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

FORM 10-K

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

For the Fiscal Year ended December 31, 2008

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

Commission File Number: 000-30415

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the issuer's voting and non-voting common equity stock held as of May 18, 2009 by non-affiliates of the issuer was $7,336,649 based on the closing price of the registrant's common stock on such date.

As of May 18, 2009, there were 66,696,811 shares of $.001 par value common stock issued and outstanding.

The issuer's revenue for its most recent fiscal year was: $176,904.

FORM 10-K
HEALTH ENHANCEMENT PRODUCTS, INC.
INDEX

PART I	5
Item 1. Business	5
Item 1A.Risk Factors	9
Item 1B.Unresolved Staff Comments	9
Item 2. Properties	9
Item 3. Legal Proceedings	10
Item 4. Submission of Matters to a Vote of Security Holders	10
PART II	10
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	10
Item 6. Selected Financial Data	11
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 7A.Quantitative and Qualitative Disclosures About Market Risk	14
Item 8. Financial Statements and Supplementary Data	14
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	14
Item 9A.Controls and Procedures.	14
Item 9B.Other Matters	14
PART III	15
Item 10.Directors, Executive Officers and Corporate Governance.	15
Item 11.Executive Compensation	16
Item 12.Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	17
Item 13.Certain Relationships and Related Transactions, and Director Independence.	17
Item 14.Principal Accountant Fees and Services	18
Item 15.Exhibits and Financial Statement Schedules	19
SIGNATURES	20

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

PART I

Item 1. Business.

Business Development

We were incorporated under the laws of the State of Nevada on March 28, 1983, under the name of "L. Peck Enterprises, Inc.", with authorized common stock of 2,500 shares, with no par value. On May 27, 1999, our authorized capital stock was increased to 100,000,000 shares, with a par value of $.001, in connection with a name change to "Western Glory Hole, Inc." ("WGH"). On May 27, 1999, we also 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 Subsidiaries. In connection with this transaction, we changed our name to Health Enhancement Products, Inc. ("HEPI"). We currently operate through our wholly-owned Subsidiaries, HEC and HEPI Pharmaceuticals, Inc.

We acquired HEC because it had the material necessary for the production of ProAlgaZyme®. We have since established a manufacturing plant, which consists of a laboratory and production facility, and hired production and research staff. We currently market our product via the Internet and some limited exposure in local organic grocery stores. In December of 2007 we contracted with a national broker to rebrand and remarket our product nationally. These efforts are ongoing, and we anticipate additional revenue in 2009 due to this marketing effort. We believe that additional 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.

In January 2007, we established HEPI Pharmaceuticals, Inc. as a wholly owned Subsidiaries of HEPI ("HEPI Pharma"). The purpose of HEPI Pharma is to develop potential pharmaceutical applications for HEPI's primary product, ProAlgaZyme® (PAZ). In connection with the formation of HEPI Pharma, we entered into a Pharmaceutical Development Agreement with HEPI Pharma. Under the Development Agreement, we granted HEPI Pharma the right to develop the potential pharmaceutical applications of PAZ and its derivatives. In exchange for these rights, we became the sole stockholder of HEPI Pharma and are entitled to certain payments based on the attainment of specified development milestones and sales revenues.

Principal Product

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

ProAlgaZyme® is a naturally-generated liquid product derived from a natural plant culture grown in purified water with proprietary feeding. This liquid product, based on recently completed clinical trials, appears to support a compromised immune system and help regulate cholesterol levels and reduce C-reactive protein levels, thereby potentially aiding the defense of the body against introduced or naturally-occurring harmful substances and against cardiovascular problems.

Our sales currently are through the internet and by word of mouth. We have our product in a few local health food stores. However, our limited resources prevent us from pursuing a more aggressing sales program.

Marketing and Sales

To date, we have not generated the revenues required to make HEPI profitable. 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 marketed, our marketing focus has been on seeking to determine 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. External clinical trials recently completed suggest that ProAlgaZyme® has the potential to reduce viral loads in HIV positive patients, reduce total cholesterol levels and C Reactive Protein levels.

We are currently in the process of pursuing additional external clinical trials that should provide us with further evidence of the potential of our product, and thus facilitate our sales and marketing related activities. In addition, we have contracted with a marketing consultant to expand our exposure in the alternative health markets. This consultant presented marketing plans to management during the first quarter of 2008, and we have contracted with the consultant to assist with our marketing efforts.

In 2008 the Company made sales of its product to Changing Times Vitamins (CTV), a company whose significant shareholder, Howard Baer, is a significant shareholder of the Company. These sales totaled $49,333 and represent 28% of our revenue for 2008. This amount ($49,000) remains outstanding at December 31, 2008 and is reported in accounts receivable on the balance sheet. The Company, on the one hand, and CTV and Howard R. Baer, on the other hand, have agreed that each of them shall have a mutual right of offset against the other with respect to amounts payable by one to the other including accounts receivable owed by CTV to the Company. As of December 31 2008 and May 15, 2009 the Company owed Mr. Baer approximately $4,000 and $118,000 respectively, and CTV owed the Company $49,000 in accounts receivable.

Competition

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

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

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

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

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

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

Raw Materials

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

We have also 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. During 2008 and continuing into 2009 we have begun an expansion of our grow room facilities in anticipation of increased production and revenues.

Dependence on Customers

We are not dependent on any one customer or group of customers for a significant percentage of 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 our 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 product should be scalable within a reasonable time to meet foreseeable increases in product demand; for example we believe that a doubling of capacity can be effected in an estimated period of three months.

Backlog

As of December 31, 2008, we had no backlog of orders.

Patents and Proprietary Rights

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

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

We have filed an application to register the following mark at the USPTO:

- AQUELLA (Application Serial No. 77/08186) which was filed on an intent-to-use basis on February 28, 2008.

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

With respect to patents, we have one patent application pending in the U.S.. This patent application is assigned serial number 11/606,676 and is titled "Composition and Use of Phyto-Percolate for Treatment of Disease." This application was filed on November 30, 2006 and claims priority to other earlier filed patent applications wherein the earliest priority date is April 23, 2004. This patent application generally discloses a method of preparation of phyto-percolate composition and use of this composition to treat various diseases. This application is pending.

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

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

Mr. Baer allows us to 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 could delay the marketing and sale of such product.

Research and Development

Research

Our primary research emphasis has been on refinement of the ProAlgaZyme® product and on bio-chemical analyses and internal and external clinical studies associated with the product. We spent approximately $149,000 for the year ended December 31, 2008 on research and development, as compared to $323,000 in 2007. Of this amount, $136,000 was spent on internal research, mainly involving in-house testing and development of the ProAlgaZyme® product and in conducting both ‘in vitro” and “in vivo” testing of ProAlgaZyme®, and $13,000 has been spent on external research, mainly to independent facilities involved in the clinical trials. To date, all of these amounts have been directly expensed as they have been incurred.

Subject to the availability of sufficient funding, we estimate that we will, in fiscal 2009, expend approximately $100,000 on research and development. We do not currently have these funds available. These expenditures will need to be met from external funding sources. We have had difficulty raising funds from external sources. Thus, we may not be able to raise the funding that we need to continue our research and development activities. In the event that these sources are not available or adequate to meet our research needs, we will be unable to pursue our research activities, in which case, our ability to market ProAlgaZyme® with objective clinical support for its characterization, method of action and efficacy, will continue to be impeded, thereby severely hindering our ability to generate sales revenue and adversely affecting our operating results.

During the first quarter of 2009 we began a study in cooperation with Wayne State University. This study will isolate the various bioactive components and later test for significant changes in LDL cholesterol and C-reactive protein. Once the study is accepted by HEPI, the Company will investigate further trials with an aim toward garnering a share of the nutraceutical and functional food market.

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

Compliance with Environmental Laws

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

Employees

As of December 31, 2008 we had four full-time employees, positioned as follows: three employees in manufacturing and research and development, and one employee in business development, marketing, sales and support services. In addition, we have one part-time employee in finance. We believe that our employee relations are good. No employee is represented by a union.

Available Information

Our website is www.heponline.com. Information on our website is not incorporated by reference into this Form 10-K and should not be considered part of this report or any other filing we make with the SEC. We file annual, quarterly and current reports, and other information with the Securities and Exchange Commission. Through a link on the Investor Relations section of the corporate page of our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings are available free of charge.

Item 1A. Risk Factors.

There is substantial doubt about our ability to continue as a going concern. Our independent public accounting firm has issued an opinion on our consolidated financial statements that states that the consolidated financial statements were prepared assuming we will continue as a going concern and further states that our recurring losses from operations, stockholders' deficit and inability to generate sufficient cash flow to meet our obligations and sustain our operations raise substantial doubt about our ability to continue as a going concern. While we have contracted with several marketing consultants, if they are unable to successfully market our product and/or we are unable to obtain financing we would not be able to continue as a going concern.

We are materially dependent on our investors for continued funding. Until our sales reach a level to cover our expenses we are reliant upon our investors for our continued operations. There is no guarantee that this funding will continue.

Our future success is dependent on our ability to expand sales through distributors. There is no guarantee that we will be able to successfully market our product and recruit new distributors. Although we have recently contracted with marketing consultants, they have not achieved the sales success needed to sustain the Company operations.

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

Government regulation of our products may adversely affect sales. Nutraceutical products, although not approved by the FDA, must follow strict guidelines in terms of advertising claims. Our ability to successfully advertise our product is dependent upon adhering to these requirements.

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

Item 1B.Unresolved Staff Comments.

Not required for smaller reporting companies.

Item 2. Properties.

We are subleasing approximately 15,000 square feet of office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer. This Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease on 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 paid an additional security deposit of approximately $110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

Of the 15,000 square feet currently leased, we are occupying approximately 9,800 square feet. We are subleasing approximately 2,000 square feet on a month to month basis back to this significant shareholder, Howard Baer at a rate of approximately $2,100 per month. This sublease has not yet been formalized, and is currently on a month to month basis. We incurred $236,933 in rent expense and recognized $18,900 in sublet rent income during fiscal 2008. The property is well maintained and in good condition.

The Company is leasing, on a month to month basis, a warehousing and bottling facility. The lease calls for monthly rentals of $2,167. Rent expense under this lease for the year ended December 31, 2008 was approximately $28,275.

Item 3. Legal Proceedings.

We are currently not involved in any legal action.

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

There were no items submitted to a vote of security holders during the fourth quarter of fiscal 2008.

PART II

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

Market Information

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

Year ended December 31, 2007	HIGH	LOW
First Quarter	0.75	0.75
Second Quarter	0.74	0.32
Third Quarter	0.29	0.12
Fourth Quarter	0.29	0.16
Year ended December 31, 2008		
First Quarter	0.30	0.29
Second Quarter	0.38	0.33
Third Quarter	0.12	0.10
Fourth Quarter	0.10	0.05

As of May 18, 2009 we have approximately 172 shareholders of record.

We currently do not pay dividends on our common stock, due to our need to retain all cash flow for operations.

Recent Sales of Unregistered Securities.

In September, 2008, the Company entered into a financing transaction in connection with which it incurred a liability of $45,000 to a significant shareholder, Howard Baer in the form of an advance of $25,000 and discharge of a Company liability for unpaid rent in the amount of approximately $20,000. In connection with this transaction, the Company issued 1,500,000 restricted shares of common stock to a third person to induce him to loan funds to the significant shareholder, Howard Baer to enable such shareholder to make the $25,000 loan to the Company and discharge the approximate $20,000 company liability for unpaid rent. The loan is unsecured, payable on demand, and bears interest at the rate of 7% per annum. The shares were valued at $90,000, based on the quoted price of the Company's common stock on September 15, 2008. The Company recognized finance costs of $90,000 in connection with this transaction.

Periodically during 2008 the Company received loans from Mr. Baer. In addition, the Company owed Mr. Baer for unpaid rent and other expenses paid on behalf of the Company by Mr. Baer. In December of 2008 the Company formalized these loans and accounts payable in a promissory note for $150,000. This note is unsecured, payable on demand, and bears interest at the rate of 7% per annum. Simultaneously, the Company issued 3,000,000 shares of common stock valued at $180,000, in full satisfaction of this promissory note, and recorded finance costs of $30,000 in connection with this transaction.

The Company issued 25,000 shares of common stock to a consultant for services, valued at $2,750. 151,000 shares of common stock, valued at $16,761, were issued in payment of finders' fees related to stock sold in the second and third quarters.

We believe that the foregoing transactions were exempt from the registration requirements under Section 4(2) of the Securities Act of 1933, as amended (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 "1933 Act", as amended) and/or was (either alone or with his/her purchaser representative) sophisticated about business and financial matters, each such investor had the opportunity to ask questions of our management and to review our filings with the Securities and Exchange Commission, and all shares issued were subject to restrictions on transfer, so as to take reasonable steps to assure that the purchasers were not underwriters within the meaning of Section 2(11) under the 1933 Act.

Item 6. Selected Financial Data.

Not required for smaller reporting companies.

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

Overview

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

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 $177,000 and $161,000 in 2008 and 2007, 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 third parties. These factors raise substantial doubt about our ability to continue as a going concern. If we are unable to obtain additional funding in the near term, we may be unable to continue as a going concern, in which case you would suffer a total loss of your investment in our company.

Results of Operations for Years Ended December 31, 2008 and 2007

Net Sales

Net sales for the year ended December 31, 2008 were $176,903, as compared to $161,340 for the year ended December 31, 2007. These revenues reflect increased sales of the ProAlgaZyme® product, which currently is our sole product.

We currently market our product over the Internet, and by telephone. We have recently had limited success with retail grocery store outlets, and wholesale sales resulting in $50,393 in sales for 2008. We expect to continue to expand our presence in the retail market in 2009. In addition, in an attempt to increase our exposure in national markets, we made sales of its product to Changing Times Vitamins (CTV), a company whose significant shareholder, Howard Baer, is a significant shareholder of the Company. These sales totaled $49,333 and represent 28% of our revenue for 2008. This amount ($49,000) remains outstanding at December 31, 2008 and is reported in accounts receivable on the balance sheet. The Company, on the one hand, and CTV and Howard R. Baer, on the other hand, have agreed that each of them shall have a mutual right of offset against the other with respect to amounts payable by one to the other including accounts receivable owed by CTV to the Company. As of December 31 2008 and May 15, 2009 the Company owed Mr. Baer approximately $4,000 and $118,000 respectively, and CTV owed the Company $49,000 in accounts receivable.

Throughout 2007 and 2008, 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 currently advertising on a limited basis and expect only limited sales revenue until at least the last half of 2009. 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. This is discussed further in Part I.

Cost of Sales

Costs of sales were $130,036 for the year ended December 31, 2008, as compared to $167,922 for the comparable period in 2007. The decrease in costs of sales is due primarily to cost saving procedures implemented in 2008. Costs of sales are primarily costs related to raw materials, labor and the laboratory and controlled production environment necessary for the growing of the algae cultures that constitute the source of the ProAlgaZyme® product, and for conducting the necessary harvesting and production operations in preparing the product for sale.

Gross Profit

Gross Profit (Loss) was $46,867 for the year ended December 31, 2008, as compared to $(6,582) for the comparable period in 2007. The increase in gross profit for the year ended December 31, 2008 is a direct result of our improved production efficiency. By eliminating a full time production employee and utilizing contracted production assistance when needed we were able to decrease production salaries.

Research and Development Expenses

For the year ended December 31, 2008, we incurred approximately $149,000 in research and development expenses, as compared to $323,000 for the comparable period in 2007. These expenses are comprised of costs associated with internal and external research. Internal research and development was $136,000 in 2008, compared to $43,000 in 2007. The increase was due to the use of outside laboratory facilities, and an allocation of rent expense to research. We expect internal research and development to increase in 2009, subject to the availability of sufficient funding, which we do not currently have for such purpose. External research and development decreased approximately $267,000 in 2008 to $13,000, compared to $280,000 in 2007. This decrease was due primarily to the decrease in costs associated with external clinical trials. We expect external research and development to increase in 2009, as we pursue additional external trials, subject to the availability of sufficient funding.

Historically, we have been funded through external sources. We have in the past had difficulty raising funds from external sources; however, during 2008 we raised $987,200 in debt and equity. 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 and method of action 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 $209,189 for the year ended December 31, 2008, as compared to $159,149 for the year ended December 31, 2007. The increase in selling and marketing expenses was due primarily to an increase in the use of outside marketing consultants, offset by a decrease in shipping and payroll expense.

We are currently pursuing outside distributors for our product, to begin a nationwide campaign to raise awareness of our product. However, we intend to continue to direct selling efforts to existing ProAlgaZyme® users, by soliciting reorders from existing customers by telephone or mail in our inbound/outbound call center. In addition, we are continuing our efforts in the retail market arena, and 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 2009, subject to availability of sufficient funding, which we do not currently have.

General and Administrative Expenses

General and administrative expenses decreased approximately $846, 000 to $898,900 in 2008, compared to $1,745,765 in 2007. The decrease in general and administrative expenses was due primarily to a decrease in non-cash compensation to consultants, combined with a decrease in our legal and accounting fees, and a decrease in our administrative payroll.

Interest/Other Expense

During the year ended December 31, 2008, we incurred $641,734 in interest expense, as compared to $123,289 for the year ended December 31, 2007. The increase in interest expense and finance costs is due primarily to the increase in the amortization of bond discount of $421,326, combined with finance costs paid with stock of $126,720; offset by a reduction of interest we incurred ($2,503 in 2008 as compared to $30,758 in 2007) on the note payable to our former 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 $177,000 for year ended December 31, 2008) and have incurred significant net losses since inception, including a net loss of $1,813,841 during the year ended December 31, 2008. We expect only limited sales revenue until at least the second half of 2009**.** Further, since inception, we have incurred negative cash flow from operations. During the year ended December 31, 2008, we incurred negative cash flows from operations of $935,823. As of December 31, 2008, we had a working capital deficiency of $577,315 and a stockholders' deficiency of $519,595. We have an immediate and urgent need for additional capital.

During the year ended December 31, 2008, our operating activities used approximately $936,000 in cash, while our financing activities generated $1,050,470 in cash, comprised of $987,200 in net proceeds from equity sales and $51,000 in loans from a significant shareholder, partially offset by net repayments of indebtedness of $23,230. In addition, we received funds from stock subscriptions totaling $40,500. During the year ended December 31, 2007, our financing activities generated $1,405,828 in cash, comprised of $1,947,000 in net proceeds from equity sales, reduced by net repayments to a significant shareholder of $446,178, and other borrowings of $5,594.

From January through May, 2009, our financing activities generated $146,210 in cash from the proceeds of equity sales and issuance of convertible debt.

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 external sources for funding. 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 in the near term, 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.

We estimate that we will require approximately $1,500,000 in cash over the next 12 months in order to fund our operations. We currently have no cash in the bank for our 2009 cash needs. We are seeking additional funding in the range of $1,500,000 to $3,000,000 to support operations and fund new initiatives. 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. 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.

During March of 2008, we purchased additional grow room equipment at a cost of about $15,000. We have no current plans to make other material capital expenditures for equipment over the next 12 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.

We began an expansion of our production facilities during 2008. This expansion is approximately 90% complete. However, due to our limited resources this expansion will not be completed until funding is received. We anticipate an additional $15,000 to $20,000 to complete this expansion.

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 7A.Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

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

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. Based on their evaluation as of December 31, 2008, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), were effective as of the end of the period covered by this report to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions for Form 10-K. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control Over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined by Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment of those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2008.

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

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

(c) Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B.Other Matters.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

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

Name	Age	Positions	Since
Janet L. Crance	52	Interim Principal Administrative Officer, Principal Accounting Officer (part-time), Treasurer, Director	2005
John Gorman	38	Secretary, Director	2006

Ms. Janet L. Crance was appointed Principal Accounting Officer on June 22, 2005, was appointed as a director on November 30, 2006, and was appointed interim Principal Administrative Officer in September 2007. Ms. Crance has over 32 years experience in the field of accounting, including both the public and private sectors. She has been a Certified Public Accountant for 15 years. Professional affiliations include the *American Institute of Certified Public Accountants* and the *Arizona Society of Certified Public Accountants*. She has served for two years as the President of the Central Chapter of the Arizona Society, which includes the greater Phoenix area.

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

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

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

Audit Committee Financial Expert

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

Code of Ethics

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

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, 2008 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. Howard R. Baer, an 8.5% beneficial owner, did not file a Form 5, Annual Statement of Beneficial Ownership of Securities, with respect to the year ended December 31, 2008.

Item 11. Executive Compensation

Summary Compensation Table

We have no written compensation agreements with our executives.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Stock Awards* ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Thomas Ingolia,							
Former	12/31/2007	137,500 (1)	66,000 (2)				203,500
CEO and Chariman	12/31/2006	8,333 (1)					8,333
Janet Crance	12/31/2008	53,245	1,300 (3)				54,545
CFO and interim CEO	12/31/2007	45,364	4,400 (4)				49,764
	12/31/2006	28,500					28,500
John Gorman	12/31/2008	54,343	3,250 (5)				57,593
Marketing/Sales	12/31/2007	61,165	11,000 (6)				72,165
	12/31/2006	53,800					53,800

*The amounts in this column represent the compensation costs recognized for financial statement reporting purposes under FAS 123R for fiscal years 2008, 2007 and 2006 with respect to awards of restricted common stock (i.e. grant date fair value amortized over the requisite service period, but disregarding any estimate of forfeitures relating to service-based vesting conditions). Grant date fair value is the closing price on date of grant for stock awards.

(1) Mr. Ingolia's base salary was $200,000 annually. He was paid for the period from December 15 through December 31, 2006, and for January 1, 2007 through September 9, 2007. Mr. Ingolia resigned in September of 2007.

(2) Mr. Ingolia received 75,000 shares of stock as a bonus in January of 2007. This stock was valued at $.88 per share, the closing price on the day of the award.

(3) Ms. Crance received 10,000 shares of stock as a bonus in January of 2008. This stock was valued at $.13 per share, the closing price on the day of the award.

(4) Ms. Crance received 5,000 shares of stock as a bonus in January of 2007. This stock was valued at $.88 per share, the closing price on the day of the award.

(5) Mr. Gorman received 25,000 shares of stock as a bonus in January of 2008. This stock was valued at $.13 per share, the closing price on the day of the award.

(6) Mr. Gorman received 12,500 shares of stock as a bonus in January of 2007. This stock was valued at $.88 per share, the closing price on the day of the award.

Compensation of Directors

Our directors did not receive any remuneration for their service on our Board of Directors for 2008.

Employment Agreements

We currently have no written employment agreements with any of our employees.

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

The following table sets forth, as of May 18, 2009, certain information regarding each person who is known to us to beneficially own more than 5% of our issued and outstanding shares of common stock, and the number of shares of our common stock beneficially owned by each of our directors and named executive officers, and all officers and directors as a group. All percentages are based on 66,696,811 shares issued at outstanding as of May 18, 2009.

Security Ownership of Certain Beneficial Owners:

Name and Address	Title of Class	Number of Shares Beneficially Owned (1)	% of Shares
Mr. Howard R. Baer 7740 E. Evans Rd. Scottsdale, AZ 85260	Common	5,647,757 (2)	8.5%
Chris Maggiore 6860 Chillingsworth Circle Canton, OH 44718	Common	8,368,094 (3)	12.6%
Robert McLain 5619 Island Drive NW Canton, OH 44718	Common	4,260,875 (4)	6.4%

Security Ownership of Management:

Name and Address	Title of Class	Number of Shares Beneficially Owned (1)	% of Shares
Ms. Janet L. Crance 4350 East Kachina Trail Phoenix, AZ 85044	Common	910,000(5)	1.4%
Mr. John Gorman 5133 E. Tunder Dr Phoenix, AZ 85044	Common	540,000 (6)	*
Directors and Officers as a Group	Common	420,000	1.4%

*** Less than 1%**

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

(2) Includes warrants to purchase 114,984 shares of common stock.

(3) Includes warrants to purchase 3,196,652 shares of common stock.

(4) Includes warrants to purchase 2,770,000 shares of common stock.

(5) Includes warrants to purchase 235,000 shares of common stock.

(6) Includes warrants to purchase 65,000 shares of common stock.

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

We have entered into several transactions with Mr. Howard R. Baer, a significant shareholder, holding 5,647,757 shares or 8.5% of our outstanding common stock.

Office Space - We are subleasing approximately 15,000 square feet of office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer. This Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease on 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 paid an additional security deposit of approximately $110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

Of the 15,000 square feet currently leased, we are occupying approximately 9,800 square feet. We are subleasing approximately 2,000 square feet on a month to month basis back to this significant shareholder, Howard Baer at a rate of approximately $2,100 per month. This sublease has not yet been formalized, and is currently on a month to month basis. We incurred $236,933 in rent expense and recognized $18,900 in sublet rent income during fiscal 2008. The property is well maintained and in good condition.

Equipment - The Company uses and, in consideration of such use, makes lease and rent payments for, telephone equipment that is leased by Mr. Baer. During 2008 and 2007, equipment rental and lease expense paid to Mr. Baer amounted to $7,970 and $7,888, respectively. The lease and rental payments equal the debt service on the equipment. Mr. Baer intends to transfer the equipment to the Company, for no consideration, once the note is paid in full. At December 31, 2008, there were no amounts payable to Mr. Baer for this rent.

Marketing Consultant Agreement – The Company has entered into an agreement with Mr. Baer to provide marketing services whereby the Company shall pay commissions at the rate of $.50 per bottle for every bottle sold under this agreement. In April of 2009, we amended this agreement to grant worldwide distribution and marketing rights to our product. This agreement calls for minimum monthly sales levels and is in effect for two years.

Sales - In 2008 the Company sold its product to Changing Times Vitamins (CTV), a company whose significant shareholder, Howard Baer, is also a significant shareholder of the Company. These sales totaled $49,333 and represent 28% of our revenue for 2008. This amount ($49,000) remains outstanding at December 31, 2008 and is reported in accounts receivable on the balance sheet. The Company, on the one hand, and CTV and Howard R. Baer, on the other hand, have agreed that each of them shall have a mutual right of offset against the other with respect to amounts payable by one to the other including accounts receivable owed by CTV to the Company. As of December 31 2008 and May 15, 2009 the Company owed Mr. Baer approximately $4,000 and $118,000 respectively, and CTV owed the Company $49,000 in accounts receivable.

Financing - In September, 2008, the Company entered into a financing transaction in connection with which it incurred a liability of $45,000 to a significant shareholder, Howard Baer in the form of an advance of $25,000 and discharge of a Company liability for unpaid rent in the amount of approximately $20,000. In connection with this transaction, the Company issued 1,500,000 restricted shares of common stock to a third person to induce him to loan funds to the significant shareholder, Howard Baer to enable such shareholder to make the $25,000 loan to the Company and discharge the approximate $20,000 company liability for unpaid rent. The loan is unsecured, payable on demand, and bears interest at the rate of 7% per annum. The shares were valued at $90,000, based on the quoted price of the Company's common stock on September 15, 2008. The Company recognized finance costs of $90,000 in connection with this transaction.

Periodically during 2008 the Company received loans from Mr. Baer. In addition, the Company owed Mr. Baer for unpaid rent and other expenses paid on behalf of the Company by Mr. Baer. In December of 2008 the Company formalized these loans and accounts payable in a promissory note for $150,000. This note is unsecured, payable on demand, and bears interest at the rate of 7% per annum. Simultaneously, the Company issued 3,000,000 shares of common stock valued at $180,000, in full satisfaction of this promissory note, and recorded finance costs of $30,000 in connection with this transaction.

The Board of Directors consists of the Principal Administrative Officer and the Director of Sales and Operations. These two board members are not independent.

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 and 10-KSB reports and services normally provided by the accountant in connection with statutory and regulatory filings or engagements were approximately $50,000 and $75,000 for 2008 and 2007, respectively.

Audit-Related Fees

There were no fees for assurance and related services for 2008 or 2007.

Tax Fees

There were no fees for tax compliance, tax advice or tax planning services during 2008 or 2007.

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.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

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

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

(3) *Exhibits*.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEALTH ENHANCEMENT PRODUCTS, INC.

By: */s/ Janet L Crance*

Date: May 18, 2009

Janet L. Crance
Principal Administrative Officer
Principal Financial Officer

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

Signature	Title	Date
By: /s/ *John Gorman* (John Gorman)	Director	May 18, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Health Enhancement Products, Inc. and Subsidiaries (the "Company") as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' deficiency and cash flows for each of the two years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Enhancement Products, Inc. and Subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2008, 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, 2008 and 2007 and, as of December 31, 2008, has a significant working capital and stockholders' deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

Rockville Centre, New York
May 18, 2009

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS	December 31, 2007	December 31, 2008
CURRENT ASSETS:		
Cash	$ 5,110	$ -
Accounts receivable, less reserve of $7,247 and $0 at December 31, 2007 and 2008	2,415	49,334
Inventories	21,508	43,769
Prepaid Expenses	4,719	14,725
Total Current Assets	33,752	107,828
PROPERTY AND EQUIPMENT, NET	108,010	195,196
OTHER ASSETS:		
Definite-life intangible Assets, net	11,068	10,101
Deposits	122,015	122,015
Total Other Assets	133,083	132,116
	$ 274,845	$ 435,140
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts Payable	$ 533,325	$ 509,262
Loan Payable, Other	20,000	15,000
Sales Tax Payable	-	1,981
Current portion, long term debt	6,130	6,718
Common Stock Subscribed	-	40,500
Accrued Payroll and Payroll Taxes	53,526	76,834
Accrued Liabilities	65,820	34,848
Total Current Liabilities	678,801	685,143
LONG TERM LIABILITIES:		
Notes payable, less current portion	16,884	10,166
Convertible Debenture Payable, net of Discount of $84,306 and $213,020 at December 31, 2007 and 2008	252,310	132,980
Deferred rent expense	82,216	126,446
Total Long term Liabilities	351,410	269,592
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES	1,030,211	954,735
STOCKHOLDERS' DEFICIT:		
Common stock, $.001 par value, 100,000,000 shares authorized 44,226,307 and 59.478.045 issued and outstanding at December 31, 2007 and 2008	44,226	59,478
Additional Paid-In Capital	15,377,434	17,411,793
Accumulated deficit	(16,177,026)	(17,990,866)
Total Stockholders' Deficit	(755,366)	(519,595)
	$ 274,845	$ 435,140

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

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

	For the year ended December 31, 2007	For the year ended December 31, 2008
NET SALES	$ 161,340	$ 176,903
COST OF SALES	167,922	130,036
GROSS PROFIT (LOSS)	(6,582)	46,867
OPERATING EXPENSES:		
Selling	159,149	209,189
General and Administrative	1,745,765	898,900
Research and Development	323,186	148,831
Total Operating Expenses	2,228,100	1,256,920
LOSS FROM OPERATIONS	(2,234,682)	(1,210,053)
OTHER INCOME (EXPENSE):		
Other income - rent	85,739	37,947
Cancellation of contract	18,000	-
Amortization of Bond Interest	(84,345)	(505,671)
Interest income	3,244	-
Finance costs paid in stocks and warrants	-	(126,720)
Interest Expense	(8,185)	(6,840)
Interest Expense - Related Party	(30,759)	(2,503)
Total Other Income (Expense)	(16,306)	(603,787)
NET LOSS	$ (2,250,988)	$ (1,813,840)
BASIC AND DILUTED LOSS PER SHARE	$ (0.05)	$ (0.03)
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	42,394,344	52,430,957

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2008

	Common Stock		Additional Paid in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 2006	39,086,307	$ 39,086	$ 13,054,415	$ (13,926,039)	$ (832,538)
Issuance of stock to employees	261,000	261	229,419	-	229,680
Issuance of stock to consultants	104,000	104	41,096	-	41,200
Common stock issued pursuant to private placements	1,000,000	1,000	279,000	-	280,000
Exercise of warrants	3,790,000	3,790	888,210	-	892,000
Warrants issued to Board of Directors	-	-	20,000	-	20,000
Warrants issued to consultants for services	-	-	285,706	-	285,706
Warrants issued to former CEO	-	-	42,056	-	42,056
Consulting services provided, debt forgiven	-	-	37,913	-	37,913
Discount on convertible debentures	-	-	607,003	-	607,003
Additional cancellation of contract	(15,000)	(15)	(17,985)	-	(18,000)
Finders fees	-	-	(89,400)	-	(89,400)
Net loss, year ended December 31, 2007	-	-	-	(2,250,988)	(2,250,988)
Balance, December 31, 2007	44,226,307	44,226	15,377,433	(16,177,027)	(755,368)
Common stock issued pursuant to private placements	7,461,998	7,462	738,738	-	746,200
Exercise of warrants	450,000	450	44,550	-	45,000
Conversion of convertible debentures	2,411,240	2,411	626,202	-	628,612
Discount on convertible debentures	-	-	196,000	-	196,000
Finders fees	221,000	221	37,389	-	37,610
	-	-	(37,610)	-	(37,610)
Issuance of stock to employees	97,500	98	12,578	-	12,676
Warrants issued to employees	-	-	98,403	-	98,403
Redating of warrants	-	-	6,720	-	6,720
Issuance of stock to consultants	110,000	110	45,890	-	46,000
Issuance of stock as finance costs	1,500,000	1,500	88,500	-	90,000
Issuance of stock as payment of accounts payable	3,000,000	3,000	177,000	-	180,000
Net loss, year ended December 31, 2008	-	-	-	(1,813,840)	(1,813,840)
Balance, December 31, 2008	59,478,045	$ 59,478	$ 17,411,793	$ (17,990,867)	$ (519,596)

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

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

		For the year ended December 31, 2007		For the year ended December 31, 2008
Cash Flows for Operating Activities:				
Net Loss	$	(2,250,988)	$	(1,813,840)
Adjustments to reconcile net loss to net cash used by operating activities:				
Non-cash - stock issued for services rendered		41,200		46,000
Warrants issued as payment of finance costs		-		6,720
Stock issued to employees for services		229,680		12,676
Warrants granted to employees for services		347,762		98,403
Non-cash - reversal of contract		(18,000)		-
Services donated by a significant shareholder		37,913		-
Common stock issued for finance costs				120,000
Amortization of bond interest		84,313		505,671
Amortization of intangibles		967		967
Depreciation expense		27,529		32,572
Increase in deferred rent		48,807		44,230
Allowance for Doubtful Accounts		7,247		(7,247)
Changes in assets and liabilities:				
(Increase) Decrease in accounts receivable		3,068		(39,672)
(Increase) Decrease in inventories		9,251		(22,261)
(Increase) in prepaid expenses		(1,897)		(10,006)
(Decrease) in long term deposits		(6,089)		-
Increase in accounts payable		32,777		92,037
Increase in payroll and payroll taxes		38,527		23,308
(Decrease) in accrued liabilities		(38,807)		(25,381)
Net Cash (Used) by Operating Activities		(1,406,740)		(935,823)
Cash Flows from Investing Activities:				
Capital expenditures		(3,702)		(119,757)
Net Cash (Used) by Investing Activities		(3,702)		(119,757)
Cash Flow from Financing Activities:				
Proceeds from shareholder advances		180,500		51,000
Proceeds from Common Stock Subscribed		-		40,500
Proceeds from loans payable, others				31,000
Payments of shareholder advances		(626,678)		(17,100)
Payments of other borrowings		(5,594)		(6,130)
Payment on Note and loans payable				(36,000)
Payment of fees in connection with sale of common stock and warrants		(89,400)		-
Proceeds from issuance of convertible debentures		775,000		196,000
Proceeds from sale of common stock and warrants		1,172,000		791,200
Net Cash Provided by Financing Activities		1,405,828		1,050,470
Increase (Decrease) in Cash		(4,614)		(5,110)
Cash at Beginning of Period		9,724		5,110
Cash at End of Period	$	5,110	$	-
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the period for:				
Interest	$	37,596	$	2,886
Income taxes	$	-	$	-

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

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the year ended December 31, 2007:

The Company issued 311,375 warrants as finders' fees. These warrants were valued at $187,959 using the Black-Scholes pricing model.

The Company issued convertible debentures for $775,000 principal and recorded a discount on the debentures of $607,003. The Company agreed to issue 60,000 common stock purchase warrants with an exercise price of $.50 per share as a finder's fee. Such warrants were valued at $19,304 using the Black-Scholes pricing model.

For the year ended December 31, 2008:

The Company issued 221,000 shares of common stock as finders' fees. The stock was valued at $37,610. The Company converted $625,000 of convertible debentures and $3,613 in accrued interest with the issuance of 2,411,240 shares of common stock. The Company issued convertible debentures for $196,000 principal and recorded a discount on the debentures of $196,000.

The Company converted $150,000 of accounts payable and loans payable to a significant shareholder into a note payable.

The Company issued 3,000,000 shares of common stock, valued at $180,000, to a significant shareholder in payment of a $150,000 note payable. The Company recognized $30,000 in finance costs as a result of this transaction.

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

NOTE 1 – DESCRIPTION OF BUSINESS

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

NOTE 2 – BASIS OF PRESENTATION

The Company incurred net losses of $1,833,174 and $2,250,988 during the years ended December 31, 2008 and 2007, respectively. In addition, the Company had a working capital deficiency of $626,649 and a stockholders deficiency of $568,929 at December 31, 2008. 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, 2008, our reliance on a significant shareholder for our operating funds has diminished and we have obtained external financing through private placements of debt and equity.

During the year ended December 31, 2008, the Company:

- generated approximately $177,000 in net sales of its products;
- raised an aggregate amount of $987,200 through both equity and debt private placements, in which the Company incurred finders’ fees of $37,610

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 former 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 Subsidiaries, Health Enhancement Corporation and HEPI Pharmaceuticals, Inc. 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) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company recognized no such provision for the 12 months ended December 31, 2008, and a provision for bad debts of $49,334 and $7,247 for the years ended December 31, 2008 and 2007, respectively.

Advertising Costs - Advertising costs are expensed as incurred. Advertising costs were approximately $5,900 and $17,000 for the years ended December 31, 2008 and 2007, 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 $136,000 and $43,000 for the years ended December 31, 2008 and 2007, 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 $13,000 and $280,000 for the years ended December 31, 2008 and 2007, respectively.

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, 2008 and 2007 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 No. 123R, Share-Based Payment (SFAS 123R), which revised SFAS 123, Accounting for Stock-Based Compensation and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). SFAS 123R requires that new, modified and unvested share-based payment transactions with employees, such as stock options and restricted stock, be recognized in the financial statements based on their estimated fair value and recognized as compensation expense over the requisite service period. The Company adopted SFAS 123R effective January 1, 2006.

During 2007 and 2008, warrants were granted to employees and consultants of the Company. As a result of these grants, the Company recorded compensation expense of $347,762 and $98,403 during the years ended December 31, 2007 and December 31, 2008, respectively.

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

	Year Ended December 31,	
	2008	2007
Expected volatility	127.72% to 197.22%	86.17% to 249.35%
Expected dividends	0%	0%
Expected term	3 years	3.32 years
Risk free rate	3.1%	4.32%

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

Loss Per Share - The computation of loss per share is based on the weighted average number of common shares outstanding during the period presented. Diluted loss per share is the same as basic loss per share, as the effect of potentially dilutive securities (warrants – 20,107,373 and 13,595,109 at December 31, 2008 and 2007 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.

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

Recently-Enacted Accounting Standards – In June 2006, the FASB issued "Accounting for Uncertain Tax Positions - an Interpretation of FASB Statement No. 109", ("FIN No. 48"), which prescribes a recognition and measurement model for uncertain tax positions taken or expected to be taken in the Company's tax returns. FIN No. 48 provides guidance on recognition, classification, presentation, and disclosure of unrecognized tax benefits. Fin No. 48 is effective for fiscal years beginning after December 15, 2006, The adoption of this statement have no material impact on the Company's financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value, and expands fair value disclosures. The standard does not require any new fair value measurements. This standard is effective for fiscal years beginning after November 15, 2007. The adoption of this new standard is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In December 2006, the FASB issued FSP EITF 00-19-2, "Accounting for Registration Payment Arrangements" ("FSP 00-19-2"), which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies". FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years. The Company does not expect the adoption of this standard will have a material impact on its financial position, results of operations or cash flows.

In June 2007, the FASB ratified the consensus in EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities" (EITF 07-3), which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development (R&D) activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 will be effective for fiscal years beginning after December 15, 2007. The Company does not expect that the adoption of EITF 07-3 will have a material impact on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R),"Business Combinations" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141(R) is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its financial position, results of operations or cash flows.

In February 2008, the FASB issued FSP 157-2, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities is effective for us beginning January 1, 2009. We do not expect the impact of this adoption to be material.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (“FSP 142-3”). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other GAAP standards. The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which will require the Company to adopt prospectively these provisions in the first quarter of fiscal 2009. The Company does not expect that the adoption of this standard will have a material impact on the Company’s consolidated financial statements.

In October 2008, the FASB issued Staff Position (“FSP”) No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* which clarifies the application of Statement No. 157 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. The Staff Position is effective immediately and applies to prior periods for which financial statements have not been issued, including interim or annual periods ending on or before December 30, 2008. The implementation of FAS 157-3 did not have a material impact on the Company’s consolidated financial statements

In April 2009, the FASB issued Staff Position No. FAS 157-4, “ *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*” (“FSP FAS 157-4”), which provides additional guidance on determining fair value when the volume and level of activity for an asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate when a transaction is not orderly. In April 2009, the FASB issued Staff Position No. FAS 115-2 and FAS 124-2, “ *Recognition and Presentation of Other-Than-Temporary Impairments*” (“FSP FAS 115-2 and FAS 124-2”), which: 1) clarifies the interaction of the factors that should be considered when determining whether a debt security is other than temporarily impaired; 2) provides guidance on the amount of an other-than-temporary impairment recognized in earnings and Other Comprehensive Income; and 3) expands the disclosures required for other-than-temporary impairments for debt and equity securities. Also in April 2009, the FASB issued Staff Position No. 107-1 and APB 28-1, “*Interim Disclosures about Fair Value of Financial Instruments*” (“FSP FAS 107-1 and APB 28-1”), which requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The implementation of FAS 157-4 will not have a material impact on the Company’s consolidated financial statements.

NOTE 4 - INVENTORIES

Inventories at December 31, 2008 and 2007 consist of the following:

	December 31, 2008	December 31, 2007
Work in Process	$ 35,850	$ 4,864
Finished Goods	7,919	16644
	$ 43,769	$ 21,508

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2008 and 2007 consist of the following:

	December 31, 2008	December 31, 2007
Furniture & fixtures	$ 49,466	$ 49,465
Equipment	85,402	54,722
Leasehold improvements	129,252	40,175
	264,120	144,362
Less accumulated depreciation and amortization	(68,924)	(36,352)
	$ 195,196	$ 108,010

Depreciation and amortization was $32,572 and $27,529 for the years ended December 31, 2008 and 2007, respectively.

NOTE 6 – DEFINITE-LIFE INTANGIBLE ASSETS

Definite-life intangible assets at December 31, 2008 and 2007 consist of the following:

	December 31, 2008	December 31, 2007
Patent applications pending	$ 14,500	$ $14,500
Less: accumulated amortization	4,399	3,432
	$ 10,101	$ $11,068

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 $967 and $967 for the years ended December 31, 2008 and 2007, respectively. The Company estimates that their amortization expense for each of the next five years will be approximately $1,000 per year.

NOTE 7 – LOAN PAYABLE – OTHER

Loan payable, other, is payable on demand and bears has no stated interest rate. As of December 31, 2008, the outstanding principal balance was $15,000.

NOTE 8 – LONG TERM DEBT

Long term debt at December 31, 2008 and 2007 consists of the following:

	December 31, 2008	December 31, 2007
Installment notes, bearing interest at 8.8% and 9.5% per annum and due November 2010 and March 2011. The loans are secured by certain of the Company	$ 16,884	$ 23,014
Equipment	6,718	6,130
Less current portion	$ 10,166	$ 16,884

Maturities of the long-term debt are as follows:
December 31,

2009	$ 6,718
2010	6,999
2011	3,167
	$ 16,884

NOTE 9 – CONVERTIBLE DEBT

In July and August 2007, the Company sold for aggregate consideration of $775,000 1% convertible notes in the aggregate principal amount of $775,000 ("Notes") and warrants to purchase 1,550,000 shares of common stock, at an exercise price of $.50 per share for a term of three years ("Warrants). The Company issued warrants to purchase 60,000 shares of common stock at an exercise price of $.50 per share for a term of three years as finder's fees. These warrants were valued at $19,304 using the Black-Scholes pricing model with the following assumptions: expected volatility 106.55%; expected dividend 0; expected term 3 years; and risk free rate 3.1%.

The Convertible Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years, subject to the Company's right to extend the term for an additional three years, cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, at the discretion of the holder, into shares of common stock, at a rate equal to the lesser of (i) $.50 per share and (ii) the Market Price (as defined) (but not less than $.25 per share). Accrued interest will be paid on the maturity date, as the same may be extended, in shares of Common Stock, valued at the Market Price (as defined), but not less than $.25 per share, and, unless the Convertible Note is converted prior to its maturity date, as the same may be extended, at the Company's option, the principal amount of the Note may, on the maturity date, as extended, be repaid in cash or converted into common stock at a rate equal to the lesser of (i) $.50 per share and (ii) the Market Price (but not less than $.25 per share).

The Company recorded a deferred debt discount in the amount of $607,003, to reflect the beneficial conversion feature of the convertible debt and fair value of the warrants pursuant to Emerging Issues Task Force ("EITF") 00-27: Application of EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features on Contingently Adjustable Conversion Rates", to certain convertible instruments. In accordance with EITF 00-27, the Company evaluated the value of the beneficial conversion feature and recorded the amount of $306,771 as a reduction to the carrying amount of the convertible debt and as an addition to paid-in capital. Additionally, the relative fair value of the warrants $300,232 was calculated and recorded as a further reduction to the carrying amount of the convertible debt and as addition to paid-in capital. The Company is amortizing the debt discount over the term of the debt. Amortization of debt discount for the year ended December 31, 2007 was $84,313.

In 2008 $625,000 of these convertible debentures, along with $3,512 in accrued interest, were converted into 2,411,240 shares of common stock.

In 2008, the Company sold for aggregate consideration of $196,000 1% convertible notes in the aggregate principal amount of $196,000 ("Notes") and warrants to purchase 3,920,000 shares of common stock, at an exercise price of $.10 per share for a term of three years ("Warrants). These warrants were valued at $150,644 using the Black-Scholes pricing model with the following assumptions: expected volatility 127.72% - 197.22%; expected dividend 0; expected term 3 years; and risk free rate 3.1%.

The Convertible Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years, subject to the Company's right to extend the term for an additional three years, cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, at the discretion of the holder, into shares of common stock, at a rate equal to $.10 per share. Accrued interest will be paid on the maturity date, as the same may be extended, in shares of Common Stock, valued at $.10 per share, and, unless the Convertible Note is converted prior to its maturity date, as the same may be extended, at the Company's option, the principal amount of the Note may, on the maturity date, as extended, be repaid in cash or converted into common stock at a rate equal to $.10 per share.

The Company recorded a deferred debt discount in the amount of $196,000, to reflect the beneficial conversion feature of the convertible debt and fair value of the warrants pursuant to Emerging Issues Task Force ("EITF") 00-27: Application of EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features on Contingently Adjustable Conversion Rates", to certain convertible instruments. In accordance with EITF 00-27, the Company evaluated the value of the beneficial conversion feature and recorded the amount of $44,986 as a reduction to the carrying amount of the convertible debt and as an addition to paid-in capital. Additionally, the relative fair value of the warrants $151,014 was calculated and recorded as a further reduction to the carrying amount of the convertible debt and as addition to paid-in capital. The Company is amortizing the debt discount over the term of the debt.

Amortization of debt discount for the year ended December 31, 2008 was $505,671.

NOTE 10 - STOCKHOLDERS' DEFICIENCY

During the first quarter of 2007, the Company issued 261,000 shares of its common stock, valued at $229,680 to its employees. On February 15, 2007, the Company's board of directors declared a distribution in the form of shares of the common stock of its new wholly-owned Subsidiaries, HEPI Pharmaceuticals, to all shareholders of record as of March 15, 2007. Each shareholder of record on the record date received one share of the new pharmaceutical company for every 10 shares of common stock of HEPI they own on the record date. The shares of the pharmaceutical Subsidiaries will be distributed promptly following compliance with applicable laws, including the Company delivering an information statement to its stockholders pursuant to the requirements of the Securities Exchange Act of 1934 ("Exchange Act") and the effectiveness of the pharmaceutical Subsidiaries's registration under the Exchange Act. The number of shares to be distributed will at the time of distribution represent 10% of the total outstanding shares of the new company. It is anticipated that the remaining 90% of the equity of the Subsidiaries will be owned by the Company.

During the quarter ended March 31, 2007, the Company issued to a consultant, for services rendered, 15,000 shares of common stock, valued at $13,550. In addition, the Company issued 261,000 shares of common stock valued at $229,680 to employees for services. From February through March of 2007, the Company privately sold 260,000 shares of common stock and 260,000 warrants (3 year term and $.50 exercise price) for $130,000. Also during February and March, the Company sold 190,000 shares of common stock in a private placement, received $95,000 in proceeds, and incurred cash finder's fees of $9,500. In addition, the Company issued 2,540,000 shares of common stock, and received proceeds of $767,000 upon exercise of outstanding warrants, some of which were re-priced. The Company incurred cash finder's fees of $79,900 in connection with the exercise of these warrants. In addition, the Company issued 311,375 warrants for finders fees (3 year term and $.50 exercise price), valued at $187,959 using the Black Scholes option-pricing model with the following assumptions: expected life – three years; risk-free rate – 3.1%; annual rate of dividends – 0%; volatility - 162.07% and 186.59%.

During the quarter ended June 30, 2007 the Company issued to a consultant for services rendered, 5,000 shares of common stock, valued at $3,750. The Company issued 50,000 warrants (2 year term and $.50 exercise price) for Board of Director's fees, valued at $20,000 using the Black Scholes option-pricing model with the following assumptions: expected life – two years; risk-free rate – 5.0%; annual rate of dividends – 0%; volatility - 150.3%.

During the quarter ended September 30, 2007, the Company issued 24,000 shares of its common stock, valued at $10,800, to a consultant. In consideration of introducing investors to the Company, the Company extended the term of a previously issued warrant due to expire August 18, 2007. The new term expires August 18, 2010 and the exercise price is $.10 per share. This term extension was valued at $98,199 using the Black Scholes option-pricing model with the following assumptions: expected life – three years; risk-free rate – 5.0%; annual rate of dividends – 0%; volatility - 151.92%. As compensation for services rendered, including with respect to the convertible note financing discussed below, the Company repriced outstanding warrants to purchase 300,000 shares of common stock from an exercise price of $2.00 per share to an exercise price of $.50 per share. The Company has recorded compensation expense of $19,262 using the Black Scholes option-pricing model with the following assumptions: expected life – 1.33 years; risk-free rate – 5.0%; annual rate of dividends – 0%; volatility - 249.35%. The Company issued 325,000 warrants (3 year term and $.50 exercise price) to its former CEO valued at $42,056 using the Black Scholes option-pricing model with the following assumptions: expected life – three years; risk-free rate 5.0%; annual rate of dividends – 0%; volatility - 142%.

In July, 2007, the Company issued 1,250,000 shares of common stock upon the exercise of warrants for gross proceeds of $125,000. The Company issued 500,000 warrants to a consultant valued at $168,245 using the Black Scholes pricing model with the following assumptions: expected life – three years; risk-free rate – 5.0%; annual rate of dividends – 0%; volatility - 86.17%. These warrants are all vested as of December 31, 2007. The Company has recorded consulting expense for $168,245.

In September of 2007, the Company recorded the value of consulting services contributed by a significant shareholder, Howard Baer, valued at $37,913 to contributed capital.

In conjunction with the issuance of convertible debt, the Company issued warrants to purchase 60,000 shares of common stock at an exercise price of $.50 per share for a term of three years as finder's fees. These warrants were valued at $19,304 using the Black-Scholes pricing model with the following assumptions: expected life – three years; risk-free rate – 3.1%; annual rate of dividends – 0%; volatility - 106.55%

In the fourth quarter of 2007 the Company issued to consultants for services rendered, 45,000 shares of common stock, valued at $7,350. The Company also issued 550,00 shares of common stock and warrants to purchase 1,100,000 shares of common stock (3 year term and $.10 exercise price) for $55,000.

During the quarter ended March 31, 2008, the Company issued 97,500 shares of stock to employees for future services, valued at $12,676. The Company issued 70,000 shares of common stock, valued at $21,000 for finders fees related to the sales of stock during the first quarter. The Company sold 3,534,990 shares of common stock and warrants to purchase 7,069,980 shares of stock for $.10 per share for a term of three years and received proceeds of $353,499. The Company sold for aggregate consideration of $110,000 1% convertible notes in the aggregate principal amount of $110,000 ("Notes") and warrants to purchase 2,200,000 shares of common stock, at an exercise price of $.10 per share for a term of three years ("Warrants). The Convertible Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years, subject to the Company's right to extend the term for an additional three years, cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, at the discretion of the holder, into shares of common stock, at a rate of $.10 per share. Accrued interest will be paid on the maturity date, as the same may be extended, in shares of Common Stock, valued at $.10 per share, and, unless the Convertible Note is converted prior to its maturity date, as the same may be extended, at the Company's option, the principal amount of the Note may, on the maturity date, as extended, be repaid in cash or converted into common stock at a rate of $.10 per share. The Company issued 2,281,730 shares of common stock upon conversion of $575,000 in principal and $2,481 in interest as a result of conversions of 2007 convertible debt.

During the second quarter of 2008, the Company sold 3,311,660 shares of common stock and warrants to purchase 6,623,320 shares of common stock with an exercise price of $.10 and a term of three years, and received proceeds of $331,166, which was used for operations. The Company sold for aggregate consideration of $41,000 1% convertible notes in the aggregate principal amount of $20,000 ("Notes") and warrants to purchase 820,0000 shares of common stock, at an exercise price of $.10 per share for a term of three years ("Warrants). The Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years (subject to the Company's right to extend the term for an additional three years), cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, at the discretion of the holder, into shares of common stock, at a rate of $.10 per share. Accrued interest will be paid on the maturity date, as the same may be extended, in shares of common stock, valued at $.10 per share, and, unless the Note is converted prior to its maturity date, as the same may be extended, at the Company's option, the principal amount of the Note may, on the maturity date, as extended, be repaid in cash or converted into common stock at a rate of $.10 per share. In addition, the Company issued 450,000 shares of common stock upon the exercise of warrants and received proceeds of $45,000. In addition, the Company issued 85,000 shares of common stock, valued at $43,250, to a consultant. The Company issued 129,511 shares of common stock upon conversion of $50,000 in principal and $1,133 in interest as a result of conversions of 2007 convertible debt.

During the quarter ended September 30, 2008, the Company sold 615,348 shares of common stock and warrants to purchase 1,030,696 shares at $.10 per share for a term of three years, in a private placement, and received $61,535 in proceeds, which was used for operations. The Company sold for aggregate consideration of $45,000 1% convertible notes in the aggregate principal amount of $45,000 ("Notes") and warrants to purchase 900,000 shares of common stock, at an exercise price of $.10 per share for a term of three years ("Warrants). The Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years (subject to the Company's right to extend the term for an additional three years), cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, at the discretion of the holder, into shares of common stock, at a rate of $.10 per share. Accrued interest will be paid on the maturity date, as the same may be extended, in shares of common stock, valued at $.10 per share, and, unless the Note is converted prior to its maturity date, as the same may be extended, at the Company's option, the principal amount of the Note may, on the maturity date, as extended, be repaid in cash or converted into common stock at a rate of $.10 per share.

During the quarter ended December 31, 2008, the Company issued 25,000 shares to a consultant for services, valued at $2,750. 151,000 shares of common stock, valued at $16,610 were issued in payment of finders' fees related to stock sold in the second and third quarters.

In September, 2008, the Company entered into a financing transaction in connection with which it incurred a liability of $45,000 to a significant shareholder, Howard Baer in the form of an advance of $25,000 and discharge of a Company liability for unpaid rent in the amount of approximately $20,000. In connection with this transaction, the Company issued 1,500,000 restricted shares of common stock to a third person to induce him to loan funds to the significant shareholder, Howard Baer to enable such shareholder to make the $25,000 loan to the Company and discharge the approximate $20,000 company liability for unpaid rent. The loan is unsecured, payable on demand, and bears interest at the rate of 7% per annum. The shares were valued at $90,000, based on the quoted price of the Company's common stock on September 15, 2008. The Company recognized finance costs of $90,000 in connection with this transaction.

Periodically during 2008 the Company received loans from Mr. Baer. In addition, the Company owed Mr. Baer for unpaid rent and other expenses paid on behalf of the Company by Mr. Baer. In December of 2008 the Company formalized these loans and accounts payable in a promissory note for $150,000. This note is unsecured, payable on demand, and bears interest at the rate of 7% per annum. Simultaneously, the Company issued 3,000,000 shares of common stock valued at $180,000, in full satisfaction of this promissory note, and recorded finance costs of $30,000 in connection with this transaction.

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

	December 31, 2008			December 31, 2007		
	Number of Warrants		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price
Outstanding, beginning of year	13,595,109		0.55	13,538,734	$	0.75
Issued	18,843,996		0.10	4,416,375		0.35
Exercised	(350,000)		0.10	(3,790,000)		(0.02)
Terminated warrants				(520,000)		(0.33)
Expired	(11,981,732)		1.10	(50,000)		(3.75)
Outstanding, end of period	20,107,373	$	0.27	13,595,109	$	0.55

Warrants outstanding and exercisable by price range as of December 31, 2008 were as follows:

	Oustanding Warrants			Exercisable Warrants	
Range	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price
0.10	16,556,014	2.28	0.10	16,556,014	0.10
0.25	150,000	0.27	0.25	150,000	0.25
0.50	3,401,359	1.67	0.50	3,401,359	0.50
	20,107,373	2.16		20,107,373	0.17

NOTE 11 - RELATED PARTY TRANSACTIONS

Office Space - We are subleasing approximately 15,000 square feet of office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer. This Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease on 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 paid an additional security deposit of approximately $110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

Of the 15,000 square feet currently leased, we are occupying approximately 9,800 square feet. We are subleasing approximately 2,000 square feet on a month to month basis back to this significant shareholder, Howard Baer at a rate of approximately $2,100 per month. This sublease has not yet been formalized, and is currently on a month to month basis. We incurred $236,933 in rent expense and recognized $18,900 in sublet rent income during fiscal 2008. The property is well maintained

Equipment - The Company uses and, in consideration of such use, makes lease and rent payments for, telephone equipment that is leased by an entity owned by the Company's former CEO. During 2008 and 2007, equipment rental and lease expense paid to the entity amounted to $7,970 and $7,888, respectively. The lease and rental payments equal the debt service on the equipment. The former CEO intends to transfer the equipment to the Company, for no consideration, once the note is paid in full. At December 31, 2008, there were no amounts payable to the former CEO for this rent.

Marketing Consultant Agreement – The Company has entered into an agreement with a significant shareholder, Howard Baer and former CEO to provide marketing services whereby the Company shall pay commissions at the rate of $.50 per bottle for every bottle sold under this agreement. In April of 2009, we amended this agreement to grant worldwide distribution and marketing rights to our product. This agreement calls for minimum monthly sales levels and is in effect for two years.

Financing - In September, 2008, the Company entered into a financing transaction in connection with which it incurred a liability of $45,000 to a significant shareholder, Howard Baer in the form of an advance of $25,000 and discharge of a Company liability for unpaid rent in the amount of approximately $20,000. In connection with this transaction, the Company issued 1,500,000 restricted shares of common stock to a third person to induce him to loan funds to the significant shareholder, Howard Baer to enable such shareholder to make the $25,000 loan to the Company and discharge the approximate $20,000 company liability for unpaid rent. The loan is unsecured, payable on demand, and bears interest at the rate of 7% per annum. The shares were valued at $90,000, based on the quoted price of the Company's common stock on September 15, 2008. The Company recognized finance costs of $90,000 in connection with this transaction.

Periodically during 2008 the Company received loans from Mr. Baer. In addition, the Company owed Mr. Baer for unpaid rent and other expenses paid on behalf of the Company by Mr. Baer. In December of 2008 the Company formalized these loans and accounts payable in a promissory note for $150,000. This note is unsecured, payable on demand, and bears interest at the rate of 7% per annum. Simultaneously, the Company issued 3,000,000 shares of common stock valued at $180,000, in full satisfaction of this promissory note, and recorded finance costs of $30,000 in connection with this transaction.

Sales - In 2008 the Company sold its product to Changing Times Vitamins (CTV), a company whose majority shareholder is a significant shareholder, Howard Baer of the Company. These sales totaled $49,333 and represent 28% of our revenue for 2008. This amount ($49,000) remains outstanding at December 31, 2008 and is reported in accounts receivable on the balance sheet. The Company, on the one hand, and CTV and Howard R. Baer, on the other hand, have agreed that each of them shall have a mutual right of offset against the other with respect to amounts payable by one to the other including accounts receivable owed by CTV to the Company. As of December 31 2008 and May 15, 2009 the Company owed Mr. Baer approximately $4,000 and $118,000 respectively, and CTV owed the Company $49,000 in accounts receivable.

NOTE 12 - INCOME TAXES

At December 31, 2008, the Company had available net-operating loss carry-forwards for Federal tax purposes of approximately $3,800,000, which may be applied against future taxable income, if any, at various dates from 2024 through 2028. Certain significant changes in ownership of the Company may restrict the future utilization of these tax loss carry-forwards.

At December 31, 2008, the Company had a deferred tax asset of approximately $1,500,000 representing the benefit of its net operating loss carry-forwards. The Company has not recognized the tax benefit because realization of the tax benefit is uncertain and thus a valuation allowance has been fully provided against the deferred tax asset. The difference between the Federal and State Statutory Rate of 40% and the Company's effective tax rate of 0% is due to an increase in the valuation allowance of approximately $350,000 in 2008.

NOTE 13 – 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. In 2008 the Company sold its product to Changing Times Vitamins (CTV), a company whose majority shareholder is a significant shareholder, Howard Baer of the Company. These sales totaled $49,333 and represent 28% of our revenue for 2008. This amount ($49,000) remains outstanding at December 31, 2008 and is reported in accounts receivable on the balance sheet. The Company, on the one hand, and CTV and Howard R. Baer, on the other hand, have agreed that each of them shall have a mutual right of offset against the other with respect to amounts payable by one to the other including accounts receivable owed by CTV to the Company. As of December 31 2008 and May 15, 2009 the Company owed Mr. Baer approximately $4,000 and $118,000 respectively, and CTV owed the Company $49,000 in accounts receivable.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Lease Commitment -- We are subleasing approximately 15,000 square feet of office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer. This Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease on 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 paid an additional security deposit of approximately $110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

Of the 15,000 square feet currently leased, we are occupying approximately 9,800 square feet. We are subleasing approximately 2,000 square feet on a month to month basis back to this significant shareholder, Howard Baer at a rate of approximately $2,100 per month. This sublease has not yet been formalized, and is currently on a month to month basis. We incurred $236,933 in rent expense and recognized $18,900 in sublet rent income during fiscal 2008. The property is well maintained

The Company is leasing, on a month to month basis, a warehousing and bottling facility. The lease calls for monthly rentals of $2,167. Rent expense under this lease for the year ended December 31, 2008 was approximately $28,275.

The future minimum lease payments related to the Amended and Restated Sublease are as follows:

Year Ending December 31,		
2009	$	256,878
2010		263,300
2011		269,882
2012		276,629
2013		283,545
Thereafter		,884,063
	$	3,234,297

NOTE 15 - SUBSEQUENT EVENTS

In February of 2009, the Company contracted with American Capital Ventures, Inc to provide us with assistance in promoting the Company to brokerage firms, hedge funds and institutional investors that invest in and follow the nutraceutical industry. This contract calls for the issuance of 1,500,000 shares of common stock upon acceptance of the agreement.

In February of 2009 the Company contracted with Great Northern & Reserve Partners, LLC, (GNRP) to develop a comprehensive plan to fully substantiate and identify the efficacy of our products ingredients. In addition, GNRP will assist in developing a coherent strategy to contact supplement and functional foods manufacturers. This contract calls for the issuance of 1,500,000 shares of common stock upon acceptance of this agreement. As a part of this agreement, GNRP identified a research opportunity for our company, and in March of 2009 the Company contracted with Wayne State University for research to analyze the ProAlgaZyme filtrate to determine the biochemical makeup of the entire filtrate. We are hoping to identify the active agent or agents in our products in order to further our marketing and distribution potential. Once we have identified the active ingredients in our products, our advertising can target specific groups of consumers who would benefit from the use of our product.

In February of 2009 the Company signed a distribution agreement with Changing Times Vitamins, Inc. (CTV) to provide exclusive distribution rights for ProAlgaZyme, marketed under the names RecoveryX, Immune Plus Rx, and Liquid MD. This contract calls for certain minimum sales levels, and is in effect for two years. A significant shareholder, Howard Baer, is a majority shareholder in Changing Times Vitamins, Inc.

In February of 2009 the Company issued 1,618,333 shares of common stock to its employees for accrued and unpaid salaries due.

Through May 15, 2009 the Company issued 2,274,200 shares of its common stock against common stock subscribed of $40,500 and received $73,210 in cash.

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)
4.1	Form of Convertible Note Subscription Agreement dated July/August 2007	(5)
4.2	Form of Convertible Note dated July/August 2007	(9)
4.3	Form of Warrant (Convertible Note Offering)	(10)
10.02	Amended and Restated Sublease between Howard R. Baer and the Company, dated April 12, 2006	(6)
10.05	Branding and Marketing Agreement with Specialty Nutrition Group, Inc.	(8)
14.1	Code of Ethics	(7)
21	Subsidiaries of the Registrant	(4)
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 the same Exhibit number to our Form 10-KSB, filed with the Commission on May 17, 2005, and incorporated by this reference.

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

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

(7) Filed as Exhibit 99 to our Form 10-KSB, filed with the Commission on April 1, 2004, and incorporated by this reference.

(8) Filed herewith.

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

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

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

1. I have reviewed this Annual report on Form 10-K 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;
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):

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: May 18, 2009

/s/ Janet L. Crance
Janet L. Crance
Chief Administrative 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-K 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;

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):

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: May 18, 2009

/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-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Janet L. Crance, Chief Administrative Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

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

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

Date: May 18, 2009

/s/ Janet L Crance
Janet L Crance
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-K for the period ended December 31, 2008 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: May 18, 2009

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

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