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

FORM 10-KSB/A

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

For the Fiscal Year ended December 31, 2005

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

Commission File Number: 000-30415

Health Enhancement Products, Inc.
(Name of small business issuer as specified in its charter)

Nevada	**87-0699977**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

7740 East Evans Rd, Scottsdale, Arizona 85260
(Address of principal executive offices)

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

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

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

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

Check if no disclosure of delinquent filers, in response to Item 405 of Regulation S-B, is contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☐

The aggregate market value of the issuer's voting stock held as of March 17, 2006 by non-affiliates of the issuer was $12,653,744, based on the closing price of the registrant's common stock

As of March 17, 2006, there were 32,855,427 shares of $0.001par value common stock issued and outstanding.

The issuer's revenue for its most recent fiscal year was: $95,967.

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(Inapplicable items have been omitted)

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements Forward-looking statements include, but are not limited to statements regarding:

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

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

PART I

Item 1. Description of Business

Business Development

We were incorporated under the laws of the State of Nevada on March 28, 1983, under the name of "L. Peck Enterprises, Inc.", with authorized common stock of 2,500 shares, at no par value. On May 27, 1999, our authorized capital stock was increased to 100,000,000 shares, with a par value of $0.001, in connection with a name change to "Western Glory Hole, Inc." ("WGH"). On May 27, 1999, we completed a forward common stock split of 225 shares for each outstanding share.

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

On October 30, 2003, we and Health Enhancement Corporation ("HEC") entered into an Agreement and Plan of Reorganization under which we acquired HEC. Under this Agreement, we acquired 100% of the outstanding shares of HEC, in exchange for 9,000,000 of our post-split shares, making HEC our wholly-owned subsidiary. In connection with this transaction, we changed our name to Health Enhancement Products, Inc. ("HEPI"). We currently operate through our wholly-owned subsidiary, HEC.

We acquired HEC because it had the material necessary for the production of ProAlgaZyme. We have since established a manufacturing plant, which consists of a laboratory and production facility, and hired production and research staff. In addition, we acquired the ReplenTish and Zodiac Herbal Vitamins and Tea products. We have abandoned the Zodiac and ReplenTish product lines. Although ProAlgaZyme is currently available for sale, we do not expect any meaningful revenue from sales of ProAlgaZyme until at least the second half of 2006. We believe that future revenue from sales of ProAlgaZyme will depend upon the results of testing regarding, among other things, the product's composition and method of action. Accordingly, we intend to focus our resources on testing directed toward determining the exact composition of the product and the method of action and effectiveness of the substances comprising the product.

Principal Product

We were founded on, and remain committed to, the principle of producing only 'natural' products.

At present, our sole product is the enzyme-based, all natural dietary supplement known as ProAlgaZyme.

- *ProAlgaZyme™* is a naturally-generated proteolytic enzymatic protein derived from a natural plant culture grown in a purified aqueous environment solution with proprietary feeding. This enzymatic protein appears to support a compromised immune system, thereby potentially aiding the defense of the body against introduced or naturally-occurring harmful substances.

Marketing and Sales

To date, we have not realized the revenues that we have been expecting. We have attempted to implement a marketing plan for ProAlgaZyme, but our progress has been impeded by the need for further information regarding the composition, method of action and effectiveness of the product. In order to aid us in determining what product related claims are supportable and the specific markets to which ProAlgaZyme should be addressed, our marketing focus has been on seeking to confirm the effectiveness of the ProAlgaZyme product (using both internal studies and external, independent studies). We have completed two external studies on laboratory animals, and the results of these studies suggest that ProAlgaZyme is non-toxic to animals and reduces edema (swelling) in animals. A laboratory test has also indicated the presence in ProAlgaZyme of a substance associated with appetite suppression.

We are currently in the process of pursuing additional external clinical trials that should provide us with further evidence of the effectiveness of our product, and thus facilitate our sales and marketing related activities.

As disclosed above, we are no longer pursuing the promotion of ReplenTish. Our initial introduction of the product was not as successful as had been planned, and we have suspended our activities related to this product.

In late 2004, we decided not to devote any further resources to the launching and marketing of the Zodiac Herbal Vitamins and Zodiac Herbal Teas products. In addition, we are involved in a dispute with the persons from whom we purchased the Zodiac trademarks and products (the "Zodiac Sellers"). We do not believe that the Zodiac Sellers complied with their agreements with us. As a result, we have determined to abandon these products.

Competition

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

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

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

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

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

Raw Materials

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

We have also assessed our ability to respond to any substantial increase in demand for our ProAlgaZyme product. In the case of ProAlgaZyme, we believe that we would be able to expand our production capacity to accommodate potential sales growth, with only limited delays for algae replication and growth, and that this would not constitute a significant limiting factor on future overall revenue growth.

Dependence on Customers

We are not dependent on any one customer or group of customers for our sales revenues.

Manufacturing

We manufacture our ProAlgaZyme product directly, using dedicated laboratory facilities on our own premises, and qualified technical staff. After production, ProAlgaZyme is bottled in a third-party facility under our supervision to ensure product safety and integrity.

Management is confident that, subject to the availability of cash resources, acquisition of the necessary raw materials and manufacture of our products should be scalable within a reasonable time to meet foreseeable increases in product demand.

Backlog

As of March 31, 2006, we had no backlog of orders.

Patents and Proprietary Rights

In April, 2004, we filed with the U.S. Patent and Trademark Office a provisional patent application regarding the ProAlgaZyme product. The patent filing relates generally to a method of preparation of a phyto-percolate, and is also intended to protect the use of phyto-percolate in the treatment of a variety of diseases including cancer, cardiovascular disease, and diseases related to immune system deficient disorders. The phyto-percolate is a proteolytic enzyme complex derived from a specific combination of fresh water algae that expresses plasmin-like activity.

The above patent application was described as being "for a method of treating or preventing a disease or disorder in a human by ingesting a phyto-percolate derived from mixtures including freshwater algae, in this case being ProAlgaZyme. There are several aspects of this patent application, including methods of treating immune system deficiency, type I and II diabetes, diseases related to the heart, Cancer, Arthritis, and most other diseases related to a deficient immune system."We have prepared and filed a PCT application (PCT/US05/13375 filed on April 20, 2005), that claims priority to the April 2004 provisional application concerning the ProAlgaZyme product. This PCT filing enables eventual patent rights in the ProAlgaZyme product and methods of use in those areas of the world that we believe are appropriate. During 2004, we filed to register certain trademarks with the United States Patent and Trademark Office (USPTO), including the following:

- ReplenTish
- ProAlgaZyme.

Our CEO, Mr. Howard R. Baer, has registered the following Internet domain names:

- www.heponline.com
- www.proalgazyme.com
- www.replentish.com

Mr. Baer allows us to the use of the foregoing Internet domain names at no charge. Mr. Baer has agreed that he will not terminate our right to use these domain names as long as we are selling the ProAlgaZyme product.

Regulation

We do not believe that the products that we manufacture and market are subject to regulation by the Food and Drug Administration ("FDA"). Rather, we believe that these products are properly designated as 'dietary supplements' within the category of vitamins, minerals, dietary supplements, and herbal products covered within the U.S. by the Dietary Supplement Health and Education Act of 1994 - commonly referred to as "DSHEA". As such, the products fall under the Federal Trade Commission ("FTC"), and do not require FDA approval for release.

We also believe, based on recent actions by the FDA and other governmental agencies, that public and legislative pressures upon the FDA will cause the FDA to extend its others in purview over the 'nutraceutical' industry progressively over time, and that, as a result, we – along with others in the nutraceutical industry - will be subject to regulation as to product quality and manufacture, and product related claims. We will monitor carefully all such trends with the goal of ensuring that all necessary and appropriate governmental regulations relating to the safety and efficacy of our products will be observed as they are introduced and applied.

If we move into international sales, our product may also be subject to approval by certain foreign regulatory and safety agencies. As a result, the export of our product to some countries may be limited or prohibited. Our manufacturing processes and facilities may also be subject to review by Federal, State, or local health agencies or their representatives before export approval is granted. Adverse findings from such reviews could result in various actions against us, including restriction of trading privileges, withdrawal of approvals, and product recall. We cannot assure you that domestic or foreign regulatory agencies will give us the requisite approvals or clearances for any products under development on a timely basis, if at all. Moreover, after clearance is given, these agencies can later withdraw the clearance or require us to change the product or its manufacturing process or labeling, to supply proof of its safety and effectiveness, or to recall, replace or refund the cost of the product, if it is shown to be hazardous or defective. The process of obtaining clearance to market a product is costly and time-consuming and can delay the marketing and sale of such product.

Research and Development

Research

Our primary research emphasis has been on refinement of the ProAlgaZyme product and on bio-chemical analyses and internal and external clinical studies associated with the product. We have spent an aggregate amount of $366,183 since our inception through December 31, 2005 on research and development. Of this amount, $189,091 has been spent on internal research, mainly involved in the conduct of in-house testing and development of the ProAlgaZyme product and in conducting both 'in vitro' and 'in vivo' testing of ProAlgaZyme. From inception through December 31, 2005, $177,093 has been expended on external, clinically-based testing of ProAlgaZyme, conducted on both humans and animals. To date, all of these amounts have been directly expensed as they have been incurred.

Recently, we have been focused on characterization of our ProAlgaZyme product and determining its effectiveness and method of action. We previously commissioned an external study to determine whether ProAlgaZyme is effective in reducing the level of C-Reactive Protein ("CRP"). Because the laboratory we engaged was not meeting our expectations regarding execution of the study, we have since terminated this study and are pursuing a similar study with a different laboratory. Subject to the availability of sufficient funding, we plan to continue these research and development activities during the balance of 2006. Historically, we have been funded by our CEO and through external sources. We have in the past had difficulty raising funds from external sources; although we recently raised a limited amount of capital from outside sources. Mr. Baer is not currently in a position to make further advances to us. We may not be able to raise the funding that we need to continue our research and development activities. In the event that we are not able to secure sufficient funding to meet our research needs, we will be unable to pursue necessary research activities, in which case our ability to market ProAlgaZyme with objective clinical support for its characterization, method of action and efficacy will be impeded, thereby severely hindering our sales effectiveness and impacting negatively the achievement of our business plan.

Subject to the availability of sufficient funding, we estimate that we will, over the next 12 months expend approximately $250,000 on research and development. These expenditures will also need to be met from external funding sources. As disclosed above, we have had difficulty raising funds from external sources, and Mr. Baer is not currently in a position to make further advances to us. Thus, we may not be able to raise the funding that we need to continue our research and development activities. In the event that these sources are not available or adequate to meet our research needs, we will be unable to pursue our research activities, in which case, our ability to market ProAlgaZyme with objective clinical support for its characterization, method of action and efficacy, will continue to be impeded, thereby severely hindering our ability to generate sales revenue and adversely affecting our operating results.

We have engaged a Consultant on a month to month basis to oversee our Research and Development activities. If and when funds become available, we may hire a full-time professional with appropriate qualifications and suitable experience to administer this area. If this step is taken, this person would be involved in the preparation and management of in-house clinical studies, in the establishment of protocols for independent external studies, and in monitoring, interpretation, and submission of data as required to third parties conducting studies.

Compliance with Environmental Laws

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

Employees

As of March 31, 2006, we had 6 full-time employees, positioned as follows: 2 employees in manufacturing and research and development, 2 employees in business development, marketing, sales and support services, and 2 employees in finance and administration. In addition, we have three part-time employees, two of whom are in production and one of whom is in finance. We believe that our employee relations are harmonious. No employee is represented by a union.

Item 2. Description of Property

The lease of our production facility expired in June, 2004, and we obtained an extension of such lease in order to enable us to locate suitable new space. On December 9, 2004, we entered into a lease, dated as of November 1, 2004, with Evans Road, LLC (a company owned by our CEO, Howard R. Baer), under which we leased approximately 5,000 sq. ft. for a new corporate headquarters and production facility located in Scottsdale, Arizona. We relocated to the new facility in the first quarter of 2005, as we required additional space for our laboratory, testing and growing facilities. In addition, we desired to consolidate our corporate headquarters and production facility. Evans Road, LLC has expended a substantial amount of money on building improvements in order to meet our requirements for this facility. The lease had a term of 15 years, subject to the right of either party to terminate the lease after 7.5 years, and provided for base monthly rent in the amount of $8,700 plus monthly taxes. In February, 2005, Evans Road, LLC sold the building which was leased to us, and our CEO, Howard R. Baer, leased such building back from the buyer under a master lease. Evans Road, LLC continued to lease the building, as master lessor, to us, under the terms and conditions described above, until March 31, 2006. On April 12, 2006, we entered into an Amended and Restated Sublease with Mr. Baer (effective as of April 1, 2006) (the "Amended and Restated Sublease"). During 2004, we paid Evans Road, LLC approximately $26,596, representing $17,730 in rent and a security deposit of $8,865. During 2005, we paid Evans Road, LLC $106,380 in rent.

Under the terms of the Amended and Restated Sublease, we are leasing an aggregate of approximately 15,000 square feet, of which we are occupying approximately 8,400 square feet, consisting of approximately 6,710 square feet of office space and 1,700 square feet of production space. We are subleasing the remaining 6,600 square feet to a third party under a month to month tenancy at a rate of approximately $7,000 per month, plus rental taxes and electricity. We can terminate this sublease upon thirty (30) days written notice to our subtenant. We believe that we may need additional space in the foreseeable future, and that this space would be suitable for an expansion of our production and office facilities.

The Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease approximately 7 years from now (March 31, 2013). The annual base rent for the 15,000 square foot facility is approximately $237,000 and is payable in equal monthly installments of approximately $20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We are obligated to pay an additional security deposit of approximately $110,000, following which we will have paid an aggregate security deposit equal to six months base rent. This additional security deposit will be paid in eighteen equal monthly installments of approximately $6,000, commencing in August, 2006. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance and repairs related to the premises we are leasing from the CEO.

Item 3. Legal Proceedings

In or around April, 2004, we learned that the staff of the Securities and Exchange Commission ("SEC") was conducting an informal inquiry into the accuracy of certain of our press releases and other public disclosures, and trading in our securities. We cooperated fully with the SEC staff's informal inquiry by producing documents and having certain of our officers 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. We understand 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 we filed with the SEC or in other public documents or disclosures, including statements about the efficacy of our primary product, ProAlgaZyme; or (ii) whether there was improper trading or other activity in our securities. We are continuing to cooperate fully in the SEC's investigation, which we understand is ongoing. On January 18, 2006, the SEC enforcement staff sent a "Wells Notice" to us advising us that it intended to recommend to the Commission that the Commission bring an enforcement action against us and certain of our present and former officers and directors, including our CEO. We understand that as of the date hereof, the SEC staff's recommendation has neither been finalized nor submitted to the Commission. We are presently in discussions with the SEC staff concerning a possible consensual resolution of the investigation. We do not know what the final terms and conditions of any such resolution will be or whether we will be able to reach any consensual resolution of the investigation. Any consensual resolution we reach with the SEC could impose financial and other burdens on us which could materially and adversely affect our financial condition and our ability to raise additional capital. In addition, our CEO may not be able to continue in such capacity. If we are unable to reach a consensual resolution, and if the SEC follows its staff's recommendation to take action against us or our officers and directors, such action would have a material adverse effect on us.

Item 4. Submission of Matters to a Vote of Securities Holders

There were no items submitted to a vote of security holders during 2005.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Price range of Common Stock

Our common stock is quoted on the National Association of Securities Dealers, Inc.'s OTC Bulletin Board under the symbol "HEPI." The following table sets forth the range of high and low bid information as reported on the OTC Bulletin Board by quarter for the last two fiscal years. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	HIGH	LOW
Year ended December 31, 2003		
First Quarter	0.03	0.03
Second Quarter	0.03	0.03
Third Quarter	0.03	0.03
Fourth Quarter to November 11	3.20	0.03
November 12 – December 31 (after a 2-for-1 split)	3.20	1.55
Year ended December 31, 2004		
First Quarter	7.70	1.60
Second Quarter	3.00	1.05
Third Quarter	2.75	0.76
Fourth Quarter	1.55	0.51
Year ended December 31, 2005		
First Quarter	1.25	0.40
Second Quarter	.90	.22
Third Quarter	2.25	.30
Fourth Quarter	2.25	.60

Recent Sales of Unregistered Securities. From around December 1, 2005 to December 31, 2005, we sold an aggregate of 790,000 shares of our common stock, .001 par value ("common stock"), and warrants to purchase 1,580,000 shares of common stock ("warrants"), for aggregate consideration of $395,000. The warrants are immediately exercisable and have a term of three years. 790,000 of the aggregate 1,580,000 warrants have an exercise price of $1.00 per share, and the remaining 790,000 warrants have an exercise price of $2.00 per share. In connection with the raising of this $395,000, we incurred a cash finder's fee of $39,500.

In addition, on February 27, 2006, we issued an aggregate of 100,000 shares to consultants in consideration of services rendered. Further, in January, 2006, we issued 252,575 shares of common stock to a former officer, upon exercise of an outstanding warrant to purchase common stock. The aggregate exercise price paid was $25,257.

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

Item 6. Management's Discussion and Analysis or Plan of Operation

Overview

During November, 2003, we acquired Health Enhancement Corporation, and changed our name from Western Glory Hole, Inc. to Health Enhancement Products, Inc. Accordingly, no meaningful comparison of revenues and expenses for 2003 and 2004 can be made. Western Glory Hole, Inc. was a development stage company and had no operations during the year ended December 31, 2002 or during the year ended December 31, 2003, until its acquisition of Health Enhancement Corporation in November, 2003.

While sales of our sole product, ProAlgaZyme, have increased, we continue to be engaged in ongoing research and development. To date, we have had only limited revenue (approximately $96,000 and $49,000 in 2005 and 2004, respectively). We have been incurring significant operating losses and negative cash flow. We are also experiencing an ongoing and substantial working capital deficiency. We have from time to time had difficulty raising capital from independent third parties. Historically, we have been dependent upon our CEO for our continued funding. Our CEO does not presently have the ability to continue to provide us sufficient funds to finance our business operations. These factors raise substantial doubt about our ability to continue as a going concern. If we are unable to obtain additional funding in the near term, we may be unable to continue as a going concern, in which case you would suffer a total loss of your investment in our company.

Results of Operations for Years Ended December 31, 2005 and 2004

Net Sales

Net sales for the year ended December 31, 2005 were $95,967, as compared to $49,058 for the year ended December 31, 2004. These revenues reflect primarily sales of the ProAlgaZyme product, which currently is our sole product. The ProAlgaZyme product has also been marketed under the name "AlphaSystem Replenisher" ("ASR").

Throughout 2004 and most of 2005, we have been adversely impacted by a shortage of funds which has severely impeded our ability to market and test our ProAlgaZyme product, contributing to a low level of net sales. Although the ProAlgaZyme product is available for sale and we are exploring various potential marketing opportunities, we are not currently advertising the product and expect only limited sales revenue until at least the last half of 2006. We believe that our ability to generate sales of the ProAlgaZyme product will depend upon, among other things, further characterization of the product, identification of its method of action and further evidence of its efficacy, as well as advertising. The testing necessary to further characterizing the product, identifying its method of action and establishing its effectiveness is ongoing.

As noted above, we have suspended sales and marketing of the ReplenTish product. Thus, we expect no revenue from our ReplenTish product for the foreseeable future.

In addition, we announced in September, 2004 that we were unable to proceed at that time with our earlier plans for the 2004 release of our Zodiac Herbal Vitamins products. Subsequently, we abandoned the Zodiac product line.

On November 11, 2005, we entered into an Agreement with Suarez Corporation Industries, a diversified distribution company ("Suarez"). Under the terms of the Agreement, Suarez was to test market our ProAlgaZyme product for about six weeks. Suarez purchased ProAlgaZyme from us in connection with this Agreement. Under the Agreement, if Suarez determined that the test marketing was successful, we and Suarez were to negotiate an exclusive agreement under which Suarez would purchase the product from us and resell it as a weight-loss product. Though, the Agreement has since expired, we are still exploring with Suarez the possibility of Suarez distributing our product. Suarez recently purchased an additional quantity of ProAlgaZyme. Although we are hopeful that we will be able to enter into an Agreement with Suarez that will ultimately lead to a meaningful increase in our sales revenue, we cannot be sure what the outcome of our discussions with Suarez will be.

Although our revenues have grown, until we receive further positive test results regarding ProAlgaZyme's method of action and efficacy, we may not have meaningful sales revenue. Even if we receive positive test results, we cannot be sure that they will lead to an increase in our sales revenue.

Cost of Sales

Cost of Sales was $191,663 for the year ended December 31, 2005, as compared to $75,284 for the comparable period in 2004. The increase in cost of sales is due primarily to the higher levels of production associated with increased sales of our ProAlgaZyme product. Cost of Sales represents primarily costs related to raw materials, labor and the laboratory and controlled production environment necessary for the growing of the algae cultures that constitute the source of the proteolytic enzyme within the ProAlgaZyme product, and for conducting the necessary harvesting and production operations in preparing the product for sale.

Gross Profit

Gross Profit was $(95,696) for the year ended December 31, 2005, as compared to ($26,226) for the comparable period in 2004. The negative gross profit for the reported periods is due to limited sales, leading to cost of sales – much of which reflects relatively fixed production expenses for the ProAlgaZyme product - exceeding sales revenues. If we are able to realize a significant increase in sales, it is expected that Gross Profit would become positive. However, we cannot assure you that we will achieve an increase in sales.

Research and Development Expenses

For the year ended December 31, 2005, we incurred $118,000 in research and development expenses, as compared to $192,000 for the comparable period in 2004. These expenses are comprised of costs associated with internal and external research. Internal research and development was $76,707 in 2005, compared to $57,627 in 2004. The increase was due to the increased use of outside research consultants, partially offset by a decrease in payroll associated with internal research. We expect internal research and development to increase in 2006, subject to the availability of sufficient funding, which we do not currently have for such purpose. External research and development decreased approximately $94,000 in 2005 to $41,402, compared to $134,699 in 2004. This decrease was due primarily to a decrease in the amount of activity related to external trials. We expect external research and development to increase in 2006. The significant curtailment of research and development spending was due primarily to our inability to arrange for external trials in 2005. We increased our research and development activity during the three months ended December 31, 2005, compared with the comparable period in 2004**.**

We recently commissioned an external study to determine whether ProAlgaZyme is effective in reducing the level of CRP. Because the laboratory we engaged was not meeting our expectations regarding execution of the study, we have since terminated this study and are pursuing a similar study with a different laboratory.

In addition, we have recently engaged several third parties to conduct testing directed toward further characterization of the product and determining its method of action and efficacy. Subject to the availability of sufficient funding, we plan to continue these research and development activities during the balance of 2006. Historically, we have been funded by our CEO and through external sources. We have in the past had difficulty raising funds from external sources; however, we recently raised a limited amount of capital. Mr. Baer, our CEO, is not currently in a position to make further advances to us. We may not be able to raise the funding that we need to continue our research and development activities. In the event that we are not able to secure sufficient funding to meet our research needs, we will be unable to pursue necessary research activities, in which case our ability to market ProAlgaZyme with objective clinical support for its efficacy will be impeded, thereby hindering our ability to generate sales revenue and impacting negatively our operating results.

Selling and Marketing Expenses

Selling and marketing expenses were $132,087 for the year ended December 31, 2005, as compared to $256,224 for the year ended December 31, 2004. The decrease in selling and marketing expenses was due primarily to a decrease in advertising and consulting related expenses, partially offset by an increase in bonuses to our sales staff. During 2004, we implemented a new marketing approach involving the direct sale of the ProAlgaZyme product (using the name "AlphaSystem Replenisher") to distributors. Selling and marketing expenses in 2004 consisted primarily of consulting fees related to the development and implementation of this direct selling model and related personnel costs. We have since abandoned this approach, as it was not effective. Thus, the decrease in advertising and marketing in 2005, compared to 2004, was due primarily to our having abandoned this direct selling approach.

We are not currently pursuing any advertising or marketing related activities. However, we intend to continue to direct selling efforts to existing ProAlgaZyme users. In addition, we are exploring the establishment of additional distribution channels for ProAlgaZyme. The limit on our ability thus far to advertise our product (due to the need for additional testing) has had and, until we are able to advertise our product based upon the results of clinical trials further demonstrating its efficacy, will continue to have, a material adverse effect on sales revenue and operating results. We intend to continue to pursue clinical study of our product and, subject to the results of such testing, increase advertising in 2006, subject to availability of sufficient funding, which we do not currently have.

General and Administrative Expenses

General and administrative expenses increased approximately $205,000 to $2,833,709 in 2005, compared to $2,628,919 in 2004. The increase in general and administrative expenses was due primarily to increased stock based compensation expense, partially offset by reduced legal and accounting fees and outside consulting fees related to the acquisition of the Zodiac product line.

Impairment Loss

During the year ended December 31, 2004, we acquired the trademarks and formulas relating to Zodiac Herbal Vitamins and Zodiac Herbal Teas - at an original cost of $730,000, based on the market value of the 200,000 shares of our common stock exchanged for these assets at their acquisition. During the year ended December 31, 2004, we reviewed the carrying value of these assets to assess whether such value exceeded the present value of their future operating cash flows. In each case, we determined that the assets' carrying values were impaired. As a result, during the year ended December 31, 2004, we recognized impairment losses in the aggregate amount of $730,000, effectively reducing the carrying value of these assets to $0 at December 31, 2004. We did not recognize any impairment losses in the year ended December 31, 2005. As disclosed elsewhere in this report, we have abandoned the Zodiac product line.

Finance Costs Paid in Stocks and Warrants

During the year ended December 31, 2005, we incurred approximately $2.8 million in non-cash finance costs paid in stocks and warrants. Excluding the effect of these non-cash finance costs, our net loss for the ended December 31, 2005 would have been approximately $3.1 million . These non-cash finance costs were required under applicable accounting rules to be recorded in connection with our CEO's conversion of $538,000 of indebtedness we owed him into common stock and warrants to purchase common stock. Under these accounting rules, we believe that the common stock is required to be valued at the quoted market price and the warrants are required to be valued using the Black-Scholes option pricing model. As described elsewhere in this report, from June until August 2005 we were engaged in a private placement of common stock and warrants in which we sold an aggregate of 5,675,000 shares of common stock and warrants to purchase 7,093,750 shares of common stock, at an exercise price of $.10 per share, for total consideration of $567,500. The pricing for this offering to unrelated third parties was $1 per unit, each unit consisting of 10 shares of common stock and warrants to purchase 12.5 shares of common stock, at an exercise price of $.10 per share for a term of three years. Our CEO converted, during the period of this offering, $538,000 of indebtedness we owed him into 5,000,000 shares of common stock and warrants to purchase 6,250,000 shares of common stock, at an exercise price of $.15 per share (with a cashless exercise feature)

If our CEO had converted the $538,000 in indebtedness we owed him on the same terms and conditions as the investors in the private offering, he would have received 5,380,000 shares of common stock (instead of the 5,000,000 he actually received) and warrants to purchase 6,725,000 shares of common stock (instead of the 6,250,000 he actually received), at an exercise price of $.10 per share (without a cashless exercise feature) (instead of his $.15 exercise price per share). Thus, although the warrant has a cashless exercise feature, the CEO received 380,000 fewer shares of common stock and 475,000 fewer warrants (at a 33% higher exercise price) than an investor would have received under the terms of the private offering. Based on the foregoing, we believe that the value of the common stock and warrants issued to our CEO in connection with his conversion was not greater than the dollar amount of indebtedness he converted.

Deferred Finance Costs

We incurred Deferred Finance Costs of $30,000 and $15,000 during the year ended December 31, 2005 and 2004, respectively. This was due to our November 2004 issuance of two Promissory Notes of three months duration for an aggregate total financing of $150,000. Under these Notes, we issued 75,000 shares of our common stock. These shares were valued at $45,000.00 (or $0.60 per share), based on the quoted price of our common stock on the date of issuance. Deferred Finance Costs of $45,000 related to the value of these issued shares were amortized at the rate of $15,000 per month over three months, the lives of the related debts.

Interest/Other Expense

During the year ended December 31, 2005, we incurred $77,623 in interest expense, as compared to interest expense of $1,305 for the year ended December 31, 2004. The increase in interest expense is due primarily to the interest we incurred ($71,000) on the note payable to our CEO.

Liquidity and Capital Resources

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

We have had limited revenue (approximately $96,000 for year ended December 31, 2005) and have incurred significant net losses since inception, including a net loss of $5,956,895 during the year ended December 31, 2005 and an aggregate net loss of $10,384,815 since inception (includes $4.3 million and $6.1 million in non cash stock based charges, respectively). We expect only limited sales revenue until at least the second half of 2006**.** Further, since inception, we have incurred negative cash flow from operations. During the year ended December 31, 2005, we incurred negative cash flows from operations of $1,649,480. As of December 31, 2005, we had a working capital deficiency of approximately $630,000 and a stockholders’ deficiency of approximately $590,000. We believe that, as of March 28, 2006, our working capital deficiency had increased, compared to the deficiency at December 31, 2005. We have an immediate and urgent need for additional capital.

During the year ended December 31, 2005, our operating activities used approximately $1,649,480 in cash, while our financing activities generated approximately $2,253,296 in cash, comprised of approximately $886,000 in advances from our CEO, Mr. Howard R. Baer, and approximately $1,742,500 in net proceeds from equity sales, partially offset by repayments of indebtedness in the approximate amount of $277,489. During the year ended December 31, 2004, our financing activities generated approximately $1,320,247 in cash, comprised of approximately $683,000 in advances from our CEO and approximately $753,000 in net proceeds from equity sales, partially offset by repayments of indebtedness in the approximate amount of $286,000. Accordingly, during the year ended December 31, 2005, we were somewhat less dependent upon our CEO for our funding, compared to external sources, than we were in the comparable prior period.

Although we have recently raised a limited amount of capital, we continue to experience a shortage of capital, which is materially and adversely affecting our ability to run our business. As noted above, we have been largely dependent upon Howard R. Baer, our CEO, and external sources for funding, and our dependence on Mr. Bear for funding decreased somewhat, relatively, during the year ended December 31, 2005, compared with the comparable prior period. Mr. Baer does not presently have the ability to provide us with further advances and, although we recently raised a limited amount of capital, we have in the past had great difficulty in raising capital from external sources. These factors raise substantial doubt about our ability to continue as a going concern. If we are not able to obtain additional funding almost immediately, we will probably be unable to continue as a going concern, in which case, you would suffer a total loss of your investment in our company.

Mr. Baer, our CEO, has advanced us an aggregate of approximately $1,587,375 from inception to December 31, 2005, including an aggregate of $886,035 during 2005. Since inception, we have repaid Mr. Baer a total of $413,830 in cash. On February 15, 2005, we entered into a Promissory Note ("Note"), a Security Agreement and a Patent Security Agreement with Mr. Baer (such documents are collectively hereinafter referred to as the "Loan Documents"), in connection with Mr. Baer advancing to us $364,000, for our benefit and that of our wholly-owned subsidiary, Health Enhancement Corporation ("HEC"). Immediately prior to entering into the Loan Documents, we were indebted to Mr. Baer in the aggregate amount of $483,359, in connection with prior advances. Following Mr. Baer's advance of $364,000 on February 15, 2005, we were indebted to Mr. Baer in the aggregate amount of $847,359. From February 15, 2005 to October 20, 2005, Mr. Baer has advanced us an additional $454,035 for our benefit and that of HEC. On March 25, 2005, we, Mr. Baer and HEC executed and delivered a Joinder Agreement and First Amendment, which had the effect of making HEC a party to the Loan Documents, including as a co-maker of the Note. As a result of entering into the Joinder Agreement and First Amendment, in addition to being a co-maker under the Note, HEC granted Mr. Baer a security interest in all of its assets related to the ProAlgaZyme product.

As of July 8, 2005, the Note was in the principal amount of $1,244,744. On July 8, 2005, Mr. Baer converted an aggregate of $538,000 of indebtedness (consisting of $500,000 in principal and $38,000 of interest) we owed him into 5,000,000 shares of our common stock and warrants to purchase 6,250,000 shares of our common stock, at an exercise price of $.15 per share. After giving effect to the conversion, we owed Mr. Baer approximately $745,000 in principal. We have since made net repayments to Mr. Baer of approximately $72,000, leaving a principal balance of $674,000 at March 28, 2005. We incurred non-cash financing charges in the amount of $2,758,000 in connection with this conversion.

The Note bears interest at the rate of 10% per annum. Commencing thirty (30) days after written demand by Mr. Baer, the principal amount and accrued interest under the Note will be payable in twelve (12) equal monthly installments. Under the Security Agreements, we, in order to secure our obligations under the Note, granted Mr. Baer a security interest in all our assets that are related to the ProAlgaZyme product. The principal amount under the Note may be increased from time to time by the amount of any further advances to us by Mr. Baer; however, Mr. Baer is in no way obligated to make further advances to us.

If Mr. Baer demands repayment of the Note, we may not have the ability to make the payments required by the Loan Documents, in which case there would be an "event of default" under the Loan Documents and Mr. Baer would be able to foreclose on all of our (and HEC's) assets related to our ProAlgaZyme product. If Mr. Baer were to demand repayment of the Note now, we would not be able to make the required payments and there would be an "event of default" under the Loan Documents.

We estimate that we will require approximately $1,000,000 in cash over the next twelve months in order to fund our operations, not including legal fees in connection with the investigation by the Securities and Exchange Commission (see below) . Based on this cash requirement, we have a near term need for additional funding. For the foreseeable future, we do not expect that sales revenues will be sufficient to fund our cash requirements. Historically, we have had great difficulty raising funds from external sources; however, we recently were able to raise a limited amount of capital from outside sources. In addition to external sources, we have been dependent for our funding on advances from our CEO, Mr. Howard R. Baer. Mr. Baer is not presently in a position to provide us with additional funds. We cannot assure you that Mr. Baer will, in the future, be able or willing to advance us additional funds. Nor can we assure you that we will be able to obtain from external sources the funds that we need to continue our operations. If we are not able to raise additional funds in the near term, we may be unable to continue as a going concern, in which case you will suffer a total loss of your investment in our company.

As described in Part I, Item 3 of this Report, we are subject to an ongoing formal investigation by the Securities and Exchange Commission. The cost of legal representation in connection with this investigation has been, and will continue to be, substantial, until the matter is resolved. From April 2004 through March 28, 2006, we incurred legal fees and costs of approximately $660,000 in connection with this matter. As described in Note 7 under "Legal Proceedings", we are currently in discussions with the SEC staff concerning a possible consensual resolution of the Investigation. Accordingly, while we expect that we will continue to incur significant legal fees pending resolution of the investigation, we expect that future legal fees will be significantly less than legal fees incurred through March 28, 2006. The cash that will be required to pay these fees is in addition to the cash requirements described in the preceding paragraph.

We do not have product liability insurance. If a product claim were successfully made against us, there would be a material adverse effect on our financial condition.

If we do not raise additional capital or generate positive cash flows from operations in the near term, we may not be able to continue our operations. Given the difficulty we have had raising substantial capital from external sources, and Mr. Baer's present inability to advance further funds to us, there is substantial doubt about our ability to continue as a going concern.

Plan of Operation

All of our operational planning is currently subject to the limitations resulting from our limited availability of capital (see "Liquidity and Capital Resources"). The following plans assume that we will be able to generate – either from cash flows or equity or debt financing - a level of liquidity sufficient to support our planned activities. As disclosed herein, we have had difficulty raising substantial amounts of capital.

Sales and Marketing

Although we are pursuing various potential opportunities with respect to the distribution of ProAlgaZyme, until we complete certain external clinical studies regarding ProAlgaZyme, we are not pursuing advertising and marketing related activities. However, we intend to continue to direct our selling efforts to existing users of ProAlgaZyme. The limit on our ability thus far to advertise our product (due to the need for additional testing) has had and, until we are able to advertise our product based upon the results of clinical trials further demonstrating its efficacy, will continue to have, a material adverse effect on sales revenue and operating results. We intend to continue to pursue clinical study of our product and, subject to the results of such testing, increase advertising in 2006, subject to availability of sufficient funding, which we do not currently have.

Planned Expenditure on Plant and Equipment

The lease of our production facility expired in June, 2004, and we obtained an extension of such lease in order to enable us to locate suitable new space. On December 9, 2004, we entered into a lease, dated as of November 1, 2004, with Evans Road, LLC (a company owned by our CEO, Howard R. Baer), under which we leased approximately 5,000 sq. ft. for a new corporate headquarters and production facility located in Scottsdale, Arizona. We relocated to the new facility in the first quarter of 2005, as we required additional space for our laboratory, testing and growing facilities. In addition, we desired to consolidate our corporate headquarters and production facility. Evans Road, LLC has expended a substantial amount of money on building improvements in order to meet our requirements for this facility. The lease had a term of 15 years, subject to the right of either party to terminate the lease after 7.5 years, and provided for base monthly rent in the amount of $8,700 plus monthly taxes. In February, 2005, Evans Road, LLC sold the building which was leased to us, and our CEO, Howard R. Baer, leased such building back from the buyer under a master lease. Evans Road, LLC continued to lease the building, as master lessor, to us, under the terms and conditions described above, until March 31, 2006. On April 12, 2006, we entered into an Amended and Restated Sublease with Mr. Baer (effective as of April 1, 2006) (the "Amended and Restated Sublease"). During 2004, we paid Evans Road, LLC approximately $26,596, representing $17,730 in rent and a security deposit of $8,865. During 2005, we paid Evans Road, LLC approximately $106,000 in rent.

Under the terms of the Amended and Restated Sublease, we are leasing an aggregate of approximately 15,000 square feet, of which we are occupying approximately 8,400 square feet, consisting of approximately 6,710 square feet of office space and 1,700 squarer feet of production space. We are subleasing the remaining 6,600 square feet to a third party under a month to month tenancy at a rate of approximately $7,000 per month, plus rental taxes and electricity. We can terminate this sublease upon thirty (30) days written notice to our subtenant. We believe that we may need additional space in the foreseeable future, and that this space would be suitable for an expansion of our production and office facilities.

The Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease approximately 7 years from now (March 31, 2013). The annual base rent for the 15,000 square foot facility is approximately $237,000 and is payable in equal monthly installments of approximately $20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We are obligated to pay an additional security deposit of approximately $110,000, following which we will have paid an aggregate security deposit equal to six months base rent. This additional security deposit will be paid in eighteen equal monthly installments of approximately $6,000, commencing in August, 2006. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance and repairs related to the premises we are leasing from the CEO.

We have no current plans to make material capital expenditures for equipment over the next twelve months, unless we experience a significant increase in demand, which necessitates an expansion of our production capacity. Our current production capacity is limited. If demand for our ProAlgaZyme product were to rise significantly and rapidly, in order to expand our production capacity to meet such demand, we would need to make additional capital expenditures, the funding for which we may need to obtain from external sources. Accordingly, if we experience a significant and rapid increase in demand for our ProAlgaZyme product, we may be required to make additional capital expenditures to be able to meet such demand. In addition, even absent a substantial increase in demand, we expect that there will be some expenses involved in the provision of additional and replacement equipment to make efficient use of the expanded facilities in our new location. As discussed above, we may not be able to obtain additional funding on favorable terms or at all. If we are unable to obtain the funds we need to expand our production capacity, our ability to significantly increase our revenues may be materially and adversely affected.

As we have only limited revenue, we have been heavily reliant on our CEO, Howard R. Baer, and external sources to provide the funds necessary for our continued operation. As disclosed above, Mr. Baer is not presently in a position to make further advances to us and we have had difficulty in raising substantial amounts of capital from external sources. Unless and until sales revenues increase to a level where we are self-sustaining, this dependence upon Mr. Baer and upon external funding sources will continue, making our ability to fulfill our business plan highly problematical, at best.

We have immediate and urgent need for additional capital. Our lack of any substantial capital has had and will continue to have a material adverse affect on our ability to implement our business plan and continue as a going concern. There is a significant risk that we will not be able to continue as a going concern and that you will lose your entire investment in our company.

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

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

Seasonality

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

Staffing

We have conducted all of our activities since inception with a minimum level of qualified staff. We currently do not expect a significant increase in staff.

Off-Balance Sheet arrangements

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

Item 7. Financial Statements

The financial statements of the Company appear at Page F-1 of this Report.

Item 8A. Controls and Procedures.

(a) ***Evaluation of Disclosure Controls and Procedures.*** The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's "disclosure, controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(3) and 15-d-15(3) as of the end of the period covered by this annual report (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure, controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b) ***Changes in Internal Control over Financial Reporting.*** There were no changes in the Company's internal controls over financial reporting, known to the Chief Executive Officer or the Chief Financial Officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.

Directors and Executive Officers

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

Name	Age	Positions	Since
Howard R. Baer	62	Chairman and Chief Executive Officer, Secretary, and Treasurer	2003
Janet L. Crance	50	Chief Accounting Officer (Part-time)	2005

Mr. Howard R. Baer was appointed our Chairman and CEO on November 21, 2003, and is our sole director. He attended Burdette College in Boston, MA from 1959 to 1960 where he studied business law and accounting. He also attended the New York Institute of Finance. Mr. Baer has been in the investment banking business for approximately 40 years. From 1989 to 2003, he was President of Carriage House Capital, Inc., a management consulting firm. Mr. Baer is also Chairman of Politics.com, Inc., a privately held internet company. Mr. Baer is also President of The Suggestion Box, Inc., also a privately held internet company.

Ms. Janet L. Crance was appointed Chief Accounting Officer on June 22, 2005. . Ms. Crance has over 29 years experience in the field of accounting, including both the public and private sectors. She has been a Certified Public Accountant for fifteen 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.

See, Legal Proceedings, for a description of a pending formal SEC investigation.

All officers hold their positions at the will of the Board of Directors. All directors hold their positions for one year or until their successors are elected and qualified.

Family Relationships

Our Chairman and CEO, Mr. Howard R. Baer, is the father of our former Executive Vice President, Mr. Kevin C. Baer. There are no other familial relationships between any of our officers and directors.

Audit Committee Financial Expert

We do not have an audit committee financial expert, because we do not have an audit committee. We are not currently required to have an audit committee.

Code of Ethics

We have adopted a Code of Ethics and Business Conduct which defines the standard of conduct expected of our officers, directors and employees. The Code is incorporated by reference as an exhibit to this Report. We will upon request and without charge provide a copy of our code of ethics. Requests should be directed to Chief Accounting Officer, Health Enhancement Products, Inc., 7440 E. Evans Road, Scottsdale, Arizona 85260.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors, and beneficial owners of more than ten percent of a registered class of our equity securities ("Reporting Persons") to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Reporting Persons are required by regulation to furnish us with copies of all Section 16(a) forms they file. Based upon a review of Forms 3, 4 and 5 received by us with respect to the year ended December 31, 2005 and other information known to us, we believe that the following Reporting Persons failed to file required reports and/or made late filings, as indicated, during the most recent year. Mr. John Gantt, a 10% beneficial owner, filed a Form 3, Initial Statement of Beneficial Ownership, late. Mr. Gantt did not file a Form 5, Annual Statement of Beneficial Ownership of Securities, with respect to the year ended December 31, 2005. Mr. William Rogers, a 10% beneficial owner, filed a Form 3, Initial Statement of Beneficial Ownership, late. Mr. Rogers did not file a Form 5, Annual Statement of Beneficial Ownership of Securities, with respect to the year ended December 31, 2005. Janet L. Crance, our Chief Accounting Officer, did not file a Form 3, Initial Statement of Beneficial Ownership, and did not file a Form 5, Annual Statement of Beneficial Ownership of Securities, for the year ended December 31, 2005.

Item 10. Executive Compensation

Summary Compensation Table

Name and Principal Position	Year Ended	Annual Compensation			Long Term Compensation			All Other Compen-sation ($)
					Awards		Payouts	
		Salary ($)	Bonus($)	Other Annual Compen-sation ($)	Restricted Stock Awards ($)	Securities Underlying Options/ SARs (#)	LTIP Payouts ($)	
Howard R. Baer Chairman & CEO, Treasurer & Secretary	12/31/05 12/31/04 12/31/03	198,000(1) 117,250			75,000 (2) 100,000 (4)			$810,000(3) $10,000
Kevin C. Baer, Executive Vice President (5)	12/31/05 12/31/04	16,425 56,458			119,215 (6)			$145,635(7)

(1) As of December 31, 2005, of our CEO's aggregate $198,000 base salary, $99,000 has been paid, and the remaining $99,000, though accrued, remains unpaid.
(2) Represents 25,000 shares of restricted common stock issued in lieu of a portion of Mr. Baer's base salary. These shares were valued at $3.00 each, based on the quoted price of our common stock on March 19, 2004.
(3) Represents 150,000 shares of common stock issued in February 2004 for services rendered. The shares were registered under a Registration Statement on Form S-8, filed with the Commission on February 12, 2004. The shares were valued at $5.40 per share, based on the quoted price of our common stock on February 10, 2004.
(4) Represents 31,250 shares of restricted common stock issued in lieu of a portion of his base salary. The shares were valued at $3.20 each, based on the quoted price of our common stock on December 15, 2003.
(5) Mr. Kevin Baer resigned as Executive Vice President on July 15, 2005.
(6) Represents 202,060 shares of common stock issued in lieu of a portion of Mr. Baer's salary. The shares were valued at $.59 per share, based in the quoted price of our common stock on the issuance date.
(7) Represents warrants to purchase 252,575 shares of common stock, at an exercise price of $.10 per share, issued in lieu of a portion of Mr. Baer's base salary. The warrants were valued at $145,635.

Compensation of Directors

Our sole Director does not receive any remuneration for his service on the Board.

Employment Agreements

On February 10, 2004, we entered into an employment agreement with our current CEO, Mr. Howard R. Baer, whereby we agreed to issue 150,000 shares of the Company's common stock as compensation for past services. Under the terms of this agreement, Mr. Baer is an "employee at will". This agreement was filed as an Exhibit to our Registration Statement on Form S-8, filed with the Securities and Exchange Commission on February 12, 2004.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth, as of March 17, 2006, certain information regarding each person who is known to us to beneficially own more than 5% of our issued and outstanding shares of common stock, and the number of shares of our common stock beneficially owned by each of our directors and named executive officers, and all officers and directors as a group.

Security Ownership of Certain Beneficial Owners:

Name and Address	Title of Class	Number of Shares Beneficially Owned	% of Shares
William J. Rogers, II 21 Ocean Ridge Boulevard South Palm Coast, FL 32137	Common	4,076,367(1)	11.63%

Security Ownership of Management:

Name and Address	Title of Class	Number of Shares Beneficially Owned	% of Shares
Mr. Howard R. Baer 7740 E. Evans Rd. Scottsdale, AZ 85260	Common	16,044,989(2)	48.89%
Ms. Janet L. Crance 4350 East Kachina Trail Phoenix, AZ 85044	Common	225,000(3)	*
Officers and Directors as a group (Two People)	Common	16,269,989	49.39%

*** Less than 1%**

(1) Includes warrants to purchase 2,250,000 shares of Common Stock and an option to purchase 500,000 shares of Common Stock.

(2) The shares are beneficially owned by Mr. Howard R. Baer as follows: 13,027,739 shares in the name of Howard R. Baer, individually; 3,017,250 shares in the name of Carriage House Capital, an entity owned and controlled by Mr. Baer. Does not include shares of common stock owned of record by Kae C. Park, Howard Baer's wife, of which Mr. Baer disclaims beneficial ownership.

(3) Includes warrants to purchase 125,000 shares of common stock.

Item 12. Certain Relationships and Related Transactions.

We have entered into several transactions with Mr. Howard R. Baer, our CEO.

The lease of our production facility expired in June, 2004, and we obtained an extension of such lease in order to enable us to locate suitable new space. On December 9, 2004, we entered into a lease, dated as of November 1, 2004, with Evans Road, LLC (a company owned by our CEO, Howard R. Baer), under which we leased approximately 5,000 sq. ft. for a new corporate headquarters and production facility in Scottsdale, Arizona. We relocated to the new facility in the first quarter of 2005, as we required additional space for our laboratory, testing and growing facilities. In addition, we desired to consolidate our corporate headquarters and production facility. Evans Road, LLC has expended a substantial amount of money on building improvements in order to meet our requirements for this facility. The lease had a term of 15 years, subject to the right of either party to terminate the lease after 7.5 years, and provided for base monthly rent in the amount of $8,700 plus monthly taxes. In February, 2005, Evans Road, LLC sold the building which was leased to us, and our CEO, Howard R. Baer, leased such building back from the buyer under a master lease. Evans Road, LLC continues to lease the building, as master lessor, to us, under the terms and conditions described above, until March 31, 2006. On April 12, 2006, we entered into an Amended and Restated Sublease with Mr. Baer (effective as of April 1, 2006) (the "Amended and Restated Sublease"). During 2004, we paid Evans Road LLC approximately $26,596, representing $17,731 in rent and a security deposit of $8,865. During 2005, we paid Evans Road, LLC approximately $106,380 in rent.

Under the terms of the Amended and Restated Sublease, we are leasing an aggregate of approximately 15,000 square feet, of which we are occupying approximately 8,400 square feet, consisting of approximately 6,710 square feet of office space and 1,700 squarer feet of production space. We are subleasing the remaining 6,600 square feet to a third party under a month to month tenancy at a rate of approximately $7,000 per month, plus rental taxes and electricity. We can terminate this sublease upon thirty (30) days written notice to our subtenant. We believe that we may need additional space in the foreseeable future, and that this space would be suitable for an expansion of our production and office facilities.

The Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease approximately 7 years from now (March 31, 2013). The annual base rent for the 15,000 square foot facility is approximately $237,000 and is payable in equal monthly installments of approximately $20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We are obligated to pay an additional security deposit of approximately $110,000, following which we will have paid an aggregate security deposit equal to six months base rent. This additional security deposit will be paid in eighteen equal monthly installments of approximately $6,000, commencing in August, 2006. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance and repairs related to the premises we are leasing from the CEO.

We lease certain equipment from an entity owned by Mr. Baer. The lease payments equal Mr. Baer's debt service on the equipment. Mr. Baer has stated that he intends to cause the equipment to be transferred to us, for no consideration, once the note is paid in full. During 2004, we paid $9,114 in lease payments for this equipment. During 2005, we paid $9,031 in lease payments for this equipment.

We also lease a delivery van from Mr. Baer. The lease payments equal Mr. Baer's debt service on the vehicle. Mr. Baer has stated that he intends to transfer the vehicle to us, for no consideration, once the note is paid in full. During 2004, we paid $4,621 in lease payments to Mr. Baer for this vehicle. During 2005, we paid $4,640 in lease payments to Mr. Baer for this vehicle.

We pay for advertising space on www.politics.com, an Internet site owned by Politics.com, Inc., an entity of which Mr. Baer is the Chairman and majority shareholder. During 2004, we paid $13,750 to the entity for advertising space. At December 31, 2004, there were no advertising fees payable to Politics.com. During 2005, we made no payments to Polictics.com.

As disclosed above, during the period from inception to December 31, 2005, Mr. Baer advanced $1,582,735 to us. During the same period, he was repaid a total of $897,489 and there were adjustments to his advance account amounting to $11,341, leaving an outstanding balance of $673,905 due to Mr. Baer as of December 31, 2005.

On February 15, 2005, Mr. Baer advanced us $364,000, for our benefit and that of our wholly-owned subsidiary, Health Enhancement Corporation ("HEC"), and, in connection therewith, we entered into a Promissory Note ("Note"), a Security Agreement and a Patent Security Agreement with Mr. Baer (such documents are collectively hereinafter referred to as the "Loan Documents"). Immediately prior to entering into the Loan Documents, we were indebted to Mr. Baer in the aggregate amount of $483,359, in connection with prior advances he made to us, for the benefit of us and HEC. Following Mr. Baer's advance of $364,000 on February 15, we were indebted to Mr. Baer in the aggregate amount of $847,359. From February 15, 2005 to July 8, 2005, Mr. Baer has advanced the Company an additional $397,385 for our benefit and that of HEC. On March 25, 2005, we, Mr. Baer and HEC executed and delivered a Joinder Agreement and First Amendment, which had the effect of making HEC a party to the Loan Documents, including as a co-maker of the Note. As a result of entering into the Joinder Agreement and First Amendment, in addition to being a co-maker under the Note, HEC granted Mr. Baer a security interest in all of its assets related to the ProAlgaZyme product. Accordingly, at July 8, 2005, the Note was in the principal amount of $1,244,744. On July 8, 2005, Mr. Baer to converted an aggregate of $538,000 of indebtedness (consisting of $500,000 in principal and $38,000 of interest) we owed him into 5,000,000 shares of our common stock and warrants to purchase 6,250,000 shares of our common stock, at an exercise price of $.15 per share. After giving effect to the conversion, we owed Mr. Baer approximately $745,000 in principal. Since July 8, 2005, we made net repayments to Mr. Baer of approximately $72,000, following which the principal amount due under the Note was approximately $674,000. The Note bears interest at the rate of 10% per annum. Commencing thirty (30) days after written demand by Mr. Baer, the principal amount and accrued interest under the Note will be payable in twelve (12) equal monthly installments. Under the Security Agreements, in order to secure our obligations under the Note, we granted Mr. Baer a security interest in all our assets that are related to our ProAlgaZyme product. The principal amount under the Note may be increased from time to time by the amount of any further advances to us by Mr. Baer; however, Mr. Baer is in no way obligated to make further advances to us.

Item 13: Exhibits

Exhibits:

Exhibit Number	**Title**	
2.1	Agreement and Plan of Reorganization	(1)
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(2)
3.2	By-laws of the Company	(3)
10.01	Employment Agreement between Mr. Howard R. Baer and the Company, dated February 10, 2004	(4)
10.02	Amended and Restated Sublease between Howard R. Baer and the Company, dated April 12, 2006	
10.04	Promissory Note, dated February 15, 2005, made by the Company i n favor of Howard R. Baer	(5)
10.05	Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	(5)
10.06	Patent Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	(5)

10.07	Joinder Agreement and First Amendment, dated March 25, 2005, between the Company, Health Enhancement Corporation and Howard R. Baer	(5)
10.08	Subscription Agreement, dated June 21, 2004, between William J. Rogers, II and the Company	(5)
10.09	Subscription Agreement, dated July 29, 2005, between William J. Rogers, II and the Company	
10.10	Subscription Agreement, dated July 29, 2005, between William J. Rogers, II and the Company	
14.1	Code of Ethics	(6)
21	Subsidiaries of the Registrant	(5)
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

(1) Filed as Exhibit 2.1 to our current Report on Form 8-K, Filed with the Commission on December 9, 2003 and incorporated by this reference.
(2) Filed as Exhibit 3.1 to our Form 10-QSB, filed with the Commission on August 30, 2004 and incorporated by this reference.
(3) Filed as Exhibit 3.2 to our Form 10SB, filed with the Commission on April 20, 2000 and incorporated by this reference.
(4) Filed as Exhibit 4.1 to our Registration Statement on Form S-8, filed with the Commission on February 12, 2004, and incorporated by reference.
(5) Filed as the same Exhibit number to our Form 10KSB, filed with the Commission on April 1, 2004, and incorporated by this reference.
(6) Filed as Exhibit 99 to our Form 10-KSB, filed with the Commission on April 1, 2004, and incorporated by this reference.

Item 14. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed for each of the last two years for professional services rendered by our principal accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-QSB reports and services normally provided by the accountant in connection with statutory and regulatory filings or engagements were approximately $54,000 and $53,500 for 2004 and 2005, respectively.

Audit-Related Fees

There were no fees for assurance and related services for 2004 or 2005.

Tax Fees

There were no fees for tax compliance, tax advice or tax planning services during 2004 or 2005.

All Other Fees

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

We do not currently have an audit committee. Our board of directors will evaluate and approve in advance the scope and cost of the engagement of our auditor before the auditor renders audit and non-audit services.

SIGNATURES

In accordance with the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTH ENHANCEMENT PRODUCTS, INC.

Date: June 14, 2007

By: */s/ Thomas Ingolia*
Thomas Ingolia
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: June 14, 2007

By: */s/ Thomas Ingolia*
Thomas Ingolia
Principal Executive Officer
Sole Director

Date: June 14, 2007

By: */s/ Janet L. Crance*
Janet L. Crance
Chief Accounting Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Health Enhancement Products, Inc. and Subsidiary (the "Company") as of December 31, 2005 and the related consolidated statements of operations, stockholders' deficiency and cash flows for each of the two years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Enhancement Products, Inc. and Subsidiary at December 31, 2005, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred significant operating losses for the years ended December 31, 2005 and 2004 and, as of December 31, 2005, has a significant working capital and stockholders' deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York
April 12, 2006

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
December 31, 2005
ASSETS

CURRENT ASSETS:		
Cash	$	603,908
Inventories		4,222
Prepaid expenses		13,240
Total Current Assets		621,370
Property and Equipment, net		16,701
OTHER ASSETS:		
Definite-life intangible assets, net		13,002
Deposits		8,865
Total Other Assets		21,867
	$	659,938
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Accounts payable	$	160,139
Note payable – related party		673,905
Loans payable - other		20,000
Accrued salaries		195,000
Accrued payroll taxes		62,738
Accrued liabilities		138,242
Total Current Liabilities		1,250,024
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIENCY:		
Common stock, $.001 par value, 100,000,000 shares authorized, 26,521,313 issued and outstanding		26,521
Additional paid-in capital		10,390,734
Deferred consulting fees		(622,526)
Accumulated deficit		(10,384,815)
Total Stockholders' Deficiency		(590,086)
	$	659,938

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004
NET SALES	$ 95,967	$ 49,058
COST OF SALES	191,663	75,284
GROSS PROFIT (LOSS)	(95,696)	(26,226)
OPERATING EXPENSES:		
Selling	132,087	256,224
General and administrative	2,833,709	2,628,919
Research and development	118,111	192,366
Impairment loss	-	730,000
Write-down of inventories	-	8,966
Total Operating Expenses	3,083,907	3,816,475
LOSS FROM OPERATIONS	(3,179,603)	(3,842,701)
OTHER INCOME (EXPENSE)		
Interest expense, related party	(71,102)	0
Interest expense, other	(6,521)	(1,305)
Finance costs paid in stocks and warrants	(2,758,216)	--
Amortization of deferred finance costs	(30,000)	(15,000)
Other	39,747	-
Vendor settlements	48,800	-
Total Other Income (Expense)	(2,777,292)	(16,305)
NET LOSS	$ (5,956,895)	$ (3,859,006)
NET LOSS PER SHARE –BASIC AND DILUTED	$ (.33)	$ (0.34)
WEIGHTED AVERAGE SHARES OUTSTANDING	18,235,896	11,384,663

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2005

	Common Stock		Additional Paid-in	Accumulated	Deferred	
	Shares	Amount	Capital	Deficit	Costs	Total
BALANCE, January 1, 2004	10,388,334	$ 10,388	$ 494,494	$ (568,914)	$ -	$ (64,032)
Common stock issued for trademarks	200,000	200	729,800	-	-	730,000
Common stock issued to related party for services	150,000	150	809,850	-	-	810,000
Issuance of 50,000 common stock purchase warrants for services	-	-	260,000	-	-	260,000
Common stock issued for employee and consulting services	85,084	85	255,167	-	-	255,252
Common stock issued for Regulation S raise	198,335	198	126,481	-	-	126,679
Common stock issued for Private Placement	945,000	945	625,555	-	-	626,500
Common stock issued for Private Placement fees, valued at $162,350	95,500	96	(96)	-	-	-
Common stock returned	(1,000)	(1)	(2,999)	-	-	(3,000)
Common stock issued as Private Placement penalty shares, valued at $74,182	94,500	94	(94)	-	-	-
Common stock issued for loan funds received	75,000	$ 75	44,925	-	(45,000)	-

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2005*[Continued]*

	Common Stock		Additional Paid-in	Accumulated	Deferred	
	Shares	Amount	Capital	Deficit	Costs	Total
Amortization of deferred finance costs	-	$ -	$ -	$ -	$ 15,000	$ 15,000
Net loss, year ended December 31, 2004	-	-	-	(3,859,006)	-	(3,859,006)
BALANCE, December 31, 2004	12,230,753	12,230	3,343,083	(4,427,920)	(30,000)	(1,102,607)
Common stock issued as Private Placement penalty shares, valued at $222,549	283,500	284	(284)	-	-	-
Amortization of deferred finance costs	-	-	-	-	30,000	30,000
Common stock issued pursuant to Private Placements	8,025,000	8,025	1,734,475	-	-	1,742,500
Common stock issued for services	560,000	560	642,690	-	-	643,250

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2005*[Continued]*

	Common Stock		Additional Paid-in	Accumulated	Deferred	
	Shares	Amount	Capital	Deficit	Costs	Total
Issuance of 1,000,000 common stock purchase warrants as finder's fees, valued at $264,530	-	$ -	$ -	$ -	$ -	$ -
Issuance of 1,750,000 common stock purchase warrants for services	-	-	1,271,425	-	(1,039,824)	231,601
Issuance of common stock as finder's fee, valued at $220,000	220,000	220	(220)	-	-	-
Issuance of 220,000 common stock purchase warrants, as finder's fees, valued at $205,826	-	-	-	-	-	-
Common stock issued to related party as repayment of debt	5,000,000	5,000	1,495,000	-	-	1,500,000
Common stock issued to former officer as payment of accrued salaries	202,060	202	119,013	-	-	119,215
Issuance of 6,250,000 Common stock purchase warrants to related party as repayment of debt	-	-	1,796,167	-	-	1,796,167
Issuance of 252,575 Common stock purchase warrants to former officer as payment of accrued salaries	-	-	145,635	-	-	145,635
Finders fees incurred for private placements	-	-	(156,250)			(156,250)
Amortization of deferred consulting fees					417,298	417,298
Net loss, year ended December 31, 2005	-	-	-	(5,956,895)	-	(5,956,895)
BALANCE, December 31, 2005	26,521,313	$ 26,521	$ 10,390,734	$ (10,384,815)	$ (622,526)	$ (590,086)

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

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

	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004
Cash Flows from Operating Activities:		
Net loss	$ (5,956,895)	$ (3,859,006)
Adjustments to reconcile net loss to net cash used by operating activities:		
Common stock issued for services rendered	700,745	1,062,252
Warrants granted for services rendered	174,106	260,000
Common stock and warrants issued to former officers as salaries	244,644	-
Finance costs paid in common stock and warrants to related party	2,758,216	-
Impairment loss	-	730,000
Depreciation and amortization	1,291	534
Amortization of deferred financing costs	30,000	15,000
Amortization of deferred consulting fees	417,298	-
Changes in assets and liabilities:		
(Increase) decrease in inventories	(1,659)	4,661
(Increase) in prepaid expenses	(2,618)	(9,316)
Increase (Decrease) in accounts payable	(246,713)	379,736
Increase in accrued payroll and payroll taxes	163,815	86,914
Increase in accrued liabilities	68,290	49,402
(Decrease) in customer deposits	-	(836)
Net Cash (Used) by Operating Activities	(1,649,480)	(1,280,659)
Cash Flows from Investing Activities:		
Capital expenditures	(17,026)	-
Payments for definite-life intangible assets	-	(14,500)
Payments for deposits	-	(8,865)
Net Cash (Used) by Investing Activities	(17,026)	(23,365)
Cash Flows from Financing Activities:		
Proceeds from shareholder advances and loans	886,035	683,410
Payment of shareholder advances and loans	(127,489)	(286,341)
Proceeds (Payment) of other borrowings	(150,000)	170,000
Proceeds from sale of common stock and warrants	1,742,500	1,049,295
Payment of fees in connection with sale of common stock and warrants	(97,750)	(296,117)
Net Cash Provided by Financing Activities	2,253,296	1,320,247
Increase in Cash	586,790	16,223
Cash at Beginning of Period	17,118	895
Cash at End of Period	$ 603,908	$ 17,118
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 32,521	$ 0
Income Taxes	$ 0	$ 0

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

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the year ended December 31, 2004:

The Company issued 200,000 shares of common stock for the acquisition of Indefinite-Life Intangible Assets. The shares were valued at $730,000, based on the market price as of January 8, 2004.

The Company issued 75,000 shares of common stock as compensation for loan funds of $150,000. The shares were valued at $45,000.00, based on the market price as of their issue date of December 22, 2004.

The Company issued 94,500 shares of common stock, valued at $74,182, as private placement penalty shares. The Company was required to issue these shares because a registration statement covering the shares has not been declared effective under the Securities Act of 1933, as amended, as required by the subscription documents. The value of these shares was charged to additional paid-in capital as a cost of raising capital.

For the year ended December 31, 2005:

The Company issued 283,500 shares of common stock valued at $222,549 as private placement penalty shares. The Company was required to issue these shares because a registration statement covering the shares has not been declared effective under the Securities Act of 1933, as amended, as required by the subscription documents. The value of those shares was charged to additional paid-in capital as a cost of raising capital.

The Company issued a promissory note to the Company's CEO in the original principal amount of $847,359, thereby recharacterizing the amounts payable from advances payable to note payable. The CEO was issued 5,000,000 shares of common stock valued at $1,500,000 as consideration for repayment of $500,000 principal and $37,951 accrued interest. The CEO was also issued warrants to purchase 6,250,000 shares of Common Stock, at an exercise price of $.15 per share. The Company recognized $962,049 as non-cash financing costs relating to the common stock and $1,796,167 as non-cash financing costs relating to the warrants.

The Company granted warrants to purchase 1,000,000 shares of common stock at an exercise price of $.10 per share, for a term of two years, as finder's fees in connection with the sale of 2,000,000 shares of common stock, for gross proceeds of $200,000. The warrants were valued at $264,530 using the Black-Scholes pricing model.

The Company issued 220,000 shares of common stock, valued at $220,000, and 220,000 common stock purchase warrants, valued at $205,826, as a finder's fee in connection with the sale of common stock. These warrants have an exercise price of $.10 per share and a term of 2 years.

The Company issued 202,600 shares of common stock valued at $119,215 to a former officer (who is the son of the CEO) as consideration for payment of accrued salaries of $20,206. The Company also issued the former officer warrants to purchase 252,575 shares of common stock, at an exercise price of $.10 per share for a term of three years. The warrants were valued at $145,635 using the Black-Scholes pricing model. The Company recognized $244,644 as non-cash compensation expense in the current period.

The Company accrued $58,500 in finder's fees owed with regard to a Private Placement.

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

NOTE 1 – DESCRIPTION OF BUSINESS

Health Enhancement Products, Inc. and Subsidiary ("the Company") produces and markets health products. The Company was a development stage company at December 31, 2004.

NOTE 2 – BASIS OF PRESENTATION

The Company incurred net losses of $5,956,895 and $3,859,006 during the years ended December 31, 2005 and 2004, respectively. In addition, the Company had a working capital deficiency of $628,654 and a stockholders' deficiency of $590,086 at December 31, 2005. 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 consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

During the year ended December 31, 2005, the Company relied heavily for its financing needs on its CEO, Mr. Howard R. Baer. In addition, the Company successfully obtained external financing through private placements.

During the year ended December 31, 2005, the Company:

- Generated approximately $96,000 in net sales of its products;
- Received approximately $886,000 in advances from its CEO, of which approximately $127,000 has been repaid in cash and $500,000 converted into equity;
- Raised an aggregate amount of $1,742,500 through Private Placements of the Company's common stock. The Company incurred finders' fees of approximately $156,500;

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. In addition, the company is no longer in the development stage and has been generating revenues from product sales. As noted above, the Company has had some difficulty raising funds from external sources and has been dependent for funding on its CEO, who, at this time, is not in a position to make further advances to the Company.

There can be no assurances that the Company will be able to raise the additional funds it requires.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Inventories – Inventories are stated at the lower of cost (principally average cost) or market.

Property and Equipment – Property and equipment consists of furniture, office equipment, and leasehold improvements, and is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is determined by using the straight-line method over the estimated useful lives of the related assets, generally five to seven years.

Fair Value of Financial Instruments – 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 recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB No. 104"), which superseded Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB No. 101"). SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility 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 collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company recognized no such provisions for the twelve months ended December 31, 2005 and December 31, 2004.

Advertising Costs - Advertising costs are expensed as incurred. Advertising costs were approximately $9,000 and $59,000 for the years ended December 31, 2005 and December 31, 2004, respectively.

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

- Research Expenses, consisting of salaries and equipment and related expenses incurred for product research studies conducted primarily within the Company and by Company personnel. Research expenses were approximately $77,000 and $58,000 for the years ended December 31, 2005 and 2004, respectively;

- Clinical Studies Expenses, consisting of fees, charges, and related expenses incurred in the conduct of clinical studies conducted with Company products by independent external entities. External clinical studies expenses were approximately $41,000 and $135,000 for the years ended December 31, 2005 and 2004, respectively.

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

The tax effects of temporary differences that gave rise to the deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004 were primarily attributable to net operating loss carry forwards. Since the Company has a history of losses, a full valuation allowance has been established. In addition, utilization of net operating loss carry-forwards are subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code. The annual limitation may result in the expiration of net operating loss carry-forwards before utilization.

Stock Based Compensation – The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure". The provisions of SFAS 123 allow companies either to expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), but disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. The Company has elected to apply APB 25 in accounting for its stock option incentive plans. The provisions of SFAS 148 require that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed prominently and in a tabular format. There were no stock option or warrant grants under stock based employee compensation arrangements, and, accordingly, no proforma presentation is necessary.

In accordance with APB 25 and related interpretations, compensation expense for stock options is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. Generally, the exercise price for stock options granted to the Company's employees equals or exceeds the fair market value of the Company's common stock at the date of grant, resulting in no recognition of compensation expense. For awards that generate compensation expense as defined under APB 25, the Company calculates the amount of compensation expense and recognizes the expense over the vesting period of the award.

Loss Per Share - The computation of loss per share is based on the weighted average number of common shares outstanding during the period presented. Diluted loss per share is the same as basic loss per share, as the effect of potentially dilutive securities (warrants – 21,761,325 and 495,000 at 12/31/05 and 12/31/04 respectively) are anti-dilutive.

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.

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

Deferred Finance Costs – In November 2004, the Company issued two Promissory Notes in the aggregate principal amount of $150,000 with a three month term, in connection with which it issued 75,000 shares of its common stock. These shares were valued at $45,000.00 , based on the quoted price of the Company's common stock on the date of issuance. Deferred financing costs of $45,000 related to the value of these issued shares were amortized at the rate of $15,000 per month over three months, the lives of the related debts. The notes were due and repaid in February, 2005.

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

Recently-Enacted Accounting Standards -- In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123R ("SFAS 123R") "Share Based Payment," a revision of Statement No. 123, "Accounting for Stock Based Compensation." This standard requires the Company to measure the cost of employee services received in exchange for equity awards based on grant date fair value of the awards. The Company is required to adopt SFAS 123R effective January 1, 2006. The standard provides for a prospective application. Under this method, the Company will begin recognizing compensation cost for equity based compensation for all new or modified grants after the date of adoption. In addition, the Company will recognize the unvested portion of the grant date fair value of awards issued prior to the adoption based on the fair values previously calculated for disclosure purposes. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," ("SFAS 153"). SFAS 153 amends Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Nonmonetary Transactions," to require exchanges of nonmonetary assets be accounted for at fair value, rather than carryover basis. Nonmonetary exchanges that lack commercial substance are exempt from this requirement. SFAS 153 is effective for nonmonetary exchanges entered into in fiscal years beginning after June 15, 2005. The Company does not routinely enter into exchanges that could be considered nonmonetary, accordingly the Company does not expect adoption of SFAS 153 to have a material impact on the Company's financial statements.

In June 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles were required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effect or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal year beginning after December 15, 2005; however, SFAS 154 does not change the transaction provisions of any existing accounting pronouncements. The Company believes the adoption of SFAS 154 will not have a material impact on its financial statements.

NOTE 4 - INVENTORIES

Inventories at December 31, 2005 consist of the following:

Finished goods	$ 4,222

The Company recognized a loss of $8,966 relating to the write-down of certain obsolete inventories during the year ended December 31, 2004.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2005 consist of the following:

Furniture and fixtures	$ 3,521
Equipment	5,128
Leasehold improvements	8,377
	17,026
Less accumulated depreciation And amortization	325
	$ 16,701

Depreciation and amortization was $325 for the year ended December 31, 2005.

NOTE 6 – DEFINITE-LIFE INTANGIBLE ASSETS

Definite-life intangible assets at December 31, 2005 consist of the following:

Patent applications pending	$ 14,500
Less: accumulated amortization	1,498
	$ 13,002

The Company's definite-life intangible assets are being amortized, upon being placed in service, over the estimated useful lives of the assets of 15 years, with no residual value. Amortization expense was $966 and $534 for the years ended December 31, 2005 and 2004, respectively. The Company estimates that their amortization expense for each of the next five years will be approximately $1,000 per year.

NOTE 7 - IMPAIRMENTS

The Company accounts for its intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 establishes three classifications for intangible assets, including definite-life intangible assets, indefinite-life intangible assets, and goodwill, and requires different accounting treatment and disclosures for each classification. In accordance with SFAS No. 142, the Company periodically reviews their intangible assets for impairment.

In accordance with SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets", the Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. An impairment loss is recognized when expected cash flows are less than the assets' carrying value. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of such assets in relation to the operating performance and future cash flows of the underlying business. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the asset may not be recoverable.

In accordance with SFAS No. 144, an impairment analysis was performed at the end of August, 2004 on the Company's intangible assets. The fair value of the intangible assets was determined by calculating the present value of estimated future operating cash flows. This testing resulted in the determination that the carrying amount of the Company's intangible assets at June 30, 2004 exceeded its fair value. Accordingly, the Company recorded impairment charges of $325,000 on its indefinite-life intangible assets in the quarter ended June 30, 2004. For various reasons, in September of 2004 the Company decided not to further pursue the business to which the intangible assets related. Upon management's decision to abandon the project, a further review was performed as of September 30, 2004. Management determined that the fair value of the intangible assets was impaired. Accordingly, a further impairment charge of $405,000 was recorded on the Company's indefinite-life intangible assets in the quarter ended September 30, 2004, reducing the carrying value of the Company's indefinite-life intangible assets to $0.

NOTE 8 – NOTE PAYABLE – RELATED PARTY AND SHAREHOLDER ADVANCES AND LOANS

On February 15, 2005, the Company entered into a Promissory Note ("Note"), a Security Agreement and a Patent Security Agreement with Mr. Baer (such documents are collectively hereinafter referred to as the "Loan Documents") in connection with Mr. Baer advancing the Company $364,000, for its benefit and that of its wholly-owned subsidiary, Health Enhancement Corporation ("HEC"). Immediately prior to entering into the Loan Documents, the Company was indebted to Mr. Baer in the aggregate amount of $483,359, in connection with prior advances he made to us, for the benefit of us and HEC. Following Mr. Baer's advance of $364,000 on February 15, 2005, the Company was indebted to Mr. Baer in the aggregate amount of $847,359. From February 15, 2005 to June 30, 2005, Mr. Baer has advanced the Company an additional $397,385 for its benefit and that of HEC. On March 25, 2005, the Company, Mr. Baer and HEC executed and delivered a Joinder Agreement and First Amendment, which had the effect of making HEC a party to the Loan Documents, including as a co-maker of the Note. As a result of entering into the Joinder Agreement and First Amendment, in addition to being a co-maker under the Note, HEC granted Mr. Baer a security interest in all of its assets related to the ProAlgaZyme product. Accordingly, at July 8, 2005, the Note was in the principal amount of $1,244,744. On July 8, 2005, Mr. Baer agreed to convert an aggregate of $538,000 of indebtedness (consisting of $500,000 in principal and $38,000 of interest) we owed him into 5,000,000 shares of our common stock and warrants to purchase 6,250,000 shares of our common stock, at an exercise price of $.15 per share. After giving effect to the conversion, we owed Mr. Baer approximately $745,000 in principal amount. The Note bears interest at the rate of 10% per annum. Commencing thirty (30) days after written demand by Mr. Baer, the principal amount and accrued interest under the Note will be payable in twelve (12) equal monthly installments. Under the Security Agreements, in order to secure the Company's obligations under the Note, the Company granted Mr. Baer a security interest in all our assets that are related to the Company's ProAlgaZyme product. The principal amount under the Note may be increased from time to time by the amount of any further advances to the Company by Mr. Baer; however, Mr. Baer is in no way obligated to make further advances to the Company.

The Company recognized finance costs of approximately $962,000 in connection with the issuance of the 5,000,000 shares of common stock. In addition, finance costs of approximately $1,796,000 were recognized in connection with issuance of the 6,250,000 warrants. The warrants were valued using the Black-Scholes pricing model with the following assumptions: risk free interest rate of 3.1%, expected dividend yield of zero, expected life of three years and expected volatility of 214.45%.

As of December 31, 2005, the outstanding principal balance was $673,905.

NOTE 9 - STOCKHOLDERS' DEFICIENCY

On January 8, 2004, the Company issued 200,000 shares of common stock for the trademarks and formulas for Zodiac Herbal Vitamins and Zodiac Herbal Teas. These shares were valued at $730,000, based on the quoted price of the Company's common stock on that date.

On February 10, 2004, under a Form S-8 Registration Statement, the Company issued 150,000 shares of its common stock to the CEO of the Company for services rendered. These shares were valued at $810,000, based on the quoted price of the Company's common stock on that date.

In March 2004, the Company issued 85,084 shares of common stock for services rendered as follows: 25,000 to the Company's CEO, 9,584 to an officer of the Company who is a relative of the Company's CEO, 6,250 to an officer of the Company, and 44,250 shares to several unrelated third parties. These shares were valued at $255,252, based on the quoted price of the Company's common stock on the date of issuance.

In June 2004, the company issued an aggregate of 198,335 shares of common stock as part of a Regulation S offering for net proceeds of $126,679, after expenses of $227,617.

NOTE 9 - STOCKHOLDERS' DEFICIENCY *[Continued]*

In June and July, 2004, the Company completed a private placement for an aggregate amount of $695,000, under which the Company issued 945,000 shares of common stock and 445,000 warrants to purchase common stock at an exercise price of $3.00. The warrants vest immediately and expire on June 30, 2006. At December 31, 2005, none of these warrants had been exercised, forfeited or cancelled. In connection with this Private Placement, the Company paid $68,500 in cash as finder's fees in July, 2004, and issued 95,500 shares of common stock as additional finder's fees.

In November 2004, the Company cancelled 1,000 shares of common stock which had been previously issued in March 2004 for services rendered. These returned shares were valued at $3,000, based on the quoted price of the Company's common stock on the date of original issuance.

In connection with the above-mentioned Private Placement, the Company agreed to register for resale by the investors (i) the 945,000 shares of common stock privately issued in the offering and (ii) the 445,000 shares of common stock issued upon the private exercise of the warrants issued in the offering (collectively, the "registrable securities"). If the Company did not cause a registration statement for the registrable securities to become effective under the Securities Act of 1933, as amended, within 120 days of raising $500,000 (that is, on or about October 20, 2004), the Company would be obligated to issue penalty shares in the amount of 5% of the 945,000 shares of common stock issued in the Private Placement (i.e., 47,250 shares) per 30-day period thereafter, up to a maximum of eight 30-day periods. As of the date of this Report, the required registration statement has not become effective. As a result, during the year ended December 31, 2004, the Company has issued to the investors in the Private Placement the following:

- on November 19, 2004, 47,250 shares of common stock valued at $47,722.50 (or $1.01 per share, based on the quoted price of the Company's common stock at the date of issuance);

- on December 19, 2004, 47,250 shares of common stock valued at $26,460.00 (or $0.56 per share, based on the quoted price of the Company's common stock at the date of issuance).

During the year ended December 31, 2005, the Company issued to the investors in the Private Placement the following:

- on January 18, 2005, 47,250 shares of common stock valued at $18,900 (or $0.40 per share, based on the quoted price of the Company's common stock at the date of issuance);

- on February 17, 2005, 47,250 shares of common stock valued at $47,723 (or $1.01 per share, based on the quoted price of the Company's common stock at the date of issuance);

- on March 15, 2005, 47,250 shares of common stock valued at $59,063 (or $1.25 per share, based on the quoted price of the Company's common stock at the date of issuance);

- on April 19, 2005, 47,250 shares of common stock valued at $42,525 (or $.90 per share, based on the quoted price of the Company's common stock at the date of issuance);

- on May 17, 2005, 47,250 shares of common stock valued at $33,075 (or $.70 per share, based on the quoted price of the Company's common stock at the date of issuance);

- on June 19, 2005, 47,250 shares of common stock valued at $21,263 (or $.45 per share, based on the quoted price of the Company's common stock at the date of issuance).

NOTE 9 - STOCKHOLDERS' DEFICIENCY *[Continued]*

In November 2004, the Company entered into two Promissory Notes for an aggregate total of $150,000, under which it issued 75,000 shares of common stock. The Notes were secured by a lien and security interest on certain property of the Company's CEO, Mr. Howard Baer, and were payable on or before February 26, 2005. These shares were valued at $45,000, based on the quoted price of the Company's common stock on the date of issuance. The Promissory Notes were fully repaid on February 15, 2005.

From June through August, 2005, the Company sold 5,675,000 shares of its common stock, $.001 par value ("common stock"), and warrants to purchase 7,093,750 shares of common stock ("warrants"), for an aggregate purchase price of $567,500. The warrants are immediately exercisable, have an exercise price of $.10 per share, and a term of three years. At December 31, 2005, none of these warrants had been exercised, forfeited or cancelled. In connection with this private placement, the Company incurred a cash finder's fee of $38,750, and has issued, as a finders fee, 220,000 shares of common stock valued at $220,000 and a warrant to purchase 1,000,000 shares of common stock, at a price of $.10 per share, for a term of two years. Such warrants were valued at $265,000, using the Black-Scholes pricing model.

From November through December 2005, the Company sold 2,350,000 shares of its common stock, $.001 par value ("common stock"), and warrants to purchase 4,700,000 shares of common stock ("warrants"), for an aggregate purchase price of $1,175,000. The warrants are immediately exercisable. Half have an exercise price of $1.00 per share, and half have an exercise price of $2.00 per share. The warrants have a term of three years. At December 31, 2005, none of these warrants had been exercised, forfeited or cancelled. In connection with this offering, the Company paid finders fees of $59,000 and owes an additional $58,500.

During the year ended December 31, 2005, the Company issued 560,000 shares of common stock valued at $578,000 to various individuals and entities for services rendered (excluding the 220,000 shares issued as finder's fees). All shares of common stock issued for services were valued at the quoted price for the common stock on the applicable valuation date. The Company charged $557,000 to operating expenses, and $21,000 was recognized as deferred compensation.

During the year ended December 31, 2005, the Company issued 202,060 shares of common stock to a former officer as consideration for payment of accrued salaries of $20,206. The stock was valued at $119,215, the quoted price for the common stock on the applicable valuation date and the Company has recognized a non-cash charge of $99,009.

During the year ended December 31, 2005, the Company issued 5,000,000 shares of common stock valued at $1,500,000 to the Company's CEO as consideration for repayment of $500,000 principal indebtedness and $37,951 accrued interest. The Company recognized non-cash financing charges of $962,049.

Warrants – On February 20, 2004, the Company issued 50,000 common stock purchase warrants, at an exercise price of $3.75 per share for services rendered. These warrants were valued at $260,000. The warrants vested immediately and are exercisable for three years. At December 31, 2005, none of these warrants had been exercised, forfeited or cancelled. The fair value of each warrant granted for services is estimated on the date granted using the Black-Scholes option pricing model, with the following assumptions for grants on February 20, 2004: risk-free interest rate of 2.25%, expected dividend yield of zero, expected lives of three years and expected volatility of 633%.

On August 12, 2005, the Company issued 220,000 common stock purchase warrants, at an exercise price of $.10 per share, for a term of 2 years. The warrants were valued at $205,826, based on the Black-Scholes pricing model, using the following assumptions: risk free interest rate of 3.1%, expected dividend yield of zero, expected lives of two years and expected volatility of 365.26%

NOTE 9 - STOCKHOLDERS' DEFICIENCY *[Continued]*

As of November 11, 2005, in consideration for consulting services, the Company agreed to issue warrants to purchase an aggregate 1,250,000 shares of common stock, at an exercise price of $.10 per share for a term of three years. 1,000,000 of these warrants are in consideration for services rendered and to be rendered from July 1, 2005 until June 30, 2006. The remaining 250,000 warrants are in consideration for services rendered from July 1, 2005 through September 30, 2005. The 1,000,000 warrants were valued at $696,422 using the Black-Scholes pricing model, using the following assumptions: risk free interest rate of 3.1%, expected dividend yield of zero, expected lives of three years and expected volatility of 280.33%. Such amount is being amortized over 12 months. Amortization of deferred compensation related to the 1,000,000 warrants was $348,211 for the year ended December 31, 2005. The remaining 250,000 warrants were valued at $174,106 and charged to operations in the current period.

Warrants outstanding and exercisable by price range as of December 31, 2005 were as follows:

	Outstanding Warrants			Exercisable Warrants	
Range of	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price
$0.10	16,315,325	2.6	$0.10	16,316,325	$ .10
$0.60	250,000	2.92	0.60	250,000	.60
$1.00	2,350,000	2.93	1.00	2,350,000	1.00
$2.00	2,350,000	2.93	2.00	2,350,000	2.00
$3.00	445,000	1.83	3.00	445,000	3.00
$3.75	50,000	1.17	$3.75	50,000	3.75
	21,761,325	2.60		21,761,325	.49

NOTE 9 - STOCKHOLDERS' DEFICIENCY *[Continued]*

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

	Shares	Weighted Average Exercise Price
Outstanding – January 1, 2004	0	$ 0
Granted (Services)	50,000	3.75
Granted (Private Placement)	445,000	3.00
Outstanding at December 31, 2004	495,000	3.04
Granted – Finder's Fees	1,220,000	.10
Granted (consulting services)	250,000	.60
Granted (Services)	1,500,000	.10
Granted (Private Placement)	7,093,750	.10
Granted (Private Placement)	2,350,000	1.00
Granted (Private Placement)	2,350,000	2.00
Granted (debt conversion) – CEO	6,250,000	.15
Granted (in lieu of salary) – Former Officer	252,575	.10
Outstanding at December 31, 2005	21,761,325	$ .49

NOTE 10 - RELATED PARTY TRANSACTIONS

Accounts Payable - At December 31, 2005, the Company owed $2,250 to an entity owned by the CEO of the Company.

Accrued Liabilities – Included in accrued liabilities at December 31, 2005 is $7,150 in accrued interest related to a note payable to the Company's CEO, and $20,000 in accrued rent.

Accrued Salaries – Included in accrued salaries at December 31, 2005 is $99,000 owed to the Company's CEO.

Office Space - The Company uses and, in consideration of such use, makes lease payments for, office space that is leased by the Company's CEO. During 2005 and 2004, the Company incurred rent expenses of $126,380 and $17,730, respectively for such lease payments. During part of the 2004 fiscal year, the Company also paid the CEO an aggregate of $14,608 for other office space.

Equipment - The Company uses and, in consideration of such use, makes lease and rent payments for, equipment that is leased by an entity owned by the Company's CEO. During 2005 and 2004, equipment rental and lease expense paid to the entity amounted to $9,031 and $9,114, respectively. The lease and rental payments equal the debt service on the equipment. The CEO intends to transfer the equipment to the Company, for no consideration, once the note is paid in full. At December 31, 2005, there were no amounts payable to the CEO for this rent.

NOTE 10 - RELATED PARTY TRANSACTIONS *[Continued]*

Vehicle - The Company uses and, in consideration of such use, makes lease payments for, a delivery van that is leased by the Company's CEO. During 2005 and 2004, the Company paid an aggregate of $4,640 and $4,621 respectively for such lease payments. The lease payments equal the debt service on the vehicle. The CEO has stated that he intends to transfer the vehicle to the Company, for no consideration, once the note is paid in full. At December 31, 2005, there were no payments due and payable on this leased van.

Advertising - The Company paid for advertising space on www.politics.com, an Internet site owned by Politics.com, an entity of which the CEO is the Chairman and majority shareholder. During the 2004 fiscal year, advertising expense to the entity amounted to $13,750.

NOTE 11 - INCOME TAXES

At December 31, 2005, the Company had available net-operating loss carry-forwards for Federal tax purposes of approximately $6,550,000, which may be applied against future taxable income, if any, at various dates through 2025. Certain significant changes in ownership of the Company may restrict the future utilization of these tax loss carry-forwards.

At December 31, 2005, the Company had a deferred tax asset of approximately $2,750,000 representing the benefit of its net operating loss carry-forwards. The Company has not recognized the tax benefit because realization of the tax benefit is uncertain and thus a valuation allowance has been fully provided against the deferred tax asset. The difference between the Federal Statutory Rate of 34% and the Company's effective tax rate of 0% is due to an increase in the valuation allowance of approximately $1,225,000 and $847,000 in 2005 and 2004, respectively.

NOTE 12 – CONCENTRATIONS

Customers - The Company has no significant dependence on a limited range of suppliers or purchasers. Revenues are generated primarily by internet sales, none of whom constitute a concentration the loss of which could have a material impact on the operations of the Company.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Lease Commitment -- . On December 9, 2004, we entered into a lease, dated as of November 1, 2004, with Evans Road, LLC (a company owned by our CEO, Howard R. Baer), under which we leased approximately 5,000 sq. ft. for a new corporate headquarters and production facility located in Scottsdale, Arizona. The lease had a term of 15 years, subject to the right of either party to terminate the lease after 7.5 years, and provided for base monthly rent in the amount of $8,700 plus monthly taxes. In February, 2005, Evans Road, LLC sold the building which was leased to us, and our CEO, Howard R. Baer, leased such building back from the buyer under a master lease. Evans Road, LLC continued to lease the building, as master lessor, to us, under the terms and conditions described above, until March 31, 2006. As of April 1, 2006, we entered into an Amended and Restated Sublease with Mr. Baer (the "Amended and Restated Sublease"). During 2004, we paid Evans Road, LLC approximately $26,596, representing $17,730 in rent and a security deposit of $8,865. During 2005, we paid Evans Road, LLC $106,380 in rent. (See Note 14).

NOTE 13 – COMMITMENTS AND CONTINGENCIES *[Continued]*

The future minimum lease payments related to the original lease (through March 31, 2006) and the Amended and Restated Sublease, are as follows:

2006	$ 210,000
2007	$ 270,000
2008	$ 271,000
2009	$ 257,000
2010	$ 263,000
Thereafter	$2,683,000

Legal Proceedings - In or around April, 2004, we learned that the staff of the Securities and Exchange Commission ("SEC") was conducting an informal inquiry into the accuracy of certain of our press releases and other public disclosures, and trading in our securities. We cooperated fully with the SEC staff's informal inquiry by producing documents and having certain of our officers 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. We understand 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 we filed with the SEC or in other public documents or disclosures, including statements about the efficacy of our primary product, ProAlgaZyme; or (ii) whether there was improper trading or other activity in our securities. We are continuing to cooperate fully in the SEC's investigation, which we understand is ongoing. On January 18, 2006, the SEC enforcement staff sent a "Wells Notice" to us advising us that it intended to recommend to the SEC that it bring an enforcement action against us and certain of our present and former officers and directors, including our CEO. We understand that as of the date hereof, the SEC staff's recommendation has neither been finalized nor submitted to the SEC. We are presently in discussions with the SEC staff concerning a possible consensual resolution of the investigation. We do not know what the final terms and conditions of any such resolution will be or whether we will be able to reach any consensual resolution of the investigation. Any consensual resolution we reach with the SEC could impose financial and other burdens on us which could materially and adversely affect our financial condition and our ability to raise additional capital. In addition, our CEO may not be able to continue in such capacity. If we are unable to reach a consensual resolution, and if the SEC follows its staff's recommendation to take action against us or our officers and directors, such action would have a material adverse effect on us.

Consulting Contract – On November 30, 2005, we entered into a consulting agreement with Hamilton Jordan, for a one year term. Under the agreement, Mr. Jordan will provide general business consulting services, including capital raising, strategic relationships, distributorships, product research and development and new product acquisitions. In consideration for such services, we issued Mr. Jordan a warrant to purchase 250,000 shares of common stock, at an exercise price of $.60 per share. Such warrant was valued at $322,401, using the Black-Scholes pricing model, based on the following assumptions: expected life 3 years; interest rate 3.1%; annual rate of dividends – 0%; and volatility 280.33%. Such value is being amortized over the term of the agreement. Amortization expense amounted to $69,086 during 2005. Further, we agreed, subject to further discussions with Mr. Jordan (including with respect to the determination of specific milestones to be achieved), to issue a warrant to purchase 1 million shares of common stock, at an exercise price of $.60 per share for a term of three years. Such warrant has not yet been issued, because such further discussions have not yet occurred

NOTE 14 - SUBSEQUENT EVENTS

On January 18, 2006, the Company issued an aggregate of 6,250,000 shares of its common stock, .001 par value ("common stock"), in connection with the exercise by the Company's CEO of an outstanding warrant to purchase 6,250,000 shares of common stock. The warrant had an exercise price of $.15 per share. In connection with the exercise of the warrant, the holder, pursuant to the terms of the warrant, surrendered to the Company 288,462 shares of common stock issuable upon exercise of the warrant, in payment of the aggregate warrant exercise price.

Under the terms of the Amended and Restated Sublease (see Note 13), we are leasing an aggregate of approximately 15,000 square feet, of which we are occupying approximately 8,400 square feet, consisting of approximately 6,710 square feet of office space and 1,700 squarer feet of production space. We are subleasing the remaining 6,600 square feet to a third party under a month to month tenancy at a rate of approximately $7,000 per month, plus rental taxes and electricity. This sublet rent income appears on the financial statements under "Other Income". We can terminate this sublease upon thirty (30) days written notice to our subtenant. We believe that we may need additional space in the foreseeable future, and that this space would be suitable for an expansion of our production and office facilities.

The Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease approximately 7 years from now (March 31, 2013). The annual base rent for the 15,000 square foot facility is approximately $237,000 and is payable in equal monthly installments of approximately $20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We are obligated to pay an additional security deposit of approximately $110,000, following which we will have paid an aggregate security deposit equal to six months base rent. This additional security deposit will be paid in eighteen equal monthly installments of approximately $6,000, commencing in August, 2006. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance and repairs related to the premises we are leasing from the CEO.

In April 2006, we commissioned a further clinical study of our ProAlgaZyme Product. The estimated cost of this study will be approximately $120,000, and will be payable over the next several months.

EXHIBIT INDEX

Exhibit Number	Title	
2.1	Agreement and Plan of Reorganization	(1)
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(2)
3.2	By-laws of the Company	(3)
10.01	Employment Agreement between Mr. Howard R. Baer and the Company, dated February 10, 2004	(4)
10.02	Amended and Restated Sublease between Howard R. Baer and the Company, dated April 12, 2006	
10.04	Promissory Note, dated February 15, 2005, made by the Company in favor of Howard R. Baer	(5)
10.05	Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	(5)
10.06	Patent Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	(5)
10.07	Joinder Agreement and First Amendment, dated March 25, 2005, between the Company, Health Enhancement Corporation and Howard R. Baer	(5)
10.08	Subscription Agreement, dated June 21, 2004, between William J. Rogers, II and the Company	(5)
10.09	Subscription Agreement, dated July 29, 2005, between William J. Rogers, II and the Company	
10.10	Subscription Agreement, dated July 29, 2005, between William J. Rogers, II and the Company	
14.1	Code of Ethics	(6)

21	Subsidiaries of the Registrant	(5)
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

(1) Filed as Exhibit 2.1 to our current Report on Form 8-K, Filed with the Commission on December 9, 2003 and incorporated by this reference.
(2) Filed as Exhibit 3.1 to our Form 10-QSB, filed with the Commission on August 30, 2004 and incorporated by this reference.
(3) Filed as Exhibit 3.2 to our Form 10SB, filed with the Commission on April 20, 2000 and incorporated by this reference.
(4) Filed as Exhibit 4.1 to our Registration Statement on Form S-8, filed with the Commission on February 12, 2004, and incorporated by reference.
(5) Filed as the same Exhibit number to our Form 10KSB, filed with the Commission on April 1, 2004, and incorporated by this reference.
(6) Filed as Exhibit 99 to our Form 10-KSB, filed with the Commission on April 1, 2004, and incorporated by this reference.

EXHIBIT 10.02

AMENDED AND RESTATED SUBLEASE

This Amended and Restated Sublease ("Sublease") is made and entered into on April 12, 2006, to be effective as of April 1, 2006 (the "Effective Date"), by and between Health Enhancement Products, Inc., a Nevada corporation (the "Subtenant") and Howard R. Baer, a married man (the "Sublandlord"). Sublandlord and Subtenant are sometimes referred in this Sublease individually as a "Party" and collectively as the "Parties".

RECITALS

A. Reference is made to certain real property located at 7740 East Evans Road, Scottsdale, Arizona (the "**Real Property**"), including the following four suites located therein:

> Suite A101 identified as Space A on the floor plan attached hereto as Exhibit A ("**Space A**");
>
> Suite A-201 identified as Space B on the floor plan attached hereto as Exhibit A ("**Space B**");
>
> Suite B-202 identified as Space B on the floor plan attached hereto as Exhibit A ("**Space C**"); and
>
> Suites B101 and B102 identified as Space D on the floor plan attached hereto as Exhibit A ("**Space D**").

B. On January 1, 2004, the owner of the Real Property, Highland Desert Partners, LLC ("**Highland**"), as landlord, and James Douglass d/b/a Different By Design Inc., as tenant ("**Douglass**") entered into a certain Lease dated January 1, 2004 for Space D, which Lease was amended on March 16, 2004 (as amended, the "**Cabinet Lease**").

C. In August, 2004, Highland sold the Real Property, including Highland's interest as landlord under the Cabinet Sublease, to Sublandlord.

D. On November 1, 2004, Sublandlord, as landlord, and Subtenant, as tenant, entered into a certain Office Lease dated November 1, 2004 (the "**Original Sublease**") for Space A.

E. On February 14, 2005, Sublandlord sold the Real Property to Dr. Patrick H. Bitter ("**Prime Landlord**") and simultaneously leased back the Real Property from Prime Landlord under a certain Lease dated February 14, 2005 (the "**Prime Lease**") between Prime Landlord, as landlord, and Sublandlord, as tenant. Included in the sale and the leaseback transactions were Sublandlord's interest as landlord under each of the Cabinet Sublease and the Original Sublease, with the result that each of the Cabinet Sublease and the Original Sublease became subleases under the Prime Lease.

F. Since February 14, 2005, Subtenant has been using and occupying Space B.

G. Since December 1, 2005, Subtenant has been using and occupying Space C.

H. On December 31, 2005, the term of the Cabinet Lease expired. Douglass remains in Space D under the Cabinet Sublease as a month-to-month tenant.

I. The parties desire to amend and restate the Original Sublease hereby to provide, among other things, for (i) Sublandlord to sublet to Subtenant the entire Real Property, subject to the Cabinet Sublease, and (ii) Sublandlord to assign its interest as landlord under the Cabinet Sublease to Subtenant.

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby amend and restate the Original Sublease in its entirety as follows:

ARTICLE 1 - DEMISE OF PREMISES

1.1 **Premises**. For and in consideration of the covenants and agreements contained herein and other valuable consideration, Sublandlord hereby leases to Subtenant and Subtenant hereby leases from Sublandlord, upon the following terms and conditions, that certain real property located in the City of Scottsdale, County of Maricopa, State of Arizona more particularly described in **Exhibit "A"** attached hereto and incorporated herein by reference (the "**Land**"), together with all improvements now or hereafter located on the Land (the "**Improvements**"), including Space A, Space B, Space C and Space D, as depicted on Exhibit A and described in the recitals to this Sublease (the "**Office Space**"). The Land, the Improvements and the Office Space are collectively referred to herein as the "**Premises**". The Premises are subleased to Subtenant on an "as is, where is and with all defects" basis and without representation or warranty of any kind except as may be expressly set forth herein.

1.2 **Assignment and Assumption**. Space D is subleased to Subtenant subject to the terms and conditions of the Cabinet Sublease and the month-to-month tenancy rights of Douglass under the Cabinet Sublease. Sublandlord hereby assigns to Subtenant, on an "as is, where is and with all defects" basis and without representation or warranty of any kind and without further recourse against Sublandlord, all of Sublandlord's right, title and interest in and to the Cabinet Sublease and the rents due thereunder, and Subtenant hereby assumes all obligations of Sublandlord under the Cabinet Sublease, in each case first accruing from and after the effective date of this Sublease. Subtenant will indemnify, defend and hold Sublandlord harmless from any liability or obligation whatsoever (including reasonable attorney's fees) arising out of the Cabinet Sublease and first accruing from and after the Effective Date. Sublandlord will indemnify, defend and hold Subtenant harmless from any liability or obligation (including reasonable attorneys fees) whatsoever arising out of the Cabinet Sublease and first accruing prior to the Effective Date.

1.3 **Reservation of Space**. At Sublandlord's option, Sublandlord may, by providing 30 days' advance written notice to Subtenant, remove Space B from the demise of the Premises under this Sublease and retake possession of Space B. In such event (a) Base Rent will reduce by that portion of the Base Rent attributable to Space B, as set forth in Section 3.1(a); (b) Subtenant's repair and maintenance obligations under Article 7 and tax obligations under Article 4 with respect to the entire Premises, including Space B, shall not be reduced and Subtenant shall continue to be responsible for the taxes allocated to, and the repair and maintenance of, Space B; and (c) Subtenant shall continue to provide Space B with the same level of utilities and other services as Subtenant shall have previously provided to Space B at no additional charge to Sublandlord.

ARTICLE 2 - SUBLEASE TERM

2.1 **Term**. The term of this Sublease shall commence on April 1, 2005, and shall expire on February 9, 2020 (the "**Term**"). For purposes of this Sublease, the term "**Sublease Year**", shall mean each successive twelve (12) month period commencing on April 1, 2005. The Sublease Years in the Term shall be referred to herein numerically from the commencement of the Term. Notwithstanding anything to the contrary contained in this Sublease, provided the Subtenant is not then in Default or Breach under this Sublease, the Subtenant shall have the one-time right to terminate this Sublease effective March 31, 2013 (the "**Termination Option Date**") by giving written notice of termination to Sublandlord, in the manner provided in Section 16.4, by no later than July 31, 2012, with time being of the essence with respect thereto.

ARTICLE 3 - RENT

3.1 **Base Rent**. For each Sublease Year, Subtenant shall pay to Sublandlord at Sublandlord's address set forth in Section 16.4, or such other place as Sublandlord shall designate in writing, in United States dollars, base rent ("**Base Rent**") in an amount equal to the aggregate of the annual amounts set forth below (i.e., $236,932.56), payable in advance in equal monthly installments in the aggregate of the amounts set forth below (i.e., $19,744.38), subject to adjustment in accordance with Section 3.2:

(a) For Space A, annual Base Rent shall be $113,601.24, payable in advance in equal monthly installments of $9,466.77 each;

(b) For Space B, annual Base Rent shall be $19,231.32, payable in advance in equal monthly installments of $1,602.61 each;

(c) For Space C, annual Base Rent shall be $13,500.00, payable in advance in equal monthly installments of $1,125.00 each; and

(d) For Space D, annual Base Rent shall be $90,600.00, payable in advance in equal monthly installments of $7,550.00 each.

Any rent or other payment not paid within ten (10) days after the due date shall be subject to a late charge in the amount Six Hundred Dollars ($600); representing the additional costs and burdens of special handling.

3.2 **Increases in Base Rent**.

(a) The Base Rent provided for in Section 3.1 shall increase each Sublease Year by the greater of (a) two and one-half percent (2.5%) over the Base Rent for the previous Lease Year and (b) the percentage increase in the CPI Index (as defined below) over the previous Sublease Year.

(b) As used herein, the "**CPI Index**" means the Consumer Price Index-U.S. City Averages for Urban Wage Earners and Clerical Workers (1982-84=100) published by the United States Department of Labor, Bureau of Labor Statistics (or a reasonably equivalent index if such index is discontinued). In no event will the amount of the Base Rent due under this Sublease following such adjustment be less than the amount of such installment during the preceding Sublease Year.

3.3 **Prior Use and Occupancy Payments**. On the date that this Amended and Restated Sublease is executed, Subtenant shall pay Sublandlord the sum of (a) $26,936.54 on account of Subtenant's prior use and occupancy of Space B and Space C as referenced in the recitals to this Sublease and (b) $2,734.00 for prorated real estate taxes allocable to Space B and Space C during the prior use and occupancy period as referenced in the recitals to this Sublease.

3.4 **Security Deposit.** Subtenant shall deposit with Sublandlord a Security Deposit (the "**Security Deposit**") equal to six months Base Rent ($118,466.28) as security for Subtenant's faithful performance of its obligations under this Sublease, of which $8,865 was previously received. The remaining security deposit balance of $109,601.28 shall be paid in 18 equal monthly installments of $6,088.96 each beginning on payment of Base Rent for August, 2006 and continuing on the dates of the next 17 monthly payments of Base Rent. If Subtenant fails to pay rent, or otherwise defaults under this Sublease, Sublandlord may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Sublandlord or to reimburse or compensate Sublandlord for any liability, expense, loss or damage which Sublandlord may suffer or incur by reason thereof. If Sublandlord uses or applies all or any portion of the Security Deposit, Subtenant shall within 10 days after written request therefor deposit monies with Sublandlord sufficient to restore said Security Deposit to the full amount required by this Sublease. Sublandlord shall be required to keep the Security Deposit separate from its general accounts. Within 30 days after the expiration or termination of this Sublease, Sublandlord shall return that portion of the Security Deposit not used or applied by Sublandlord.

3.5 **Additional Charges**. All taxes, insurance premiums, charges, costs and expenses which Subtenant assumes or agrees to pay hereunder, and all other damages, costs and expenses which Sublandlord may suffer or incur, and any and all other sums which may become due by reason of any default of Subtenant or failure on Subtenant's part to comply with the agreement, terms, covenants and conditions of this Sublease to be performed, shall be referred to herein as "additional charges", and in the event of their non-payment, Sublandlord shall have with respect thereto all rights and remedies herein provided in the event of non-payment of rent.

ARTICLE 4 - TAXES

4.1 **Rental Taxes**. Subtenant shall pay to Sublandlord, in addition to Base Rent, all rental taxes imposed by the State of Arizona, the County of Maricopa, and the City of Scottsdale, with respect to the Base Rent, concurrently with the payment of the applicable installment of Base Rent. Sublandlord shall provide a proper billing of said taxes on or before January 1 of each calendar year, and for all subsequent periods, which periods are affected by any modification of said rental taxes by any governmental entity.

4.2 **Real Estate Taxes**. "**Real Estate Taxes**" means all real estate taxes and assessments that are levied or assessed on the Premises by any lawful authority, based on a prorated monthly basis due with each month's rental payment.

(a) From and after the Effective Date, Subtenant shall pay all Real Estate Taxes on or prior to the date such Real Estate Taxes are delinquent.

(b) Real Estate Taxes, shall not include the following; (i) income, intangible; franchise, capital stock, estate or inheritance taxes or taxes substituted for or in lieu of the foregoing taxes, and (ii) taxes on rents, gross receipts or revenues of Sublandlord from the Premises. In the event there is a special assessment which is included within the definition of Real Estate Taxes herein, and such assessment may be paid in periodic installments, Subtenant shall be responsible only for those installments relating to the period included within the term of this Sublease, and shall only reimburse Sublandlord for such periodic installments, whether or not Sublandlord chooses to prepay or retire the principal indebtedness on any special assessment. Notwithstanding any other provision herein, Real Estate Taxes shall not include, and Subtenant shall not be responsible to pay, any portion of any special assessment relating to an assessment district established with the affirmative consent of Sublandlord.

(c) Sublandlord agrees to submit to Subtenant all invoices which are sent to Sublandlord for Real Estate Taxes upon the premises at least thirty (30) days prior to the last date that the same may be paid without penalty or interest. Without cost to Subtenant, Sublandlord shall bear all interest, penalties, late charges and lost discount amounts incurred in the event Sublandlord fails to provide Subtenant with the Real, Estate Tax bills in the time periods set forth above.

(d) Subtenant shall reimburse Sublandlord within thirty (30) days after Subtenant receives from Sublandlord the invoice for the amount of all Real Estate Taxes.

(e) Sublandlord shall furnish Subtenant with copies of all notices relating to Real Estate Taxes on the premises immediately upon receipt thereof and in sufficient time to allow Subtenant to determine whether or not to contest any increase in Real Estate Taxes. If, Subtenant desires to contest such increase, Subtenant shall have the right to do so at its expense and Sublandlord shall fully cooperate with Subtenant in any such proceeding. If Subtenant desires to contest or appeal any assessment of Real Estate Taxes, then Subtenant shall pay the applicable taxes under protest, or post an appropriate bond, or take other action reasonably satisfactory to Sublandlord to assure that no lien is levied against the Premises during the pendency of such contest, and Subtenant shall promptly pay the amount of Real Estate Taxes determined to be payable as a result of such contest determined.

4.3 Personal Property Taxes. Subtenant shall pay all personal property taxes assessed on Subtenant's Personal Property (as defined in Section 7.3) on the Premises. If Sublandlord has paid any such tax as required by the applicable taxing authority, Subtenant shall reimburse Sublandlord upon Subtenant's receipt of paid invoices for such taxes, provided Sublandlord shall use reasonable efforts to give Subtenant notice of any such tax prior to paying same.

4.4 Other Taxes. Any excise, transaction, sales or privilege tax (except income, transfer, estate and inheritance taxes) now or hereinafter imposed by any government or governmental agency upon Sublandlord on account of, attributed to or measured by the Base Rent or other charges payable by Subtenant, shall be paid by Subtenant to Sublandlord in addition to and along with such Base Rent or such charges.

ARTICLE 5 - UTILITIES

5.1 **Utility Usage.** Subtenant shall pay the applicable utility companies or governmental agencies directly for all utilities consumed on the Premises. Sublandlord shall not take, or permit any person claiming under Sublandlord to take, any action which shall interrupt or interfere with any electric, gas, water, sewage, telephone or other service to the Premises. In the event that any such interruption or interference occurs by reason of any negligence or intentional misconduct on the part of Sublandlord or Prime Landlord or its agents, employees or contractors, and such interruption or interference continues for longer than one (1) day, Subtenant's Base Rent shall be fully abated for each additional day that such interruption or interference continues.

5.2 **Utility Repair.** In the event repair is necessary to utility conduits or other equipment in, on or under the premises in order to service the Premises with such utilities, Subtenant shall promptly make all such repairs at Subtenant's sole cost and expense.

ARTICLE 6 - USE AND ASSIGNMENT

6.1 **Permitted Uses**. The Premises may be used for any lawful use that is consistent with applicable zoning regulations and all use covenants, conditions and restrictions contained in any recorded document applicable to the Premises.

6.2 **Assignment and Subletting.** Subtenant shall not assign, transfer or otherwise encumber this Sublease, or sublet all or any part of the Premises, or suffer or permit the use or occupancy of all or any part of the Premises by any party other than Subtenant, in each case whether directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise (each a "Transfer Event"), unless Subtenant obtains the prior written consent of Sublandlord, which consent shall not be unreasonably withheld, conditioned or delayed, and unless Subtenant first obtains the written consent of Prime Landlord pursuant to the Prime Lease. In the event of a Transfer Event, Subtenant shall remain fully liable under this Sublease. The foregoing notwithstanding, Sublandlord shall be entitled to condition any Transfer Event on (A) the payment to Sublandlord of any or all net profit to be made by Subtenant on account of the Transfer Event and (B) the assumption by the transferee under the Transfer Event of any or all of the Subtenant's obligations under this Sublease. Any Transfer Event shall be subject to all of the terms and conditions of this Sublease, including without limitation the restrictions on future transfers pursuant to this Section 6.2. Any attempted Transfer Event without full compliance with all of the terms and conditions of this Section 6.2 shall, at Sublandlord's option, render this Sublease to be void and of no force and effect. No act or conduct by Sublandlord other than its express written consent as to a particular Transfer Event shall constitute Sublandlord's consent to a Transfer Event or a waiver of Sublandlord's consent rights with respect to any future Transfer Event. The foregoing notwithstanding, the following events shall not be deemed to constitute Transfer Events for which Sublandlord's consent shall be required, provided this shall not abrogate any requirement that Prime Landlord's consent be obtained: (i) Subtenant's merger, consolidation or reorganization, (ii) any sale of the capital stock of Subtenant if such stock is registered and publicly traded, (iii) the sale of all or substantially all of the Subtenant's assets, or (iv) a Transfer Event with a party controlling, controlled by or in common control with Subtenant.

ARTICLE 7 - MAINTENANCE AND REPAIRS

7.1 Repairs and Maintenance. Subtenant shall, at all times during the Term, at its own expense, put, keep and maintain in good repair and in good and safe condition, all buildings and improvements on the Premises and their equipment and appurtenances, both interior and exterior, structural and non-structural, extraordinary and ordinary, however, the necessity or desirability for repairs may occur and whether or not necessitated by wear, tear or obsolescence; provided that Subtenant shall not be liable for repair of any latent defect of which it had no actual knowledge as of the Effective Date. All repairs, replacements and renewals shall be made promptly if and when necessary, and shall be of a quality and class at least equal to the original work. Subtenant shall also, at its own expense, provide all necessary trash removal, janitorial services, and groundskeeping services for the Premises. Notwithstanding the foregoing, Sublandlord shall repair any damage to the premises caused by the acts of Sublandlord or its employees, agents or contractors, or by the negligent omissions of Sublandlord or its employees, agents or contractors.

7.2 Alterations and Repairs. Subtenant shall not make any alteration, addition or improvement to the Premises in an amount greater than Ten Thousand Dollars ($10,000) without the prior, written consent of Sublandlord, which consent shall not be unreasonably delayed, conditioned or withheld, and Prime Landlord. Any alternation, addition or improvement made by Subtenant (after any required consent shall have been given), shall, at Sublandlord's or Prime Landlord's option, became the property of Sublandlord or Prime Landlord upon the expiration or sooner termination of this Sublease; provided, however, that the Sublandlord or Prime Landlord shall have the right to require Subtenant to remove such fixtures at Subtenant's cost upon such termination of this Sublease.

7.3 Fixtures. Any inventory, trade fixtures, furniture, machinery and equipment that Subtenant uses or installs on the premises prior to or during the term hereof, whether or not the law deems it to be part of the realty, and any other personal property, shall remain Subtenant's property and shall be removed by Subtenant (collectively, "**Subtenant's Personal Property**"). Any damage due to the removal of fixtures shall be repaired by Subtenant.

7.4 Liens. Except as permitted under Section 7.2 above or Section 9.1 below, Subtenant shall have no power to do any act or make any contract which may create or be the basis for any lien, mortgage or other encumbrance upon any interest of Sublandlord or Prime Landlord in the Premises or in the buildings and improvements thereon, and, in the case of any alteration, addition or improvement permitted under Section 7.2 above or Section 9.1 below, Subtenant shall promptly pay when due the entire cost of all work done and shall keep the Premises free of liens for labor or materials related thereto. Subtenant agrees that should Subtenant cause any construction, alterations, rebuildings, restorations, replacements, changes, additions, improvements or repairs to be made on the Premises, or cause any labor to be performed or material to be furnished thereon, therein or thereto, neither Sublandlord nor Prime Landlord nor the Premises shall under any circumstances be liable for the payment of any expense incurred or for the value of any work done or material furnished, but all such construction, alterations, rebuildings, restorations, replacements, changes, additions, improvements and repairs, and all such labor and material, shall be made, furnished and performed at Subtenant' expense, and Subtenant shall be solely and wholly responsible to contractors, laborers and materialmen performing such labor and furnishings such material.

If, because of any act or omission (or alleged act or omission) of Subtenant, any mechanic's, materialmen's or other lien, charge or order for the payment of money shall be filed or recorded against the Premises or any building or improvement thereon, or against Sublandlord or Prime Landlord (whether or not such lien, charge or order is valid or enforceable as such), Subtenant shall, at its own expense, cause the same to be cancelled and discharged of record within thirty (30) days after Subtenant shall have received notice of the filing thereof, or Subtenant may, within said period, record or furnish to Sublandlord and Prime Landlord a bond reasonably satisfactory to Sublandlord and Prime Landlord against said lien, charge or order, in which case Subtenant shall have the right in good faith to contest the validity or amount thereof.

7.5 Regulatory Requirements. During the Term, Subtenant shall, at its own expense, promptly observe and comply with all present and future laws, ordinances, requirements, orders, directions, rules and regulations of all governmental authorities having or clamming jurisdiction over the Premises or any part thereof, and of all insurance companies writing policies covering the Premises or any part thereof.

ARTICLE 8 - INSURANCE

8.1 Subtenant's Insurance. From and after Subtenant's taking possession of the Premises, Subtenant shall maintain:

(a) commercial general liability insurance for bodily injury, personal injury and property damage, including Subtenant's contractual liability for the indemnification obligations contained in Section 8.4 with a minimum combined single limit of $1,000,000 per occurrence and in the aggregate;

(b) workers' compensation insurance for the benefit of Subtenant's employees to the extent required by law;

(c) "all-risk" property insurance covering the Premises for the full replacement cost thereof (excluding excavation and foundations), providing protection against perils included in the standard farm of "all-risk" insurance policy for the State of Arizona, together with insurance against sprinkler damage, vandalism and malicious mischief; and,

(d) the property insurance shall also have a business interruption and rent loss endorsement, whereby the insurer guarantees the payment for such business interruption and rent loss, in the event of any casualty, for a period of not less than twelve (12) months in an amount equal to the aggregate annual Base Rent due to Sublandlord hereunder.

8.2 Insurance Certificate. All of the foregoing insurance policies required pursuant to Section 8.1 shall be written with companies licensed to do business in the State of Arizona with a financial rating of VIII or better and a policyholder's rating of A or better in the latest edition of Best's Rating Guide on Property and Casualty Insurance Companies. Subtenant shall provide Sublandlord and Prime Landlord with prompt written notice of the cancellation, termination or alteration of the terms or limits of such coverage. Subtenant shall deliver to Sublandlord and Prime Landlord the foregoing insurance policies or certificates thereof concurrently herewith, and evidence of all renewals or replacements of same not less than ten (10) days prior to the expiration date of such policies. All such policies may be maintained under any blanket insurance coverage maintained by Subtenant so long as they otherwise comply with the requirements set forth above.

8.3 Insurance. All policies of insurance shall name the Sublandlord, Prime Landlord and Subtenant as the insureds, as their respective interests may appear. If Sublandlord and Prime Landlord shall require, the policies of insurance shall be payable to the holder of any mortgage or deed of trust, as the interest of such holder may appear pursuant to a standard mortgagee clause. All such policies shall, to the extent obtainable, provide that any loss shall be payable to the Sublandlord and Prime Landlord or the holder of any mortgage or deed of trust, notwithstanding any act or negligence of Subtenant which might otherwise result in forfeiture of such insurance. All such policies shall, to the extent obtainable from Subtenant's existing insurer or any replacement insurer selected by Subtenant from time to time, without payment of any additional fee, contain an agreement by the insurers that such policies shall not be canceled without at least thirty (30) days prior, written notice to Sublandlord and Prime Landlord and to the holder of any mortgage or deed of trust to whom loss hereunder may be payable.

8.4 Indemnification

(a) Subtenant, as a material part of the consideration to be rendered to Sublandlord under this Sublease, hereby waives all claims against Sublandlord for any personal injury to Subtenant or to its members, managers, officers, directors, shareholders, agents, employees and business invitees, or for any damage to any property of Subtenant, irrespective of how such injury or damage may be caused, whether from action of the elements or occupants of adjacent properties, unless caused by the negligence or intentional misconduct of Sublandlord or its employees, agents or contractors, and Subtenant shall indemnify and save harmless Sublandlord from each and every loss, cost, damage and expenses including attorneys' fees, arising out of any accident, event or occurrence, causing injury or damage to any person or property during the Term due to the condition of the Premises or the use or neglect thereof by Subtenant.

(b) Sublandlord, as a material part of the consideration to be rendered to Subtenant under this Sublease, hereby waives all claims against Subtenant for any personal injury to Sublandlord or to its members, managers, officers, directors, shareholders, agents, employees and business invitees, or for any damage to any property of Sublandlord, caused by the negligence or intentional misconduct of Sublandlord or its employees, agents or contractors, and Sublandlord shall indemnify and save harmless Subtenant from each and every loss, cost, damage and expense including attorneys' fees, arising out of any accident, event or occurrence, causing injury or damage to any person or property during the Term due to the negligence or intentional misconduct of Sublandlord or its employees, agents or contractors.

8.5 Mutual Release, Waiver of Subrogation. For itself and any person or entity claiming through or under it by way of subrogation, Sublandlord and Subtenant each hereby releases and waives all claims against the other with respect to any loss of or damage to property, whether or not caused by the negligence or fault of the other, to the extent such loss or damage is insured under the "all risk" property insurance required to be mailed pursuant to Section 8.1. In addition, Sublandlord and Subtenant shall each cause their insurers for the Premises or the contents thereof, to waive in its insurance policy all rights of recovery by way of subrogation against the other in connection with any loss or damage to property covered by such policy.

ARTICLE 9 - DAMAGE OR DESTRUCTION

9.1 **Damage or Destruction.** If the Premises are damaged or destroyed during the Term by a fire or other casualty ("**Casualty**"), this Sublease shall continue in effect (except as herein specifically provided) and Subtenant's obligation to rebuild or restore the Premises shall be as follows:

(a) Except as provided in subsection (b) below, Subtenant shall repair any damage to the Premises and restore the same (as nearly as practicable) to its condition prior to the Casualty or to an alternative condition and plan then suitable to the needs of Subtenant but having a market value at least equivalent to the market value of the Premises prior to the Casualty.

(b) In the event the Casualty occurs in the last five (5) years of the Term, and the amount of damage or destruction exceeds Five Hundred Thousand Dollars ($500,000), Subtenant may thereafter terminate this Sublease by giving written notice to Sublandlord within one hundred (100) days of the date of the Casualty specifying a date of termination within sixty (60) days after the date of the notice. In the event of such termination and prior to the effective date thereof, Subtenant shall remove and raze the portion of the Premises that is damaged and pave over such portion of the Premises. The balance, if any, of any insurance proceeds shall be retained by Subtenant.

ARTICLE 10 - EMINENT DOMAIN

10.1 If a Taking (as defined below) of all of the Premises occurs, then this Sublease shall terminate as of the date of such Taking. If a Taking of a part of the Premises occurs that materially impedes or interferes with access to the Premises, or materially affects the conduct of Subtenant's business as theretofore conducted at the Premises, then Subtenant shall have the right to terminate this Sublease by giving notice of such termination to Sublandlord at any time within seventy-five (75) days after Subtenant receives notice of such Taking, which termination shall be effective immediately upon the giving of such notice. Without limiting the generality of the foregoing, any Taking of any portion of the Improvements shall automatically invoke the foregoing termination rights.

10.2 In the event of any such termination, the parties each shall be released from all obligations to the other under this Sublease, other than with respect to liabilities accrued before the date of such Taking or obligations which expressly survive the termination of this Sublease.

10.3 In the event of any such Taking, whether or not a termination results, Sublandlord and Subtenant each shall be entitled to pursue separate claims against the condemning authority in accordance with their respective interests.

10.4 If a Taking of a part of the Premises occurs that does not materially impede or interfere with access to the Premises and does not materially affect the conduct of Subtenant's business as theretofore conducted at the Premises, then this Sublease shall continue in full force and effect, with the rent abated in the same proportion as the land area taken bears to the total land area subject to this Sublease, in which case (a) Subtenant shall restore the Improvements to an architectural unit that, to the extent feasible under the circumstances and to the extent of any award received with respect to the Taking, is equivalent to the value of the improvements as they were before the Taking, and (b) the term Premises shall thereafter be understood to refer only to the portion of the Premises not so appropriated.

10.5 For purposes of this Section, a "**Taking**" shall mean any taking of all or any part of the Premises or any interest therein by reason of any exercise of the power of eminent domain, whether by condemnation proceedings or otherwise, or any transfer of all or any part of the Premises or any interest therein made in avoidance of an exercise of the power of eminent domain during the term of this Sublease. In any event, Sublandlord and Subtenant shall cooperate with one another in any and all proceedings concerning a Taking, each at its own cost and expense, so as to maximize the total condemnation award from any Taking.

ARTICLE 11 - DEFAULT

11.1 **Default; Breach.** A "Default" is defined as a failure by the Subtenant to comply with or perform any of the terms, covenants or conditions under this Sublease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Subtenant to cure such Default within any applicable grace period:

(a) The abandonment of the Premises;

(b) The vacating of the Premises without providing a commercially reasonable level of security, or where the property insurance described in Section 8.1 is canceled as a result thereof;

(c) The failure of Subtenant to make any payment of Base Rent when due, to provide reasonable evidence of insurance or surety bond, or to fulfill may obligations under this Sublease which endangers or threatens life or property, where such failure continues for a period of ten (10) business days following written notice to Subtenant;

(d) The failure by Subtenant to provide (i) the rescission of an unauthorized assignment or subletting, (ii) an Estoppel Certificate (as defined in Section 13.1 below), (iii) the SNDA (as defined in Section 13.1 below), or (iv) any other documentation or information which is required of Subtenant under the terms of this Sublease, when any such failure continues for a period of five (5) business days following written notice to Subtenant;

(e) A Default by Subtenant as to the terms, covenants, conditions or provisions of this Sublease, or under any existing recorded covenants, conditions and restrictions applicable to the premises, where such Default continues for a period of twenty (20) days after written notice to Subtenant; provided, however, that if the nature of such Default is such that more than twenty (20) days are reasonably required for its cure, then it shall not be deemed to be a Breach if Subtenant commences such cure within said twenty (20) day period and thereafter diligently prosecutes such cure to completion;

(f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. § 101 or any successor statute thereto (unless, in the case of a petition filed against Subtenant, the same is dismissed within forty-five (45) days); (iii) the appointment of a trustee or receiver to take, possession of substantially all of Subtenant's assets located at the Premises or of Subtenant's interest in this Sublease, where possession is not restored to Subtenant within twenty (20) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Subtenant's assets located at the Premises or of Subtenant's interest in this Sublease, where such seizure is not discharged within twenty (20) days; provided, however, in the event that any provision of this subparagraph (f) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions;

(g) The discovery that any financial statement of Subtenant or of any Guarantor given to Sublandlord was materially false when given;

(h) If the performance of Subtenant's obligations under this Sublease is guaranteed: (i) the death of a guarantor, (ii) the termination of a guarantor's liability with respect to this Sublease other than in accordance with the terms of such guaranty, (iii) a guarantor's becoming insolvent or the subject of a bankruptcy filing (unless, in the case of a bankruptcy petition filed against such guarantor, the same is dismissed within forty-five (45) days), (iv) a guarantor's refusal to honor the guaranty, or (v) a guarantor's breach of its guaranty obligations on an anticipatory basis, and Subtenant's failure, within forty-five (45) days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Subtenant, equals or exceeds the combined financial resources of Subtenant and the guarantor that existed at the time of execution of this Sublease; provided that Sublandlord agrees that, upon the death of a guarantor, the devise of all or substantially all of the assets of such guarantor to such guarantor's heir and such heir's agreement to assume all guaranty obligations of such guarantor shall be an acceptable alternative assurance; or

(i) Any act or omission by the Subtenant resulting in an incurable breach or default of any of Sublandlord's obligations to Prime Landlord under the Prime Lease or resulting in any termination of the Prime Lease.

11.2 **Remedies Upon Subtenant's Default.** In the event Subtenant shall at any time in default in the payment of rent or other charges herein require to be paid by Subtenant or in the observance or performance of any of the other covenants and agreements required to be performed and observed by Subtenant hereunder, and any such default shall continue for a period of five (5) days after written notice to Subtenant for monetary obligations and twenty (20) days after written notice to Subtenant for all other obligations (or if such default is incapable of being cured in a reasonable manner within twenty (20) days, if Subtenant has not commenced to cure the same within said twenty (20) day period or does not thereafter diligently prosecute the same to completion), then Sublandlord shall be entitled, at its election, to exercise, concurrently or successively, any one or more of the following rights, in addition to all remedies otherwise provided in this Sublease and otherwise available at law or in equity under the laws of the United States or the State of Arizona:

(a) To bring suit for the collection of the rent or other amounts for which Subtenant may be in default, or for the performance of any other covenant or agreement devolving upon Subtenant, all without entering into possession or terminating this Sublease; and/or

(b) To terminate this Sublease, re-enter the Premises and take possession thereof. In the event Sublandlord shall elect to terminate this Sublease as aforesaid, all rights and obligations of Sublandlord, and of any successors or assigns, shall cease and terminate, except that Sublandlord shall have and retain full right to sue for and collect all rents and other amounts for the payment of which Subtenant shall then be in default, and all damages to Sublandlord by reason of any such breach, Sublandlord having the duty and obligation to mitigate said damage, and Subtenant shall surrender and deliver the Premises to Sublandlord, and upon any default by Subtenant in so doing, Sublandlord shall have the right to recover possession by summary proceedings, to apply for the appointment of a receiver, and for other ancillary relief in such action, provided that Subtenant shall have ten (10) days' written notice after such application may have been filed and before any bearing thereon.

11.3 Remedies Upon Sublandlord's Default. In the event Sublandlord shall at any time be in default in the observance or performance of any of the covenants and agreements required to be performed and observed by Sublandlord hereunder and any such default shall continue for a period of thirty (30) days after written notice to Sublandlord (or if such default is incapable of being cured in a reasonable manner within thirty (30) days, if Sublandlord has not commenced to cure the same within said thirty (30) day period or does not thereafter diligently prosecute the same to completion), Subtenant shall be entitled, at its election, to exercise, concurrently or successively, any one or more of the following rights, in addition to all remedies otherwise provided in this Sublease and otherwise available at law or in equity under the laws of the United States or the State of Arizona:

(a) To bring suit for the collection of any amounts for which Sublandlord may be in default, or for the performance of any other covenant or agreement devolving upon Sublandlord, without terminating this Sublease; and/or

(b) To terminate this Sublease upon thirty (30) days' written notice to Sublandlord, without waiving Subtenant's rights to damages for Sublandlord's failure to perform its obligations hereunder. In the event Subtenant elects to terminate this Sublease as aforesaid, all rights and obligations of Subtenant, and of any successors or assigns, shall cease and terminate, except that Subtenant shall have and retain full right to sue for and collect all amounts for the payment of which Sublandlord shall then be in default and all damages to Subtenant by reason of any such breach.

11.4 Costs and Attorneys' Fees. In the event that either Sublandlord or Subtenant commences any suit for the collection of any amounts for which the other may be in default or for the performance of any other covenant or agreement hereunder, the prevailing party shall be entitled to recover its costs and expenses (including, but not limited to, all attorneys' fees and expenses) incurred in enforcing such obligations and/or collecting such amounts.

11.5 Remedies Cumulative. All remedies of Sublandlord or Subtenant herein created or remedies otherwise existing at law or in equity are cumulative, and the exercise of one or more rights or remedies shall not be taken to exclude or waive the right to the exercise of any other, provided that in no event shall Sublandlord have the right to (a) be awarded consequential damages for Subtenant's default or (b) accelerate rental reserved hereunder without offsetting against such amount the present value of the fair market rental value of the Premises for the balance of the Term. Except as limited hereinabove, all rights and remedies may be exercised and enforced concurrently and whenever and as often as Sublandlord or Subtenant shall deem necessary.

11.6 Survival. The provisions of this Article 11, and all indemnification obligations set forth in this Sublease, shall survive any termination of this Sublease.

ARTICLE 12 - COVENANT OF QUIET ENJOYMENT

12.1 Covenant of Quiet Enjoyment. Subject to the terms and provisions of the Prime Lease, Sublandlord agrees that Subtenant shall quietly and peaceably hold, possess and enjoy the Premises for the Term, or any extension thereof, without any hindrance or molestation by the agents or employees of Sublandlord, and further, Sublandlord shall defend its leasehold interest in the Premises and the use and occupancy of the same by Subtenant against the claims of all persons, except those claiming by or through Subtenant or Prime Landlord.

ARTICLE 13 - SUBORDINATION

13.1 Prime Landlord's Right to Mortgage. Subtenant shall upon Prime Landlord's request, subordinate this Sublease in the future to any lien placed by Prime Landlord upon the Premises or any portion thereof provided that such lienholder executes a subordination, nondisturbance and attornment agreement with Sublandlord.

ARTICLE 14 - TRANSFERS BY SUBLANDLORD

14.1 Transfers of Sublandlord's Interest. No transfer or sale of Sublandlord's interest hereunder shall release Sublandlord from any of its obligations or duties hereunder unless and until the transferee assumes in writing such obligations and duties. Notwithstanding anything contained herein to the contrary, in no event shall Sublandlord have the right to transfer, in any manner whatsoever, its interest hereunder or to assign its obligations under this Sublease prior to delivery of possession of the Premises to Subtenant.

ARTICLE 15 - ESTOPPEL CERTIFICATES

15.1 Estoppel Certificates. Sublandlord and Subtenant shall at any time and from time to time upon not less than seven (7) days' prior notice from the other Party, execute, acknowledge and deliver to the other Party a statement in writing (a) certifying that this Sublease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Sublease, as so modified, is in full force and effect), and the dates to which rental and other charges are paid in advance, if any, and (b) acknowledging that there are not, to the knowledge of the executing Party, any uncured defaults on the part of the requesting Party hereunder, or specifying such defaults if any are claimed. It is expressly understood and agreed that any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the real property of which the Premises are a part, or by any prospective lender, assignee or subtenant of Subtenant. A Party's failure to deliver such statement within such time shall be conclusive upon such Party that this Sublease is in full force and effect, without modification except as may be represented by the requesting Party, that there are no uncured defaults in the requesting Party's performance, and that not more than one (1) month's rent has been paid in advance.

ARTICLE 16 - MISCELLANEOUS

16.1 Holding Over. In the, event of Subtenant's continued occupancy of the Premises after the expiration of the Term, or any earlier termination provided or permitted by this Sublease, such tenancy shall be deemed a month-to-month tenancy at the same monthly Base Rent as during the last month of the Term which ended just prior to such holding over. All other covenants, provisions, obligations and conditions of this Sublease shall remain in full force and effect during such month-to-month tenancy.

16.2 Non-Waiver of Default. No acquiescence by either Party to any default by the other Party shall operate as a waiver of its rights with respect to the same or any other breach or default, whether of the same or any other covenant or condition. No waiver shall be effective unless it is in writing and signed by the Party giving the waiver.

16.3 Recording. This Sublease shall not be recorded. The parties shall execute, acknowledge and deliver to each other duplicate originals of a short form or memorandum of this Sublease ("**Memorandum of Sublease**") in form and content mutually satisfactory to the parties, describing the Premises and setting forth the Term of this Sublease. The Memorandum of Sublease shall be recorded at Subtenant's expense.

16.4 Notice. Any notice, request, offer, approval , consent or other communication required or permitted to be given by or on behalf of either Party to the other shall be given or communicated in writing by personal delivery, reputable overnight courier service which logs receipts of deliveries (i.e., Federal Express), or United States certified mail (return receipt requested with postage fully prepaid) or express mail service addressed to the other Party at the address set forth below or at such other address as may be specified from time to time in writing by either Party. Telephone and facsimile numbers are provided for convenience only, any attempted notice by telephone or facsimile shall not be effective.

Sublandlord:	Mr. Howard Baer 7740 East Evans Road Scottsdale, Arizona 85260 Telephone: (480)731-9100 Facsimile: (480)385-3901
Subtenant:	Health Enhancement Products, Inc. 7740 East Evans Road Scottsdale, Arizona 85260 Telephone: (480)385-3800 Facsimile: (480)385-3901

All such notices hereunder shall be deemed to have been given on the date personally delivered or the date marred on the return receipt, unless delivery is refused or cannot be made, in which, case the date of postmark shall be deemed the date notice has been given.

16.5 Successors and Assigns. All covenants, premises, conditions, representations and agreements herein contained shall be binding upon and shall inure to the benefit of the Parties hereto and their respective heirs, successors and assigns.

16.6 Partial Invalidity. If any provision of this Sublease or the application thereof to any person or circumstances shall to any extent be held invalid, the remainder of this Sublease or the application of such provision to persons or circumstances other than those as to which it is held invalid shall not be affected thereby, and each provision of this Sublease shall be valid and enforceable to the fullest extent permitted by law.

16.7 Interpretation. In interpreting this Sublease in its entirety, any additions written or typed thereon shall be given equal weight, and there shall be no inference, by operation of law or otherwise, that any provision of this Sublease shall be construed against either Party hereto. This Sublease shall be construed without regard to any presumption or other rule requiring construction against the drafting Party.

16.8 Headings, Captions and References. The section captions contained in this Sublease are for convenience only and do not in any way limit or amplify any term or provision hereof. The use of the terms “hereof”, “hereunder” and “herein” shall refer to this Sublease as a whole, inclusive of the Exhibits, except when noted otherwise. The term “include”, “includes” and “including” incorporate the concept that such inclusion is “without limitation”. The use of the masculine or neuter genders herein shall include the masculine, feminine and neuter genders, and the singular form shall, include the plural when the context so requires.

16.9 Governing Law. This Sublease shall be construed under the laws of the State of Arizona.

16.10 Execution of Documents. Sublandlord and Subtenant shall each cooperate with the other and execute such documents as the other Party may reasonably require or request so as to enable it to conduct its operations, so long as the requested conduct or execution of documents does not derogate from or alter the powers, rights, duties and responsibilities of the respective Parties.

16.11 Force Majeure. Whenever a party is required to perform an act under this Sublease by a certain time, said time shall be deemed extended so as to take into account events of "**Force Majeure**"; "**Force Majeure**" is any of the following events that prevents, delays, retards or hinders a Party's performance of its duties hereunder: act of God; fire; earthquake; flood; explosion; war; invasion; insurrection; riot; mob violence; sabotage; vandalism; inability to procure or general shortage of labor, equipment, facilities, materials or supplies in the open market; failure of transportation; strikes; lockouts; condemnation; requisition; acts of governmental, civil, military or naval authorities; or any other cause, whether similar or dissimilar to the foregoing, not within such Party's control.

16.12 Waiver of Sublandlord's Lien. Sublandlord hereby waives any lien it may have for rent against any and all of the property of Subtenant, its parent, subsidiaries or affiliates, to the fullest extent allowed by law.

16.13 Signage. Subtenant shall have the right to place and maintain during the Term its usual and customary signs on the exterior of the Premises. Subtenant shall maintain such signs in good order and repair in compliance with all applicable governmental rules, regulations or ordinances, and any and all applicable covenants, conditions and restrictions. During the last six (6) months of the Term, Prime Landlord may post a "For Rent" sign regarding the Premises.

16.14 Environmental Matters. Subtenant agrees to indemnify, defend (with counsel reasonably acceptable to Subtenant) and hold harmless Sublandlord from any and all claims, damages, fines, judgments, penalties, costs, causes of action, loss or expenses (including, without limitation, any and all sums paid for settlement of claims and attorneys, consultants' and experts' fees) (collectively "**Liabilities**"), whether arising during the Term or thereafter, and resulting from or arising in connection with the presence (or suspected presence), disposal, release (or threatened release), of any Hazardous Substance in, on, under, from or affecting the Premises, if, and only if, caused by the acts or negligent omissions of Subtenant, its agents, employees or contractors. Without limiting the generality of the foregoing, Subtenant's indemnity shall apply to any and all Liabilities resulting from or arising out of (i) any investigation (governmental or otherwise) of the Premises, any cleanup, removal or restoration of the Premises required by any governmental agency, and any personal injury (including wrongful death) or property damage (real or personal), if, and only if, caused by the acts or negligent omissions of Subtenant, its agents, employees or contractors, and (ii) any Hazardous Substance which flows, diffuses, migrates, or percolates into, onto or under the Premises, if, and only if; caused by the acts or negligent omissions of Subtenant, its agents, employees or contractors. As used in this Sublease, the term **"Hazardous Substance**" means any flammables, explosives, radioactive materials, hazardous wastes, hazardous and toxic substances or related materials, asbestos or any material containing asbestos (including, without limitation, vinyl asbestos tile), or any other substance or material, defined as a "hazardous substance" pursuant to and its actionable quantities or levels contemplated by any federal, state or local environmental law, ordinance, rule or regulation including, without limitation, the Federal Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, the Federal Hazardous Materials Transportation Act, as amended, the Federal Resource Conservation and Recovery Act, as amended, and the rules and regulations adopted and promulgated pursuant to each of the foregoing.

16.15 **Sublease.** The parties agree and acknowledge that, notwithstanding anything to the contrary set forth elsewhere in this Sublease:

(a) Sublandlord is leasing the Premises to Subtenant pursuant to the Prime Lease with the Prime Landlord, and this Sublease is a sublease and is subject to all of the terms and provisions of the Prime Lease.

(b) If the Prime Lease terminates for any reason, then this Sublease shall automatically terminate, provided that the foregoing shall not prevent a party hereto from exercising its rights and remedies set forth herein on account of a wrongful termination of the Prime Lease caused by the other party.

(c) This Sublease shall be of no force and effect until such time as the consent of the Prime Landlord is obtained in writing.

(d) Sublandlord will exercise reasonable diligence in enforcing the obligations of the Prime Landlord under the Prime Lease where the Prime Landlord's failure to perform such obligations would have a material adverse effect on Subtenant's use and occupancy of the Premises as provided herein; provided that Sublandlord shall not be responsible for any acts of omissions of, or other circumstances caused by, the Prime Landlord.

(e) Sublandlord will not modify the Prime Lease in way that would have a material adverse effect on Subtenant's use and occupancy of the Premises as provided herein.

(f) Sublandlord will not allow the Prime Lease to terminate by reason of the Sublandlord's acts or omissions that did not result from the acts or omissions of Subtenant in violation of this Sublease.

(g) In the event any action of Subtenant under this Sublease shall require the Prime Landlord's consent, permission or approval (whether pursuant to this Sublease or the Prime Lease) then, promptly following Sublandlord's receipt of a written request by Subtenant for such consent, permission or approval, Sublandlord will forward the request to the Prime Landlord; provided that Sublandlord shall have no liability to Subtenant for Prime Landlord's failure to give or for Prime Landlord's delay in giving any such consent, permission or approval.

(h) Sublandlord will promptly provide Subtenant with copies of all notices of default under the Prime Lease sent to or from the Sublandlord.

(i) Subtenant shall not do, suffer or permit any act or omission under this Sublease or with respect to the Premises that would result in a default or breach of the Sublandlord's obligations under the Prime Lease.

(j) In the event of any conflict between the terms of this Sublease and the terms of the Prime Lease, the terms of this Sublease shall control unless the same would result in a violation of the Prime Lease.

IN WITNESS WHEREOF, this Sublease has been executed as of the date written above.

SUBLANDLORD

/s/ Howard R. Baer
HOWARD R. BAER, a married man
SUBTENANT:

HEALTH ENHANCEMENT PRODUCTS, INC.

By: */s/ Janet L. Crance*
Name: Janet L. Crance
Title: Chief Accounting Officer

LIST OF EXHIBITS

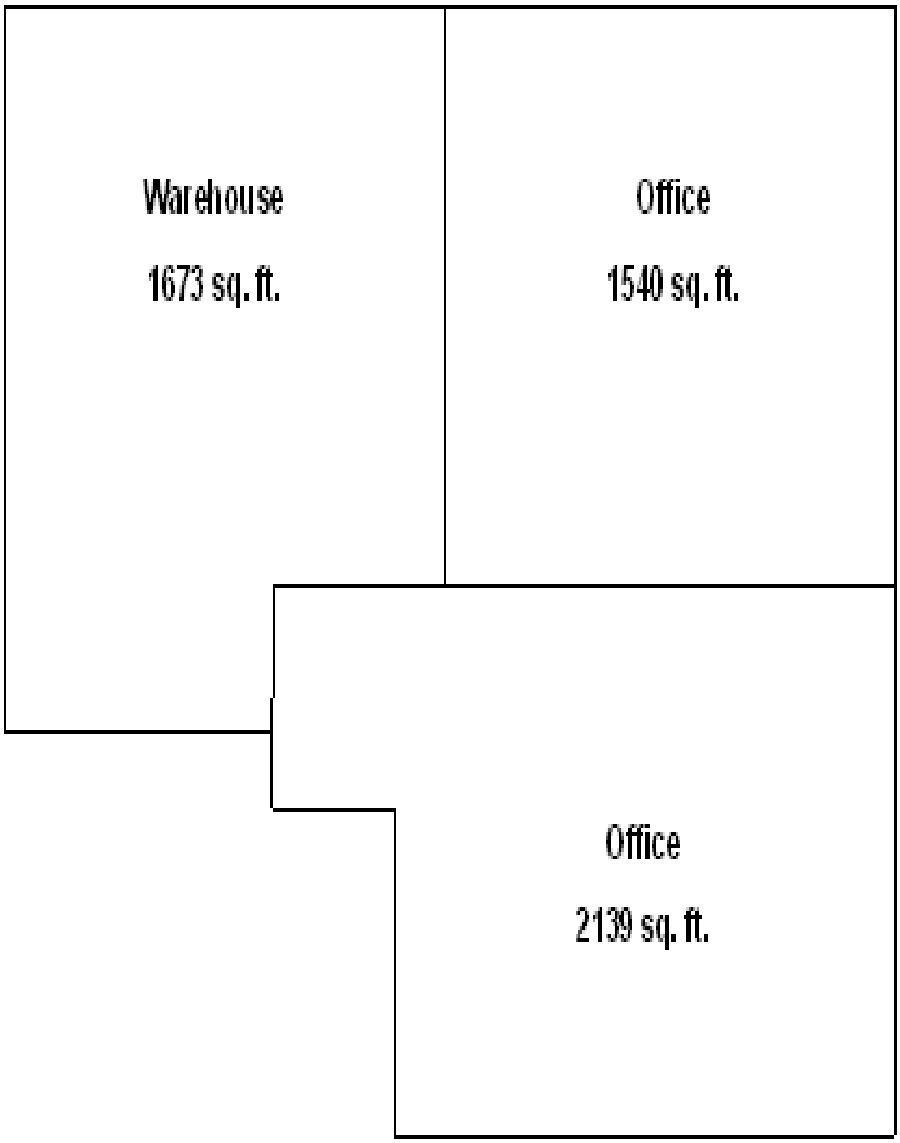
Exhibit A - Plan of Premises

EXHIBIT A

PLAN OF PREMISES

[Attached]

SPACE A



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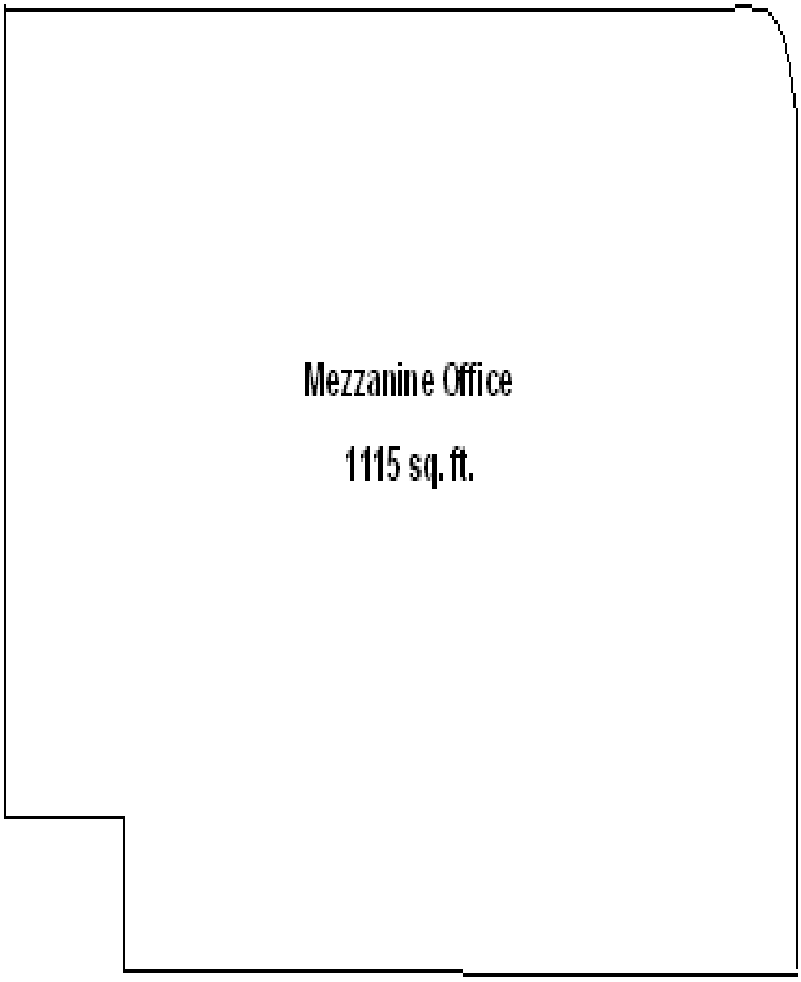
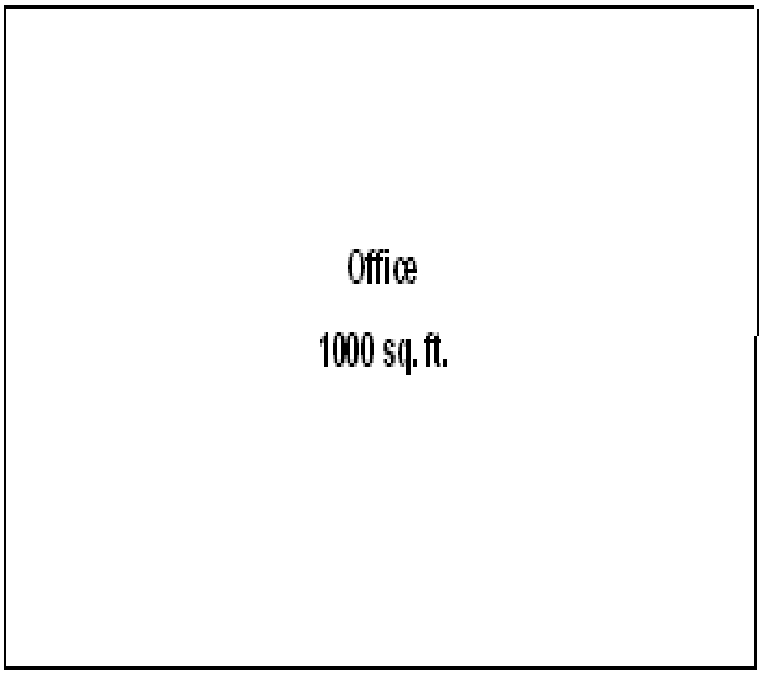


SPACE B

(Above Space A)



SPACE C

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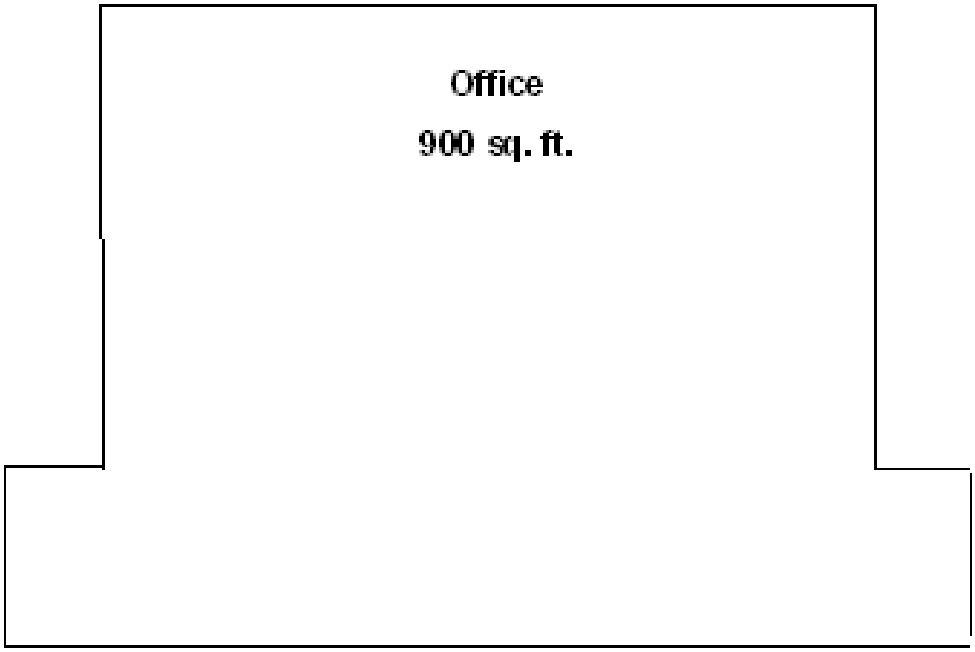

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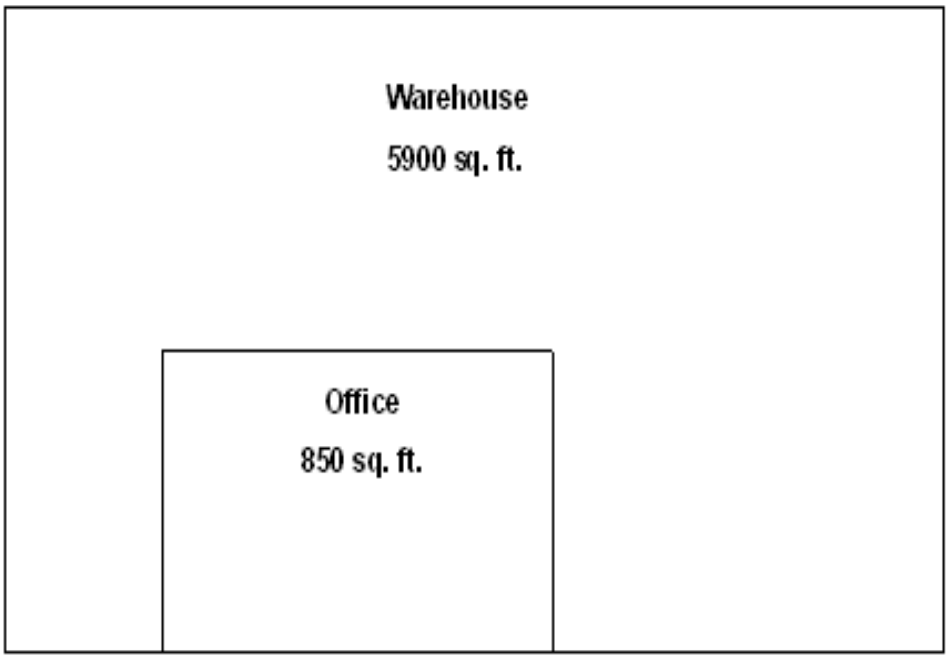

EXHIBIT 10.09

July 4, 2005

Health Enhancement Products, Inc.
7740 E. Evans Road
Scottsdale, AZ 85260

Attn: Howard R. Baer, Chief Executive Officer

Ladies and Gentlemen:

The undersigned hereby subscribes to the immediate acquisition of Warrants to purchase 1,000,000 (one million) shares of common stock, $.001 par value ("Common Stock"), of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), at an exercise price of $.10 (ten cents) per share, for a term of two years. Such Warrants are referred to herein as the "Securities." The Securities are being issued to the undersigned, in consideration for, and in full and complete satisfaction of, all amounts owing to the undersigned for having introduced John Gantt to the Company, who has invested $200,000 into the Company.

In connection with the purchase of the Securities, the undersigned acknowledges, warrants and represents to and agrees with the Company as follows:

1. The undersigned is acquiring the Securities for investment for his/her/its own account and without the intention of participating, directly or indirectly, in a distribution of the Securities, and not with a view to resale or any distribution of the Securities, or any portion thereof.

2. The undersigned has such knowledge and experience in financial and business matters that he/she/it is capable of evaluating the merits and risks of this investment. The undersigned has consulted with his/her/its own professional representatives as he/she/it has considered appropriate to assist in evaluating the merits and risks of this investment. The undersigned has carefully reviewed all of the Company's filings with the Securities and Exchange Commission, including, but not limited to, its Form 10KSB for the year ended December 31, 2004 and Form 10QSB for the quarter ended March 31, 2005. The undersigned has had access to and an opportunity to question the officers of the Company, or persons acting on their behalf, with respect to publicly available material information about the Company, including with respect to the ongoing inquiry into the Company by the Securities and Exchange Commission, and, in connection with the evaluation of this investment, has, to the best of his/her/its knowledge, received all information and data with respect to the Company that the undersigned has requested and which is necessary to enable the undersigned to make an informed decision regarding the purchase of the Securities. The undersigned is acquiring the Securities based solely upon his/her/its independent examination and judgment as to the prospects of the Company.

3. The Securities were not offered to the undersigned by means of publicly disseminated advertisements or sales literature.

4. The undersigned acknowledges that an investment in the Securities is speculative and involves a high degree of risk and the undersigned may have to continue to bear the economic risk of the investment in the Securities for an indefinite period. An investment in the Company involves a high degree of risk because, among other reasons, the Company (i) is in the development stage and has no revenue; (ii) is experiencing significant negative cash flow and operating losses; (iii) has a substantial working capital deficiency; and (iv) has an immediate and urgent need for additional capital. The undersigned acknowledges that the foregoing factors raise substantial doubt about the Company's ability to continue as a going concern as disclosed in the Company's Form 10KSB for the year ended December 31, 2004. The undersigned acknowledges that, as a result of all of the foregoing, among other reasons, there is a significant risk that the undersigned could sustain a total loss of its investment in the Company.

5. The undersigned acknowledges that the Securities are being sold to the undersigned without registration under any state or federal law requiring the registration of securities for sale, and accordingly will constitute "restricted securities" as defined in Rule 144 of the U.S. Securities and Exchange Commission. Consequently, the transferability of the Securities is restricted by applicable United States Federal and state securities laws. The undersigned understands that the Company's common stock is currently quoted on the OTC Bulletin Board (in the "over-the-counter" market), and is highly illiquid.

6. In consideration of the acceptance of this subscription, the undersigned agrees that the Securities will not be offered for sale, sold or transferred by the undersigned other than pursuant to (i) an effective registration under the Securities Act of 1933, as amended ("the Act"), an exemption available under the Act or a transaction that is otherwise in compliance with the Act; and (ii) an effective registration under the securities law of any state or other jurisdiction applicable to the transaction, an exemption available under such laws, or a transaction that is otherwise in compliance with such laws.

7. The undersigned understands that no U.S. federal or state agency has passed upon the offering of the Securities or has made any finding or determination as to the fairness of any investment in the Securities.

8. The undersigned agrees not to disclose or use any information provided to the undersigned by the Company or any of its agents in connection with the offering of the Securities, except for the purpose of evaluating an investment in the Securities.

9. The residence address of the undersigned is as set forth below.

10. The undersigned represents and warrants to the Company that the undersigned is an "Accredited Investor", as such term is defined on Appendix A hereto.

11. The undersigned agrees to indemnify and hold harmless the Company and its officers, directors, employees and agents from and against any and all costs, liabilities and expenses (including attorneys' fees) arising out of or related in any way to any breach of any representation or warranty contained herein.

12. The Company has the right, in its sole discretion, to accept or reject this subscription.

ACCEPTANCE OF SUBSCRIPTION

Health Enhancement Products, Inc.

By: */s/ Howard R. Baer*
Howard R. Baer, Chief Executive Officer

Dated: July 29, 2005

SUBSCRIBER

/s/ William J. Rogers, II
Name: William J. Rogers, II

Address:

21 Ocean Ridge Blvd. S
Palm Coast, FL 32137

APPENDIX A

An “Accredited Investor” within the meaning of Regulation D under the Securities Act of 1933 includes the following:

Organizations

(1) A bank as defined in section 3(a)(2) of the Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act, whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; insurance company as defined in section 2(13) of the Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that act; a Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors.

(2) A private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940.

(3) A trust (i) with total assets in excess of $5,000,000, (ii) not formed for the specific purpose of acquiring the Securities, (iii) whose purchase is directed by a person who, either alone or with his purchaser representative, has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the proposed investment.

(4) A corporation, business trust, partnership, or an organization described in section 501(c)(3) of the Internal Revenue Code, which was not formed for the specific purpose of acquiring the Securities, and which has total assets in excess of $5,000,000.

Individuals

(5) Individuals with income from all sources for each of the last two full calendar years whose reasonably expected income for this calendar year exceeds either of:

(i) $200,000 individual income; or

(ii) $300,000 joint income with spouse.

NOTE: Your "income" for a particular year may be calculated by adding to your adjusted gross income as calculated for Federal income tax purposes any deduction for long term capital gains, any deduction for depletion allowance, any exclusion for tax exempt interest and any losses of a partnership allocated to you as a partner.

(6) Individuals with net worth as of the date hereof (individuallyor jointly with your spouse), including the value of home, furnishings, and automobiles, in excess of $1,000,000.

(7) Directors, executive officers or general partners of the Issuer.

EXHIBIT 10.10

July 4, 2005

Health Enhancement Products, Inc.
7740 E. Evans Road
Scottsdale, AZ 85260

Attn: Howard R. Baer, Chief Executive Officer

Ladies and Gentlemen:

The undersigned hereby subscribes to the immediate acquisition of Warrants to purchase 250,000 (two hundred fifty thousand) shares of common stock, $.001 par value ("Common Stock"), of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), at an exercise price of $.10 (ten cents) per share, for a term of two years. Such Warrants are referred to herein as the "Securities." The Securities are being issued to the undersigned in consideration for, and in full and complete satisfaction of, all amounts owing to the undersigned for consulting services rendered by the undersigned to the Company from April 1, 2005 to June 30, 2005. No consulting fees are owing through March 31, 2005.

In connection with the purchase of the Securities, the undersigned acknowledges, warrants and represents to and agrees with the Company as follows:

1. The undersigned is acquiring the Securities for investment for his/her/its own account and without the intention of participating, directly or indirectly, in a distribution of the Securities, and not with a view to resale or any distribution of the Securities, or any portion thereof.

2. The undersigned has such knowledge and experience in financial and business matters that he/she/it is capable of evaluating the merits and risks of this investment. The undersigned has consulted with his/her/its own professional representatives as he/she/it has considered appropriate to assist in evaluating the merits and risks of this investment. The undersigned has carefully reviewed all of the Company's filings with the Securities and Exchange Commission, including, but not limited to, its Form 10KSB for the year ended December 31, 2004 and Form 10QSB for the quarter ended March 31, 2005. The undersigned has had access to and an opportunity to question the officers of the Company, or persons acting on their behalf, with respect to publicly available material information about the Company, including with respect to the ongoing inquiry into the Company by the Securities and Exchange Commission, and, in connection with the evaluation of this investment, has, to the best of his/her/its knowledge, received all information and data with respect to the Company that the undersigned has requested and which is necessary to enable the undersigned to make an informed decision regarding the purchase of the Securities. The undersigned is acquiring the Securities based solely upon his/her/its independent examination and judgment as to the prospects of the Company.

3. The Securities were not offered to the undersigned by means of publicly disseminated advertisements or sales literature.

4. The undersigned acknowledges that an investment in the Securities is speculative and involves a high degree of risk and the undersigned may have to continue to bear the economic risk of the investment in the Securities for an indefinite period. An investment in the Company involves a high degree of risk because, among other reasons, the Company (i) is in the development stage and has no revenue; (ii) is experiencing significant negative cash flow and operating losses; (iii) has a substantial working capital deficiency; and (iv) has an immediate and urgent need for additional capital. The undersigned acknowledges that the foregoing factors raise substantial doubt about the Company's ability to continue as a going concern as disclosed in the Company's Form 10KSB for the year ended December 31, 2004. The undersigned acknowledges that, as a result of all of the foregoing, among other reasons, there is a significant risk that the undersigned could sustain a total loss of its investment in the Company.

5. The undersigned acknowledges that the Securities are being sold to the undersigned without registration under any state or federal law requiring the registration of securities for sale, and accordingly will constitute "restricted securities" as defined in Rule 144 of the U.S. Securities and Exchange Commission. Consequently, the transferability of the Securities is restricted by applicable United States Federal and state securities laws. The undersigned understands that the Company's common stock is currently quoted on the OTC Bulletin Board (in the "over-the-counter" market), and is highly illiquid.

6. In consideration of the acceptance of this subscription, the undersigned agrees that the Securities will not be offered for sale, sold or transferred by the undersigned other than pursuant to (i) an effective registration under the Securities Act of 1933, as amended ("the Act"), an exemption available under the Act or a transaction that is otherwise in compliance with the Act; and (ii) an effective registration under the securities law of any state or other jurisdiction applicable to the transaction, an exemption available under such laws, or a transaction that is otherwise in compliance with such laws.

7. The undersigned understands that no U.S. federal or state agency has passed upon the offering of the Securities or has made any finding or determination as to the fairness of any investment in the Securities.

8. The undersigned agrees not to disclose or use any information provided to the undersigned by the Company or any of its agents in connection with the offering of the Securities, except for the purpose of evaluating an investment in the Securities.

9. The residence address of the undersigned is as set forth below.

10. The undersigned represents and warrants to the Company that the undersigned is an "Accredited Investor", as such term is defined on Appendix A hereto.

11. The undersigned agrees to indemnify and hold harmless the Company and its officers, directors, employees and agents from and against any and all costs, liabilities and expenses (including attorneys' fees) arising out of or related in any way to any breach of any representation or warranty contained herein.

12. The Company has the right, in its sole discretion, to accept or reject this subscription.

ACCEPTANCE OF SUBSCRIPTION	**SUBSCRIBER**
Health Enhancement Products, Inc.	*/s/ William J. Rogers, II* Name: William J. Rogers, II
By: */s/ Howard R. Baer* Howard R. Baer, Chief Executive Officer	Address: 21 Ocean Ridge Blvd. S. Palm Coast, FL 32137
Dated: July 29, 2005	_____

APPENDIX A

An “Accredited Investor” within the meaning of Regulation D under the Securities Act of 1933 includes the following:

Organizations

(1) A bank as defined in section 3(a)(2) of the Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act, whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; insurance company as defined in section 2(13) of the Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that act; a Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors.

(2) A private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940.

(3) A trust (i) with total assets in excess of $5,000,000, (ii) not formed for the specific purpose of acquiring the Securities, (iii) whose purchase is directed by a person who, either alone or with his purchaser representative, has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the proposed investment.

(4) A corporation, business trust, partnership, or an organization described in section 501(c)(3) of the Internal Revenue Code, which was not formed for the specific purpose of acquiring the Securities, and which has total assets in excess of $5,000,000.

Individuals

(5) Individuals with income from all sources for each of the last two full calendar years whose reasonably expected income for this calendar year exceeds either of:

(i) $200,000 individual income; or

(ii) $300,000 joint income with spouse.

NOTE: Your "income" for a particular year may be calculated by adding to your adjusted gross income as calculated for Federal income tax purposes any deduction for long term capital gains, any deduction for depletion allowance, any exclusion for tax exempt interest and any losses of a partnership allocated to you as a partner.

(6) Individuals with net worth as of the date hereof (individuallyor jointly with your spouse), including the value of home, furnishings, and automobiles, in excess of $1,000,000.

(7) Directors, executive officers or general partners of the Issuer

Exhibit 31.1

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

I, Thomas Ingolia, Chief Executive Officer of Health Enhancement Products, Inc. (the "Company"), certify that:

1. I have reviewed this Annual report on Form 10-KSB/A of the Company;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

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

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

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

Date: June 14, 2007

/s/ Thomas Ingolia
Thomas Ingolia
Chief Executive Officer

Exhibit 31.2

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

I, Janet L. Crance, Chief Accounting Officer of Health Enhancement Products, Inc. (the "Company"), certify that:

1. I have reviewed this Annual report on Form 10-KSB/A of the Company;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

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

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

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

Date: June 14, 2007

/s/ Janet L. Crance
Janet L. Crance
Chief Accounting Officer

Exhibit 32.1

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

In connection with the Annual Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-KSB/A for the year ended December 31, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, Thomas Ingolia, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

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

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

Date: June 14, 2007

/s/ Thomas Ingolia
Thomas Ingolia
Chief Executive Officer

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

Exhibit 32.2

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

In connection with the Annual Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-KSB/A for the period ended December 31, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, Janet L. Crance, Chief Accounting Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

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

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

Date: June 14, 2007

/s/ Janet L. Crance
Janet L. Crance
Chief Accounting Officer

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