pharmaceutical rights to the ingredient(s) in PAZ. Developing and maintaining any value for our shareholders depends on our ability to identify suitable development candidates from PAZ. Our ability to do so could be compromised if a) the ingredient(s) of PAZ are unstable to the purification and characterization process; b) the ingredient(s) of PAZ are not identifiable, either because of technical challenges associated with the chemical structure or low quantities present in PAZ, or both; c) the ingredient(s) of PAZ are not unique, and instead are already known and proprietary to other organizations, thereby making them unavailable to us for further development; d) the ingredient(s) of PAZ may not have satisfactory characteristics for pharmaceutical development, such as pharmacokinetic, toxicological, formulation, and other traits; e) the individual ingredient(s) from PAZ may not have the activity of the original mixture; for example, the activity of PAZ could be due to the synergistic interactions of more than one agent, thereby making the pharmaceutical development difficult or not feasible; or f) the individual ingredient(s) from PAZ may not have the safety profile of PAZ itself; for example, the presence of one or more agents in PAZ may prevent the toxicity of the active component from being demonstrated, and upon purification the component with the desired activity could have an unacceptable toxicity profile.

THE VIABILITY OF HEPI COULD AFFECT OUR ABILITY TO ACHIEVE OUR STRATEGIC MILESTONES

HEPI has a history of losses and has an immediate need for additional funding to continue operations. If HEPI is unable to obtain funding and ceases operations, the availability of starting material for the purification and characterization of the components of PAZ may be compromised and HEPI would no longer provide financial or operational support to us. Currently, the Company is able to secure starting material as a by-product of the manufacture of the nutraceutical product, ProAlgaZyme. If this source of starting material is compromised, we may require more resources to produce the starting material itself, and may encounter difficulties producing the material. Without financial or operational support from HEPI, we may be unable to continue as a going concern.

POTENTIAL CONFLICTS OF INTEREST WITH HEPI MAY INTERFERE WITH OUR ABILITY TO ACCOMPLISH OUR KEY GOALS

Conflicts of interest may arise between us and HEPI in a number of areas relating to our past and ongoing relationships, including the manufacture and testing of ProAlgaZyme. There could be situations in which the acquisition of certain information about ProAlgaZyme or its ingredient(s) would benefit one entity but would not be in the best interests of the other.

In anticipation of the Distribution, we and HEPI have entered into a Pharmaceutical Development Agreement. As a result of HEPI's ownership interest in us, the terms of this agreement was not the result of an arm's-length negotiation.

Our directors are currently also directors of HEPI. While new director appointments are currently being sought for both entities, any directors of the Company who are also directors of HEPI may have conflicts of interest with respect to matters potentially or actually involving or affecting us and HEPI, such as acquisitions, financings and other corporate opportunities that may be suitable for us and HEPI. To the extent that such opportunities arise, such directors may consult with legal counsel and make a determination after consideration of a number of factors, including whether such opportunity is presented to either of such directors in his capacity as our director, whether such opportunity is within our line of business or consistent with our strategic objectives and whether we will be able to undertake or benefit from such opportunity. In addition, determinations may be made by our Board of Directors, when appropriate, by the vote of the disinterested directors only. Notwithstanding the foregoing, conflicts may not be resolved in favor of the Company. See "Arrangements between the Company and HEPI."

OBTAINING LICENSING AND DEVELOPMENT PARTNERS MAY BE DIFFICULT AND NEGATIVELY IMPACT OUR BUSINESS

Our intention is to realize the value, if any, from development of the potential pharmaceutical opportunities of PAZ, by licensing and/or selling rights to individual product opportunities to pharmaceutical or biotechnology partners with development and marketing resources. Any value from these projects will be realized through these partnerships, potentially in the form of up-front licensing fees, research support, milestones, royalties, and other payments. We may not be able to find a partner willing to participate in these projects. While there is currently interest in the pharmaceutical industry in agents with the activity and safety profiles indicated by the nutraceutical product, PAZ, there may not be interest in these activities if and when pharmaceutical opportunities derived from ProAlgaZyme are developed sufficiently to realize significant value from licensing and partnering arrangements.

GOVERNMENT REGULATION; NO ASSURANCE OF REGULATORY APPROVAL

The development, clinical testing, manufacture, marketing and sale of pharmaceutical products are subject to extensive federal, state and local regulation in the United States. We cannot predict the extent to which we may be affected by legislative and regulatory actions and developments concerning various aspects of its operations, its products and the health care field generally. All new prescription drugs must be approved by the FDA before they can be introduced into the market in the United States. These approvals are based on manufacturing, chemistry and control data, as well as safety and efficacy studies and/or bioequivalence studies. The generation of the required data is regulated by the FDA and is time-consuming and expensive, and we cannot assure you that the results will be sufficient to secure necessary approvals.

Our strategic plan involves partial development of newly discovered opportunities, followed by the licensing and/or sale of some or all of the partially developed opportunities. We currently plan to develop one or more of the opportunities into early human clinical testing (Phase 1 and Phase 2 clinical tests). The ability to conduct human clinical tests depends on receipt of approval from the regulatory agencies after submission of an Investigational New Drug (“IND”) application. We may not be able to secure this approval, in which case our development efforts would be adversely affected. Also, there can be substantial delays in obtaining approval, including the need to generate and submit additional data. Data submitted to the FDA is often susceptible to varying interpretations that could delay, limit or prevent regulatory approval. Also, delays or rejections may be encountered during any stage of the regulatory approval process based upon the failure of clinical data to demonstrate compliance with, or upon the failure of the product to meet, the FDA's requirements for safety, efficacy and quality; and those requirements may become more stringent due to changes in regulatory agency policy or the adoption of new regulations. If we encounter significant delays or are unable obtain necessary approvals, it is likely that there will be a material adverse affect on our business.

THE LOSS OF KEY EXECUTIVES AND FAILURE TO ATTRACT QUALIFIED MANAGEMENT COULD ADVERSELY AFFECT OUR BUSINESS.

We depend highly upon our senior management team. We will continue to depend on operations management personnel with pharmaceutical and scientific industry experience. At this time, we do not know of the availability of such experienced management personnel or how much it may cost to attract and retain such personnel. The loss of the services of any member of senior management or the inability to hire experienced operations management personnel could have a material adverse effect on our financial condition and results of operations.

WE ARE DEPENDENT ON THIRD PARTIES FOR THE DEVELOPMENT AND SUPPLY OF OUR PRODUCT CANDIDATES

We currently rely on third-party contract research and development firms to analyze our potential product candidates. We are or will be substantially dependent on third parties in connection with our current and future product candidates.

Our ability to commercialize any products we develop with our partners and generate revenues from product sales depends on our partners' ability to assist us in establishing the safety and efficacy of our product candidates, obtaining and maintaining regulatory approvals and achieving market acceptance of any products we are able to commercialize. Our partners may elect to delay or terminate development of one or more product candidates, independently develop products that could compete with ours or fail to commit sufficient resources to the marketing and distribution of any products developed through their strategic relationships with us. If our partners fail to perform as we expect, our potential for revenue from products developed through our strategic relationships could be dramatically reduced.

The risks associated with our reliance on contract research and development include the following:

• Contract research and development organizations may encounter difficulties in overcoming technical hurdles, and also may experience shortages in qualified personnel and obtaining critical raw materials.

• Contract research and development organizations may breach the agreements that we or our development partners have entered into because of factors beyond our control, or may terminate or fail to renew an agreement based on their own business priorities, at a time that is costly or inconvenient for us.

If we are not able to obtain adequate supplies of any future products, it will be more difficult for us to develop our product candidates and compete effectively. If we or any of our third-party development partners are unable to continue to access sufficient supply from our third-party contract manufacturers, we may not be able to find another suitable source of supply that meets our need to manufacture products. Dependence upon third parties for the manufacture of our product candidates may reduce our profit margins, if any, on the sale of our products, and may limit our ability to develop and deliver products on a timely and competitive basis, which could increase costs and delay our ability to generate revenue.

WE ARE EXPOSED TO THE RISK OF LIABILITY CLAIMS, FOR WHICH WE MAY NOT HAVE ADEQUATE INSURANCE.

Since we intend to participate in the pharmaceutical industry, we may be subject to liability claims by employees, customers, end users and third parties. Though we do not currently have product liability insurance, we intend to have proper insurance in place, if and when we commence the sale of a pharmaceutical product; however, there can be no assurance that any liability insurance we have or purchase will be adequate to cover claims asserted against us or that we will be able to maintain such insurance in the future. We intend to adopt prudent risk management programs to reduce these risks and potential liabilities; however, there can be no assurance that such programs, if and when adopted, will fully protect us. Adverse rulings in any legal matters, proceedings and other matters could have a material adverse effect on our business.

OTHER COMPANIES MAY CLAIM THAT WE HAVE INFRINGED UPON THEIR INTELLECTUAL PROPERTY OR PROPRIETARY RIGHTS.

We do not believe that our planned products or processes violate third-party intellectual property rights. Nevertheless, claims relating to violation of such rights may be asserted against us by third parties. If any of our products or processes is found to violate third-party intellectual property rights, we may be required to re-engineer or cause to be re-engineered one or more of those products or processes, or seek to obtain licenses from third parties to continue offering any products or processes without substantial re-engineering, and such efforts may not be successful.

In addition, future patents, upon which our technology may infringe, may be issued to third parties. We may incur substantial costs in defending against claims under any such patents. Furthermore, parties making such claims may be able to obtain injunctive or other equitable relief, which effectively could block our ability to further develop or commercialize our product in the United States or abroad, and could result in the award of substantial damages against us. In the event of a claim of infringement, we may be required to obtain one or more licenses from third parties. We may not be able to obtain such licenses at a reasonable cost, if at all. Defense of any lawsuit or failure to obtain any such license could have a material adverse effect on our business.

OUR SUCCESS DEPENDS ON OUR ABILITY TO PROTECT OUR PROPRIETARY TECHNOLOGY.

We believe that patent protection of any discoveries arising from the research and development work done on ProAlgaZyme is critical to our business strategy and that our success will depend, in part, on our ability to obtain and defend patent protection, maintain trade secret protection and operate without infringing on the rights of others. The industry highly values the exclusivity that is conferred by adequate patent protection, and our ability to secure profitable partnerships and licenses is dependent on our obtaining and defending patents for newly discovered compounds. If we are unable to obtain and protect our patent rights or if we infringe the patent or proprietary rights of others, there could be a material adverse effect on our business, financial condition and results of operations. Legal fees and other expenses necessary to obtain and maintain appropriate patent protection could be material. Insufficient funding may inhibit our ability to obtain and maintain such protection. Additionally, if we must resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive, and could involve a high degree of risk to our proprietary rights if we are unsuccessful in, or cannot afford to pursue, such proceedings.

Additionally, we may, from time to time, support and collaborate in research conducted by universities and governmental research organizations. We may not be able to acquire exclusive rights to the inventions or technical information derived from such collaborations, or disputes may arise with respect to rights in derivative or related research programs conducted by us or such collaborators.

Because the patent positions of pharmaceutical and biotechnology companies are highly uncertain and involve complex legal and factual questions, any future patents owned and licensed by us may not prevent other companies from developing competing products or ensure that others will not be issued patents that may prevent the sale of any of our then products or require licensing and the payment of significant fees or royalties. Furthermore, to the extent that: (i) any of our future products or methods are not patentable; (ii) such products or methods infringe upon the patents of third parties; or (iii) future patents fail to give us an exclusive position in the subject matter to which such patents relate, we will be adversely affected. We may be unable to avoid infringement of third-party patents and may have to obtain a license, or defend an infringement action and challenge the validity of such patents in court. A license may be unavailable on terms and conditions acceptable to us, if at all. Patent litigation is costly and time consuming, and we may be unable to prevail in any such patent litigation or devote sufficient resources to even pursue such litigation. If we do not obtain a license under such patents, are found liable for infringement and are not able to have such patents declared invalid, we may be liable for significant monetary damages, encounter significant delays in bringing products to market or may be precluded from participating in the manufacture, use or sale of products or methods of treatment requiring such licenses.

OUR FUTURE GROWTH MAY BE INHIBITED BY THE FAILURE TO IMPLEMENT NEW TECHNOLOGIES.

Our future growth is partially tied to our ability to improve our knowledge and implementation of pharmaceutical technologies. If we are unable to successfully implement commercially viable pharmaceutical technologies in response to market conditions in a manner that is responsive to the demands of the marketplace, there could be a material adverse effect on our business.

INTENSE COMPETITION AND THE RISK OF TECHNOLOGICAL CHANGE MAY AFFECT OUR ABILITY TO ACHIEVE FINANCIAL SUCCESS

The pharmaceutical industry is highly competitive and is affected by new technologies, governmental regulations, health care legislation, availability of financing, litigation and other factors. Many of our competitors have longer operating histories and greater financial, marketing, legal and other resources than we have. We expect to be subject to competition from numerous other entities that currently operate or intend to operate in the pharmaceutical industry, including companies that engage in the development of pharmaceutical opportunities for the treatment of high cholesterol, inflammation, and infections.

Since most of the research and development work in the pharmaceutical and biotechnology industry is maintained as confidential information and as trade secrets, there could be other research and development efforts studying the same starting material. If other entities are able to obtain intellectual property protection for agents in ProAlgaZyme before we are able to file our own patents, we may be prevented from commercializing these opportunities.

Risks Related To Our Common Stock

NO PRIOR PUBLIC MARKET; POTENTIAL VOLATILITY OF STOCK PRICE

Prior to the Distribution, there has been no public market for the HPharma Common Stock. There may never be a public market for the Common Stock. We cannot predict the prices, if any, at which the Common Stock will trade after the Distribution Date.

Immediately following the Distribution, shareholders of HEPI on the Record Date will own in the aggregate 10% of the shares of Common Stock outstanding. It is anticipated that all such shares, except those held by affiliates of HPharma, will be eligible for immediate resale in the public market. We are unable to predict whether substantial amounts of Common Stock will be sold in the open market following the Distribution. Sales of substantial amounts of Common Stock in the public market, or the perception that such sales might occur, whether as a result of the Distribution or otherwise, could materially adversely affect the market price of the Common Stock.

The market prices for securities of pharmaceutical, biopharmaceutical and biotechnology companies have historically been highly volatile. The market from time to time experiences significant price and volume fluctuations that are unrelated to the operating performance of particular companies. In addition, factors such as fluctuations in our operating results, future sales of Common Stock, announcements of technological innovations or new therapeutic products by the Company or its competitors, announcements regarding collaborative agreements, clinical trial results, government regulation, developments in patent or other proprietary rights, public concern as to the safety of any drugs developed by us or others, changes in reimbursement policies, comments made by securities analysts and general market conditions can have an adverse effect on the market price of the Common Stock. In particular, the realization of any of the risks described in these "Risk Factors" could have a significant and adverse impact on such market price.

ABSENCE OF DIVIDENDS

We have not paid any dividends on our Common Stock since inception and we do not anticipate paying any cash or other dividends in the foreseeable future. See "Dividend Policy."

BECAUSE WE ARE SUBJECT TO THE PENNY STOCK RULES, SALE OF OUR COMMON STOCK BY INVESTORS MAY BE DIFFICULT.

We anticipate being subject to the SEC’s “penny stock” rules. Penny stocks generally are equity securities with a price of less than $5.00. The penny stock rules require broker-dealers to deliver a standardized risk disclosure document prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer must also provide the purchaser with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson and monthly account statements showing the market value of each penny stock held in the purchaser’s account. The bid and offer quotations and the broker-dealer and salesperson compensation information must be given to the purchaser orally or in writing prior to completing the transaction, and must be given to the purchaser in writing before or with the purchaser’s confirmation.

In addition, the penny stock rules require that prior to a transaction, the broker and/or dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. The penny stock rules are burdensome and may reduce purchases of any offerings and reduce the trading activity for our common stock. As long as our common stock is subject to the penny stock rules, the holders of our common stock may find it more difficult to sell their securities.

OUR PRINCIPAL STOCKHOLDER HAS THE ABILITY TO EXERT SIGNIFICANT CONTROL IN MATTERS REQUIRING STOCKHOLDER VOTE AND COULD DELAY, DETER OR PREVENT A CHANGE IN CONTROL OF OUR COMPANY.

HEPI will own approximately 90% of our outstanding common stock after the Distribution. Consequently, HEPI will be able to control the election of directors and other matters presented for a vote of stockholders. HEPI could delay, deter or prevent a change in control or other business combination that might otherwise be beneficial to our other stockholders. In deciding how to vote on such matters, HEPI may be influenced by interests that conflict with those of other stockholders. As a result, investors who purchase our common stock should be willing to entrust all aspects of operational control to HEPI and its management team.

DIVIDEND POLICY

We have never paid cash dividends on our Common Stock. We presently intend to retain any earnings for use in the operation of our business, and therefore we do not anticipate paying any cash dividends in the foreseeable future.

DESCRIPTION OF BUSINESS

BUSINESS DEVELOPMENT

HEPI Pharmaceuticals, Inc. ("HPharma") was established in January, 2007, as a wholly owned subsidiary of Health Enhancement Products, Inc. ("HEPI"). The purpose of HPharma is to develop potential pharmaceutical applications for HEPI's primary product, ProAlgaZyme (PAZ). In connection with the formation of HEPI Pharma, we entered into a Pharmaceutical Development Agreement with HEPI. Under the Development Agreement, we were granted the right to develop the potential pharmaceutical applications of PAZ and its derivatives. In exchange for these rights, HEPI became our sole stockholder and is entitled to certain payments based on our attainment of specified development milestones and sales revenues. We Are currently in the research and development phase and do not have any salable products.

OUR BUSINESS DEVELOPMENT STRATEGY

Our strategy is to focus on the purification, characterization, intellectual property protection, pre-clinical development, and early clinical development of one or more chemicals in PAZ. If we are able to secure positive data from Phase 1 and Phase 2 clinical studies, we intend to license or sell the opportunity to a pharmaceutical or biotechnology company with the development and marketing resources to take the opportunities into the pharmaceutical marketplace.

PRELIMINARY TRIALS DEVOTED TO PROALGAZYME®

Our research and development efforts center on the development of potential pharmaceutical applications of ProAlgaZyme® ("PAZ"). PAZ is produced by growing a proprietary set of microbes, including algae, and filtering and bottling the liquid. Typically, customers take 2 to 4 oz per day. Numerous anecdotal reports of benefits (including reduction of inflammation, resistance to infections, and tolerance of chemotherapy treatment) were received over the past approximately 15 years. In 2003, Health Enhancement Corporation, currently HEPI's wholly owned subsidiary ("HEC"), acquired all the rights to PAZ, and HEPI acquired HEC. Since then, HEPI has devoted resources to manufacturing and research and development.

In 2006, HEPI initiated clinical trials. One study involved participants with Metabolic Syndrome, a condition typified by metabolic and lipid imbalances. Positive results (p=0.05 or better) were seen in the key prospective markers, including cholesterol levels, cholesterol ratios, and C-reactive protein levels (a marker of inflammation). The second study involved patients infected with HIV virus. Patients were broken up into high and low dose groups. High dose groups showed positive results in the key prospective markers, including reduction in viral load and increase in levels of CD4+ cells. (CD4+ cells are white blood cells with important immune functions; levels of these cells are reduced as a consequence of HIV infection). Low dose groups also showed significant increases in the CD4+ levels but did not show reduction in viral load.

The Metabolic Syndrome trial was a double blinded, placebo-controlled study. Metabolic Syndrome, also called Syndrome X, is a collection of symptoms including metabolic and lipid imbalances. It is estimated that the condition afflicts about 1 in every 4 persons in the U.S., and as high as 4 out of every 10 individuals aged 60 and above. According to the American Heart Association, Metabolic Syndrome is associated with obesity and Type II Diabetes. Cardiovascular risk is associated with the imbalances in cholesterol levels and ratios often seen in the syndrome, with elevated total cholesterol and low ratios of HDL ("good cholesterol") vs. LDL. Another marker associated with cardiovascular risk is C-Reactive Protein (CRP), a blood marker that according to the American Heart Association is elevated in patients with systemic inflammation and can be used as an indicator of cardiovascular risk, with low, moderate and high cardiovascular risk assigned to ranges of CRP. For a period of 10 weeks, 30 participants received one ounce doses of ProAlgaZyme 4 times per day, and 30 received placebo. Improvements (p=0.05 or lower) were seen in the key prospective markers, including CRP down 57% in the ProAlgaZyme group vs. down 7% in the placebo group; total cholesterol down 32% in the ProAlgaZyme group vs. down 3% in the placebo group, and HDL ("good cholesterol") levels up 14% in the ProAlgaZyme group vs. down 8% in the placebo group.

In the HIV Trial, data was collected from 36 patients administered low dose (4 to 8 ounces of ProAlgaZyme per day) and 19 patients administered high dose (16 to 20 ounces of ProAlgaZyme per day) for 12 weeks, with no changes in their previous treatment regimens. In the low and high dose groups respectively, viral loads were down 15% and 32%; CD4+ T lymphocyte levels were up 36% and 49%; CRP levels were down 45% and 41%; and Total Cholesterol levels were down 30% and 30%. The reduction in viral load in the low dose group was not statistically significant; all other changes were statistically significant (p=0.05 or better).

In order to corroborate these positive results, HEPI initiated another trial in subjects with metabolic syndrome. This study, being conducted by MAPS Clinical Research Associates (Edina, MN, USA) is a placebo controlled, double blinded study designed for 12 weeks of treatment. The study is expected to be completed during the fourth quarter of 2007.

The human clinical and animal studies also suggest that PAZ is safe. A 12 month study in rats, in which the sole water source was PAZ, showed no significant side effects or safety issues.

These studies and long-term experience with PAZ suggest potential value for pharmaceutical development of ingredient(s) of PAZ, based on preliminary indications of:

1. Potential benefits in areas of market potential and medical need.

    a. Dyslipidemia/high cholesterol levels

    b. Inflammation reduction and cardiovascular risk reduction (as evidenced by reductions in CRP levels)

    c. Antiviral activity, including activity in patients with HIV

2. Safety – no significant side effects or toxicity seen in animal or human tests and experience.

3. Oral Activity – human and animal studies that indicated activity where oral dosing was employed.

4. Physical stability – human and animal studies that indicated activity were carried out using material stored at room temperature for several months.

RESEARCH AND DEVELOPMENT PLAN

From inception (January 10, 2007) through March 31, 2007, we expended $45,000 on product research and development (and from April 1, 2007 to May 31, 2007, we expended an additional $45,000). Our Research and Development plan is as follows:

A. Purification. Studies are initiated to concentrate and purify chemical constituents of PAZ. A small portion of the work is being done in-house, and the rest is being done by contract research organizations ("CRO's"). We are currently working with three different CRO's, and have relationships with several others with which work could be done in the future. Initial experiments utilized ion exchange (cation and anion) and reverse phase media to bind chemical constituents, followed by elution with salt or solvents, respectively. The fractions obtained are characterized by various chromatographic techniques, including mass spectroscopy. The fractions are currently being tested in several assays, including biochemical, cellular and animal assays relevant to the activities observed in the clinical tests. While progress has been made, we may not be able to complete the purification. For example, 1) the agent(s) of interest could be unstable when fractionated; 2) activity could be lost upon fractionation; and 3) the agent(s) of interest might be too dilute (i.e. too little mass present in PAZ) to facilitate purification.

B. Characterization. Coordinated with the purification efforts will be studies designed to elaborate the physical nature and chemical identity of any active agent(s). A small portion of the work is being done in-house, and most of the work is being done by CRO's, including CRO's based at academic institutions. Characterization methods being employed include mass spectroscopy, chromatography, and multi-dimensional nuclear magnetic spectroscopy. While progress has been made, we may not be able to complete the characterization of active ingredient(s) in PAZ. For example, the chemical constituent(s) of interest may not be stable to the characterization methods required, and/or the individual chemical constituents may not be present in sufficient quantities to allow characterization.

C. Pre-Clinical Development. Pre-clinical studies are not yet underway. We plan to take any selected lead compound(s) through the pre-clinical development work needed to initiate human clinical studies. In particular, we intend to work with CRO's to 1) manufacture the active pharmaceutical ingredient under Good Manufacturing Process (GMP) conditions; 2) obtain data on chemistry, manufacture and control; 3) obtain pharmacology and pharmacokinetic data; 4) obtain toxicology data; 5) obtain other data needed for filing an Investigational New Drug ("IND") application with the relevant regulatory agencies, including the U.S. Food and Drug Administration. While the preliminary data available on PAZ as a mixture is encouraging with respect to the probability of achieving these milestones, we may not be able to obtain IND approval. For example, the purified ingredient(s) may have characteristics different from PAZ, and/or new information may demonstrate a lack of suitability for pharmaceutical development.

D. Clinical Development. Clinical pharmaceutical development studies are not yet underway. Upon successful filing of an IND, our strategy will be to carry out a Phase 1 human safety study and a Phase 2 preliminary efficacy study. If we receive positive data from these studies, there should be sufficient value to allow sale of the project(s) to a pharmaceutical development and marketing partner. While the preliminary data available on PAZ as a mixture is encouraging with respect to the probability of achieving these clinical milestones, we may not be successful in this regard. For example, the purified ingredient(s) may have characteristics different from PAZ, and/or new information may demonstrate a lack of suitability for pharmaceutical development.

INTELLECTUAL PROPERTY PROTECTION

A key requirement for realizing any value from pharmaceutical development of PAZ is that the chemical entity chosen for development be patentable, preferably with intellectual property coverage including composition of matter claims. To this end, it would be optimal that the lead compound be a novel chemical. The likelihood of unique and active agents being found in PAZ is reasonable because of the unusual source of PAZ itself. PAZ is produced from the conditioned medium (cell free liquid) in which a proprietary mixture of microorganisms are grown under severely nutrient-limiting conditions. The secreted metabolites of these organisms are a relatively under-explored area of pharmaceutical discovery work. However, there is no guarantee that any novel chemicals will be found in PAZ. If the agent(s) found are not unique, we may not be able to realize commercial value from them, even if they are suitable for pharmaceutical development in other respects.

The results of the purification and characterization will be used as the basis for patent filings. We are working with the intellectual property group of Ropes and Gray, LLC to carry out this work. Initial patent filings by HEPI have been made on the results from progress to date, and the claims relating to pharmaceutical applications are licensed to HPharma as part of the Pharmaceutical Development Agreement. In addition to the risks noted above that the constituent(s) of PAZ may not be able to be identified sufficiently to allow IP protection, there is also the risk that the agent(s) discovered may be already known. If the agent(s) of interest are already in the public domain, our ability to secure intellectual property protection will be compromised. If the agent(s) of interest are already the subject of issued patents, we may be prevented from proceeding with our strategic plan without costly licenses, or may not be able to procure licenses. We consider the protection afforded by patents important to our business. Our success depends in part on our ability to obtain patents, protect trade secrets, operate without infringing the proprietary rights of others and prevent others from infringing on our proprietary rights. We intend to seek patent protection in the United States and select foreign countries where we deem it appropriate for any products we develop. We cannot be sure that any patents will result from our patent applications, that any patents that may be issued will protect our intellectual property or products or that any issued patents will not be challenged by third parties. In addition, if we do not avoid infringement of the intellectual property rights of others, we may have to seek a license to sell our products, defend an infringement action or challenge the validity of the intellectual property in court, all of which could be expensive and time consuming.

The issuance of a patent is not conclusive as to its validity or as to the enforceable scope of the claims of the patent. We cannot be sure that any future patents will prevent other companies from developing non-infringing similar or functionally equivalent products or from successfully challenging the validity of any patents we might secure. Furthermore, we cannot assure you that (i) any of our future processes or products will be patentable; (ii) any pending or future patents will be issued in any or all appropriate jurisdictions; (iii) any of our processes or products will not infringe upon the patents of third parties; or (iv) we will have the resources to defend against charges of infringement by or protect our own patent rights against third parties. Our inability to protect our patent rights or avoid infringing the patent or proprietary rights of others could have a material adverse effect on our business, financial condition and results of operations.

We also rely on trade secrets and proprietary knowledge, which we generally seek to protect by entering into confidentiality and non-disclosure agreements with third parties. We cannot assure you that these agreements have or in all cases will be obtained, that these agreements will not be breached, that we will have adequate remedies for any breach or that our trade secrets will not otherwise become known by competitors.

PHARMACEUTICAL DEVELOPMENT AGREEMENT

We have entered into a Pharmaceutical Development Agreement with HEPI. Under the Pharmaceutical Development Agreement, HEPI granted us the right to develop the potential pharmaceutical applications of PAZ and its derivatives. In exchange for these rights, HEPI became our sole stockholder and is entitled to certain payments based on the attainment of specified development milestones and sales revenues. Milestones include: a) exercise of option to license a newly discovered pharmaceutical lead candidate; b) filing of an IND; c) initiation of a Phase 2 human clinical trial; d) initiation of a Phase 3 human clinical trial; e) commercial launch; and f) attainment of cumulative annual net sales levels. The size of the milestone payments is dependent on whether the licenses are exclusive or non-exclusive. In addition to the milestone payments, royalties on annual net sales are due. The royalties are dependent on the type of the license and the level of annual net sales.

The Company's strategic plan involves partial development of any newly discovered opportunities, followed by the licensing and/or sale of some or all of the partially developed opportunities. It is currently planned to develop one or more of the potential opportunities into early human clinical testing (Phase 1 and Phase 2 clinical tests). The ability to conduct human clinical tests depends on receipt of approval from the regulatory agencies after submission of an Investigational New Drug ("IND") application. We cannot assure you that we will be able to secure this approval. Also, there can be substantial delays in obtaining approval, including the need to generate and submit additional data. Data submitted to the FDA is often susceptible to varying interpretations that could delay, limit or prevent regulatory approval. Also, delays or rejections may be encountered during any stage of the regulatory approval process based upon the failure of clinical data to demonstrate compliance with, or upon the failure of the product to meet, the FDA's requirements for safety, efficacy and quality; and those requirements may become more stringent due to changes in regulatory agency policy or the adoption of new regulations.

Government authorities in the United States at the federal, state, and local levels extensively regulate, among other things, the research, development, testing, manufacture, labeling, promotion, advertising, distribution, sampling, marketing and import and export of pharmaceutical products and medical devices. Our potential pharmaceutical products will require regulatory approval by government agencies prior to commercialization. Various federal, state, local and foreign statutes and regulations also govern testing, manufacturing, safety, labeling, storage and record-keeping related to such products and their marketing. The process of obtaining these approvals and the subsequent process of maintaining substantial compliance with appropriate federal, state and local statutes and regulations require the expenditure of substantial time and financial resources. In addition, statutes, rules, regulations and policies may change and new legislation or regulations may be issued that could delay or prevent such approvals.

Pharmaceutical Product Regulation

In the United States, the FDA regulates pharmaceutical products under the U.S. Food, Drug, and Cosmetic Act ("FDCA"), and implementing regulations that are adopted under the FDCA. If we fail to comply with the applicable requirements under these laws and regulations at any time during the product development process, approval process, or after approval, we may become subject to administrative or judicial sanctions. These sanctions could include the FDA's refusal to approve pending applications, withdrawals of approvals, clinical holds, warning letters, product recalls, product seizures, total or partial suspension of our operations, injunctions, fines, civil penalties or criminal prosecution. Any agency enforcement action would have a material adverse effect on us. The FDA also administers certain controls over the export of drugs from the United States.

Under the United States regulatory scheme, the development process for new pharmaceutical products can be divided into three distinct phases:

• *Preclinical Phase*. The preclinical Phase involves the discovery, characterization, product formulation and animal testing necessary to prepare an Investigational New Drug application ("IND") for submission to the FDA. The IND must be accepted by the FDA before the drug can be tested on humans.

• *Clinical Phase*. The clinical phase of development follows a successful IND submission and involves the activities necessary to demonstrate the safety, tolerability, efficacy and dosage of the substance in humans, as well as the ability to produce the substance in accordance with the FDA's current Good Manufacturing Processes ("cGMP") requirements. Data from these activities are compiled in a New Drug Application for submission to the FDA requesting approval to market the drug.

• *Post-Approval Phase.* The post-approval phase follows FDA approval of a New Drug Application ("NDA") (discussed below) and involves the production and continued analytical and clinical monitoring of the product. The post-approval phase may also involve the development and regulatory approval of product modifications and line extensions, including improved dosage forms of the approved product, as well as for generic versions of the approved drug, as the product approaches expiration of patent or other exclusivity protection.

Each of these three phases is discussed further below:

Preclinical Phase. The development of a new pharmaceutical agent begins with the discovery or synthesis of a new molecule. These agents are screened for pharmacological activity using various animal and tissue models, with the goal of selecting a lead agent for further development. Additional studies are conducted to confirm pharmacological activity, generate safety data and evaluate prototype dosage forms for appropriate release and activity characteristics. Once the pharmaceutically active molecule is fully characterized, an initial purity profile of the agent is established. During this and subsequent stages of development, the agent is analyzed to confirm the integrity and quality of material produced. In addition, development and optimization of the initial dosage forms to be used in clinical trials are completed, together with analytical models to determine product stability and degradation. A bulk supply of the active ingredient to support the necessary dosing in initial clinical trials must be secured. Upon successful completion of preclinical safety and efficacy studies in animals, an IND submission is prepared and provided to the FDA for review prior to commencement of human clinical trials. The IND consists of the initial chemistry, analytical, formulation and animal testing data generated during the preclinical phase. In general, the review period for an IND submission is 30 days, after which, if no comments are made by the FDA, the product candidate can be studied in Phase 1 clinical trials.

Clinical Phase. Following successful submission of an IND, the sponsor is permitted to conduct clinical trials involving the administration of the investigational product candidate to human subjects under the supervision of qualified investigators in accordance with Good Clinical Practice (GCP). Clinical trials are conducted under protocols detailing, among other things, the objectives of the study and the parameters to be used in assessing the safety and the efficacy of the drug. Each protocol must be submitted to the FDA as part of the IND prior to beginning the trial. Each trial must be reviewed, approved and conducted under the auspices of an independent Institutional Review Board (IRB), and each trial prior to dosing in human subjects must secure the patient's informed consent. Typically, clinical evaluation involves the following time-consuming and costly three-phase sequential process:

• *Phase 1*. Phase 1 human clinical trials are conducted with a limited number of healthy individuals to determine the drug's safety and tolerability and includes biological analyses to determine the availability and metabolization of the active ingredient following administration. The total number of subjects and patients included in Phase 1 clinical trials varies, but is generally in the range of 20 to 80 people.

• *Phase 2*. Phase 2 clinical trials involve administering the drug to individuals who suffer from the target disease or condition to determine the drug's potential efficacy and ideal dose. These clinical trials are typically well controlled, closely monitored and conducted in a relatively small number of patients, usually involving no more than several hundred subjects. These trials require scale up for manufacture of increasingly larger batches of bulk chemical. These batches require validation analysis to confirm the consistent composition of the product.

• *Phase 3*. Phase 3 clinical trials are performed after the completion of the Phase 2 data analysis supports the potential effectiveness and safety of a study and safety (toxicity), tolerability and an ideal dosing regimen has been established. Phase 3 clinical trials are intended to gather a statically valid sample size that will provide additional information about the effectiveness and safety that is needed to evaluate the overall benefit-risk relationship of the drug and to complete the information needed to provide adequate instructions for the use of the drug, also referred to as the Official Product Information. Phase 3 trials usually include from several hundred to several thousand subjects.

Throughout the clinical phase, samples of the product made in different batches are tested for stability to establish shelf life constraints. In addition, large-scale production protocols and written standard operating procedures for each aspect of commercial manufacture and testing must be developed.

Phase 1, 2, and 3 testing may not be completed successfully within any specified time period, if at all. The FDA closely monitors the progress of each of the three phases of clinical trials that are conducted under an IND and may, at its discretion, reevaluate, alter, suspend or terminate the testing based upon the data accumulated to that point and the FDA's assessment of the risk/benefit ratio to the patient. The FDA may suspend or terminate clinical trials at any time for various reasons, including a finding that the subjects or patients are being exposed to an unacceptable health risk. The FDA can also request additional clinical trials be conducted as a condition to product approval. Additionally, new government requirements may be established that could delay or prevent regulatory approval of any product under development. Furthermore, IRBs, which are independent entities constituted to protect human subjects in the institutions in which clinical trials are being conducted, have the authority to suspend clinical trials in their clinical sites at any time for a variety of reasons, including safety issues.

New Drug Application (NDA)

After the successful completion of Phase 3 clinical trials, the sponsor of the new drug submits an NDA to the FDA requesting approval to market the product for one or more indications. An NDA is a comprehensive, multi-volume application that includes, among other things, the results of all preclinical and clinical studies, information about the drug's composition, and the sponsor's plans for producing, packaging, and labeling the drug. Under the Pediatric Research Equity Act of 2003, an application also is required to include an assessment, generally based on clinical study data, on the safety and efficacy of drugs for all relevant pediatric populations before the NDA is submitted. The statute provides for waivers or deferrals in certain situations. In most cases, the NDA must be accompanied by a substantial user fee. In return, the FDA assigns a goal of 10 months from acceptance of the application to return of a first "complete response," in which the FDA may approve the product or request additional information.

The submission of the NDA application is no guarantee that the FDA will find it complete and accept it for filing. The FDA reviews all NDAs submitted before it accepts them for filing. It may refuse to file the application and request additional information rather than accept the application for filing, in which case, the application must be resubmitted with the supplemental information. After an application is deemed filed by the FDA, the FDA reviews the NDA to determine, among other things, whether a product is safe and effective for its intended use. The FDA has substantial discretion in the approval process and may disagree with an applicant's interpretation of the data submitted in its NDA. Drugs that successfully complete NDA review may be marketed in the United States, subject to all post-approval conditions and maintenance obligations imposed by the FDA.

Prior to granting approval, the FDA generally conducts a pre-approval inspection of the facilities, including outsourced facilities, which will be involved in the manufacture, production, packaging, testing and control of the drug product for cGMP compliance. The FDA will not approve the application unless cGMP compliance is satisfactory. If the FDA determines that the marketing application, manufacturing process or manufacturing facilities are not acceptable, it will outline the deficiencies in the submission and will often request additional testing or information. Notwithstanding the submission of any requested additional information, the FDA ultimately may decide that the marketing application does not satisfy the regulatory criteria for approval and refuse to approve the application by issuing a "not approvable" letter. The length of the FDA's review ranges from a few months to many years.

Our strategy is to develop one or more lead candidates through early human clinical trials, and then license or sell the assets after completing Phase 1 or Phase 2 studies. This work will be done through the use of contract research organizations ("CRO's"); our ability to successfully achieve critical clinical milestones is dependent on the work of the CRO's (see Risk Factors - WE ARE DEPENDENT ON THIRD PARTIES FOR THE DEVELOPMENT AND SUPPLY OF OUR PRODUCT CANDIDATES).

FINANCING OUR BUSINESS

To accomplish the research and development objectives, we need to obtain funding. We have not raised any funds from third parties. We are currently operating on funds received from and credit extended by our parent company, HEPI. However, HEPI does not have the resources to continue to provide us with funding. Therefore, we must obtain funding in order to continue to operate. See Management's Discussion or Plan of Operation for a discussion of our financing needs.

RAW MATERIALS

The starting material for the research and development work is the nutraceutical product PAZ, produced and marketed by HEPI. Currently, HEPI has sufficient supply of PAZ for our foreseeable research and development needs. The Pharmaceutical Development Agreement between us and HEPI provides for delivery to us of the necessary PAZ starting material. If HEPI is unable to continue to supply PAZ, our research and development efforts will be delayed or terminated, and we will not be able to accomplish our research and development goals.

COMPETITION

The pharmaceutical industry is highly competitive and is affected by new technologies, governmental regulations, health care legislation, availability of financing, litigation and other factors. We expect to be subject to competition from numerous other entities with more resources interested in pursuing opportunities in the areas of our strategic focus. The areas in which we will focus research and development efforts include cholesterol reduction, cardiovascular risk/inflammation reduction, and immune system support. These areas are and will likely to remain of significant interest to large pharmaceutical companies with substantially greater research and development, scientific, and financial resources. We will emphasize intellectual property protection at the earliest stages in order to enhance our competitive position. We may not be the first to identify the active agent(s) of interest, in which case we would be at a competitive disadvantage and might be excluded from further development of any pharmaceutical opportunities related to PAZ.

FACILITIES

Our physical plant is located at 7740 E. Evans Road, Scottsdale, Arizona, 85260. We currently rent from HEPI on a month-to-month basis 3,000 square feet of office and laboratory space at the rate of $5,700 per month, which includes all charges related to our occupation.

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 research and development and other operations, and HEPI has prepared appropriate documentation as to the 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 general operations overhead.

EMPLOYEES

As of May 31, 2007, we had one essentially full-time employee, and we have 4 others who are part-time with us and part-time with HEPI. The responsibilities and financial arrangements for the sharing of employees are governed by the Services Agreement between HEPI and us.

We have one executive officer who spends approximately 50% of his time on our business, and one Director of Research who spends about 90% of her time on the business. The part-time employees are positioned as follows: 1 part-time employee in operations and research and development, 1 part-time employee in administration, 1 part-time employee in investor and public relations, and a part-time employee in finance. We believe that our employee relations are harmonious. No employee is represented by a union.

Employee	Title	Percent Time
Thomas D. Ingolia	Chief Executive Officer	50%
Tiffany Thomas	Director of Research	90%
Janet Crance	Chief Accounting Officer	10%
Chad Baum	Director of Operations	20%
John Gorman	Investor Relations and Public Relations	25%
Faye Anderson	Administrative Assistant	10%

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion contains forward-looking statements which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Registration/Information Statement.

OVERVIEW

We were established in January, 2007 as HEPI Pharmaceuticals, Inc. ("HPharma"), a wholly owned subsidiary of Health Enhancement Products, Inc. ("HEPI"). Our purpose is to develop potential pharmaceutical applications for HEPI's primary product, ProAlgaZyme (PAZ). In connection with our formation, we entered into a Pharmaceutical Development Agreement with HEPI. Under the Development Agreement, HEPI granted us the exclusive right to develop the potential pharmaceutical applications of PAZ and its derivatives. In exchange for these rights, HEPI became our sole stockholder and is entitled to certain payments based on the attainment of specified development milestones and sales revenues.

PLAN OF OPERATION

We currently have no cash and are we are totally reliant on advances and extensions of credit from our parent company, HEPI, for the resources we need to pursue our strategic goals. HEPI does not currently have sufficient resources to provide us with the funds we need to finance our operations. Accordingly, we need to immediately secure funding in order to continue as a going concern and implement our business strategy. To date, we have not raised any capital from external sources. Developing pharmaceutical products and seeking approvals for such products from regulatory authorities is very costly. We will need to raise a substantial amount of capital almost immediately in order to execute our business plan and fund the development and commercialization of our potential pharmaceutical product candidates.

We may need to finance future cash needs through public or private equity offerings, debt financings or strategic collaboration and licensing arrangements. To the extent that we raise additional funds by issuing equity securities or securities convertible into equity, our stockholders may experience additional dilution, and debt financing, if available, may involve restrictive covenants. If we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to any products we develop, technologies or our development projects or grant licenses on terms that are not favorable to us. We cannot be certain that additional funding will be available on acceptable terms, or at all. If adequate funds are not available from the foregoing sources, we may consider additional strategic financing options, including sales of assets (such as rights to any specialty pharmaceutical products we develop), or we may be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or curtail some of our commercialization efforts of our operations. We may seek to access the public or private equity markets whenever conditions are favorable, even if we do not have an immediate need for additional capital.

During the first quarter of 2007, we incurred expenses associated with clinical testing of ProAlgaZyme®. Starting in the second quarter, we had base operating expenses of approximately $40,000 per month due to salaries, benefits and rent. Costs for supplies, contract research, and other expenses associated with accomplishment of our strategic goals will be about another $100,000 per month.

RESEARCH AND DEVELOPMENT PLAN

Since inception (January 10, 2007) through March 31, 2007, we have expended $45,000 on product research and development (and from April 1, 2007 to May 31, 2007, we expended an additional $45,000). Subject to availability of funding, which we do not currently have, our Research and Development plan will be as follows:

A. Purification. Studies are initiated to concentrate and purify chemical constituents of PAZ. A small portion of the work is being done in-house, and the rest is being done by contract research organizations ("CRO's"). We are currently working with three different CRO's, and have relationships with several others with which work could be done in the future. Initial experiments utilized ion exchange (cation and anion) and reverse phase media to bind chemical constituents, followed by elution with salt or solvents, respectively. The fractions obtained are characterized by various chromatographic techniques, including mass spectroscopy. The fractions are currently being tested in several assays, including biochemical, cellular and animal assays relevant to the activities observed in the clinical tests. While progress has been made, we may not be able to complete the purification. For example, 1) the agent(s) of interest could be unstable when fractionated; 2) activity could be lost upon fractionation; and 3) the agent(s) of interest might be too dilute (i.e. too little mass present in PAZ) to facilitate purification.

B. Characterization. Coordinated with the purification efforts will be studies designed to elaborate the physical nature and chemical identity of any active agent(s). A small portion of the work is being done in-house, and most of the work is being done by CRO's, including CRO's based at academic institutions. Characterization methods being employed include mass spectroscopy, chromatography, and multi-dimensional nuclear magnetic spectroscopy. While progress has been made, we may not be able to complete the characterization of active ingredient(s) in PAZ. For example, the chemical constituent(s) of interest may not be stable to the characterization methods required, and/or the individual chemical constituents may not be present in sufficient quantities to allow characterization.

C. Pre-Clinical Development. We plan to take any selected lead compound(s) through the pre-clinical development work needed to initiate human clinical studies. In particular, we intend to work with CRO's to 1) manufacture the active pharmaceutical ingredient under Good Manufacturing Process (GMP) conditions; 2) obtain data on chemistry, manufacture and control; 3) obtain pharmacology and pharmacokinetic data; 4) obtain toxicology data; 5) obtain other data needed for filing an Investigational New Drug ("IND") application with the relevant regulatory agencies, including the U.S. Food and Drug Administration. While the preliminary data available on PAZ as a mixture is encouraging with respect to the probability of achieving these milestones, we may not be able to obtain IND approval. For example, the purified ingredient(s) may have characteristics different from PAZ, and/or new information may demonstrate a lack of suitability for pharmaceutical development.

D. Clinical Development. Upon successful filing of an IND, our strategy will be to carry out a Phase 1 human safety study and a Phase 2 preliminary efficacy study. If we receive positive data from these studies, there should be sufficient value to allow sale of the project(s) to a pharmaceutical development and marketing partner. While the preliminary data available on PAZ as a mixture is encouraging with respect to the probability of achieving these clinical milestones, we may not be successful in this regard. For example, the purified ingredient(s) may have characteristics different from PAZ, and/or new information may demonstrate a lack of suitability for pharmaceutical development.

FINANCING OUR BUSINESS

To accomplish our research and development objectives, we need to obtain funding immediately. We are currently operating on funds received from our parent Company, HEPI. However, HEPI does not have the resources to continue to provide us with funding. Therefore, we must obtain funding in order to continue to operate.

We intend to raise $7 million in connection with our financing activities. We intend to use any net proceeds received to fund our continuing operations, including activities related to the commercialization of our potential pharmaceutical opportunities. These funds will be applied as follows (summarized and quantified in the table below):

1. *PAZ Characterization.* Concentrated and/or fractionated material will be analyzed in biological assays, including enzymatic, cellular and animal tests. The initial focus will be in signal transduction systems related to inflammation and immune function. A key experiment will be to examine gene expression using microarrays. Concentrated/fractionated PAZ will be incubated with relevant cells (e.g., lymphocytes), and the RNA from the cells will be extracted and analyzed on gene microarrays. The results should identify the major signaling systems modulated by the ingredients of PAZ. Contract laboratories that will carry out this work include Indigo Biosciences, MDS Biosciences, Southern Research Institute, and several smaller contract service providers.

    a. Concentrated PAZ will be fractionated using ion exchange, sizing columns and filters, reverse phase, and other physical methods. Some of this work will be done in-house, and some will be provided by contract service providers including Kendrick Laboratories (Madison, WI) and consultants including Robert Moore (San Diego). Fractions generated will be tested in the various biological assays validated in 1a, above.
    b. Chemical identification of the components of PAZ will be carried out using mass spectroscopy and related techniques. Contract providers for this work include the Keck Lab (Yale University), Columbia University, and John Peltier (Baltimore, MD). Identified chemicals will be synthesized and tested for their biological activity.

2. *PAZ Clinical Trials.* Human clinical trials to repeat the cholesterol and HIV data will be carried out in the US or Western Europe. As noted above, the cholesterol test in metabolic syndrome patients is already initiated in Minnesota, and results are expected in the fourth quarter of 2007. The cost for this trial is $180,000, of which $90,000 has already been paid through May 31, 2007. Trials in HIV patients will take longer to set up, but will be pursued as soon as the funds are available. It is expected that the first study will be an open label study (i.e., a study in which the researcher knows the identity of the administered samples). Institutions willing to carry out the studies are being sought now. Another area with strong anecdotal support is amelioration of chemotherapy side effects, and a clinical trial in this area is being designed now.

3. *Operations.*

    a. Increased investment in intellectual property coverage will be particularly important for developing the pharmaceutical opportunities. We will utilize Dr. Matthew Vincent, partner in the intellectual property division of Ropes and Gray, LLC , to implement our intellectual property strategy.
    b. Part of the proceeds from the current investment will be to finance our operations in the interim. A key use-of-proceeds will be to finance the acquisition of a high quality and diversified Board of Directors, and to enhance our governance.

4. *Pre-Clinical Studies*. Funds will be used to support contract research to facilitate the potential filing of an IND in the area of primary focus. Current planning is to advance either cholesterol-lowering or inflammation-reduction as the first indication to develop.

5. *Phase 1 Clinical Trial*. Funds will be used to carry out a Phase 1 trial. Results from this trial should support the investment into the critical Phase 2 preliminary efficacy trial and/or partnering discussions.

Use of Proceeds Table

Area	Amount	Key Milestones
PAZ Characterization		
Assay Determination	$50,000	Replicable biochemical and/or cellular assay
Fractionation	$100,000	- One or more novel chemicals ID'd - Activity connected to chemical - Provisional Patent filing
Chemical Identification	$150,000	
PAZ Activity/Clinicals		
Cholesterol	$180,000	New data in US in metabolic syndrome
Anti-viral/HIV	$220,000	- Anecdotal studies at clinics - Initiate clinical study in U.S./Europe - Complete clinical study
Operations		
Legal, Including Patents	$400,000	Provisional Patent filing on 1st NCE
Org, Science Support, & Working Capital	$500,000	- Board of Directors - Recruit project manager - Drug Development SAB in place
Cost of Raising Capital	$700,000	
Pre-Clinical		
CM&C	$800,000	Clinical GMP material available
ADME/Toxicology	$1,200,000	Tox studies complete
Pharma/Other	$1,500,000	IND filed
Phase 1 Study	$1,200,000	First dose in humans Study complete
TOTAL	**7,000,000**	

Subject to the availability of necessary funds, which we do not currently have, we intend to purchase equipment suitable for concentration of dilute aqueous solutions, including lyophilization and vacuum distillation machines, at an estimated total cost of $45,000. .

We do not expect to hire significant additional employees during the next 12 months.

DESCRIPTION OF PROPERTY

Our physical plant is located at 7740 E. Evans Road, Scottsdale, Arizona, 85260. We currently rent from HEPI on a month-to-month basis 3,000 square feet of office and laboratory space at the rate of $5,700 per month, which includes all charges related to our occupation.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

HEPI will own all of the outstanding of Common Stock until the Distribution. Following completion of the Distribution, HEPI will own 90% of the outstanding Common Stock.

The following table sets forth certain information regarding beneficial ownership of the Common Stock expected to be received on the Distribution Date by (i) each person who we expect to beneficially own five percent or more shares of Common Stock, (ii) each of our directors and Named Executive Officers and (iii) all directors and executive officers of the Company as a group. The information set forth below is based on certain information known us with respect to such person's beneficial ownership of shares of common stock of HEPI as of the Record Date. The table assumes the beneficial ownership of common stock of HEPI has not changed since the Record Date.

Name and Address Of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Of Outstanding Shares
Security Ownership of certain Beneficial Owners		
Health Enhancement Products, Inc. 7740 E. Evans Road Scottsdale, AZ 85260	38,103,576	90%
Security Ownership of Management		
Thomas D. Ingolia 7740 E. Evans Road Scottsdale, AZ 85260	30,000	*
Janet C. Crance 7740 E. Evans Road Scottsdale, AZ 85260	26,000	*
John Gorman 7740 E. Evans Road Scottsdale, AZ 85260	8,692	*

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* Less than 1%.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers, directors, and significant employees and their ages are as follows:

NAME	AGE	POSITION
Thomas D. Ingolia	54	Chairman of the Board and Chief Executive Officer
John Gorman	37	Director
Janet Crance	51	Director and Chief Accounting Officer
Tiffany Thomas	27	Project Manager
Chad Baum	26	Project Manager

Thomas D. Ingolia, PhD, has served as Chairman and CEO of the Company and Health Enhancement Products, Inc. since inception and December 15, 2006, respectively. Prior to joining HEPI, Mr. Ingolia was, from June 2005 to December 2006, CEO of Medisyn Technologies, Inc. in Minnetonka, Minnesota; from June 2003 to June 2005 CEO of Prolexys Pharmaceuticals, Inc. in Salt Lake City, Utah; and from May 2002 to June 2003 an independent consultant in the pharmaceutical industry. He attended the University of Illinois from 1971 to 1974 where he studied chemistry. He then attended the University of California, Berkeley, from 1974 to 1978, receiving a Ph.D. in Biochemistry, followed by postdoctoral training at the University of California, San Francisco and the University of Wisconsin, Madison, from 1978 to 1981. He worked at Eli Lilly and Company in various assignments from 1981 through 1994, and in the biotechnology industry in executive roles from 1994 to 2006. He also received a Masters in Business Administration from Indiana University in 1987.

Ms. Janet L. Crance has served as Chief Accounting Officer of the Company since inception and was appointed as a director on May 31, 2007. For more than the past five years, Ms. Crance has been a professional accountant. She also has served as Chief Accounting Officer of Health Enhancement Products, Inc. since June 22, 2005 and was appointed as a director of Health Enhancement Products, Inc. on November 30, 2006. Ms. Crance has over 31 years experience in the field of accounting, including both the public and private sectors. She has been a Certified Public Accountant for sixteen years. Professional affiliations include the *American Institute of Certified Public Accountants* and the *Arizona Society of Certified Public Accountants*. She has served for two years as the President of the Central Chapter of the Arizona Society, which includes the greater Phoenix area.

Mr. John Gorman was appointed as a director of the Company and Health Enhancement Products, Inc. on May 31, 2007 and November 30, 2006, respectively**.** Since November, 2003, Mr. Gorman has served as director or Marketing of HEPI. From January 2002 to November 2003, Mr. Gorman was 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. Currently, in addition to serving as a director, he serves as Head of Sales and Customer Relations for Health Enhancement Products, Inc.

Ms. Tiffany Thomas has since inception served as one of our Project Managers and R&D coordinators, and began work at HEPI in September of 2003, as director of research and development. From September 1999 to May 2003, she was working on her Bachelor of Science degree in Plant Biology at Arizona State University. Through collaborations with ASU and the City of Phoenix, Ms. Thomas has analyzed species of blue-green algae found in the city's water system and is now devoted to understanding the complex algae cultures that produce ProAlgaZyme. Ms. Thomas manages internal and outsourced research projects for the ProAlgaZyme product.

Mr. Chad Baum has since inception served as one of our Project Managers and R&D coordinators, as well as Head of Manufacturing Operations. From September 2000 to May 2004, he was working on his Bachelor of Science degree in Industrial Technology (with concentration in Microbiology) at Arizona State University. Mr. Baum served in the military from 1999 through 2002, the last two years of which he served in ROTC while attending Arizona State University. Mr. Baum's work experience before coming to HEPI included bacteriological research. While at HEPI he has studied and managed the production of ProAlgaZyme.

Term of Office

Each of our officers is elected by our Board on an annual basis and serves until his or her successor has been duly elected and qualified. Each of the directors serves until his or her successor is duly elected and qualified. There are no family relationships among any of our executive officers or directors.

DIRECTOR COMPENSATION

Directors of the Company are currently not compensated for their service as a member of the Board of Directors.

EXECUTIVE COMPENSATION

We were formed in January, 2007. Accordingly, we paid no compensation to our officers prior to 2007. Thus, the following table sets forth the compensation we expect to pay during the year ending December 31, 2007 to our executive officers and significant employees.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION
NAME AND PRINCIPAL POSITION	YEAR	SALARY (Annualized)
Thomas D. Ingolia Chairman of the Board and Chief Executive Officer	2007	$ 100,000
Janet Crance Chief Accounting Officer	2007	$ 12,000
Tiffany Thomas Project Manager	2007	$ 45,000
Chad Baum Project Manager	2007	$ 25,000

The foregoing amounts represent the estimated amount of the named person's annual salary at HEPI allocable to us based on the amount of time such person is devoting to our business activities. So long as the above persons are working on our behalf, HEPI will bill us monthly under the Services Agreement for the service rendered to us by such persons.

Thomas D. Ingolia, our CEO and Chairman, Janet .C Crance, our Chief Accounting Officer and a director, and John Gorman, a director, will each receive shares in the Distribution by virtue of their ownership of HEPI shares, on the same basis of all other HEPI shareholders.

Certain Legal Proceedings

In or around April, 2004, HEPI learned that the staff of the Securities and Exchange Commission ("SEC") was conducting an informal inquiry into the accuracy of certain of its press releases and other public disclosures and trading in its securities. HEPI cooperated fully with the SEC staff's informal inquiry by producing documents and having certain of its officers (including its former CEO, Howard R. Baer) appear for testimony at the SEC's offices. On or about July 14, 2004, the SEC issued an Order Directing Private Investigation and Designating Officers to Take Testimony. HEPI understood that the factual basis underlying the Order of Investigation are questions as to (i) whether there were any false or misleading statements or material omissions in reports HEPI filed with the SEC or in other public documents or disclosures, including statements about the efficacy of HEPI's primary product, ProAlgaZyme; or (ii) whether there was improper trading or other activity in HEPI's securities. On November 29, 2006 HEPI and its former CEO settled the claims relating to the SEC investigation. In connection with the settlement, the HEPI's former CEO, who may be deemed a person who controls us, consented in November, 2006 to the entry of a final judgment, without admitting or denying the allegations contained in the SEC's complaint. The Final Judgment (a) permanently (i) enjoins HEPI's former CEO from violating certain anti-fraud and other federal securities laws, (ii) bars such person from acting as an officer or director of any company whose securities are registered under the Securities Exchange Act of 1934 or which is required to file periodic reports under such Act, (iii) bars the him from engaging in certain activities relative to "penny stocks" (value of less than $5.00 per share) (including participating in an offering of penny stocks or inducing purchases and sales of such stocks), and (b) requires him to disgorge approximately $1.4 million and pay a civil penalty of $120,000.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our parent company, HEPI, currently owns all of our issued and outstanding common stock. We and HEPI have entered or will enter into a number of agreements, which will become effective on or before the Distribution Date, for the purpose of defining certain relationships between us. As a result of HEPI's ownership of us, the terms of such agreements were not the result of arm's-length negotiation. However, we believe that the terms of these agreements approximate fair market value. See "Risk Factors -- Relationship with HEPI; Conflicts of Interest."

The following discussion of agreements between us and HEPI summarizes the material items of the agreements and is qualified in its entirety by reference to the forms of such agreements, which have been filed as exhibits to this Registration/Information Statement.

PHARMACEUTICAL DEVELOPMENT AGREEMENT

Under the Pharmaceutical Development Agreement with HEPI, HEPI granted us the right to develop the potential pharmaceutical applications of PAZ and its derivatives. In exchange for these rights, HEPI became our sole stockholder and is entitled to certain payments based on the attainment of specified development milestones and sales revenues. Milestones include a) exercise of option to license a newly discovered pharmaceutical lead candidate; b) filing of an IND; c) Initiation of a Phase 2 human clinical trial; d) Initiation of a Phase 3 human clinical trial; e) commercial launch; and f) attainment of cumulative annual net sales levels. The amount of the milestone payments is dependent on whether the licenses are exclusive or non-exclusive. In addition to the milestone payments, royalties on annual net sales are due. The royalties are dependent on the type of the license and the level of annual net sales.

INDEMNIFICATION

We intend to indemnify HEPI from and against any liabilities arising out of (i) the employment of individuals by us, (ii) the pharmaceutical business and the use of the rights transferred to us, (iii) purchase orders, accounts payable, accrued compensation and other liabilities which relate to the pharmaceutical business and the assets transferred to us, and (iv) any misstatement or omission of a material fact in any documents or filings prepared by us for purposes of compliance or qualification under applicable securities laws in connection with this Distribution, including the Information Statement which is a part of this Registration/Information Statement (the "SEC filings"). HEPI will indemnify us and against all liabilities arising out of (i) the business of HEPI and the liabilities not assumed by us and (ii) any misstatement or omission of a material fact with respect to HEPI based on information supplied by HEPI in the SEC filings.

FACILITIES

Our physical plant is located at 7740 E. Evans Road, Scottsdale, Arizona, 85260. We currently rent from HEPI on a month-to-month basis 3,000 square feet of office and laboratory space at the rate of $5,700 per month, which includes all charges related to our occupation (including electricity and telephone service).

SERVICES AGREEMENT

We and HEPI intend to enter into a services agreement (the "Services Agreement") pursuant to which HEPI will continue on an interim basis, subject to its ability to do so, provide or otherwise make available to us, upon our reasonable request, certain executive management, accounting and audit, finance and treasury, tax, financial and human resources services, provide for certain insurance coverage and arrange for administration of insurance and risk management and employee benefit programs. We will pay 110% of the direct costs of these services. To the extent that such direct costs cannot be separately measured, we will pay a portion of the total cost determined on a reasonable basis selected by HEPI and approved by us.

Our Directors who are also directors of HEPI may have conflicts of interest with respect to matters potentially or actually involving or affecting us and HEPI, such as acquisitions, financings and other corporate opportunities that may be suitable for us and HEPI. To the extent that such opportunities arise, such directors may consult with their legal advisors and make a determination after consideration of a number of factors, including whether such opportunity is presented to any such director in his or her capacity as our director, whether such opportunity is within our line of business or consistent with our strategic objectives and whether we will be able to undertake or benefit from such opportunity. Notwithstanding the foregoing, there can be no assurance that conflicts will be resolved in our favor. See "Risk Factors -- Relationship with HEPI; Conflicts of Interest."

DESCRIPTION OF SECURITIES

Our authorized capital stock immediately prior to the Distribution will consist of 100,000,000 shares of Common Stock, $0.01 par value per share.

The following summary of certain provisions of the Common Stock and does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of our Certificate of Incorporation (the " Articles"), which are included as an exhibit to this Registration/Information Statement, and by the provisions of applicable law.

Holders of Common Stock are entitled to receive dividends as may from time to time be declared by the Board out of funds legally available therefore, subject to any preferential dividend rights of any outstanding class or series of stock, and to one vote per share on all matters on which the holders of Common Stock are entitled to vote. Such holders do not have any cumulative voting rights or preemptive, conversion, redemption or sinking fund rights. In the event of a liquidation, dissolution or winding up, holders of Common Stock are entitled to share equally and ratably in the Company's assets, if any, remaining after the payment of all liabilities of the Company and the liquidation preference of any outstanding class or series of stock. The outstanding shares of Common Stock are, and the shares of Common Stock offered hereby will be, when issued and paid for, fully paid and non-assessable.

The transfer agent and registrar for the Common Stock is Interwest Transfer Company, Inc.

PART II

MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY AND OTHER MATTERS

Prior to the Registration and Distribution, there has been no public market for the Common Stock, and no history of trading prices to report. . There can be no assurance that any trading market will develop or, if a market develops, the prices at which the Common Stock will trade after the Distribution Date.

It is anticipated that the Common Stock will be quoted on the NASD Inc.’s OTC Bulletin Board. Based on the number of holders of record of HEPI common stock as of March 15, 2007, HPharma is expected to initially have approximately 600 shareholders of record on the Distribution Date. The transfer agent and registrar for the Common Stock will be Interwest Transfer Company, Inc. No cash dividends have ever been declared on the Common Stock. There are no restrictions on our ability to pay dividends, subject to compliance with applicable laws.

There are no outstanding warrants or options to purchase, or securities convertible into, our common equity. We have not agreed to register any shares of Common stock for resale under the Securities Act of 1933, as amended (“Securities Act”).

There are no compensation plans (including individual compensation arrangements) under which our equity securities are presently authorized for issuance.

It is anticipated that the Common Stock distributed to HEPI's shareholders will be freely Transferable, except for shares received by persons who may be deemed to be "affiliates" of HPharma or HEPI, within the meaning of the Securities Act. Persons who may be deemed to be affiliates of HPharma after the Distribution generally include individuals or entities that control, are controlled by, or are under common control with HPharma, and include the directors and executive officers of HEPI and HPharma and affiliates of HEPI. All the shares of Common Stock held by affiliates of HPharma may generally only be resold (i) in compliance with the applicable provisions of Rule 144 under the Securities Act, (ii) under an effective registration statement under the Securities Act, or (iii) pursuant to an exemption from the registration requirements of the Securities Act. Under Rule 144, an affiliate is entitled to sell, within any three-month period, a number of shares of Common Stock that does not exceed the greater of 1% of the then outstanding shares of Common Stock or the average weekly trading volume of the Common Stock during the four calendar weeks preceding the date on which notice of such sale was filed under Rule 144, provided certain requirements concerning availability of public information, manner of sale and notice of sale are satisfied.

After the Distribution, the approximate number of shares of HPharma Common Stock issued and outstanding will be 42 million, of which approximately 2.0 million shares will be held by affiliates and eligible for resale under Rule 144 of the Securities Act.

LEGAL PROCEEDINGS

N/A

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

N/A

RECENT SALES OF UNREGISTERED SECURITIES

From January 10, 2007 (inception) to May 31, 2007, we issued shares of our Common Stock to HEPI in consideration of the rights granted to us under the Pharmaceutical Development Agreement.

To the extent the foregoing transaction constituted a sale of securities, we believe that it was exempt from the registration requirements under the 1933 Act, based on the following facts: there was no general solicitation, there was a single of investor, that was an “accredited investor” (within the meaning of Regulation D under the Securities Act of 1933, as amended) and all shares issued were subject to restriction on transfer, so as to take reasonable steps to insure that steps to assure that HEPI was not an underwriter within the meaning of Section 2(11) under the Act.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

We are permitted under our Certificate of Incorporation to indemnify our directors and officers for liabilities and expenses that they may incur in such capacities to the full extent permitted by Chapter 145 of the Delaware General Corporation Law. In general, under our by-laws, directors and officers are indemnified with respect to actions taken in good faith, provided that such person did not derive an improper personal benefit from the action on which the claim is based. If a covered person is successful on the merits, such person is entitled to indemnity to the fullest extent permitted by Delaware Law. We expect to obtain director and officer liability insurance prior to or effective on the Distribution. Our Certificate of Incorporation also provides that no director shall be personally liable us or our stockholders for monetary damages for any breach of fiduciary duty by such director as a director. Notwithstanding the foregoing sentence, a director shall be liable to the extent provided by applicable law (i) for breach of the director's duty of loyalty to us or our stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.

PARTF/S FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS
Financial Statements of HEPI Pharmaceuticals, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholder
HEPI Pharmaceuticals, Inc.

We have audited the accompanying balance sheet of HEPI Pharmaceuticals, Inc. (a Development Stage Company) ("the Company") as of March 31, 2007 and the related statements of operations, stockholders' deficiency and cash flows for the period January 10, 2007 (inception) to March 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HEPI Pharmaceuticals, Inc. at March 31, 2007, and the results of its operations and its cash flows for the period January 10, 2007 (inception) to March 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred an operating loss for the period January 10, 2007 (inception) to March 31, 2007, has had no revenues and has not commenced planned principal operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The 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
May 25, 2007

HEPI PHARMACEUTICALS, INC.
(A Development Stage Company)
BALANCE SHEET
March 31, 2007

ASSETS		
CURRENT ASSETS:		
Cash	$	100
Total Current Assets		100
TOTAL ASSETS	$	100
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Advances from Parent Company	$	85,499
Accrued Liabilities		8,160
Total Current Liabilities		93,659
TOTAL LIABILITIES		93,659
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Common stock, $.01 par value, 3,000 shares authorized, 100 issued and outstanding		1
Additional Paid-In Capital		9
Deficit accumulated in the development stage		(93,569)
Total Stockholders' Deficit		(93,559)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	100

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

HEPI PHARMACEUTICALS, INC
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF OPERATIONS
For the period
January 10, 2007 (inception)
to March 31, 2007

NET SALES	$ -
OPERATING EXPENSES:	
Selling	500
General and Administrative	28,282
Research and Development	64,127
Total Operating Expenses	92,909
LOSS FROM OPERATIONS	(92,909)
OTHER INCOME (EXPENSE):	
Interest Expense - Related Party	(660)
Total Other Income (Expense)	(660)
NET LOSS	$ (93,569)
Pro-Forma Basic Loss per Common Share	$ (.01)
Pro-Forma Weighted Average Shares Outstanding	8,348,110

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

HEPI PHARMACEUTICALS, INC.
AUDITED STATEMENT OF STOCKHOLDERS' DEFICIENCY
FOR THE PERIOD JANUARY 10, 2007 (INCEPTION) TO MARCH 31, 2007

	Common Stock		Additional Paid in	Accumulated	Deferred	
	Shares	Amount	Capital	Deficit	Costs	Total
Balance, January 10, 2007	-	$ -	$ -	$ -	$ -	$ -
Common stock issued to parent company	100	1	9			10
Net loss for the period				(93,569)		(93,569)
Balance, March 31, 2007	100	$ 1	$ 9	$ (93,569)	$ -	$ (93,559)

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

HEPI PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
STATEMENT OF CASH FLOWS
For the period
January 10, 2007 (inception) to
March 31, 2007

Cash Flows for Operating Activities:	
Net Loss	$ (93,569)
Adjustments to reconcile net loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Increase in accrued liabilities	8,160
Net Cash (Used) by Operating Activities	(85,409)
Cash Flows from Investing Activities:	
Cash Flow from Financing Activities:	
Proceeds from parent company advances	85,499
Proceeds from sale of common stock	10
Net Cash Provided by Financing Activities	85,509
Increase in Cash	100
Cash at Beginning of Period	-
Cash at End of Period	$ 100
Supplemental Disclosures of Cash Flow Information:	
Cash paid during the period for:	
Interest	$ -
Income Taxes	$ -

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

HEPI PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

HEPI Pharmaceuticals, Inc. ("the Company") was formed on January 10, 2007 in the State of Delaware. The Company is wholly-owned subsidiary of Health Enhancement Products, Inc., a publicly owned corporation (the "Parent"). The Company has selected December 31 as its fiscal year. The purpose of the Company will be to develop potential pharmaceutical applications of ProAlgaZyme (PAZ), the Parent's sole product,

The Company has not yet generated any revenues from planned principal operations and is considered a development stage company as defined in Statement of Financial Accounting Standards No. 7.

NOTE 2 – BASIS OF PRESENTATION

The Company incurred a net loss of $93,569 during the period January 10, 2007 (inception) through March 31, 2007. In addition, the Company had a working capital deficiency of $93,559 and a stockholders' deficiency of $93,559 at March 31, 2007. These factors raise substantial doubt about the Company's ability to continue as a going concern.

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 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 period ending March 31, 2007, the Company relied on the parent company, Health Enhancement Products, Inc, for its financing needs. There can be no assurances that the Parent will be able to continue to provide the needed funds.
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. While the Company intends to raise up to $7 million to fund its operations, including research and development, 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

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

Fair Value of Financial Instruments – The carrying amounts of cash, accounts payable, accrued liabilities and other current liabilities, and notes and loans payable approximates fair value because of the immediate or short-term maturity of these financial instruments.

Revenue Recognition – For revenue from product sales, the Company will recognize 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 will be provided for in the same period the related sales are recorded.

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, equipment, rental of space and related expenses incurred for product research studies conducted primarily within the Company and by Company personnel. Research expenses were approximately $17,725 for the period ended March 31, 2007;

- 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 $45,000 for the period ended March 31, 2007.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *[Continued]*

Income Taxes - The Company accounts for income taxes under the asset and liability method using SFAS No. 109, "Accounting for Income Taxes." 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. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Accounting Estimates - The preparation of financial statements in conformity with generally-accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Recently-Enacted Accounting Standards – In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position.

The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption, if any, is to be reported as an adjustment to opening retained earnings for the year of adoption. FIN 48 is effective for the Company's yearend 2007, although early adoption is permitted. The Company is assessing the potential effect of FIN 48 on its financial statements.

Loss Per Share – The computation of loss per share is based on the weighted average number of common shares outstanding during the period presented. Since the Company has no common stock equivalents, diluted loss per share is the same as basic loss per share. Pro-forma basic loss per share gives effect to the issuance of an aggregate of 42,262,207 shares of common stock in connection with the proposed distribution, of which approximately 4,226,231 shares will be distributed to the Parent's shareholders. .

NOTE 4 – LOANS PAYABLE - PARENT

Loans payable to our parent are payable on demand and bear interest at the rate of 10% per annum. As of March 31, 2007, the outstanding principal amount was $85,499.

NOTE 5 - STOCKHOLDERS' DEFICIENCY

On January 10, 2007 the Company issued 100 shares of common stock for $10 to its founder and Parent.

On February 15, 2007, the Parent's board of directors declared a distribution in the form of shares of the common stock of the Company, to all shareholders of record as of March 15, 2007. Each shareholder of record on the record date will receive 1 share of the Company for every 10 shares of common stock of the Parent they own on the record date. The shares of the Company will be distributed promptly following compliance with applicable laws, including the Parent delivering aRegistration/Information Statement to its stockholders pursuant to the requirements of the Securities Exchange Act of 1934 ("Exchange Act") and the effectiveness of the Company's registration under the Exchange Act. The number of shares to be distributed will at the time of distribution represent 10% of the total outstanding shares of the Company. It is anticipated that the remaining 90% of the equity of the Company will be owned by the Parent.

NOTE 6 - RELATED PARTY TRANSACTIONS

In connection with its formation, the Company entered into a Pharmaceutical Development Agreement with its Parent. Under the Development Agreement, the Company was granted the right to develop the potential pharmaceutical applications of PAZ and its derivatives. In exchange for these rights, the Parent became the sole stockholder of the Company and is entitled to certain payments based on the attainment of specified development milestones and sales revenues.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Company currently has no product liability insurance in force and it cannot be certain that it can cover the risks associated with such lack of insurance or that it will be able to obtain and/or maintain such insurance to cover these risks at economically feasible premiums.

DESCRIPTION OF EXHIBITS

Exhibit Number	Title
3.1	Articles of Incorporation of HEPI Pharmaceuticals, Inc., as amended
3.2	By-laws of HEPI Pharmaceuticals, Inc
10.01	Pharmaceutical Development Agreement between HEPI Pharmaceuticals, Inc. and Health Enhancement Products, Inc. dated February 20, 2007

EXHIBIT INDEX

Exhibit Number	Title
3.1	Articles of Incorporation of HEPI Pharmaceuticals, Inc., as amended
3.2	By-laws of HEPI Pharmaceuticals, Inc.
10.01	Pharmaceutical Development Agreement between HEPI Pharmaceuticals, Inc. and Health Enhancement Products, Inc. dated February 20, 2007

Exhibit 3.1

CERTIFICATE OF INCORPORATION

OF

HEPI PHARMACEUTICALS, INC.

The undersigned, a natural person, for the purposes of organizing a corporation for conducting the business and promoting the purposes hereinafter stated, under the provisions and subject to the requirements of the laws of the State of Delaware (particularly Chapter 1, Title 8 of the Delaware Code and the acts amendatory thereof and supplemental thereto, and generally known as the "General Corporation Law of the State of Delaware"), hereby certifies that:

FIRST: The name of the Corporation (hereinafter called the "Corporation") is HEPI Pharmaceuticals, Inc.

SECOND: The address, including street, number, city, and county, of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, County of New Castle, and the name of the registered agent of the Corporation in the State of Delaware at such address is Corporation Service Company.

THIRD: The nature of the business and the purposes to be conducted and promoted by the Corporation shall be to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is 3,000 shares of Common Stock, with a par value of $.01 per share.

FIFTH: The name and the mailing address of the incorporator is as follows:

NAME	ADDRESS
John G. Nossiff	Brown Rudnick Berlack Israels LLP One Financial Center Boston, MA 02111

SIXTH: The Corporation shall have perpetual existence.

SEVENTH: Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 29l of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

EIGHTH: For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation and regulation of the powers of the Corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided that:

1. The business of the Corporation shall be conducted by the officers of the Corporation under the supervision of the Board of Directors.

2. The number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the By-laws. No election of Directors need be by written ballot.

3. The Board of Directors of the Corporation may adopt, amend or repeal the By-laws of the Corporation at any time after the original adoption of the By-laws according to Section 109 of the General Corporation Law of the State of Delaware; provided, however, that any amendment to provide for the classification of directors of the Corporation for staggered terms pursuant to the provisions of subsection (d) of Section 141 of the General Corporation Law of the State of Delaware shall be set forth in an amendment to this Certificate of Incorporation, in an initial By-law, or in a By-law adopted by the stockholders of the Corporation entitled to vote.

NINTH: The Corporation may, to the fullest extent permitted by Section 145 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which a person indemnified may be entitled under any By-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

TENTH: From time to time any of the provisions of this Certificate of Incorporation may be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the manner and at the time prescribed by said laws, and all rights at any time conferred upon the stockholders of the Corporation by this Certificate of Incorporation are granted subject to the provisions of this Article TENTH.

ELEVENTH: No director shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty by such director as a director. Notwithstanding the foregoing sentence, a director shall be liable to the extent provided by applicable law (i) for breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this Article ELEVENTH shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment.

TWELFTH: Notwithstanding any provision of law, the Corporation may, by contract, grant to some or all of the security holders of the Corporation pre-emptive rights to acquire stock of the Corporation, but no stockholder shall have any pre-emptive rights except as specifically so granted.

Signed on the 10th day of January, 2007.

/s/John G. Nossiff
John G. Nossiff, Incorporator

Exhibit 3.2

BY-LAWS

of

HEPI PHARMACEUTICALS, INC.

A Delaware Corporation

Adopted: January 10, 2007

/s/Thomas D. Ingolia
Thomas Ingolia, Secretary

BY-LAWS

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BY-LAWS

OF

HEPI PHARMACEUTICALS, INC.

(A Delaware Corporation)

ARTICLE I.

Stockholders

Section 1.1. Annual Meeting. The annual meeting of the stockholders of the corporation shall be held on such date as shall be fixed by the Board of Directors, at such time and place within or without the State of Delaware as may be designated in the notice of meeting. If the day fixed for the annual meeting shall fall on a legal holiday, the meeting shall be held on the next succeeding day not a legal holiday. If the annual meeting is omitted on the day herein provided, a special meeting may be held in place thereof, and any business transacted at such special meeting in lieu of annual meeting shall have the same effect as if transacted or held at the annual meeting.

Section 1.2. Special Meetings. Special meetings of the stockholders may be called at any time by the president or by the board of directors. Special meetings of the stockholders shall be held at such time, date and place within or outside of the State of Delaware as may be designated in the notice of such meeting.

Section 1.3. Notice of Meeting. A written notice stating the place, date, and hour of each meeting of the stockholders, and, in the case of a special meeting, the purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting, and to each stockholder who, under the Certificate of Incorporation or these By-laws, is entitled to such notice, by delivering such notice to such person or leaving it at their residence or usual place of business, or by mailing it, postage prepaid, and addressed to such stockholder at his address as it appears upon the books of the corporation, at least ten (10) days and not more than sixty (60) before the meeting. Such notice shall be given by the secretary, an assistant secretary, or any other officer or person designated either by the secretary or by the person or persons calling the meeting.

The requirement of notice to any stockholder may be waived (i) by a written waiver of notice, executed before or after the meeting by the stockholder or his attorney thereunto duly authorized, and filed with the records of the meeting, (ii) if communication with such stockholder is unlawful, (iii) by attendance at the meeting without protesting prior thereto or at its commencement the lack of notice, or (iv) as otherwise excepted by law. A waiver of notice of any regular or special meeting of the stockholders need not specify the purposes of the meeting.

If a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken, except that if the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 1.4. Quorum. The holders of a majority in interest of all stock issued, outstanding and entitled to vote at a meeting shall constitute a quorum. Any meeting may be adjourned from time to time by a majority of the votes properly cast upon the question, whether or not a quorum is present.

Section 1.5. Voting and Proxies. Stockholders shall have one vote for each share of stock entitled to vote owned by them of record according to the books of the corporation, unless otherwise provided by law or by the Certificate of Incorporation. Stockholders may vote either in person or by written proxy, but no proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. Proxies shall be filed with the secretary of the meeting, or of any adjournment thereof. Except as otherwise limited therein, proxies shall entitle the persons authorized thereby to vote at any adjournment of such meeting. A proxy purporting to be executed by or on behalf of a stockholder shall be deemed valid unless challenged at or prior to its exercise and the burden of proving invalidity shall rest on the challenger. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by one of them unless at or prior to exercise of the proxy the corporation receives a specific written notice to the contrary from any one of them.

Section 1.6. Action at Meeting. When a quorum is present at any meeting, a plurality of the votes properly cast for election to any office shall elect to such office, and a majority of the votes properly cast upon any question other than election to an office shall decide such question, except where a larger vote is required by law, the Certificate of Incorporation or these by-laws. No ballot shall be required for any election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election.

Section 1.7. Action Without Meeting. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of the minimum number of votes necessary to authorize or take such action at a meeting at which shares entitled to vote thereon were present and voted and copies are delivered to the corporation in the manner prescribed by law.

Section 1.8. Voting of Shares of Certain Holders. Shares of stock of the corporation standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent, or proxy as the by-laws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine.

Shares of stock of the corporation standing in the name of a deceased person, a minor ward or an incompetent person, may be voted by his administrator, executor, court-appointed guardian or conservator without a transfer of such shares into the name of such administrator, executor, court appointed guardian or conservator. Shares of capital stock of the corporation standing in the name of a trustee or fiduciary may be voted by such trustee or fiduciary.

Shares of stock of the corporation standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

A stockholder whose shares are pledged shall be entitled to vote such shares unless in the transfer by the pledgor on the books of the corporation he expressly empowered the pledgee to vote thereon, in which case only the pledgee or its proxy shall be entitled to vote the shares so transferred.

Shares of its own stock belonging to this corporation shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding shares at any given time, but shares of its own stock held by the corporation in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares.

Section 1.9. Stockholder Lists. The secretary (or the corporation's transfer agent or other person authorized by these By-laws or by law) shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

ARTICLE II.

Board of Directors

Section 2.1. Powers. Except as reserved to the stockholders by law, by the Certificate of Incorporation or by these By-laws, the business of the corporation shall be managed under the direction of the board of directors, who shall have and may exercise all of the powers of the corporation. In particular, and without limiting the foregoing, the board of directors shall have the power to issue or reserve for issuance from time to time the whole or any part of the capital stock of the corporation which may be authorized from time to time to such person, for such consideration and upon such terms and conditions as they shall determine, including the granting of options, warrants or conversion or other rights to stock.

Section 2.2. Number of Directors; Qualifications. The board of directors shall consist of such number of directors, not less than one (1) nor more than twelve (12), as shall be fixed initially by the incorporator(s) and thereafter by the board of directors. No director need be a stockholder.

Section 2.3. Nomination of Directors.

(a) Nominations for the election of directors may be made by the board of directors or by any stockholder entitled to vote for the election of directors. Nominations by stockholders shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the secretary of the corporation not less than 14 days nor more than 60 days prior to any meeting of the stockholders called for the election of directors; provided, however, that if less than 21 written days' notice of the meeting is given to stockholders, such notice of nomination by a stockholder shall be delivered or mailed, in the manner prescribed above, to the secretary of the corporation not later than the close of the fifth day following the day on which notice of the meeting was mailed to stockholders.

(b) Each notice under subsection (a) shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, and (iii) the number of shares of stock of the corporation which are beneficially owned by each such nominee.

(c) The chairman of the meeting of stockholders shall determine whether or not a nomination was made in accordance with the procedures of this Section 2.3, and if he shall determine that it was not, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 2.4. Election of Directors. The initial board of directors shall be designated in the certificate of incorporation, or if not so designated, elected by the incorporator(s) at the first meeting thereof. Thereafter, directors shall be elected by the stockholders at their annual meeting or at any special meeting the notice of which specifies the election of directors as an item of business for such meeting.

Section 2.5. Vacancies; Reduction of the Board. Any vacancy in the board of directors, however occurring, including a vacancy resulting from the enlargement of the board of directors, may be filled by the stockholders or by the directors then in office or by a sole remaining director. In lieu of filling any such vacancy the stockholders or board of directors may reduce the number of directors, but not to a number less than one (1). When one or more directors shall resign from the board of directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

Section 2.6. Enlargement of the Board. The board of directors may be enlarged by the stockholders at any meeting or by vote of a majority of the directors then in office.

Section 2.7. Tenure and Resignation. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-laws, directors shall hold office until the next annual meeting of stockholders and thereafter until their successors are chosen and qualified. Any director may resign by delivering or mailing postage prepaid a written resignation to the corporation at its principal office or to the president, secretary or assistant secretary, if any. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

Section 2.8. Removal. A director, whether elected by the stockholders or directors, may be removed from office with or without cause at any annual or special meeting of stockholders by vote of a majority of the stockholders entitled to vote in the election of such directors, or for cause by a vote of a majority of the directors then in office; provided, however, that a director may be removed for cause only after reasonable notice and opportunity to be heard before the body proposing to remove him.

Section 2.9. Meetings. Regular meetings of the board of directors may be held without call or notice at such times and such places within or without the State of Delaware as the board may, from time to time, determine, provided that notice of the first regular meeting following any such determination shall be given to directors absent from such determination. A regular meeting of the board of directors shall be held without notice immediately after, and at the same place as, the annual meeting of the stockholders or the special meeting of the stockholders held in place of such annual meeting, unless a quorum of the directors is not then present. Special meetings of the board of directors may be held at any time and at any place designated in the call of the meeting when called by the president, treasurer, or one or more directors. Members of the board of directors or any committee elected thereby may participate in a meeting of such board or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time, and participation by such means shall constitute presence in person at the meeting.

Section 2.10. Notice of Meeting. It shall be sufficient notice to a director to send notice by mail at least seventy-two (72) hours before the meeting addressed to such person at his usual or last known business or residence address or to give notice to such person in person or by telephone at least twenty-four (24) hours before the meeting. Notice shall be given by the secretary, or in his absence or unavailability, may be given by an assistant secretary, if any, or by the officer or directors calling the meeting. The requirement of notice to any director may be waived by a written waiver of notice, executed by such person before or after the meeting or meetings, and filed with the records of the meeting, or by attendance at the meeting without protesting prior thereto or at its commencement the lack of notice. A notice or waiver of notice of a directors' meeting need not specify the purposes of the meeting.

Section 2.11. Agenda. Any lawful business may be transacted at a meeting of the board of directors, notwithstanding the fact that the nature of the business may not have been specified in the notice or waiver of notice of the meeting.

Section 2.12. Quorum. At any meeting of the board of directors, a majority of the directors then in office shall constitute a quorum for the transaction of business. Any meeting may be adjourned by a majority of the votes cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice.

Section 2.13. Action at Meeting. Any motion adopted by vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors, except where a different vote is required by law, by the Certificate of Incorporation or by these By-laws. The assent in writing of any director to any vote or action of the directors taken at any meeting, whether or not a quorum was present and whether or not the director had or waived notice of the meeting, shall have the same effect as if the director so assenting was present at such meeting and voted in favor of such vote or action.

Section 2.14. Action Without Meeting. Any action by the directors may be taken without a meeting if all of the directors consent to the action in writing and the consents are filed with the records of the directors' meetings. Such consent shall be treated for all purposes as a vote of the directors at a meeting.

Section 2.15. Committees. The board of directors may, by the affirmative vote of a majority of the directors then in office, appoint an executive committee or other committees consisting of one or more directors and may by vote delegate to any such committee some or all of their powers except those which by law, the Certificate of Incorporation or these By-laws they may not delegate. In the absence or disqualification of a member of a committee, the members of the committee present and not disqualified, whether or not they constitute a quorum, may by unanimous vote appoint another member of the board of directors to act at the meeting in place of the absence or disqualified member. Unless the board of directors shall otherwise provide, any such committee may make rules for the conduct of its business, but unless otherwise provided by the board of directors or such rules, its meetings shall be called, notice given or waived, its business conducted or its action taken as nearly as may be in the same manner as is provided in these By-laws with respect to meetings or for the conduct of business or the taking of actions by the board of directors. The board of directors shall have power at any time to fill vacancies in, change the membership of, or discharge any such committee at any time. The board of directors shall have power to rescind any action of any committee, but no such rescission shall have retroactive effect.

ARTICLE III.

Officers

Section 3.1. Enumeration. The officers shall consist of a president, a treasurer, a secretary and such other officers and agents (including one or more vice-presidents, assistant treasurers and assistant secretaries), as the board of directors may, in their discretion, determine.

Section 3.2. Election. The president, treasurer and secretary shall be elected annually by the directors at their first meeting following the annual meeting of the stockholders or any special meeting held in lieu of the annual meeting. Other officers may be chosen by the directors at such meeting or at any other meeting.

Section 3.3. Qualification. An officer may, but need not, be a director or stockholder. Any two or more offices may be held by the same person. Any officer may be required by the directors to give bond for the faithful performance of his duties to the corporation in such amount and with such sureties as the directors may determine. The premiums for such bonds may be paid by the corporation.

Section 3.4. Tenure. Except as otherwise provided by the Certificate of Incorporation or these By-laws, the term of office of each officer shall be for one year or until his successor is elected and qualified or until his earlier resignation or removal.

Section 3.5. Removal. Any officer may be removed from office, with or without cause, by the affirmative vote of a majority of the directors then in office; provided, however, that an officer may be removed for cause only after reasonable notice and opportunity to be heard by the board of directors prior to action thereon.

Section 3.6. Resignation. Any officer may resign by delivering or mailing postage prepaid a written resignation to the corporation at its principal office or to the president, secretary, or assistant secretary, if any, and such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some event.

Section 3.7. Vacancies. A vacancy in any office arising from any cause may be filled for the unexpired portion of the term by the board of directors.

Section 3.8. President. The president shall be the chief executive officer of the corporation. Except as otherwise voted by the board of directors, the president shall preside at all meetings of the stockholders and of the board of directors at which present. The president shall have such duties and powers as are commonly incident to the office and such duties and powers as the board of directors shall from time to time designate.

Section 3.9. Vice-President(s). The vice-president(s), if any, shall have such powers and perform such duties as the board of directors may from time to time determine.

Section 3.10. Treasurer and Assistant Treasurers. The treasurer, subject to the direction and under the supervision and control of the board of directors, shall have general charge of the financial affairs of the corporation. The treasurer shall have custody of all funds, securities and valuable papers of the corporation, except as the board of directors may otherwise provide. The treasurer shall keep or cause to be kept full and accurate records of account which shall be the property of the corporation, and which shall be always open to the inspection of each elected officer and director of the corporation. The treasurer shall deposit or cause to be deposited all funds of the corporation in such depository or depositories as may be authorized by the board of directors. The treasurer shall have the power to endorse for deposit or collection all notes, checks, drafts, and other negotiable instruments payable to the corporation. The treasurer shall perform such other duties as are incidental to the office, and such other duties as may be assigned by the board of directors.

Assistant treasurers, if any, shall have such powers and perform such duties as the board of directors may from time to time determine.

Section 3.11. Secretary and Assistant Secretaries. The secretary shall record, or cause to be recorded, all proceedings of the meetings of the stockholders and directors (including committees thereof) in the book of records of this corporation. The record books shall be open at reasonable times to the inspection of any stockholder, director, or officer. The secretary shall notify the stockholders and directors, when required by law or by these By-laws, of their respective meetings, and shall perform such other duties as the directors and stockholders may from time to time prescribe. The secretary shall have the custody and charge of the corporate seal, and shall affix the seal of the corporation to all instruments requiring such seal, and shall certify under the corporate seal the proceedings of the directors and of the stockholders, when required. In the absence of the secretary at any such meeting, a temporary secretary shall be chosen who shall record the proceedings of the meeting in the aforesaid books.

Assistant secretaries, if any, shall have such powers and perform such duties as the board of directors may from time to time designate.

Section 3.12. Other Powers and Duties. Subject to these By-laws and to such limitations as the board of directors may from time to time prescribe, the officers of the corporation shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be conferred by the board of directors.

ARTICLE IV.

Capital Stock

Section 4.1. Stock Certificates. Each stockholder shall be entitled to a certificate representing the number of shares of the capital stock of the corporation owned by such person in such form as shall, in conformity to law, be prescribed from time to time by the board of directors. Each certificate shall be signed by the president or vice-president and treasurer or assistant treasurer or such other officers designated by the board of directors from time to time as permitted by law, shall bear the seal of the corporation, and shall express on its face its number, date of issue, class, the number of shares for which, and the name of the person to whom, it is issued. The corporate seal and any or all of the signatures of corporation officers may be facsimile if the stock certificate is manually counter-signed by an authorized person on behalf of a transfer agent or registrar other than the corporation or its employee.

If an officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed on, a certificate shall have ceased to be such before the certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the time of its issue.

Section 4.2. Transfer of Shares.

(a) Title to a certificate of stock and to the shares represented thereby shall be transferred only on the books of the corporation by delivery to the corporation or its transfer agent of the certificate properly endorsed, or by delivery of the certificate accompanied by a written assignment of the same, or a properly executed written power of attorney to sell, assign or transfer the same or the shares represented thereby. Upon surrender of a certificate for the shares being transferred, a new certificate or certificates shall be issued according to the interests of the parties.

(b) Notwithstanding the foregoing, if at any time a stockholder of the corporation (a "Selling Stockholder") proposes to transfer (a "Proposed Transfer") any capital stock legally or beneficially owned by him, her or it to a person or entity (other than his or her heirs by will or the laws of descent and distribution or the corporation) (a "Proposed Transferee"), he, she or it shall first submit a written offer (a "First Refusal Offer") to sell such shares (the "Offered Shares") to the corporation. The First Refusal Offer shall disclose the identity of the Proposed Transferee and the terms and conditions of the Proposed Transfer, including, but not limited to, the number of shares of capital stock proposed to be sold and the price of each share of capital stock to be sold in connection with Proposed Transfer. The Selling Stockholder shall also provide any other material facts relating to the Proposed Transfer which may be reasonably requested by the corporation. The First Refusal Offer shall further state that the corporation may acquire, in accordance with the provisions of this Section of the By-Laws, all of the Offered Shares on terms and conditions, including, without limitation, price, not less favorable to the corporation than those on which the Selling Stockholder proposes to sell the Offered Shares to the Proposed Transferee, including any deferred or installment payment provision. In the event the terms of the Proposed Transfer contemplate the payment to the Selling Stockholder of consideration other than cash, the fair market value of such non-cash consideration shall be determined in good faith by the board of directors.

(c) Within 15 days after the receipt of the First Refusal Offer by the corporation, the corporation shall deliver a written notice to the Selling Stockholder indicating whether the corporation desires to purchase all or any part of the Offered Shares (the "Corporation Purchase Notice"). The Corporation Purchase Notice, if indicating that the corporation desires to purchase all or any part of the Offered Shares shall: (i) indicate the number of Offered Shares that the corporation desires to purchase; and (ii) when taken in conjunction with the First Refusal Offer, be deemed to constitute a valid, legally binding and enforceable agreement for the sale to, and purchase by, the corporation of the number of Offered Shares specified by the corporation in such Corporation Purchase Notice and on the terms of the First Refusal Offer.

(d) The closing of the sale of Offered Shares to the corporation pursuant to this Section 4.2 shall be made at the offices of the corporation on such date as may be agreed upon by the corporation and the Selling Stockholder, but no later than 45 days following the date the First Refusal Offer is received by the corporation. Such sale shall be effected by the Selling Stockholder's delivery to the corporation of certificates evidencing the Offered Shares (or any portion thereof) to be purchased by the corporation, duly endorsed for transfer to the corporation, against payment to the Selling Stockholder of the purchase price by the corporation. The non-exercise by the corporation of its rights pursuant to this Section with respect to any given Proposed Transfer shall be without prejudice to its rights under this Section with respect to any future transfers of Offered Shares.

(e) In the absence of a valid election to purchase all of Offered Shares under this Section, that portion of the Offered Shares which is not purchased by the corporation pursuant to its rights under this Section may be sold by the Selling Stockholder to the Proposed Transferee at any time within 90 days after the date of receipt of the First Refusal Offer by the corporation. Any such sale shall be at the same or greater price and upon other terms and conditions, if any, not more favorable to the Proposed Transferee than those specified in the First Refusal Offer. Any Offered Shares not sold within the permitted time period shall continue to be subject to the requirements of a prior offer and rights of refusal pursuant to this Section.

Section 4.3. Record Holders. Except as otherwise may be required by law, by the Certificate of Incorporation or by these By-laws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect thereto, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the corporation in accordance with the requirements of these By-laws.

It shall be the duty of each stockholder to notify the corporation of his post office address.

Section 4.4. Record Date. In order that the corporation may determine the stockholders entitled to receive notice of or to vote at any meeting of stockholders or any adjournments thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty days prior to any other action. In such case only stockholders of record on such record date shall be so entitled notwithstanding any transfer of stock on the books of the corporation after the record date.

If no record date is fixed: (i) the record date for determining stockholders entitled to receive notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (ii) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board of directors is necessary, shall be the day on which the first written consent is expressed; and (iii) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

Section 4.5. Transfer Agent and Registrar for Shares of Corporation. The board of directors may appoint a transfer agent and a registrar of the certificates of stock of the corporation. Any transfer agent so appointed shall maintain, among other records, a stockholders' ledger, setting forth the names and addresses of the holders of all issued shares of stock of the corporation, the number of shares held by each, the certificate numbers representing such shares, and the date of issue of the certificates representing such shares. Any registrar so appointed shall maintain, among other records, a share register, setting forth the total number of shares of each class of shares which the corporation is authorized to issue and the total number of shares actually issued. The stockholders' ledger and the share register are hereby identified as the stock transfer books of the corporation; but as between the stockholders' ledger and the share register, the names and addresses of stockholders, as they appear on the stockholders' ledger maintained by the transfer agent shall be the official list of stockholders of record of the corporation. The name and address of each stockholder of record, as they appear upon the stockholders' ledger, shall be conclusive evidence of who are the stockholders entitled to receive notice of the meetings of stockholders, to vote at such meetings, to examine a complete list of the stockholders entitled to vote at meetings, and to own, enjoy and exercise any other property or rights deriving from such shares against the corporation. Stockholders, but not the corporation, its directors, officers, agents or attorneys, shall be responsible for notifying the transfer agent, in writing, of any changes in their names or addresses from time to time, and failure to do so will relieve the corporation, its other stockholders, directors, officers, agents and attorneys, and its transfer agent and registrar, of liability for failure to direct notices or other documents, or pay over or transfer dividends or other property or rights, to a name or address other than the name and address appearing in the stockholders' ledger maintained by the transfer agent.

Section 4.6. Loss of Certificates. In case of the loss, destruction or mutilation of a certificate of stock, a replacement certificate may be issued in place thereof upon such terms as the board of directors may prescribe, including, in the discretion of the board of directors, a requirement of bond and indemnity to the corporation.

Section 4.7. Restrictions on Transfer. Every certificate for shares of stock which are subject to any restriction on transfer, whether pursuant to the Certificate of Incorporation, the By-laws or any agreement to which the corporation is a party, shall have the fact of the restriction noted conspicuously on the certificate and shall also set forth on the face or back either the full text of the restriction or a statement that the corporation will furnish a copy to the holder of such certificate upon written request and without charge.

Section 4.8. Multiple Classes of Stock. The amount and classes of the capital stock and the par value, if any, of the shares, shall be as fixed in the Certificate of Incorporation. At all times when there are two or more classes of stock, the several classes of stock shall conform to the description and the terms and have the respective preferences, voting powers, restrictions and qualifications set forth in the Certificate of Incorporation and these By-laws. Every certificate issued when the corporation is authorized to issue more than one class or series of stock shall set forth on its face or back either (i) the full text of the preferences, voting powers, qualifications and special and relative rights of the shares of each class and series authorized to be issued, or (ii) a statement of the existence of such preferences, powers, qualifications and rights, and a statement that the corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge.

ARTICLE V.

Dividends

Section 5.1. Declaration of Dividends. Except as otherwise required by law or by the Certificate of Incorporation, the board of directors may, in its discretion, declare what, if any, dividends shall be paid from the surplus or from the net profits of the corporation for the current or preceding fiscal year, or as otherwise permitted by law. Dividends may be paid in cash, in property, in shares of the corporation's stock, or in any combination thereof. Dividends shall be payable upon such dates as the board of directors may designate.

Section 5.2. Reserves. Before the payment of any dividend and before making any distribution of profits, the board of directors, from time to time and in its absolute discretion, shall have power to set aside out of the surplus or net profits of the corporation such sum or sums as the board of directors deems proper and sufficient as a reserve fund to meet contingencies or for such other purpose as the board of directors shall deem to be in the best interests of the corporation, and the board of directors may modify or abolish any such reserve.

ARTICLE VI.

Powers of Officers to Contract

With the Corporation

Any and all of the directors and officers of the corporation, notwithstanding their official relations to it, may enter into and perform any contract or agreement of any nature between the corporation and themselves, or any and all of the individuals from time to time constituting the board of directors of the corporation, or any firm or corporation in which any such director may be interested, directly or indirectly, whether such individual, firm or corporation thus contracting with the corporation shall thereby derive personal or corporate profits or benefits or otherwise; provided, that (i) the material facts of such interest are disclosed or are known to the board of directors or committee thereof which authorizes such contract or agreement; (ii) if the material facts as to such person's relationship or interest are disclosed or are known to the stockholders entitled to vote thereon, and the contract is specifically approved in good faith by a vote of the stockholders; or (iii) the contract or agreement is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directors, a committee thereof, or the stockholders. Any director of the corporation who is interested in any transaction as aforesaid may nevertheless be counted in determining the existence of a quorum at any meeting of the board of directors which shall authorize or ratify any such transaction. This Article shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common or statutory law applicable thereto.

ARTICLE VII

Indemnification

Section 7.1. Definitions. For purposes of this Article VII the following terms shall have the meanings indicated:

"Corporate Status" describes the status of a person who is or was a director, Officer, employee, agent, trustee or fiduciary of the corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the express written request of the corporation.

"Court" means the Court of Chancery of the State of Delaware, the court in which the Proceeding in respect of which indemnification is sought by a Covered Person shall have been brought or is pending, or another court having subject matter jurisdiction and personal jurisdiction over the parties.

"Covered Person" means a person who is a present or former director or Officer of the corporation and shall include such person's legal representatives, heirs, executors and administrators.

"Disinterested" describes any individual, whether or not that individual is a director, Officer, employee or agent of the corporation, who is not and was not and is not threatened to be made a party to the Proceeding in respect of which indemnification, advancement of Expenses or other action is sought by a Covered Person.

"Expenses" shall include, without limitation, all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating or being or preparing to be a witness in a Proceeding.

"Good Faith" shall mean a Covered Person having acted in good faith and in a manner such Covered Person reasonably believed to be in or not opposed to the best interests of the corporation or, in the case of an employee benefit plan, the best interests of the participants or beneficiaries of said plan, as the case may be, and, with respect to any Proceeding which is criminal in nature, having had no reasonable cause to believe such Covered Person's conduct was unlawful.

"Improper Personal Benefit" shall include, but not be limited to, the personal gain in fact by reason of a person's Corporate Status of a financial profit, monies or other advantage not also accruing to the benefit of the corporation or to the stockholders generally and which is unrelated to his usual compensation including, but not limited to, (i) in exchange for the exercise of influence over the corporation's affairs, (ii) as a result of the diversion of corporate opportunity, or (iii) pursuant to the use or communication of confidential or inside information for the purpose of generating a profit from trading in the corporation's securities. Notwithstanding the foregoing, "Improper Personal Benefit" shall not include any benefit, directly or indirectly, related to actions taken in order to evaluate, discourage, resist, prevent or negotiate any transaction with or proposal from any person or entity seeking control of, or a controlling interest in, the corporation.

"Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and may include law firms or members thereof that are regularly retained by the corporation but not by any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the standards of professional conduct then prevailing and applicable to such counsel, would have a conflict of interest in representing either the corporation or Covered Person in an action to determine the Covered Person's rights under this Article.

"Officer" means the president, vice presidents, treasurer, assistant treasurer(s), secretary, assistant secretary and such other executive officers as are appointed by the board of directors of the corporation and explicitly entitled to indemnification hereunder.

"Proceeding" includes any actual, threatened or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation (including any internal corporate investigation), administrative hearing or any other proceeding, whether civil, criminal, administrative or investigative, other than one initiated by the Covered Person, but including one initiated by a Covered Person for the purpose of enforcing such Covered Person's rights under this Article to the extent provided in Section 7.14 of this Article. "Proceeding" shall not include any counterclaim brought by any Covered Person other than one arising out of the same transaction or occurrence that is the subject matter of the underlying claim.

Section 7.2. Right to Indemnification in General.

(a) Covered Persons. The corporation may indemnify, and may advance Expenses, to each Covered Person who is, was or is threatened to be made a party or otherwise involved in any Proceeding, as provided in this Article and to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit.

The indemnification provisions in this Article shall be deemed to be a contract between the corporation and each Covered Person who serves in any Corporate Status at any time while these provisions as well as the relevant provisions of the Delaware General Corporation Law are in effect, and any repeal or modification thereof shall not affect any right or obligation then existing with respect to any state of facts then or previously existing or any Proceeding previously or thereafter brought or threatened based in whole or in part upon any such state of facts. Such a contract right may not be modified retroactively without the consent of such Covered Person.

(b) Employees and Agents. The corporation may, to the extent authorized from time to time by the board of directors, grant indemnification and the advancement of Expenses to any employee or agent of the corporation to the fullest extent of the provisions of this Article with respect to the indemnification and advancement of Expenses of Covered Persons.

Section 7.3. Proceedings Other Than Proceedings by or in the Right of the Corporation. Each Covered Person may be entitled to the rights of indemnification provided in this Section 7.3 if, by reason of such Covered Person's Corporate Status, such Covered Person is, was or is threatened to be made, a party to or is otherwise involved in any Proceeding, other than a Proceeding by or in the right of the corporation. Each Covered Person may be indemnified against Expenses, judgments, penalties, fines and amounts paid in settlements, actually and reasonably incurred by such Covered Person or on such Covered Person's behalf in connection with such Proceeding or any claim, issue or matter therein, if such Covered Person acted in Good Faith and such Covered Person has not been adjudged during the course of such proceeding to have derived an Improper Personal Benefit from the transaction or occurrence forming the basis of such Proceeding.

Section 7.4. Proceedings by or in the Right of the Corporation. Each Covered Person may be entitled to the rights of indemnification provided in this Section 7.4 if, by reason of such Covered Person's Corporate Status, such Covered Person is, or is threatened to be made, a party to or is otherwise involved in any Proceeding brought by or in the right of the corporation to procure a judgment in its favor. Such Covered Person may be indemnified against Expenses, judgments, penalties, and amounts paid in settlement, actually and reasonably incurred by such Covered Person or on such Covered Person's behalf in connection with such Proceeding if such Covered Person acted in Good Faith and such Covered Person has not been adjudged during the course of such proceeding to have derived an Improper Personal Benefit from the transaction or occurrence forming the basis of such Proceeding. Notwithstanding the foregoing, no such indemnification shall be made in respect of any claim, issue or matter in such Proceeding as to which such Covered Person shall have been adjudged to be liable to the corporation if applicable law prohibits such indemnification; provided, however, that, if applicable law so permits, indemnification shall nevertheless be made by the corporation in such event if and only to the extent that the Court which is considering the matter shall so determine.

Section 7.5. Indemnification of a Party Who is Wholly or Partly Successful. Notwithstanding any provision of this Article to the contrary, to the extent that a Covered Person is, by reason of such Covered Person's Corporate Status, a party to or is otherwise involved in and is successful, on the merits or otherwise, in any Proceeding, such Covered Person shall be indemnified to the maximum extent permitted by law, against all Expenses, judgments, penalties, fines, and amounts paid in settlement, actually and reasonably incurred by such Covered Person or on such Covered Person's behalf in connection therewith. If such Covered Person is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the corporation shall indemnify such Covered Person to the maximum extent permitted by law, against all Expenses, judgments, penalties, fines, and amounts paid in settlement, actually and reasonably incurred by such Covered Person or on such Covered Person's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section 7.5 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 7.6. Indemnification for Expenses of a Witness. Notwithstanding any provision of this Article to the contrary, to the extent that a Covered Person is, by reason of such Covered Person's Corporate Status, a witness in any Proceeding, such Covered Person shall be indemnified against all Expenses actually and reasonably incurred by such Covered Person or on such Covered Person's behalf in connection therewith.

Section 7.7. Advancement of Expenses. Notwithstanding any provision of this Article to the contrary, the corporation may advance all reasonable Expenses which, by reason of a Covered Person's Corporate Status, were incurred by or on behalf of such Covered Person in connection with any Proceeding, within thirty (30) days after the receipt by the corporation of a statement or statements from such Covered Person requesting such advance or advances, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by the Covered Person and shall include or be preceded or accompanied by an undertaking by or on behalf of the Covered Person to repay any Expenses if such Covered Person shall be adjudged to be not entitled to be indemnified against such Expenses. Any advance and undertaking to repay pursuant to this Section 7.7 may be unsecured interest-free, as the corporation sees fit. Advancement of Expenses pursuant to this Section 7.7 shall not require approval of the board of directors or the stockholders of the corporation, or of any other person or body. The secretary of the corporation shall promptly advise the Board in writing of the request for advancement of Expenses, of the amount and other details of the request and of the undertaking to make repayment provided pursuant to this Section 7.7.

Section 7.8. Notification and Defense of Claim. Promptly after receipt by a Covered Person of notice of the commencement of any Proceeding, such Covered Person shall, if a claim is to be made against the corporation under this Article, notify the corporation of the commencement of the Proceeding. The failure to notify the corporation will not relieve the corporation from any liability which it may have to such Covered Person otherwise than under this Article. With respect to any such Proceedings to which such Covered Person notifies the corporation:

(a) The corporation will be entitled to participate in the defense at its own expense.

(b) Except as otherwise provided below in this subparagraph (b), the corporation (jointly with any other indemnifying party similarly notified) will be entitled to assume the defense with counsel reasonably satisfactory to the Covered Person. After notice from the corporation to the Covered Person of its election to assume the defense of a suit, the corporation will not be liable to the Covered Person under this Article for any legal or other expenses subsequently incurred by the Covered Person in connection with the defense of the Proceeding other than reasonable costs of investigation or as otherwise provided below in this subparagraph (b). The Covered Person shall have the right to employ his own counsel in such Proceeding but the fees and expenses of such counsel incurred after notice from the corporation of its assumption of the defense shall be at the expense of the Covered Person except as provided in this paragraph. The fees and expenses of counsel shall be at the expense of the corporation if (i) the employment of counsel by the Covered Person has been authorized by the corporation, (ii) the Covered Person shall have concluded reasonably that there may be a conflict of interest between the corporation and the Covered Person in the conduct of the defense of such action and such conclusion is confirmed in writing by the corporation's outside counsel regularly employed by it in connection with corporate matters, or (iii) the corporation shall not in fact have employed counsel to assume the defense of such Proceeding. The corporation shall be entitled to participate in, but shall not be entitled to assume the defense of any Proceeding brought by or in the right of the corporation or as to which the Covered Person shall have made the conclusion provided for in (ii) above and such conclusion shall have been so confirmed by the corporation's said outside counsel.

(c) Notwithstanding any provision of this Article to the contrary, the corporation shall not be obligated to indemnify the Covered Person under this Article for any amounts paid in settlement of any Proceeding effected without its written consent. The corporation shall not settle any Proceeding or claim in any manner which would impose any penalty, limitation or disqualification of the Covered Person for any purpose without such Covered Person's written consent. Neither the corporation nor the Covered Person will unreasonably withhold their consent to any proposed settlement.

(d) If it is determined that the Covered Person is entitled to indemnification other than as afforded under subparagraph (b) above, payment to the Covered Person of the additional amounts for which he is to be indemnified shall be made within ten (10) days after such determination.

Section 7.9. Procedures.

(a) Method of Determination. A determination (as provided for by this Article or if required by applicable law in the specific case) with respect to a Covered Person's entitlement to indemnification shall be made either (a) by the board of directors by a majority vote of a quorum consisting of Disinterested directors, or (b) in the event that a quorum of the board of directors consisting of Disinterested directors is not obtainable or, even if obtainable, such quorum of Disinterested directors so directs, by Independent Counsel in a written determination to the board of directors, a copy of which shall be delivered to the Covered Person seeking indemnification, or (c) by the vote of the holders of a majority of the corporation's capital stock outstanding at the time entitled to vote thereon.

(b) Initiating Request. A Covered Person who seeks indemnification under this Article shall submit a Request for Indemnification, including such documentation and information as is reasonably available to such Covered Person and is reasonably necessary to determine whether and to what extent such Covered Person is entitled to indemnification.

(c) Presumptions. In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall not presume that the Covered Person is or is not entitled to indemnification under this Article.

(d) Burden of Proof. Each Covered Person shall bear the burden of going forward and demonstrating sufficient facts to support his claim for entitlement to indemnification under this Article. That burden shall be deemed satisfied by the submission of an initial Request for Indemnification pursuant to Section 7.9(b) above.

(e) Effect of Other Proceedings. The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of guilty or of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Article) of itself adversely affect the right of a Covered Person to indemnification or create a presumption that a Covered Person did not act in Good Faith.

(f) Actions of Others. The knowledge, actions, or failure to act, of any director, officer, employee, agent, trustee or fiduciary of the enterprise whose daily activities the Covered Person was actually responsible for may be imputed to a Covered Person for purposes of determining the right to indemnification under this Article.

Section 7.10. Action by the Corporation. Any action, payment, advance determination other than a determination made pursuant to Section 7.9(a) above, authorization, requirement, grant of indemnification or other action taken by the corporation pursuant to this Article shall be effected exclusively through any Disinterested person so authorized by the board of directors of the corporation, including the president or any vice president of the corporation.

Section 7.11. Non-Exclusivity. The rights of indemnification and to receive advancement of Expenses as provided by this Article shall not be deemed exclusive of any other rights to which a Covered Person may at any time be entitled under applicable law, the Certificate of Incorporation, these By-Laws, any agreement, a vote of stockholders or a resolution of the board of directors, or otherwise. No amendment, alteration, rescission or replacement of this Article or any provision hereof shall be effective as to an Covered Person with respect to any action taken or omitted by such Covered Person in such Covered Person's Corporate Status or with respect to any state of facts then or previously existing or any Proceeding previously or thereafter brought or threatened based in whole or to the extent based in part upon any such state of facts existing prior to such amendment, alteration, rescission or replacement.

Section 7.12. Insurance. The corporation may maintain, at its expense, an insurance policy or policies to protect itself and any Covered Person, officer, employee or agent of the corporation or another enterprise against liability arising out of this Article or otherwise, whether or not the corporation would have the power to indemnify any such person against such liability under the Delaware General Corporation Law.

Section 7.13. No Duplicative Payment. The corporation shall not be liable under this Article to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that a Covered Person has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 7.14. Expenses of Adjudication. In the event that any Covered Person seeks a judicial adjudication, or an award in arbitration, to enforce such Covered Person's rights under, or to recover damages for breach of, this Article, the Covered Person shall be entitled to recover from the corporation, and shall be indemnified by the corporation against, any and all expenses (of the types described in the definition of Expenses in Section 7.1 of this Article) actually and reasonably incurred by such Covered Person in seeking such adjudication or arbitration, but only if such Covered Person prevails therein. If it shall be determined in such adjudication or arbitration that the Covered Person is entitled to receive part but not all of the indemnification of expenses sought, the expenses incurred by such Covered Person in connection with such adjudication or arbitration shall be appropriately prorated.

Section 7.15. Severability. If any provision or provisions of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever:

(a) the validity, legality and enforceability of the remaining provisions of this Article (including without limitation, each portion of any Section of this Article containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and

(b) to the fullest extent possible, the provisions of this Article (including, without limitation, each portion of any Section of this Article containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

ARTICLE VIII.

Miscellaneous Provisions

Section 8.1. Certificate of Incorporation. All references in these By-laws to the Certificate of Incorporation shall be deemed to refer to the Certificate of Incorporation of the corporation, as amended and in effect from time to time.

Section 8.2. Fiscal Year. Except as from time to time otherwise provided by the board of directors, the fiscal year of the corporation shall end on the 31st of December of each year.

Section 8.3. Corporate Seal. The board of directors shall have the power to adopt and alter the seal of the corporation.

Section 8.4. Execution of Instruments. All deeds, leases, transfers, contracts, bonds, notes, and other obligations authorized to be executed by an officer of the corporation on its behalf shall be signed by the president or the treasurer except as the board of directors may generally or in particular cases otherwise determine.

Section 8.5. Voting of Securities. Unless the board of directors otherwise provides, the president or the treasurer may waive notice of and act on behalf of this corporation, or appoint another person or persons to act as proxy or attorney in fact for this corporation with or without discretionary power and/or power of substitution, at any meeting of stockholders or shareholders of any other corporation or organization, any of whose securities are held by this corporation.

Section 8.6. Evidence of Authority. A certificate by the secretary or any assistant secretary as to any action taken by the stockholders, directors or any officer or representative of the corporation shall, as to all persons who rely thereon in good faith, be conclusive evidence of such action. The exercise of any power which by law, by the Certificate of Incorporation, or by these By-laws, or under any vote of the stockholders or the board of directors, may be exercised by an officer of the corporation only in the event of absence of another officer or any other contingency shall bind the corporation in favor of anyone relying thereon in good faith, whether or not such absence or contingency existed.

Section 8.7. Corporate Records. The original, or attested copies, of the Certificate of Incorporation, By-laws, records of all meetings of the incorporators and stockholders, and the stock transfer books (which shall contain the names of all stockholders and the record address and the amount of stock held by each) shall be kept in Delaware at the principal office of the corporation, or at an office of the corporation, or at an office of its transfer agent or of the secretary or of the assistant secretary, if any. Said copies and records need not all be kept in the same office. They shall be available at all reasonable times to inspection of any stockholder for any purpose but not to secure a list of stockholders for the purpose of selling said list or copies thereof or for using the same for a purpose other than in the interest of the applicant, as a stockholder, relative to the affairs of the corporation.

Section 8.8. Charitable Contributions. The board of directors from time to time may authorize contributions to be made by the corporation in such amounts as it may determine to be reasonable to corporations, trusts, funds or foundations organized and operated exclusively for charitable, scientific or educational purposes, no part of the net earning of which inures to the private benefit of any stockholder or individual.

Section 8.9. Communication of Notices. Any notices required to be given under these Bylaws may be given (i) by delivery in person, (ii) by mailing it, postage prepaid, first class, (iii) by mailing it by nationally or internationally recognized second day or faster courier service, (iv) by facsimile transmission, or (v) by electronic transmission, in each case, to the addressee; provided, however that facsimile transmission or electronic transmission may only be used if the addressee has consented to such means.

Section 8.10. Electronic Transmissions. Notwithstanding any reference in these Bylaws to written instruments, all notices, meetings, consents and other communications contemplated by these Bylaws may be conducted by means of an electronic transmission, to the extent permitted by law, if specifically authorized by the board of directors of the corporation.

ARTICLE IX.

Amendments

Section 9.1. Amendment by Stockholders. Prior to the issuance of stock, these By-laws may be amended, altered or repealed by the incorporator(s) by majority vote. After stock has been issued, these By-laws may be amended altered or repealed by the stockholders at any annual or special meeting by vote of a majority of all shares outstanding and entitled to vote, except that where the effect of the amendment would be to reduce any voting requirement otherwise required by law, the Certificate of Incorporation or these By-laws, such amendment shall require the vote that would have been required by such other provision. Notice and a copy of any proposal to amend these By-laws must be included in the notice of meeting of stockholders at which action is taken upon such amendment.

Section 9.2. Amendment by Board of Directors. These By-laws may be amended or altered by the board of directors at a meeting duly called for the purpose by majority vote of the directors then in office, except that directors shall not amend the By-laws in a manner which:

(a) changes the stockholder voting requirements for any action;

(b) alters or abolishes any preferential right or right of redemption applicable to a class or series of stock with shares already outstanding;

(c) alters the provisions of Article IX hereof; or

(d) permits the board of directors to take any action which under law, the Certificate of Incorporation, or these By-laws is required to be taken by the stockholders.

Any amendment of these By-laws by the board of directors may be altered or repealed by the stockholders at any annual or special meeting of stockholders.

COLLABORATIVE DEVELOPMENT AGREEMENT

Between

Health Enhancement Products Inc.

and

HEPI Pharmaceuticals, Inc.

This Collaborative Development Agreement, effective as of the "Effective Date" (defined below), confirms the mutual understanding between Health Enhancement Products Inc., a Nevada corporation ("HEPI"), and HEPI Pharmaceuticals, Inc., a Delaware corporation ("HEPIPHARM"), each having a place of business at 7740 E. Evans Road, Suite A101, Scottsdale, AZ 85260. In this Agreement, HEPI and HEPIPHARM may also be referred to individually as "Party" and collectively as "Parties".

WHEREAS, HEPI possesses compounds that may be suitable for a variety of therapeutic indications ("HEPI Compounds");

WHEREAS, HEPIPHARM possesses the capacity to test compounds for a variety of different therapeutic applications and develop those compounds for medicinal uses;

WHEREAS, HEPIPHARM is willing to test HEPI Compounds for the evaluation of therapeutic applications using its assays and standard behavioral and non-clinical *in vivo* tests;

WHEREAS, the Parties wish to collaborate to develop and commercialize the HEPI Compounds under the terms hereinafter set forth;

NOW THEREFORE, in accordance with the foregoing, the Parties intending to be legally bound hereby agree as follows:

1.0 Definitions.

1.1 "Affiliates" shall mean, with respect to either party, any corporation, company, partnership, joint venture or any other entity controlled by, controlling, or under common control with such party and shall include any corporation, company, partnership, joint venture, or other entity at least fifty percent (50%) of whose voting stock or participating profit interest is owned or controlled, directly or indirectly, by such party, and any corporation, company, partnership, joint venture, or other entity which owns or controls, directly or indirectly, at least fifty percent (50%) of the voting stock of such party.

1.2 "Agreement" means this collaboration and license agreement between HEPIPHARM and HEPI.

1.3 "Analog" shall include without shall include without limitation, any and all HEPI synthesized (by itself or on its behalf) salts, esters, solvates, clathrates, prodrugs, polymorphs, isomers, metabolites, homologs, crystal forms, amorphous forms or co-crystals of any of the foregoing, and other related structures sufficient to serve as potential backup compounds of the nominated Pre-Development Candidate.

1.4 "Combination Product" shall mean any Licensed Product containing one or more Licensed Compound(s) along with one or more additional active ingredients.

1.5 "Derivative" shall have the meaning ascribed to it in Section **2.6.1.**

1.6 "DMF" shall mean the drug manufacturing files as that term is used by the FDA.

1.7 "Effective Date" shall mean the later of (i) the last date of the signatures below or (ii) the effective date of approval under an applicable Hart Scott Rodino filing, if required.

1.8 "First Commercial Sale" shall mean, with respect to any Product, the first sale by a Party hereto, or any of its Affiliates or Sublicensees, to a Third Party for end use or consumption of such Product in a country after the governing health regulatory authority of such country has granted Regulatory Approval. Sale to an Affiliate or Sublicensee shall not constitute a First Commercial Sale.

1.9 "FDA" shall mean the US Food and Drug Administration or any successor entity thereto having the administrative authority to regulate the marketing of human pharmaceutical products or biological therapeutic products, delivery systems and devices in the United States of America, and any applicable foreign equivalent entity within the Territory.

1.10 "Generic Competition" shall mean when any entity, other than HEPIPHARM or its licensees commences marketing/selling the same or equivalent active pharmaceutical ingredient(s) as contained in the Licensed Product(s) in any country where HEPIPHARM or Sublicensees are marketing the Licensed Product(s).

1.11 "IND" shall mean an Investigational New Drug Application filed with the FDA, or equivalent application or filing filed with any equivalent agency or governmental authority outside the United State of America (including any supra-national agency such as in the European Union) necessary to commence human clinical trials in such jurisdiction.

1.12 "Indemnitees" shall mean a respective Party's directors, officers, employees and agents.

1.13 "Inventions" shall mean any inventions or discoveries, whether or not patentable, made by employees and/or agents of HEPIPHARM or Affiliates of HEPIPHARM (either solely or jointly with employees and/or agents of HEPI or Third Parties) that pertain to Licensed Compounds.

1.14 "Joint Research Committee" or "JRC" shall mean the committee described in Section **2.2** charged with overseeing, monitoring and making decisions relating to the scientific aspects of the research and development program and the Licensed Compounds being investigated.

1.15 “Know-How” shall mean information, data including without limitation preclinical and clinical data and results, manufacturing techniques, formulations, processes and unpatented inventions pertaining to Licensed Compounds.

1.16 “HEPI Compounds” shall mean any compounds that are derived in whole or part from HEPI’s ProAlgaZyme product or process including all stereoisomers, polymorphs, prodrugs, Analogs, active metabolites and salts of any of the foregoing along with any and all related compounds and Analogs disclosed and claimed in HEPI Patents.

1.17 “Licensed Compound” shall mean the compounds that are derived in whole or part from HEPI Compounds including all stereoisomers, polymorphs, prodrugs, Analogs, active metabolites and salts of any of the foregoing along with any and all related compounds and Analogs disclosed and claimed in HEPI Patents.

1.18 “Licensed Patents” shall mean HEPI Licensed Patents and HEPIPHARM Licensed Patents.

1.19 “Licensed Product(s)” shall mean any product or formulation of Licensed Compound or Combination Product covered by at least one Valid Claim of a Licensed Patent.

1.20 “Licensed Technology” shall mean Licensed Patents and Know-How.

1.21 “Major Country” shall mean the United States, Canada, the United Kingdom, Germany, France, Sweden, Denmark, Netherlands and Italy.

1.22 **“**NDA” or “BLA**”** means an application (whether original, supplementary or abbreviated) to the FDA, or an equivalent application in other countries of the Territory, for approval by the FDA or the equivalent governmental agencies in other countries of the Territory, respectively, necessary for the commercial sale of a product in such country. An NDA, together with all supplemental filings referencing the initial NDA filing shall be deemed one and the same NDA for purposes of this Agreement.

1.23 “Net Sales” shall mean the total amount received by Party, its Affiliates and Sublicensees on account of sales of Licensed Product to Third Parties in the Territory, less the following deductions to the extent actually allowed or specifically allocated to the Licensed Product by the selling party using generally accepted International Accounting Standards (“IAS”):

(i) value added taxes, sales and excise taxes and duties paid or allowed by the selling party, charge-backs and any other governmental charges imposed upon the production, importation, use or sale of such Licensed Product;

(ii) trade, quantity and cash discounts allowed on Licensed Product including charge back payments, administrative fees, and rebates granted to managed care organizations, purchasers and reimbursers or to trade customers, including but not limited, wholesalers and chain and pharmacy buying groups;

(iii) allowances or credits allowed on account of damaged goods, rejection, returned goods, retroactive price reductions, withdrawal, recall or relabeling of Licensed Product; and

(iv) freight, postage, handling, shipping, customs duties and insurance costs, if they are included in the selling price for the Licensed Product invoiced to Third Parties or otherwise paid by Third Parties.

For the avoidance of doubt, for each of the Licensed Products the Net Sales shall be calculated only once for the first sale of such Licensed Product by either the selling Party or its Affiliates, sublicensees or distributors, as the case may be, to a Third Party. A sale of Licensed Product to a wholesaler shall be regarded as the first sale of the Licensed Product for the purpose of calculating Net Sales.

In the event that Licensed Product is sold as a Combination Product, Net Sales will be calculated by multiplying actual Net Sales (determined above) by the fraction A/(A+B) where: i) A is the invoice price of Licensed Compound if sold separately by the selling Party, its Affiliates or Sublicensee(s), during the applicable Calendar Quarter, and ii) B is the invoice price of any other active pharmaceutical component(s) in the Combination Product sold separately by the selling Party, its Affiliates or Sublicensee(s). If the invoice price B is unavailable, then the Combination Product Net Sales shall be substituted for the sum of (A+B). If the Licensed Compound is not sold separately (i.e. there is no price for A), then Net Sales of the Combination Product shall be multiplied by 1-(E/F) where E is the invoice price of the other active pharmaceutical component contained in the Combination Product and F is the invoice price of the Combination Product and if none of the individual components are sold separately, then the Net Sales of the Combination Product shall be multiplied by the fraction one-half (1/2).

1.24 "HEPIPHARM Assays" shall mean HEPIPHARM confidential and proprietary analytical methods and *in vivo* testing capabilities capacity for testing compounds for a variety of different therapeutic applications.

1.25 "HEPIPHARM Assay Inventions" shall have the meaning ascribed to it in Section 3.2.

1.26 "Phase I Clinical Trial" shall mean a human clinical study conducted in accordance with good clinical practice in a small number of healthy volunteers or patients designed or intended to establish an initial safety profile, pharmacodynamics, or pharmacokinetics of a Licensed Product.

1.27 "Phase II Clinical Trial" shall mean a human clinical trial that satisfied the requirements for a Phase II study as defined in 21 C.F.R. 312.21(b) (or its successor regulation).

1.28 "Phase III Clinical Trial" shall mean a human clinical trial that satisfied the requirements for a Phase III study as defined in 21 C.F.R. 312.21(c) (or its successor regulation).

1.29 "Pre-Development Candidate" shall have the meaning ascribed to it in Section 2.6.

1.30 "HEPIPHARM" shall mean HEPIPHARM Inc. and its Affiliates.

1.31 "HEPIPHARM Know-How" shall mean proprietary information, data, and the like including all preclinical and clinical data, all formulation information, and manufacturing records pertaining to Licensed Compounds/Licensed Product(s) and owned or controlled by HEPIPHARM.

1.32 "HEPIPHARM Patents" shall mean HEPIPHARM owned or controlled patents and patent applications (a) containing at least one claim covering the structure, use, formulation and/or manufacture of Licensed Product(s) and any other Licensed Product(s); (b) containing one or more claims covering processes and intermediates useful in the manufacture of Licensed Compound(s) and any other Licensed Product(s); and (c) further including those patents and patent applications listed in **Exhibit E2** as updated from time to time.

1.33 "HEPIPHARM Technology" shall mean HEPIPHARM Patents and HEPIPHARM Know-How.

1.34 "Regulatory Approvals" shall mean and include licenses, permits, authorizations and approvals of, and registrations, filings and other notifications to, any governmental agency or department within the Territory, including, without limitation, the United States Food and Drug Administration and the EMEA/European Commission, as applicable, and including any requisite pricing and reimbursement approval, necessary or appropriate for the manufacture, production, storage, distribution, import, transport, marketing, sale and/ or use of Licensed Product within the Territory.

1.35 "HEPI" shall mean HEPI Inc. and its Affiliates.

1.36 "HEPI Know-How" shall mean proprietary information, data, and the like including all preclinical and clinical data, all formulation information, and manufacturing records pertaining to Licensed Compounds/Licensed Product(s) and owned or controlled by HEPI.

1.37 "HEPI Patents" shall mean HEPI owned or controlled patents and patent applications (a) containing at least one claim covering the structure, use, formulation and/or manufacture of Licensed Product(s) and any other Licensed Product(s); (b) containing one or more claims covering processes and intermediates useful in the manufacture of Licensed Compound(s) and any other Licensed Product(s); and (c) further including those patents and patent applications listed in **Exhibit E1** as updated from time to time.

1.38 "HEPI Technology" shall mean HEPI Patents and HEPI Know-How.

1.39 "Sublicensee" shall mean a Third Party to whom a Party hereunder, or any of its Affiliates, has granted a license or sublicense to develop, make, have made, use, distribute for sale, promote, market, offer for sale, sell, have sold, import, or export Licensed Products, beyond the mere right to purchase Licensed Products from such Party or its Affiliates. The Parties agree that a Third Party acquiring all or substantially all of the business of a Party or its Affiliates, whether by merger, sale of stock, sale of assets, or otherwise, shall not be a Sublicensee.

1.40 "Royalty Term**"** is shall mean, on a country-by-country basis, that period beginning with the First Commercial Sale in the applicable country and ending with the last to expire Licensed Patent issued in such country containing a Valid Claim covering the composition, manufacture and/or use of Licensed Product or an intermediate thereof.

1.41 "Territory" shall mean worldwide.

1.42 "Third Party" shall mean any other party that is independent from HEPIPHARM and its Affiliates or HEPI or its Affiliates.

1.43 "Valid Claim" shall mean an issued claim that has been maintained and is enforceable and not been invalidated, withdrawn, dedicated or ruled unenforceable by a court of last resort or pursuant to a ruling for which an appeal can still be timely made.

2.0 Development Collaboration.

2.1 Timeline. The Parties shall begin a five year research collaboration, renewable by mutual consent for an additional five year term, to perform the collaborative research. The research collaboration shall be governed by a Joint Research Committee as set forth in Section 2.2.

2.2 Joint Research Committee. Promptly after the Effective Date, the Parties shall form a Joint Research Committee to oversee and govern the collaboration. Each party shall be represented in the JRC by three (3) delegates. One of the three members from each Party shall be identified such Party as its Head Delegate. The JRC shall meet not less frequently than quarterly. Within ninety (90) days after the Effective Date of this Agreement, the JRC shall develop a research plan based on **Appendixes A** and **B**.

2.2.1 All decisions of the JRC shall require the agreement of both Head Delegates. In the event that the JRC cannot reach agreement on an issue, HEPI's CSO and HEPIPHARM's VP, Drug Discovery will work in good faith to reach agreement within twenty (20) days. If at the end of such twenty day period the Parties have not reached agreement, HEPI's CEO and HEPIPHARM's EVP, Research and Development will work in good faith to reach agreement within an additional fifteen (15) days. If the Parties fail to reach a good faith agreement at the end of such fifteen day period, HEPIPHARM shall have the tie-breaking vote.

2.2.2 HEPI Compounds that are not nominated to the Lead Optimization Phase (Section 2.6) by the JRC shall be returned to HEPI, with no further licensing rights or obligations (except as set forth in Section **3.1)** to the other Party.

2.3 Delivery of Material. HEPI shall deliver to HEPIPHARM adequate quantities of HEPI Compounds and Derivatives, identified via code number only, for testing in HEPIPHARM Assays. HEPI Compounds and Derivatives shall be: chemically diverse; computationally predicted to be drug-like; and of greater than 85% purity.

2.3.1 HEPI shall provide, if available, information on doses, routes of administration and compound solubility for those formulations that have previously been tested *in vivo.*

2.3.2 HEPIPHARM in consultation with HEPI shall determine the appropriate dose, pre-treat time, routes of administration, and compound solubility for those formulations that have not previously been tested *in vivo.*

2.4 Screening Phase.

2.4.1 HEPIPHARM Assay Screening: HEPIPHARM shall undertake HEPIPHARM Assays and such other standard behavioral and non-clinical *in vivo* tests as it deems useful on HEPI Compounds and shall promptly after completing such tests provide to HEPI a written statement identifying possible therapeutic applications with therapeutic class probability estimates on each such HEPI Compound. It is understood that HEPIPHARM will not provide descriptive information concerning HEPIPHARM Assays beyond such identification of possible applications and estimates. Based on such estimates, the Joint Research Committee identified in Section 2.2, may identify up to 5% of such HEPI Compounds as worthy of further testing by HEPI via standard behavioral and other non-clinical *in vivo* tests. HEPI Compounds so identified shall herein be called "Hits".

2.4.2 Standard Non-Clinical Testing: HEPIPHARM shall perform two (2) to three (3) standard behavioral and other non-clinical *in vivo* tests routinely performed at HEPIPHARM on each Hit. Upon completion of the foregoing tests, HEPIPHARM will provide HEPI with methodology, statistically analyzed results, and raw data from such tests.

2.4.2.1 If a Hit shows positive results in at least one standard behavioral test, then the JRC may elect to nominate that Hit as a "Positive Hit", and the Parties shall proceed to the Pre-Optimization Phase with that Positive Hit.

2.4.3 HEPIPHARM Compounds: If a HEPIPHARM Compound shows positive results in at least one standard behavioral test, and HEPIPHARM elects to include the compound in this collaboration, then the JRC may elect to nominate that HEPI Compound as a " Positive Hit", and the Parties shall proceed to the Pre-Optimization Phase with that Positive Hit.

2.5 Pre-Optimization Phase:

2.5.1 Patent Search: HEPI shall conduct a patent search for each Positive Hit, and advise HEPIPHARM's patent counsel of the results of the same. On a compound-by-compound basis, if the patent search results for a Positive Hit are acceptable to the JRC, it shall be deemed a "Confirmed Hit" and the Parties shall proceed with the Pre-Optimization Phase scientific testing set forth in Section **2.5.2.2**. below.

2.5.2 Testing: During the Pre-Optimization Phase, for each Positive Hit:

2.5.2.1 HEPIPHARM shall test the Positive Hit's target binding profile and determine preliminary pharmacokinetics,

2.5.2.2 HEPIPHARM shall perform *in vivo* superiority testing to determine whether the Positive Hit has an improved efficacy and/or safety profile compared to existing drugs having such therapeutic application(s) (collectively, the "Pre-Optimization Results").

2.5.2.3 Based on the Pre-Optimization Results, the JRC may elect to nominate a Positive Hit as a "Lead". The Parties shall take each such Lead into a Lead Optimization Phase.

2.6 Lead Optimization Phase: The first step of a Lead Optimization Phase shall be an agreement by the JRC on the criteria by which a compound shall be judged in determining it to be a successful product of a Lead Optimization Phase (and thus a "Pre- Development Candidate"). Criteria that shall be considered include target binding profiles, potency, and confirmed efficacy and superiority. At a minimum, the criteria outlined in **Appendix C**: Pre-requisites for Nomination of Research Compounds for Pre Development Candidacy will apply, along with other criteria selected by the parties. During the Lead Optimization Phase, for each Lead:

2.6.1 HEPIPHARM shall design, and conduct or have conducted, at HEPIPHARM's expense, synthesis and *in vitro* testing of derivatives, metabolites, homologs, and isomers, and other structures of a Lead sufficient to serve as potential backup compounds for that Lead ("Derivatives").

2.6.2 HEPIPHARM shall perform HEPIPHARM Assays or an applicable standard automated behavioral test routinely provided by HEPIPHARM on not more than 600 Derivatives for one (1) Lead, not more than 700 Derivatives in the aggregate for two (2) Leads, not more than 800 Derivatives in the aggregate for three (3) Leads, not more than 900 Derivatives in the aggregate for four (4) Leads, and not more than 1000 Derivatives in the aggregate for five (5) Leads, unless otherwise determined by the JRC provided however that if the JRC determines more than one behavioral test is to be run per Lead program then HEPIPHARM shall not be obligated to run any such additional test(s) unless it agrees with such determination. HEPIPHARM shall promptly after completing such tests provide to HEPI a written statement identifying possible therapeutic applications with therapeutic class probability estimates on each such Derivative and the results of a similarity analysis versus the Derivative's corresponding to a Lead.

2.6.3 HEPIPHARM shall also design, conduct and pay for *in vivo* behavioral testing, designed to determine whether a Derivative meets the JRC's Pre-Development Candidate criteria as outlined in Appendix C on up to five (5) Derivatives per Lead unless otherwise determined by the JRC and agreed to by HEPI.

2.7 HEPIPHARM will screen HEPI Compounds using HEPIPHARM Assays, determine the probability threshold of each such HEPI Compound having a particular therapeutic application(s) or belonging to a therapeutic class, undertake standard behavioral and non-clinical in vivo tests on certain of such HEPI Compounds as have been mutually chosen by the Parties to be so tested, and, to the extent that such tests so dictate, thereafter proceed to Pre-Optimization and Lead Optimization tasks as herein described and further outlined in Appendix B.

2.8 It is understood that HEPIPHARM will not provide descriptive information beyond identification of possible applications and probability estimates from HEPIPHARM Assays in connection with the collaboration and the Additional Testing in section 6 or for any other purpose. Based on such estimates, the Parties will determine the standard behavioral and other preclinical in vivo tests to use to confirm the results from HEPIPHARM Assays. HEPIPHARM will provide HEPI with methodology and statistically analyzed results from such standard behavioral and non-clinical in vivo tests.

3.0 Intellectual Property.

3.1 Except as otherwise provided in Section 3.2. below, any and all discoveries and inventions, whether or not patentable, conceived during and in the course of the collaboration ("Program Intellectual Property") shall be solely owned by HEIPI.

3.2 HEPIPHARM Assay Inventions. Notwithstanding anything to the contrary and for the avoidance of doubt, all inventions and know-how specifically related to HEPIPHARM Assays that do not rely on HEPI Compounds or Derivatives ("HEPIPHARM Assay Inventions"), shall be excluded from Program Intellectual Property and shall remain the exclusive property of HEPIPHARM, provided, however, that information arising from the Collaboration shall be and remain subject to confidentiality obligations.

3.3 Restricted Disclosure. HEPI will not disclose to HEPIPHARM the identity of HEPI Compounds or any Derivatives except when and to the extent such disclosure is necessary to effect the Collaboration, any provision of the agreement relating thereto, or to comply with legal requirements. HEPI shall maintain in the files of its outside counsel, a list including structural information of all HEPI Compounds in order to confirm the identity of such during the term of the agreement and for a period ending five (5) years thereafter.

3.4 Licensing of Program Intellectual Property. Program Intellectual Property shall be subject to licensing by one Party to the other or by both Parties to third parties (along with respective necessary background intellectual property rights to enable such party to make, use and sell the applicable HEPI Compounds) in accordance with the respective Development Scenario followed, as described in Section 8 below. The Party licensing Program Intellectual Property from the other Party relating to a Licensed Series (as defined in Section 8 below) shall assume all future costs associated with preparation, prosecution, maintenance, defense and enforcement of such Program Intellectual Property that are incurred after the effective date of the applicable License Agreement.

4.0 Development Scenarios.

4.1 HEPIPHARM Development Scenario:

4.1.1 Upon successful nomination of a Pre-Development Candidate as described in Section 4c above, HEPIPHARM shall purchase from HEPI an exclusive option exercisable for ninety (90) days at HEPIPHARM's discretion to take an exclusive license under any and all intellectual property owned or controlled solely or jointly by HEPI to make, have made, develop, use, sell, or have sold the Pre-Development Candidate and all Analogs thereof, wherein the term "Analog" shall include without limitation, any and all HEPIPHARM synthesized (by itself or on its behalf) salts, esters, solvates, clathrates, prodrugs, polymorphs, isomers, metabolites, homologs, and other related structures sufficient to serve as potential backup compounds of the nominated Pre-Development Candidate. Collectively, a Pre-Development Candidate and its Analogs shall be a "Licensed Series"

4.1.2 As payment for the foregoing exclusive option on the first Licensed Series, HEPIPHARM shall make a one-time payment of $1.0 million to HEPI within forty-five (45) calendar days of the effective date of the option. The exclusive option fee for each subsequent Licensed Series will be subject to an option fee of $0.5 million.

4.1.3 HEPIPHARM shall make the following milestone and royalty payments to HEPI for each Licensed Series for which HEPIPHARM exercises its exclusive option;

Upon HEPIPHARM's exercise of the exclusive option for a Licensed Series	$0.5 million ($0 if it is the first Licensed Series and the $ 1.0 million option payment was made)
Filing of IND or equivalent	$1.5 million
Initiation of Phase II trial	$2.0 million
Initiation of Phase III trial	$4.0 million
Launch of a Licensed Series product	$8.0 million
Royalty on annual net sales	10%. minimum, subject to terms in Section 6.6
A one-time milestone payment the first time annual net sales of the Licensed Series product exceeds $200 million	$2.0 million

*Milestones are to be paid only one time for each Licensed Series, irrespective of the existence of back-up compounds or the potential for additional indications. Running royalties shall be paid on each compound/product that is sold even if it is in the same Licensed Series.

4.2 HEPI Development Scenario:

4.2.2 If HEPIPHARM does not notify HEPI that it is exercising its exclusive option within ninety (90) days from a successful nomination of a Pre-Development Candidate, then HEPI may take an exclusive license under any and all intellectual property owned or controlled solely or jointly by HEPIPHARM to make, have made, develop, use, sell, or have sold the Pre-Development Candidate and all Analogs thereof. Collectively, a Pre-Development Candidate and it Analogs shall be a "Licensed Series".

4.2.3 HEPI shall make the following milestone and royalty payments to HEPIPHARM for each Licensed Series for which HEPI exercises its exclusive option:

Upon the grant of an exclusive license for a Licensed Series	$0.5 million
Filing of IND or equivalent	$1.0 million
Initiation of Phase II trial	$1.5 million
Initiation of Phase III trial	$2.0 million
Launch of a Licensed Series Product	$2.0 million
Royalty on annual net sales	3%.
A one-time milestone payment the first time annual net sales of the Licensed Series product exceeds $200 million	$1.0 million

*Milestones are to be paid only one time for each Licensed Series, irrespective of the existence of back-up compounds or the potential for additional indications. Running royalties shall be paid on each compound/product that is sold even if it is in the same Licensed Series.

4.3 Non-Development Scenario:

4.3.2 If neither Party elects to pursue a Pre-Development Candidate, the Parties may jointly cooperate to license a third party, which may include a period of joint development.

4.3.3 If the Parties wish to out-license the Pre-Development Candidate and/or its Analogs, HEPIPHARM shall have the option to pursue and complete a licensing arrangement with a third party whereby rights under each Party's respective applicable background intellectual property and any pertinent Program Intellectual Property are included and whereby the Parties shall share equally in the incremental costs after the Pre-Development Candidate has been identified and benefits from such licensing arrangement. If after one (1) year, no license agreement is in prospect, or after two (2) years a licensing agreement has not been finalized, and both Parties still wish to out-license the Pre-Development Candidate and/or its Analogs, then HEPI has the option to take over the out-licensing effort. The Party leading the out-licensing effort shall have no authority to enter a binding agreement without the consent of the other party. For any license agreement with a third party, both Parties must execute and be a party to the license agreement.

5.0 License.

5.1 License Grant. Subject to the terms and limitations of this Agreement, HEPI hereby grants to HEPIPHARM an exclusive license in the Territory to use HEPI Technology to develop, make, have made, use, offer for sale, sell, import and export Licensed Products. Such license shall include the right to sublicense subject to HEPI's approval, not to be unreasonably withheld or delayed.

5.2 Subject to the participation payment under Section 4.6 below, HEPIPHARM shall have the right to grant written sublicenses to its Affiliates and Third Parties on conditions that the written sublicense agreement incorporates the obligations of HEPIPHARM under Sections **3.1, 3.3 and 4.13** of this Agreement.

5.3 In furtherance of the rights and licenses granted by HEPI to HEPIPHARM under this Agreement, within thirty (30) days after the Effective Date of this Agreement, HEPI will furnish to HEPIPHARM a data package that shall include the HEPI Know How. HEPIPHARM shall not use any of the HEPI Know How furnished by HEPI under this Section **5.3** for any purpose whatsoever except as specifically authorized in this Agreement, or as otherwise specifically authorized in writing by HEPI. In connection with the data package, HEPI shall provide HEPIPHARM with sufficient quantities of ProAlgaZyme at no cost to HEPIPHARM. HEPI shall ship the ProAlgaZyme to a HEPIPHARM designated address as soon as practicable following the Effective Date hereof.

6.0 Developer's Obligations.

6.1 *HEPIPHARM* shall use commercially reasonable efforts to conduct testing of the HEPI Compound and to develop, manufacture, have manufactured, register and commercialize the Licensed Product in the Major Countries. "Commercially reasonable efforts" as used herein shall mean such reasonable, diligent, good faith efforts of HEPI to accomplish such objective as generally would be used in the pharmaceutical industry by companies of like size and available resources to accomplish a similar objective, for a product owned by it or to which it has rights, which is of similar market potential at similar stage in its development or product life, taking into account issues of safety and efficacy, product profile, the competitiveness of the marketplace, the proprietary position of the Compound or Licensed Product, the regulatory structure involved, the profitability of the applicable products, and other relevant factors. Commercially reasonable efforts shall be mutually determined on a market-by-market basis and Licensed Product-by-Licensed Product basis, and it is anticipated that the level of efforts will change over time, reflecting changes in the status of the Licensed Product and the market involved. If, in any particular country, HEPIPHARM, or as the case may be its Affiliates or sublicensees, at any time during the term of this Agreement does/do not use commercially reasonable efforts to develop, make, have made, use, offer for sale, sell, import and export Licensed Products, HEPI shall be entitled to make the license granted pursuant to Section 2.1 of this Agreement in such country non-exclusive as to such country, upon written notice to HEPIPHARM unless HEPIPHARM shall have taken material steps to cure any deficiency in such efforts which have been specified in such written notice, further provided that for each country that HEPI takes back non-exclusive license rights, HEPI shall be liable to HEPIPHARM for using commercially reasonable efforts and paying to HEPIPHARM milestones and royalties in connection with HEPI's (including any HEPI sublicensee) development efforts, if any, and Net Sales of Licensed Product pursuant to the same terms in this Agreement .*mutatis mutandis* for which HEPIPHARM would have been liable hereunder if such development, sublicense and sales rights and obligations had remained with HEPIPHARM. If the Parties are in disagreement whether commercially reasonable efforts have been used, and the Parties are unable to reach amicable agreement on such issues after involving its respective upper management, then the matter shall be submitted for resolution pursuant to the mechanism set forth in **Exhibit F**. In the event of a determination that a Party has failed to use reasonable commercial efforts, the only legal remedy for such a determination shall be conversion of the license in the applicable countries to a non-exclusive right, or termination of the applicable license, as provided herein, unless the party failing to use commercially reasonable efforts shall promptly have undertaken material steps to cure such deficiency.

6.2 After the First Commercial Sale in the Territory, HEPIPHARM shall furnish HEPI with quarterly reports of all of HEPIPHARM' sales of Licensed Products under this Agreement. Each such quarterly report shall (i) be furnished to HEPI together with payment of royalties in accordance with Section **4.8** within sixty (60) days after the close of the calendar quarter to which it corresponds; and (ii) state HEPIPHARM', its Affiliates' and its licensees' total revenues from sales of the Licensed Products, broken down by country, during the calendar quarter, the Net Sales derived by HEPIPHARM, its Affiliates and its licensees from such sales, the royalties payable by HEPIPHARM to HEPI with respect to such Net Sales pursuant to Section **4.6** of this Agreement, the calculations that determine the royalty due hereunder, the exchange rate used, all other information necessary to account for and accurately compute all compensation due HEPI under this Agreement. In addition, commencing as of the calendar year following the date of the First Commercial Sale in the Territory, HEPIPHARM shall provide HEPI within sixty (60) days after the close of a calendar year with a summary of its marketing activities performed in the Major Countries in the previous calendar year and its marketing plans and a sales forecast for that calendar year.

6.3 HEPIPHARM shall inform HEPI as soon as possible, however not later than within fourteen (14) days following the occurrence of a milestone event of such milestone events. Milestone payments are to be paid within thirty (30) days after HEPI's receipt of an invoice issued by HEPIPHARM for such milestone payment.

6.4 Subject to Section **6.0** below, all fees payable by HEPIPHARM to HEPI under Sections **4.1, 4.2 and 4.3** hereof are non-refundable upon expiration or termination of this Agreement for any reason whatsoever. None of the fees paid by HEPIPHARM to HEPI under Sections **4.1, 4.2 and 4.3** may be credited against any of HEPIPHARM' payment obligations under Sections **4.5 and 4.6** hereof.

6.5 In case HEPIPHARM grants sublicenses under the license granted under Section 2.1 hereof and in accordance with the terms of this Section **4.5**, HEPIPHARM shall make to HEPI a participation payment of any lump sum, periodic or other consideration (other than running royalties) received by HEPIPHARM from sub-licensees including, but not limited to, advance royalties, sub-licensee fees, marketing rights, or other consideration paid for the authorization to use the HEPI Patent Rights and/or promote HEPI Know-How to develop, manufacture, have manufactured, market, distribute, advertise, promote, use, sell or offer for sale Licensed Products. The participation payment shall be twenty percent (20%) for any sublicenses granted after the Effective Date. For the avoidance of doubt, the foregoing obligation shall not apply in respect of any sums received from sub-licensees on which HEPIPHARM has paid or is obliged to pay royalties pursuant to Section 4.6 hereof. In case the participation payment is less than the total of the milestones set forth in Section 4.2, HEPIPHARM shall pay HEPI the lesser of (i) 50% of what HEPIPHARM receives or (ii) the milestones set forth in Section 4.2**;** such determination to be made on a cumulative basis at each milestone event set forth in Section 4.2.

6.6 During the first thirty-six (36) months after the first commercial sale of a HEPI compound HEPIPHARM shall pay HEIPI in addition to the milestone payments set forth above section 4.1.3, royalties of ten percent (10%) on the first 70,000,000 of aggregate annual Net Sales of HEIPI Compounds and 13.5% on aggregate Net Sales between 70,000,001 and 150,000,00 and 17.5% on aggregate annual Net Sales in excess of 150,000,00 in all countries for so long as (a) the manufacture, use or sale of HEIPI Compounds are covered by a Valid Claim, or (b) there is no significant generic competition that causes a reduction of Net Sales of HEPI Compounds by thirty (30) percent or more in any twelve period. After the expiration of the first thirty-six (36) months after first commercial sale, HEPIPHARM will pay HEPI royalties of ten percent (10%) on the first $60,000,000 of aggregate annual Net Sales of HEPI Compounds and 13.5% on aggregate annual Net Sales between $60,000,001 and $120,000,000 and 17.5% on aggregate annual Net Sales in excess of $120,000,00 or so long as (a) the manufacture, use or sale of HEIPI Compounds are covered by a Valid Claim, or (b) there is no significant generic competition that causes a reduction of Net Sales of Compound by thirty (30) percent or more in any twelve period.

6.7 Royalty payments shall be made on a country-by-country and a Licensed Product-by-Licensed Product basis for the lifetime of such HEPI Patent Rights, in which the Licensed Product falls, or for a period of ten (10) years from the date of First Commercial Sale of such Licensed Product in the respective country, whichever term is longer. In countries in which the Licensed Product is not covered by valid HEPI Patent Rights, and provided, however, such Licensed Product has Generic Competition in such country and further provided such generics in the aggregate achieve a market share in wholesale unit volume of at least twenty percent (20%) in such country, the applicable royalty rate for Licensed Products sold in such country shall be half the rate that would be applicable without Generic Competition.

6.8 All payments by HEPIPHARM to HEPI under this Agreement shall be paid in U.S. Dollars to the following account:

Bank, ……..
Bank Code:
Account Number:
SWIFT:
IBAN

In the event that any consideration or Net Sales invoiced by HEPIPHARM, its Affiliates or its sublicensees are received in any currency other than U.S. dollars, for purposes of calculating the consideration or royalties payable by HEPIPHARM under Sections **4.5** and **4.6** hereof, such Net Sales shall be converted into U.S. dollars at the rate of exchange between the currency in which such Net Sales were received and the U.S. dollar prevailing rate as set by CitiBank at noon or published in the Wall Street Journal (East Coast Edition) on the last day of the calendar quarter in which such Net Sales were received by HEPIPHARM, its Affiliates or its sublicensees.

6.9 Participation payments or royalties under Sections **4.5** and **4.6** shall be paid on a calendar quarterly basis. Each quarterly payment by HEPIPHARM under Sections 4.5 and 4.6 shall be paid within sixty (60) days after the close of the calendar quarter to which it corresponds.

6.10 In the event that any fee payable by HEPIPHARM under Sections **4.1, 4.2 or 4.3** is not paid to HEPI on or before the due date therefore, as specified herein, or any quarterly consideration or royalty payment under Sections **4.5** and **4.6** is overdue, the unpaid overdue amount shall bear interest, at a rate equal to the LIBOR rate plus two (2) percentage points.

6.11 All payments by HEPIPHARM to HEPI under this Section 4 shall be paid in full, without deduction for any sales, use, excise or other similar taxes. All payments are exclusive of value added tax, which shall if applicable, be invoiced separately. In the event that HEPIPHARM is required to withhold any taxes on any amount payable to HEPI hereunder, under the applicable laws of any country within the Territory, HEPIPHARM shall at HEPI's request use all commercially reasonable efforts to obtain and furnish HEPI with official tax receipts, or other evidence of payment of such withholding taxes, sufficient to permit HEPI to demonstrate the payment of such withholding taxes, in order to establish HEPI's right to a credit for such withholding taxes against HEPI's income tax liability. HEPIPHARM shall provide HEPI, at its expense, with all assistance reasonably requested by HEPI in connection with any application to any competent tax authorities in any country within the Territory to qualify for the benefit of a reduced rate of withholding taxation under any applicable Double Tax Treaty.

6.12 For the term of this Agreement and for a term of three (3) years after a quarterly report under Section 3.3 above is due, HEPIPHARM shall maintain complete and accurate books and records of account, in accordance with generally accepted accounting principles, of all transactions and other business activities under this Agreement, sufficient to confirm the accuracy of all reports furnished by HEPIPHARM to HEPI under Section 3.3 hereof, and all payments by HEPIPHARM to HEPI under this Section 4. Upon reasonable written notice to HEPIPHARM an independent, certified public accountant of international repute, designated by HEPI, reasonably acceptable to HEPIPHARM and under standard confidentiality obligations to HEPIPHARM, shall have the right once per calendar year to audit such previously unaudited books and records of account of HEPIPHARM, solely in order to confirm the accuracy and completeness of all such reports and all such payments. HEPI shall bear all costs and expenses incurred in connection with any such audit; provided, however, that if any such audit reveals a variance of five percent (5%) or more between the total amount of payments actually due and the amount of payments made to HEPI, then, in addition to paying the full amount of such underpayment, plus accrued interest in accordance with Section 4.11 hereof, HEPIPHARM shall reimburse HEPI for all such external costs and expenses reasonably incurred.

6.13 No more than one royalty shall be paid per unit of Licensed Compound regardless of the number of patents which may be deemed to cover such Licensed Compound or the number of countries involved in its manufacture, use and/or sale.

6.14 If the manufacture, use or sale of any Licensed Compound/Licensed Product requires (in the reasonable judgment of the party engaged in commercialization of such Licensed Compound/Licensed Product) a license under one or more third party patents, then fifty percent (50%) of the royalties due thereunder may be deducted from the royalties due hereunder provided however, that the royalties due hereunder shall in no cases be reduced by more than fifty percent (50%).

7.0 Patent Enforcement and Defense.

7.1 Infringers. Each party shall inform the other promptly in writing of any alleged infringement of any of Licensed Patents by a Third Party, including all details then available. Each Party shall have the first right exercisable in its discretion, but shall not be obligated, to prosecute at its own expense any such infringement relating to its own Licensed Patents. The Parties shall cooperate fully by joining as a party plaintiff at their own expense if required to do so by law to maintain such action and by executing and making available such documents as may reasonably be requested. No settlement, consent judgment or other voluntary final disposition of the suit which raises any adverse consequences upon HEPI Patents or the revenue to HEPI may be entitled to receive hereunder may be entered into without HEPI's explicit prior written consent, which shall not be unreasonably withheld or delayed. A delay beyond thirty (30) days shall be considered consent.

7.1.1 If HEPIPHARM elects to prosecute any infringement of any HEPI Patents, HEPIPHARM may deduct fifty percent (50%) of the litigation costs from royalties due to HEPI. In no event may the royalties payable to HEPI be reduced by more than fifty percent (50%) in any one year. If the permissible deduction of fifty percent (50%) of prosecution costs exceeds the royalty due in any one year, the deduction may be carried forward and deducted from royalties in subsequent years, provided that the annual royalty payable to HEPI is never reduced by more than fifty percent (50%).

7.1.2 Recoveries or reimbursements from infringement actions commenced by HEPIPHARM shall be distributed as follows: (i) HEPI shall be reimbursed for any royalty payments withheld according to the preceding paragraph; (ii) HEPI and HEPIPHARM shall be reimbursed for their respective litigation costs; (iii) any remaining recoveries or reimbursements shall be retained by HEPIPHARM and shall be subject to payment of royalties pursuant to **Article 4** hereof as if the retained recovery or reimbursement were Net Sales by HEPIPHARM.

7.1.3 If HEPI has not taken legal action based on HEPI Patents, within one hundred twenty (120) days of written notification from HEPIPHARM of infringement thereof, or if HEPI elects not to continue prosecuting any legal action against an infringer of HEPI Patents, HEPIPHARM shall have the right, but shall not be obligated, to prosecute at its own expense such infringement, and HEPI may join HEPIPHARM as a plaintiff at the expense of HEPI. In any infringement action so commenced or continued by HEPIPHARM, all recoveries shall be distributed as described in Section 6.1.2.

7.2 Declaratory Judgment/Oppositions/Infringements. If (i) any declaratory judgment, opposition or other legal action alleging invalidity or non-infringement of any of the Licensed Patents, or (ii) any legal action alleging infringement by the manufacture, use or sale of Licensed Compound(s)/Licensed Product(s) of any Third Party patent, shall be brought against either Party (solely or together with the other Party), then with respect to (i) each Party shall be responsible for controlling the defense of its respective Licensed Patents at its expense but shall reasonably consider input from the other Party, and with respect to (ii) HEPIPHARM shall be responsible for controlling the defense of Licensed Compound(s)/Licensed Product(s) at its expense but shall reasonably consider input from HEPI.

7.3 HEPIPHARM Enjoined: If HEPIPHARM is threatened, enjoined or otherwise prohibited from making, having made, importing, exporting, using, offering for sale or selling any Licensed Product as a result of alleged infringement of a Third Party patent in any country of the Territory, then (i) HEPIPHARM shall be excused from any commercially reasonable efforts required in connection with such Licensed Product and shall have the immediate right to cease making, using or selling the Licensed Product in the applicable country; and (ii) HEPIPHARM shall have the right to delete such country from the Territory on ten (10) days prior written notice and upon such deletion shall have no further right under applicable HEPI Patents to make, use and sell Licensed Product in such deleted country.

7.4 Patent Maintenance. Each Party shall be solely responsible for the preparation, filing, prosecution and maintenance of its Patents.

7.5 Cooperation. HEPIPHARM and HEPI agree to cooperate in any patent infringement, opposition or in any reissue or reexamination proceedings and to make their respective employees, documents and records available as needed on a timely basis. HEPIPHARM agrees to fully cooperate with HEPI at its request in having HEPI Patents listed in the FDA Orange Book. Each Party shall bear the costs incurred in any opposition, re-issue or re-examination proceeding involving its respective Licensed Patents.

7.6 Hart-Scott Rodino Filing. HEPIPHARM and HEPI agree to cooperate and to share in the costs of the determination of whether to file, and if so determined, the preparation, filing and completion of any Hart-Scott Rodino, European Commission and/or other filing that in HEPI's reasonable opinion should be effected in connection with this Agreement.

8.0 Termination.

8.1 Right to Terminate.

8.1.1 The Parties may terminate this Agreement by mutual written agreement at any time.

8.1.2 HEPIPHARM shall have the right upon sixty (60) days written notice to terminate its development and/or marketing of Licensed Compounds and Licensed Products hereunder.

8.1.3 Both Parties shall have the right to terminate this Agreement upon sixty (60) days written notice due to material breach by the other Party provided:

(i) that such written notice specifies the material breach complained of;

(ii) that such material breach has not been cured, or substantial steps taken to cure such material breach during such sixty (60) day period; and

(iii) that no filing has been made under the alternative dispute resolution provisions set forth in **Exhibit F** requesting a determination that such alleged breach was not a breach, was not material or has been substantially cured or curing steps taken during such sixty (60) day period if such dispute has not been amicably resolved by the intervention of the Parties' respective upper management within sixty (60) days of one Party's notice to the other requesting such intervention and resolution.

If there is disagreement whether a material breach has occurred or whether substantial steps are being taken to cure such breach, then the matter shall be submitted for dispute resolution pursuant to the procedure set forth in **Exhibit F** for a determination of whether a material breach has occurred, whether such a breach has been cured and/or whether substantial step(s) to cure has (have) taken place entitling a termination.

8.1.4 Both Parties shall have the immediate right to terminate this Agreement in the event that the application for Hart-Scott Rodino approval is denied or the waiting period following a second request for information expires without approval having been given.

8.2 Effect of Termination

8.2.1 In the event HEPIPHARM exercises its right to terminate under **Section 8.1.2**, HEPI shall have the right, exercisable upon thirty (30) days written notice to HEPIPHARM, to undertake or complete the development and/or commercialization of Licensed Product under the benefit of a license under HEPI Licensed Technology and subject to the royalty and milestone financial terms and related provisions hereof *mutatis mutandis.* Within thirty (30) days after receiving such notice, HEPIPHARM shall deliver to HEPI the HEPIPHARM Know-How and the license under HEPIPHARM Licensed Technology shall thereupon be deemed effective.

8.2.1 In the event of a termination under **Section 8.1** and HEPI does not exercise its rights to continue development and/or commercialization under **Section 7.2.1**, then this Agreement shall fully terminate save for any payment obligations accruing before, and remaining unpaid at, the effective date of termination and save for any obligations which by their terms survive termination.

9.0 Confidentiality. Each Party agrees to keep confidential and not to use, except for the purposes of this Agreement, information from the other which is identified as Confidential or which under the circumstances would be commonly understood to be confidential. These obligations of confidentiality and non-use shall continue at all times during the Term of this Agreement and for seven (7) years thereafter but shall not apply to information which (i) is in the public domain by use and/or publication before its receipt from the disclosing Party; (ii) was already in the receiving Party's possession prior to receipt from the disclosing party as evidenced by its prior physical records; (iii) becomes part of the public domain subsequent to its receipt from the disclosing Party other than by breach by the receiving Party hereunder; (iv) is required to be disclosed by court order; or (v) is properly obtained by the receiving Party from a third party which has a valid right to disclose such information to the receiving Party without an attached confidentiality obligation.

10.0 Representations and Warranties:

10.1 HEPI Warranties. HEPI makes the following representations and warranties with respect to this Agreement:

10.1.1 Corporate Power and Authorization: HEPI represents and warrants that it is duly organized, validly existing and in good standing under the state of Delaware, that it has full corporate power and authority to enter into this Agreement and to carry out its provisions, and that there are no outstanding agreements, assignments, or encumbrances in existence that are inconsistent with the provisions of this Agreement.

10.1.2 Licensed Activity: HEPI represents and warrants that **Exhibit B1** is a complete list of all relevant HEPI Patents with respect to Licensed Compound(s), that it has full and complete right, title and interest to such patents and that there are and have been no conflicting claims with respect to ownership thereof; and that all inventors thereof have assigned their full right, title and interest thereto to HEPI.

10.1.3 Enforceable. To the best of HEPI's knowledge, the HEPI Patents have been maintained during their full patent term and are not invalid or unenforceable, in whole or in part except to the extent they have reached the end of their term and that HEPI owns the HEPI Patents and has the right to enforce same.

10.1.4 Synthesis Free and Clear. To the best of HEPI's knowledge, the route of synthesis of Licensed Compound(s) which form part of HEPI Know- How do not infringe any Third Party patents and HEPIPHARM's practice thereof will not interfere with or infringe any intellectual property rights owned or possessed by any Third Party,

10.1.5 No Claims. There are no claims, judgments or settlements against or owed by HEPI or pending or threatened claims or litigation relating to the HEPI Patents or HEPIPHARM Know-How.

10.2 HEPIPHARM Warranties. HEPIPHARM makes the following representations and warranties with respect to this Agreement:

10.2.1 Corporate Power and Authorization: HEPIPHARM represents and warrants that it is duly organized, validly existing and in good standing under the laws of the State of Delaware, that it has full corporate power and authority to enter into this Agreement and to carry out its provisions, and that there are no outstanding agreements, assignments or encumbrances in existence that are inconsistent with the provisions of this Agreement.

11.0 Liability.

Each Party warrants that it has the right to deliver its respective Licensed Patents and Know-how for licensing to the other Party hereunder and to a Third Party as part of a sublicense and shall indemnify, defend and hold the other Party and its Indemnitees harmless against any breach of such warranty and any claims arising out of its actions or failure to act under this Agreement. For this indemnity to be effective, the Party requesting indemnification must provide to the indemnifying Party timely knowledge of any such claim and the full opportunity to defend against such claim. EACH PARTY RECOGNIZES THAT THE LICENSED PATENTS AND KNOW-HOW ARE SUPPLIED "AS IS" AND ARE PROVIDED WITHOUT WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR ANY OTHER WARRANTY, EXPRESS OR IMPLIED. EACH PARTY ACKNOWLEDGES THAT THE NEW APPLICATIONS FOR HEPI COMPOUNDS ARE UNPROVEN, THAT IT MAY FAIL PRE-CLINICAL OR CLINICAL DEVELOPMENT, MAY NOT SUCCEED IN THE MARKETPLACE AND THAT THE COMBINED INTELLECTUAL PROPERTY PACKAGE MAY BE UNLICENSABLE OR THAT THE TERMS OF ANY LICENSE TO A THIRD PARTY MAY DEVIATE SUBSTANTIALLY FROM THOSE WHICH MAY BE ANTICIPATED BY THE PARTIES. Each Party agrees that neither party shall have any liability to the other for special, consequential or punitive damages or for lost profits. Notwithstanding anything herein to the contrary, neither Party shall have any liability to the other in excess of any amount it has received or paid under this Agreement.

12.0 Survival.

The provisions of **Sections 7.2, 8,** and **10-20** and all definitions relating thereto shall survive termination or expiration of this Agreement.

13.0 Notices.

Any notices required or provided by the terms of this Agreement shall be in writing, addressed in accordance with this paragraph, and shall be delivered personally or sent by certified or registered mail, return receipt requested, postage prepaid or by nationally-recognized express courier services providing evidence of delivery. The effective date of any notice shall be the date of first receipt by the receiving Party. Notices shall be sent to the address first given above or to such other address/addressee as the Party to whom notice is to be given may have provided to the other Party in writing in accordance with this provision.

If to HEPIPHARM: President
7740 E. Evans Road, Suite A101
Scottsdale, AZ 85260
Phone: (480) 731-9100
Fax: (480) 385-3801

If to HEPI: Thomas D. Ingolia, CEO
7740 E. Evans Road, Suite A101
Scottsdale, AZ 85260
Phone: (480) 731-9100
Fax: (480) 385-3801

With copy to: Brown Rudnick Berlack Israels LLP
One Financial Center
Boston, MA 02111
Attention: John G. Nossiff, Jr.
Phone: (617) 856-8200
Fax: (617) 856-8201

14.0 Governing Law/Dispute Resolution. This Agreement shall be construed in accordance with the laws of The State of Delaware and the patent laws of the respective country granting the patent in question, without reference to provisions of conflicts of laws. Any dispute between the parties arising under or in connection with this Agreement shall be submitted to the exclusive jurisdiction of the competent courts of The State of Delaware, for all matters except those specified in Sections **3.1 and 7.1.3** which shall be resolved pursuant to **Exhibit F**.

15.0 Entire Agreement. This Agreement, together with any Appendixes and Exhibits attached hereto and specifically referenced herein, constitutes the entire agreement between the Parties with respect to the subject matter set forth herein and supersedes and replaces any and all previous arrangements and understandings, whether oral or written, between the parties with respect. Any amendment or modification to this Agreement shall be of no effect unless made in a writing signed by an authorized representative of each Party.

16.0 Publicity/Use of Names. No disclosure of the terms of this Agreement may be made by either Party, and no Party shall use the name of the other Party without the prior express written permission of the other Party, except as may be required by law and except that each Party shall have the right to identify the other and the general nature of this Agreement in order to facilitate the purposes hereof but in such case no information shall be provided publicly with respect to the financial terms except as permitted above.

17.0 Assignment. Neither Party may assign its rights (other than the right to receive money) or obligations under this Agreement without the prior written consent of the other Party. Any such purported assignment shall be void except that each Party shall have the right to assign without prior consent to an entity acquiring all or substantially all of its business to which this Agreement pertains. In any assignment, the assignor shall guarantee the performance of the assignee to the other Party hereto.

18.0 Severability. The provisions of this Agreement are severable, and if any provisions hereof shall be determined to be invalid or unenforceable by a court of competent jurisdiction, the remaining provisions shall continue in full force and effect.

19.0 Force Majeure. Neither Party shall be liable to the other or deemed in default hereunder for failure or delay in fulfilling its obligations hereunder when such failure or delay is due to causes beyond the control of the Party including without limitation, acts of God; war; civil commotion; terrorism; destruction of facilities by fire, flood, earthquake or storm; labor disturbances; epidemic; and failure of public utilities or common carriers. The Party so affected shall give notice to the other Party and to the extent reasonably possible shall use reasonable efforts to minimize the duration of any *force majeure.*

20.0 Independent Contractor. The relationship between HEPIPHARM and HEPI is one of independent contractor and not one of partnership, principal and agent, employer and employee, joint ventures or otherwise. Neither party shall have the power or right to bind or obligate the other.

The remainder of this page has been intentionally left blank.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives, effective as of the date of the last signature set forth below.

HEPI Pharmaceuticals, Inc.	**Health Enhancement Products Inc.**
BY: _/s/Thomas D. Ingolia_____ HEPI Pharmaceuticals, Inc. authorized representative	BY: _/s/Thomas D. Ingolia_____ Health Enhancement Products Inc. authorized representative
TITLE: Chief Executive Officer	TITLE: Chief Executive Officer____
DATE: February 20, 2007	DATE: February 20, 2007

Exhibit E

Licensed Patents

24230/3/2 PCT Pending 20-Apr-2005
Country: Canada
Title: METHOD OF PREPARATION AND USE OF FIBRINOLYTIC ENZYMES IN THE TREATMENT OF DISEASE

24230/3/2 PCT Pending European Patent Convention
Title: METHOD OF PREPARATION AND USE OF FIBRINOLYTIC ENZYMES IN THE TREATMENT OF DISEASE

24230/3/2 ORD NAT PHASE US05/13375 20-Apr-2005
Country: Patent Cooperation Treaty
Title: METHOD OF PREPARATION AND USE OF FIBRINOLYTIC ENZYMES IN THE TREATMENT OF DISEASE

24230/3/1 PRO Expired 60/565,011 23-Apr-2004
Country: United States of America
Title: METHOD OF PREPARATION AND USE OF FIBRINOLYTIC ENZYMES IN THE TREATMENT OF DISEASE

24230/3/2 PCT Pending 11/587,266 23-Oct-2006
Country: United States of America **23-Jan-2007**
Title: METHOD OF PREPARATION AND USE OF FIBRINOLYTIC ENZYMES IN THE TREATMENT OF DISEASE

24230/3/3 PRO Expired 60/719,025 21-Sep-2005
Country: United States of America
Title: COMPOSITION AND USE OF PHYTO-PERCOLATE FOR TREATMENT OF DISEASE

24230/3-4/1 ORD Pending US06/46320 04-Dec-2006
Country: Patent Cooperation Treaty
Title: COMPOSITION AND USE OF PHYTO-PERCOLATE FOR TREATMENT OF DISEASE

04-Mar-2007
31 month EP deadline (BRBI) 02-Jul-2008
24230/3-4/ ORD Pending 11/606,676 30-Nov-2006
Country: United States of America
Title: COMPOSITION AND USE OF PHYTO-PERCOLATE FOR TREATMENT OF DISEASE

Application Status Check 30-May-2008
24230/3-4/1 PRO Expired 60/741,774 02-Dec-2005
Country: United States of America
Title: COMPOSITION AND USE OF PHYTO-PERCOLATE FOR TREATMENT OF DISEASE

Exhibit F

Alternative Dispute Resolution/Arbitration Procedure

The parties recognize that a bona fide dispute as to certain matters may arise from time to time during the term of this Agreement which relates to either party's rights and/or obligations. To have such a dispute resolved by this Alternative Dispute Resolution (ADR) provision, a party must send written notice of the dispute to the other party for attempted resolution by good faith negotiations between their respective presidents (or their equivalents) of the affected subsidiaries, divisions, or business units within twenty-eight (28) days after such notice is received (all references to "days" in this ADR provision are to calendar days). If the matter has not been resolved within twenty-eight (28) days of the notice of the dispute, or if the parties fail to meet within such twenty-eight (28) days, either party may initiate an ADR proceeding as provided herein. The parties shall have the right to be represented by counsel in such a proceeding.

1. To begin an ADR proceeding, a party shall provide written notice to the other party of the issues to be resolved by ADR. Within fourteen (14) days after receipt of such notice, the other party may, by written notice to the party initiating the ADR, add additional issues to be resolved within the same ADR.

2. Within twenty-one (21) days following receipt of the original ADR notice, the parties shall select a mutually acceptable neutral expert to preside in the resolution of any disputes in this ADR proceeding. If the parties are unable to agree on a mutually acceptable neutral within such period, either party may request the American Arbitration Association (AAA) to select a neutral pursuant to the following procedures:

(a) The AAA shall submit to the parties a list of not less than five (5) candidates within fourteen (14) days after receipt of the request, along with a *Curriculum Vitae* for each candidate. No candidate shall be an employee, director, or shareholder of either party or any of their subsidiaries or Affiliates.

(b) Such list shall include a statement of disclosure by each candidate of any circumstance likely to affect his or her impartiality.

(c) Each party shall number the candidates in order of preference (with the number one (1) signifying the greatest preference) and shall deliver the list to the AAA within seven (7) days following receipt of the list of candidates. If a party believes a conflict of interest exists regarding any of the candidates, the party shall provide a written explanation of the conflict to the AAA along with its list showing its order of preference for the candidates. Any party failing to return a list of preferences on time shall be deemed to have no order of preference.

(d) If the parties collectively have identified fewer than three (3) candidates deemed to have conflicts, the AAA shall designate as neutral the candidate for whom the parties collectively have indicated the greatest preference. If a tie shall result between two candidates, the AAA may designate either candidate. If the parties collectively have identified three (3) or more candidates deemed to have conflicts, the AAA shall review the explanations regarding conflicts, and, in its sole discretion, may either (i) immediately designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference, or (ii) issue a new list of not less than five (5) candidates, in which case the procedures set forth in subparagraphs 2(a) 2(d) shall be repeated.

3. No earlier than twenty-eight (28) days or later than fifty-six (56) days after the selection, the neutral shall hold a hearing to resolve each of the issues identified by the parties. The ADR proceeding shall take place at a location agreed upon by the parties. If the parties cannot agree, the neutral shall designate a location other than the principle place of business of either party or any of their subsidiaries or Affiliates.

4. At least seven (7) days prior to the hearing, each party shall submit the following to the other party and the neutral:

(a) a copy of all exhibits on which such party intends to rely in any oral or written presentation to the neutral;

(b) a list of any witnesses such party intends to call at the hearing, and a short summary of the anticipated testimony of each witness;

(c) a proposed ruling on each issue to be resolved, together with a request for a specific damage award or other remedy for each issue. The proposed rulings and remedies shall not contain any recitation of the facts or any legal arguments and shall not exceed one (1) page per issue.

(d) a brief in support of each party's proposed rulings and remedies provided that the brief shall not exceed twenty (20) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

Except as expressly set forth in subparagraphs 4(a) 4(d), no discovery shall be required or permitted by any means, including depositions, interrogatories, requests for admissions, or production of documents.

5. The hearing shall be conducted on two (2) consecutive days and shall be governed by the following rules:

(a) Each party shall be entitled to five (5) hours of hearing time to present its case. The neutral shall determine whether each party has had the five (5) hours to which it is entitled.

(b) Each party shall be entitled, but not required, to make an opening statement, to present regular and rebuttal testimony, documents or other evidence, to cross examine witnesses, and to make a closing argument. Cross examination of witnesses shall occur immediately after their direct testimony, and cross examination shall be charged against the party conducting the cross examination.

(c) The party initiating the ADR shall begin the hearing and, if it chooses to make an opening statement, shall address not only issues it raised but also any issues raised by the responding party. The responding party, if it chooses to make an opening statement, also shall address all issues raised in the ADR. Thereafter, the presentation of regular and rebuttal testimony and documents, other evidence, and closing arguments shall proceed in the same sequence.

(d) Except when testifying, witnesses shall be excluded from the hearing until closing arguments.

(e) Settlement negotiations, including any statements made therein, shall not be admissible under any circumstances. Affidavits prepared for purposes of the ADR hearing also shall not be admissible. As to all other matters, the neutral shall have sole discretion regarding the admissibility of any evidence.

6. Within seven (7) days following completion of the hearing, each party may submit to the other party and the neutral a post hearing brief in support of its proposed rulings and remedies, provided that such brief shall not contain or discuss any new evidence and shall not exceed ten (10) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

7. The neutral shall rule on each disputed issue within fourteen (14) days following completion of the hearing. Such ruling shall adopt in its entirety the proposed ruling and remedy of one of the parties on each disputed issue but may adopt one parties proposed rulings and remedies on some issues and the other party's proposed rulings and remedies on other issues. The neutral shall not issue any written opinion or otherwise explain the basis of the ruling.

8. The neutral shall be paid a reasonable fee plus expenses. These fees and expenses, along with the reasonable legal fees and expenses of the prevailing party (including all expert witness fees and expenses), the fees and expenses of a court recorder, and any expenses for a hearing room, shall be paid as follows:

(a) If the neutral rules in favor of one party on all disputed issues in the ADR, the losing party shall pay 100% of such fees and expenses.

(b) If the neutral rules in favor of one party on some issues, and the other party on other issues, the neutral shall issue with the rulings a written determination as to how such fees and expenses shall be allocated between the parties. The neutral shall allocate the fees and expenses in a way that bears a reasonable relationship to the outcome of the ADR, with the party prevailing on more issues, or on issues of greater value or gravity, recovering a relatively larger share of its legal fees and expenses.

9. The rulings of the neutral and the allocation of fees and expenses shall be binding, non-reviewable, and non-appealable, and may be entered as a final judgment in any court having jurisdiction.

10. Except as provided in paragraph 9 and except as to such disclosure which is required by applicable law or regulation, the existence of the dispute, any settlement negotiations, the ADR hearing, any submissions (including exhibits, testimony, proposed rulings, and briefs), and the rulings shall be deemed Confidential Information. The neutral shall have the authority to impose sanctions for unauthorized disclosure of Confidential Information.