

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: 000-30415

Health Enhancement Products, Inc.

(Exact name of small business issuer as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

87-0699977

(IRS Employer Identification No.)

7740 East Evans Road, Scottsdale, Arizona 85260

(Address of principal executive offices)

480-385-3800

(Issuer's telephone number)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by checkmark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the 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 check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation ST (Sec. 232.405) 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 checkmark 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 90,765,026 shares of common stock, \$0.001 par value, outstanding at November 12, 2010.

FORM 10-Q

HEALTH ENHANCEMENT PRODUCTS, INC.

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(Inapplicable items have been omitted)

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our ability to raise the funds we need to continue our operations;
- our goal to increase our revenues and become profitable;
- regulation of our product;
- our ability to expand the production of our product;
- market acceptance of our product;
- future testing of our product;
- the anticipated performance and benefits of our product 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 – FINANCIAL INFORMATION**Item 1. Consolidated Financial Statements**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Inventories	\$ 14,193	\$ 4,197
Prepaid Expenses	17,645	90,607
Total Current Assets	<u>31,838</u>	<u>94,804</u>
PROPERTY AND EQUIPMENT, NET	<u>154,154</u>	<u>177,190</u>
OTHER ASSETS:		
Definite-life intangible Assets, net	8,409	9,134
Deposits	124,482	120,667
Total Other Assets	<u>132,891</u>	<u>129,801</u>
	<u>\$ 318,883</u>	<u>\$ 401,795</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Cash Overdraft	\$ 2,411	\$ 9,517
Accounts Payable	482,914	541,857
Loan Payable, other	15,046	58,117
Obligation to issue common stock and warrants	75,000	636,262
Convertible Debenture Payable, less Discount of \$36,895 and \$15,229 at September 30, 2010 and December 31, 2009	159,015	84,771
Derivative liability	-	2,229,044
Current portion, long term debt	3,393	5,585
Accrued Payroll	23,914	39,262
Accrued Payroll Taxes	8,084	144,130
Accrued Liabilities	22,508	26,324
Total Current Liabilities	<u>792,285</u>	<u>3,774,869</u>
LONG TERM LIABILITIES:		
Notes payable, less current portion	595	3,168
Loan payable, related party	166,824	-
Convertible Debenture Payable, less Discount of \$83,296 and \$114,831 at September 30, 2010 and December 31, 2009	71,804	251,269
Deferred rent expense	169,838	158,091
Total Long term Liabilities	<u>409,061</u>	<u>412,528</u>
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES	<u>1,201,346</u>	<u>4,187,397</u>
STOCKHOLDERS' DEFICIT:		
Common stock, \$.001 par value, 150,000,000 shares and 100,000,000 shares authorized at September 30, 2010 and December 31, 2009; 90,301,870 and 78,636,332 shares issued and outstanding at September 30, 2010 and December 31, 2009	90,302	78,636
Additional Paid-In Capital	17,041,401	15,543,488
Accumulated deficit	(18,014,166)	(19,407,726)
Total Stockholders' Deficit	<u>(882,463)</u>	<u>(3,785,602)</u>
	<u>\$ 318,883</u>	<u>\$ 401,795</u>

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

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

	For the three Months ended September 30, 2010	For the three Months ended September 30, 2009	For the Nine Months ended September 30, 2010	For the Nine Months ended September 30, 2009
NET SALES AND DISTRIBUTION FEES	\$ 19,291	\$ 27,000	\$ 52,451	\$ 77,245
COST OF SALES	<u>15,433</u>	<u>978</u>	<u>35,343</u>	<u>24,297</u>
GROSS PROFIT	<u>3,858</u>	<u>26,022</u>	<u>17,108</u>	<u>52,948</u>
OPERATING EXPENSES				
Selling	29,295	44,373	95,190	212,167
General and Administrative	432,849	224,840	2,961,114	777,756
Contract Termination Fee		652,500		652,500
Research and Development	<u>94,529</u>	<u>86,908</u>	<u>294,053</u>	<u>236,034</u>
Total Expenses	<u>556,673</u>	<u>1,008,621</u>	<u>3,350,357</u>	<u>1,878,457</u>
LOSS FROM OPERATIONS	<u>(552,815)</u>	<u>(982,599)</u>	<u>(3,333,249)</u>	<u>(1,825,509)</u>
OTHER INCOME (EXPENSE):				
Other income - rent		6,300		18,900
Fair Value Adjustment of Derivative Liability		(73,957)	5,277,350	(73,957)
Amortization of Bond Discount	(32,483)	(30,090)	(132,063)	(210,803)
Finance costs paid in stocks and warrants			(405,925)	-
Interest expense	<u>(3,780)</u>	<u>(1,759)</u>	<u>(12,553)</u>	<u>(5,248)</u>
Total Other Income (Expense)	<u>(36,263)</u>	<u>(99,506)</u>	<u>4,726,809</u>	<u>(271,108)</u>
NET INCOME (LOSS)	<u>\$ (589,078)</u>	<u>\$ (1,082,105)</u>	<u>\$ 1,393,560</u>	<u>\$ (2,096,617)</u>
INCOME (LOSS) PER COMMON SHARE				
BASIC	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ (0.03)</u>
DILUTED	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	<u>89,607,271</u>	<u>72,813,951</u>	<u>89,243,185</u>	<u>67,418,759</u>
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	<u>89,607,271</u>	<u>72,813,951</u>	<u>116,925,215</u>	<u>67,418,759</u>

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

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

	For the Nine Months Ended September 30, 2010 <u>(Unaudited)</u>	For the Nine Months Ended September 30, 2009 <u>(Unaudited)</u>
Cash Flows for Operating Activities:		
Net Income (Loss)	\$ 1,393,560	\$ (2,096,617)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock and warrants issued for services rendered	1,608,792	473,429
Warrants issued in payment of finance costs , related party	405,925	
Vendor settlements	(4,117)	
Amortization of prepaid consulting fees	73,325	12,000
Amortization of bond discount	132,063	210,803
Amortization of intangibles	725	725
Depreciation expense	25,187	22,396
Fair value adjustment of Derivative Liability	(5,277,350)	73,957
Increase in deferred rent	11,747	34,260
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable		41,588
(Increase) decrease in inventories	(9,996)	5,768
(Increase) decrease in prepaid expenses	(363)	(13,971)
(Increase) decrease in deposits	(3,815)	
Increase (decrease) in accounts payable	(49,826)	(15,092)
	(151,273)	62,436
Increase (decrease) in payroll and payroll taxes		
Increase (decrease) in obligation to issue common stock	552,555	373,000
Increase (decrease) in accrued liabilities	(800)	716
Net Cash (Used) by Operating Activities	<u>(1,293,961)</u>	<u>(814,602)</u>
Cash Flows from Investing Activities:		
Capital expenditures	<u>(2,151)</u>	<u>(14,387)</u>
Net Cash (Used) by Investing Activities	<u>(2,151)</u>	<u>(14,387)</u>
Cash Flow from Financing Activities:		
Cash overdraft	(7,106)	12,747
Proceeds from obligations to issue common stock		10,000
Proceeds from Loan payable, related party	166,824	-
Repayment of Loans Payable, Other	(36,571)	-
Payments of other borrowings	(4,765)	(4,981)
Proceeds from issuance of convertible debentures	-	105,100
Proceeds from sale of common stock and exercise of warrants	1,177,730	825,020
Net Cash Provided by Financing Activities	<u>1,296,112</u>	<u>947,886</u>
Increase (Decrease) in Cash	-	118,897
Cash at Beginning of Period	<u>-</u>	<u>-</u>
Cash at End of Period	<u>\$ -</u>	<u>\$ 118,897</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 3,780	\$ 1,759
Income Taxes	<u>\$ -</u>	<u>\$ -</u>

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS [Continued]

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Nine Months Ended September 30, 2010:

During the quarter ended March 31, 2010, \$15,000 of convertible debentures and \$121 in accrued interest were converted into 302,425 shares of common stock. The Company issued 750,000 shares of stock in satisfaction of an obligation to issue common stock. The Company satisfied a \$6,500 loan due to a related party by offsetting it against proceeds due from the related party upon exercise of warrants to purchase common stock. In addition, the Company issued 50,000 shares upon exercise of warrants at \$.10 per share. The consideration given for the exercise price was a reduction of indebtedness in the form of accounts payable. The Company recorded an obligation to issue 65,000 shares of common stock in payment of finder's fees and valued these shares at \$36,400. The Company also issued 30,000 shares of common stock valued at \$14,035 in payment of finder's fees. In addition, an obligation to issue 160,000 shares of common stock was recorded in payment of finder's fees. This stock was valued at \$129,050. The Company also issued 500,000 shares of common stock valued at \$160,000 in satisfaction of an obligation to issue common stock.

During the quarter ended June 30, 2010, the Company issued 180,000 shares of common stock valued at \$149,550 in satisfaction of obligations to issue common stock. Additionally, the Company recognized an additional derivative liability valued at \$3,048,306 for warrants issued in excess of its authorized shares for the six months ended June 30, 2010.

During the quarter ended September 30, 2010, \$100,000 of convertible debentures and \$3,016 in accrued interest were converted into 206,033 shares of common stock.

Nine Months Ended September 30, 2009:

During the quarter ended March 31, 2009, \$50,000 of convertible debentures and \$807 in accrued interest were converted into 203,227 shares of common stock. The Company issued convertible debentures for \$47,500 principal and recorded a discount on the debentures of \$39,500.

During the quarter ended March 31, 2009, the Company issued 557,500 shares of common stock to employees for payment of accrued salaries valued at \$55,750. The Company issued 66,667 shares of common stock for payment of accounts payable in the amount of \$6,000. The Company issued 810,000 shares of common stock against common stock subscribed totaling \$40,500. The Company recorded a debt discount of \$110,539 in connection with restructured convertible debt.

During the quarter ended June 30, 2009 the Company issued 931,048 shares of common stock to employees which included payment of accrued salaries valued at \$46,553. The Company issued 500,000 shares of common stock for payment of accounts payable in the amount of \$8,487 and services amounting to \$46,513. The Company issued convertible debentures for \$37,600 principal and recorded a discount on the debentures of \$37,600.

During the quarter ended June 30, 2009, the Company issued a \$15,000 Convertible note in exchange for a cash advance received in a prior period.

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

During the third quarter of 2009, the Company recognized a derivative liability for warrants issued in excess of our authorized shares, valued at \$2,361,233. None of these warrants were exercisable until the number of our authorized shares was increased to at least 125,000,000. The original issuance liability was calculated using the Black Scholes pricing model, with the following assumptions: volatility from 133.87% to 218.85%, annual rate of dividends 0%, discount rate 3.1%. The Company issued 167,273 shares of common stock to an employee upon exercise of cashless warrants. The Company issued convertible debentures for \$20,000 principal and recorded a discount on the debentures of \$20,000.

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Health Enhancement Products, Inc. and its wholly-owned subsidiaries (collectively, the “Company”). All significant inter-company accounts and transactions have been eliminated in consolidation. In the opinion of the Company’s management, the financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. These consolidated financial statements are condensed, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s December 31, 2009 consolidated audited financial statements and supplementary data included in the Annual Report on Form 10-K filed with the SEC on April 15, 2010.

Effective June 23, 2010, the Company’s Certificate of Incorporation, as amended, was amended to increase the number of its authorized common shares from 100,000,000 to 150,000,000.

The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2010, or any other period.

The Company incurred a net loss of \$589,078 and had net income of \$1,393,560 (net loss of \$589,078 and \$3,883,790 excluding the effect of the Fair Value Adjustment of Derivative Liability) during the three and nine months ended September 30, 2010, respectively. In addition, the Company had a working capital deficiency of \$760,447 and a stockholders’ deficit of \$882,463 at September 30, 2010. These factors continue to raise substantial doubt about the Company’s ability to continue as a going concern. The Company is endeavoring to increase the likelihood that it will be able to continue as a going concern by seeking to increase its sales revenue, and by raising additional capital. During the first nine months of 2010, the Company raised approximately \$1,178,000 in net proceeds from the exercise of warrants. The Company also secured a \$675,000 Line of Credit from a related party, under which advances of \$166,824 (inclusive of interest) have been made as of September 30, 2010. There can be no assurance that the Company will be able to increase its sales or raise additional capital.

There can be no assurance that sufficient funds will be generated during the next year or thereafter 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 could force the Company to 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 condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Certain reclassifications have been made to prior-year and prior period comparative financial statements to conform to the current year and period presentation. These reclassifications had no effect on previously reported results of operations or financial position.

NOTE 2 – INVENTORIES

Inventories at September 30, 2010 and December 31, 2009 consist of the following:

	September 30, 2010 (Unaudited)	December 31, 2009
Raw materials	\$ 12,003	\$ 4,197
Finished goods	<u>2,190</u>	<u>-</u>
	<u>\$ 14,193</u>	<u>\$ 4,197</u>

NOTE 7 – LONG TERM DEBT:

Long term debt consists of the following:

	September 30, 2010 (Unaudited)	December 31, 2009
Installment note, bearing interest at 8.8% per annum and due November 2011. The loan is secured by certain of the Company's equipment	\$ 3,988	\$ 8,753
Less current portion	<u>(3,393)</u>	<u>(5,585)</u>
	<u>\$ 595</u>	<u>\$ 3,168</u>

Maturities of the long-term debt are as follows:

September 30, 2011	\$ 3,393
November 30, 2011	595
	<u>\$ 3,988</u>

NOTE 8 – CONVERTIBLE DEBT

During the quarter ended March 31, 2010, \$15,000 of convertible debentures and \$121 in accrued interest was converted into 302,425 shares of common stock. In connection with the conversion, the Company wrote off unamortized discount of \$10,625. During the quarter ended September 30, 2010, \$100,000 of convertible debentures and \$3,016 in accrued interest was converted into 206,032 shares of common stock.

Amortization of the debt discount on the remaining notes was \$121,438 for the nine months ended September 30, 2010.

Convertible debt consists of the following:

	September 30, 2010 (Unaudited)	December 31, 2009
Convertible notes payable, net of unamortized discount of \$120,191 and \$130,060 respectively	\$ 230,819	\$ 336,040
Less: Current portion	<u>159,015</u>	<u>84771</u>
Long term portion	<u>\$ 71,804</u>	<u>\$ 251,269</u>

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

NOTE 9- DERIVATIVE LIABILITY

The Company reclassified certain outstanding warrants and options as derivative liabilities, which are marked to fair value periodically pursuant to Emerging Issues Task Force guidance EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company's Own Stock" ("EITF 00-19"). We valued these options and warrants utilizing the Black-Scholes method of valuation using the following assumptions: volatility from 128.47% to 138.84%, annual rate of dividends 0% and a risk free interest rate of 3.1%. The valuation resulted in a reclassification from stockholders' equity in the six months ended June 30, 2010 of \$3,048,306. For the nine months ended September 30, 2010, we recognized \$5,277,350 in income (non-cash) for financial statement purposes based on the change in fair value of these liabilities during the periods. As of September 30, 2010, the derivative liability has been written off and valued at zero, since the Company obtained stockholder approval to increase the total authorized common stock to 150,000,000 shares, which was effective June 23, 2010.

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

NOTE 10 - RELATED PARTY TRANSACTIONS

Investment in Private Placements:

During the nine months ended September 30, 2010, we received in the aggregate \$204,267 in proceeds from and satisfied \$6,500 of a liability owing to Chris Maggiore, a more than 5% shareholder, in connection with the exercise of warrants, and we issued Mr. Maggiore 2,107,666 shares of our common stock. In addition, in April, 2010, we obtained a \$675,000 line of credit from Mr. Maggiore (See Note 6). As of September 30, 2010, \$165,171 has been drawn against this line of credit and \$1,653 in interest has been accrued.

Office Space

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

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) to reduce the base rent from \$20,000 to \$16,720 monthly (not including real estate taxes (currently \$1,480 per month)). In addition, the lessor has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse the lessor for 70% of such expenses. We incurred approximately \$147,000 in rent expense for the nine months ended September 30, 2010.

Marketing Consultant/Distributorship Agreement

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

Board of Directors fees

In August of 2010 the Company issued warrants to purchase 200,00 shares of stock to a board member. These warrants have an exercise price of \$.225 and a term of 3 years. The warrants were valued at \$82,343 using the Black Scholes pricing model with the following assumptions: volatility 130.77%; annual rate of dividends 0%; discount rate 3.1%.

NOTE 11 – LICENSE AGREEMENT

On September 2, 2010, the Company entered into a multi-year exclusive worldwide License Agreement (“Agreement”) for its ProAlgaZyme® product (“Product”) with the international distributor of health and nutritional products, Zus Health, LLC (“Zus”). Under the terms of the Agreement, Zus has the exclusive right to distribute the Product to customers and distributors worldwide, excluding pharmaceutical applications and food, supplement and medicinal ingredient applications outside of multi-level, network or affiliate marketing (“MLM”). The Company reserved the right to market and sell isolates and natural and synthetic derivatives of the Product in pharmaceutical applications, as well as ingredient applications outside of MLM. The Agreement prohibits the Company from selling ProAlgaZyme for the benefit of customers and distributors worldwide, other than for pharmaceutical and ingredient applications. The Company is also prohibited from selling any product in the MLM market. There was originally a thirty day due diligence period during which Zus was to determine whether it intended to move forward and the Company was to determine whether it could meet Zus’ anticipated production requirements. This due diligence period was extended thru November 2010. Effective November 9, 2010, Zus and the Company completed their due diligence review and are proceeding according to the terms of the Agreement. Accordingly, the Company has received a payment of \$255,000, as provided in the Agreement, for the exclusive distribution rights through December 31, 2010. Our receipt of minimum payments under the Zus Agreement is subject to among other conditions our product meeting the FDA’s GRAS standard, which it does not currently meet. The Agreement remains in effect until the expiration of the last patent with respect to the Product, subject to earlier termination as provided in the Agreement. The Agreement is filed as an Exhibit to this quarterly report on Form 10Q.

NOTE 12 - STOCKHOLDERS’ DEFICIT

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

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

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

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

Warrants outstanding and exercisable by price range as of September 30, 2010 and 2009 were as follows:

	September 30, 2010		September 30, 2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	22,723,401	\$0.47	20,107,373	\$0.27
Issued	3,230,000	0.22	6,500,000	0.52
Exercised	(9,112,416)	0.11	(4,617,273)	0.10
Expired	-	-	(764,798)	0.10
Outstanding, end of period	<u>16,840,985</u>	<u>\$0.20</u>	<u>21,225,302</u>	<u>\$0.39</u>

Warrants outstanding and exercisable by price range as of September 30, 2010 were as follows:

Outstanding Warrants				Exercisable Warrants		
Range of	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price	
0.10	7,237,652	0.82	0.10	7,237,652	0.10	
0.15	1,833,333	2.96	0.15	1,833,333	0.15	
0.23	200,000	3.00	0.23	200,000	0.15	
0.25	5,490,000	2.06	0.25	5,490,000	0.25	
0.50	2,080,000	1.15	0.50	2,080,000	0.50	
	<u>16,840,985</u>	<u>1.49</u>		<u>16,840,985</u>	<u>\$0.20</u>	

NOTE 13- COMMITMENTS AND CONTINGENCIES

Product Liability Insurance - We have only limited product liability insurance. If a product claim were successfully made against us, there could be a material adverse effect on our financial condition given our liquidity and cash limitations.

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

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) to reduce the base rent from \$20,000 to \$16,720 monthly (not including real estate taxes currently \$1,480 per month). In addition, the lessor has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse the lessor for 70% of such expenses. We incurred approximately \$147,000 in rent expense during the nine months ended September 30, 2010.

The Company is leasing, on a month to month basis, a warehousing and bottling facility. The lease calls for monthly rent of \$2,700, plus annual common area maintenance fees. Rent expense under this lease for the nine months ended September 30, 2010 was approximately \$18,200.

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

Year Ending September 30,	
2011	\$ 208,224
2012	213,432
2013	218,772
2014	224,238
2015	229,842
Thereafter	<u>1,063,906</u>
	\$ <u>2,158,414</u>

Business Services Agreement

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

The Company entered into the Agreement to continue the pursuit of its strategic product and business development objectives. GNRP was issued 500,000 shares of the Company’s Common Stock in connection with the Agreement, in full payment of any and all amounts owing under the February Agreement (approximately \$142,000 per GNRP) and in recognition of GNRP’s contribution to the achievement of certain product testing results. In addition, GNRP will be compensated based on hours expended, sales and other payments (licensing payments, etc.) received by the Company, and the achievement of specified milestones. All equity based compensation under the Agreement was subject to the Company increasing to 125,000,000 the number of its authorized common shares, which occurred in June, 2010. As a result of reaching a specified milestone, the Company has issued warrants to purchase an additional 500,000 shares of common stock. These warrants were valued at \$477,554, and the Company recorded an expense in first quarter of 2010 for this milestone. An additional warrant for 500,000 shares is issuable to GNRP with an exercise price of \$.25 per share upon the Company entering into a significant agreement and receiving at least \$500,000 in payments from the contracting party pursuant to such agreement.

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

NOTE 14 – INCOME (LOSS) PER SHARE

Income (Loss) per common share is based upon the weighted average number of common shares outstanding during the period. Diluted loss per common share, for the periods in which the Company sustained a net loss, is the same as basic loss per share, as the effect of potentially dilutive securities (at September 30, 2010 - convertible debt – 6,622,000 shares and warrants – 16,840,985 shares and at September 30, 2009, convertible debt - 6,482,000 and warrants – 21,225,302 shares) are anti-dilutive. For the nine months ended September 30, 2010, the period in which the Company reported net income, the Company has disclosed both diluted and basic income per share.

NOTE 15 - SUBSEQUENT EVENTS

In October 2010, the Company issued a newly appointed director a warrant to purchase 200,000 shares of common stock as compensation for serving on the Board of Directors. The warrant has an exercise price of \$.225 per share and a term of three years.

Additionally, in October, 2010, the Company received notification of patent issuance regarding its proprietary algal extract ProAlgaZyme®.

The due diligence review period under the Company’s agreement with Zus Health LLC (see Note 11) had been extended thru November 2010. Effective November 9, 2010, Zus and the Company completed their due diligence review and are proceeding according to the terms of the Agreement. Accordingly, the Company has received a payment of \$255,000, as provided in the Agreement, for the exclusive distribution rights through December 31, 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

The accompanying discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We base our estimates and judgments on historical experience and all available information. However, future events are subject to change, and the best estimates and judgments routinely require adjustment. US GAAP requires us to make estimates and judgments in several areas, including those related to recording various accruals, income taxes, the useful lives of long-lived assets, such as property and equipment and intangible assets, and potential losses from contingencies and litigation. We believe the policies discussed below are the most critical to our financial statements because they are affected significantly by management's judgments, assumptions and estimates.

Income taxes

We account for income taxes using the asset and liability method described in SFAS No. 109, "Accounting For Income Taxes," the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We have provided a 100% valuation allowance for deferred tax assets, because the ultimate realization of those assets is uncertain. Utilization of net operating loss carry-forwards is 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.

Results of Operations for the three months ended September 30, 2010 and 2009.

Net Sales. Net sales for the three and nine months ended September 30, 2010 were \$19,291 and \$52,451 as compared to \$0 and \$23,245 for the comparable prior periods. These sales reflect principally revenues from the sale of our ProAlgaZyme® product. The increase in our revenue for 2010 is due to the cancellation of the exclusive distribution agreement in place for a portion of 2009, resulting in sales being handled in-house. In addition, the Company recognized \$27,000 and \$54,000 for the three and nine months ended September 30, 2009, in guaranteed minimum payments under this exclusive distribution contract which was terminated on October 1, 2009. Effective January, 2011, subject to our ProAlgaZyme product meeting the FDA's GRAS standard, we will receive guaranteed minimum monthly payments under the terms of an exclusive, worldwide distribution agreement, a copy of which is filed as an Exhibit to this report.

Throughout 2009 and 2010, 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. In addition to the license agreement with Zus Health, LLC (discussed in Note Eleven to the financial statements included in this Report), we are exploring additional potential marketing opportunities. Until we are eligible to receive further payments under the Zus Agreement, we expect only limited sales revenue. Our receipt of minimum payments under the Zus Agreement is subject to among other conditions our product meeting the FDA's GRAS standard. See Footnote 11 to the September 30, 2010 financial statements included with this report. We believe that our ability to generate further sales of the ProAlgaZyme® product will depend upon, among other things, further characterization of the product, our product meeting the FDA's GRAS standard, which it does not currently meet, identification of product's method of action and further evidence of its efficacy, as well as advertising. The testing necessary to further characterize the product, identify its method of action and further substantiate its effectiveness is ongoing, our researchers have advised us that we should expect completion of this testing and further identification by the end of 2010.

Cost of Sales. Cost of Sales was \$15,433 and \$35,343 for the three months and nine months ended September 30, 2010, as compared to \$978 and \$24,297 for the comparable prior periods. Cost of Sales represents primarily costs related to raw materials, labor and the laboratory and controlled production environment necessary for the growing of the algae cultures that constitute the source of the biological activity of the ProAlgaZyme® product, and for conducting the necessary harvesting and production operations in preparing the product for sale. Our cost of sales remains relatively stable, based on production.

Research and Development Expenses. For the three months and nine months ended September 30, 2010, we incurred \$94,529 and \$294,053 in research and development expenses, as compared to \$86,908 and \$236,034 for the comparable periods in 2009. These expenses are mainly comprised of costs associated with external research. Our research and development costs increased in the third quarter due to the expansion of our research begun in the first quarter of 2009. This research was initiated to further explore ProAlgaZyme®'s potential efficacy on the management of cholesterol levels.

Although we recently secured a \$675,000 line of credit from a significant shareholder, of which approximately \$166,000 has been advanced, we have had difficulty in the past raising substantial funds from external sources. We have also from time to time encountered resistance from the line of credit lender to making further advances to us. Therefore we may not be able to raise the additional funding that we need to complete necessary 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 there would be a material adverse affect on our business.

Selling and Marketing Expenses. Selling and marketing expenses were \$29,295 and \$95,190 for the three months and nine months ended September 30, 2010, as compared to \$44,373 and \$212,167 for the comparable prior periods. The decrease in selling and marketing expense in 2010 was due to our increased focus on research, leaving less resources in the short term for marketing. We anticipate an increase in our marketing efforts once our research has been completed.

General and Administrative Expenses. General and administrative expense was \$432,849 and \$2,961,114 for the three months and nine months ended September 30, 2010, as compared to \$224,840 and \$777,756 for the comparable prior period. The increase in general and administrative expense during 2010 is due primarily to an approximate \$51,000 increase in investor relations (due to the press conference in June, 2010), an approximate \$598,000 increase in compensation paid to the officers and directors (non-cash stock based compensation), an approximate \$34,000 increase in fees and costs due to our proxy vote in June, and a \$1,500,000 increase in fees to consultants for product and business development, of which approximately \$1,200,000 was in the form of stock based compensation, a non-cash expense. We do not expect to continue to incur this level of compensation to consultants through the remainder of the year.

Fair Value Adjustment of Derivative Liability. Due to our issuing warrants at a time when we lacked sufficient authorized shares, we had reclassified certain outstanding warrants and options as derivative liabilities, which are marked to fair value periodically pursuant to Emerging Issues Task Force guidance EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company's Own Stock" ("EITF 00-19"). We valued these warrants utilizing the Black-Scholes method of valuation using the following assumptions: volatility from 128.47% to 138.84%, annual rate of dividends 0% and a risk free interest rate of 3.1%. The valuation resulted in a reclassification from stockholders' equity of \$3,048,306 during the nine months ended September 30, 2010. For the nine months ended September 30, 2010, we recognized \$5,277,350 in income for financial statement purposes based on the change in fair value of these liabilities during the periods. As of September 30, 2010, the derivative liability has been valued at zero, since we obtained stockholder approval to increase the total authorized common stock to 150,000,000 shares, which was effective June 23, 2010.

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

Liquidity and Capital Resources

The unaudited condensed consolidated financial statements contained in this Quarterly 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. We have an immediate and urgent need for additional capital. 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 (\$52,451 for the nine months ended September 30, 2010) and have incurred significant net losses since inception. We expect only limited sales revenue for the foreseeable future. Further, we have incurred recurring negative cash flow from operations.

As of November 9, 2010, we had a cash balance of approximately \$200,000. We had a working capital deficiency of \$760,447 and a stockholders' deficit of \$882,463 as of September 30, 2010. Our working capital deficiency decreased \$2,919,618, from \$3,680,065 at December 31, 2009 to \$760,447 at September 30, 2010. This decrease was due primarily to an approximate \$2.2 million decrease in derivative liability (non-cash) (arising from the increase in our authorized common shares) and an approximate \$575,000 decrease in our obligation to issue common stock. Although we recently raised a limited amount of capital and have secured a \$675,000 line of credit, we have in the past had difficulty in raising capital from external sources. These factors raise substantial doubt about our ability to continue as a going concern.

During the nine months ended September 30, 2010, our operating activities used \$1,293,961 in cash, an increase of \$479,359 from the comparable prior period. The approximate \$480,000 increase in cash used by operating activities was primarily attributable to an approximate \$5.4 million decrease in the Fair Value Adjustment of Derivative Liability (a non cash item of income) and an approximate \$213,000 change (decrease) in accrued payroll and payroll taxes, partially offset by an approximate \$3.5 million increase in net income, an approximate \$1.5 million increase in stock based expense (non-cash) and an approximate \$180,000 increase in obligation to issue common stock (a non-cash item of expense).

Our financing activities generated \$1,296,112, a \$348,226 increase from the comparable prior period. The increase in cash provided by financing activities was due primarily to an approximate \$415,000 increase in proceeds from sales of securities, partially offset by \$37,000 in loan repayments.

We estimate that we will require approximately \$1,250,000 in cash over the next 12 months in order to fund basic operations. An additional \$1,500,000 is needed to complete our animal and human clinical research in the areas of both cholesterol and inflammation. Based on these cash requirements, we have an immediate and urgent 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 difficulty raising funds from external sources. We have recently raised capital from exercise of outstanding warrants and drawing on the line of credit we have with a related party. If we are not able to raise additional funds in the immediate future it is unlikely that we will be able to continue as a going concern, in which case you will suffer a total loss of your investment in our company.

In addition, we have only limited product liability insurance. If a product claim were successfully made against us, there could be a material adverse effect on our financial condition given our liquidity and cash limitations.

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

Except as set forth below, we do not expect to experience any significant elements of income or loss other than those arising from our continuing operation. For the nine months ended September 30, 2010, we recognized \$1,393,560 in income for financial statement purposes (non-cash) based on the change in fair value of derivative liabilities as of September 30, 2010. See the section above captioned Fair Value Adjustment of Derivative Liability for further information.

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 4T. Controls and Procedures

Management's Report on Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and we necessarily were required to apply our judgment in evaluating the cost-benefit relationship of possible changes or additions to our controls and procedures.

As of September 30, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive/principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our principal executive/principal financial officer 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, are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

Changes in Internal control Over Financial Reporting. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

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 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. Exhibits

LIST OF EXHIBITS

Exhibit Number	Description	
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(1)
3.2	Amended and Restated By-laws of the Company	(2)
10.1	Indemnity Agreement between the Registrant and Howard R. Baer, dated May 11, 2010	(2)
10.2	Warrant Agreement issued to Howard R. Baer, pursuant to Indemnity Agreement	(2)
10.3	Line of Credit Agreement between the Registrant and Chris Maggiore, dated April 24, 2010	(3)
10.4	License Agreement between the Registrant and Zus Health, LLC	
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
31.2*	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

(1) Filed as Exhibit 3.1 to the Registrants Form 10K filed with the Commission on April 14, 2010 and incorporated herein by this reference.

(2) Filed as the same Exhibit number to the Registrant's Form 10Q filed with the Commission on May 17, 2010 and incorporated herein by this reference.

(3) Filed as the same Exhibit number to the Registrant's Form 10Q filed with the Commission on August 12, 2010 and incorporated herein by this reference.

*furnished herewith (all other exhibits are deemed filed).

SIGNATURES

Pursuant to the requirements of the Securities and 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.

Date: November 12, 2010

By: /s/ Janet Crance
Chief Administrative Officer

Date: November 12, 2010

By: /s/ Janet Crance
Chief Accounting Officer

LIST OF EXHIBITS

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*furnished herewith (all other exhibits are deemed filed).

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 Crance, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function).
 - 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: November 12, 2010

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

**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, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Health Enhancement Products, Inc.;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - 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: November 12, 2010

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

**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 Quarterly Report on Form 10-Q for the period ending September 30, 2010 of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), as filed with the Securities and Exchange Commission (the "Report"), I, Janet 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, as amended; 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: November 12, 2010

/s/ Janet L. Crance
Janet Crance
Chief Administrative 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

**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 Quarterly Report on Form 10-Q for the period ending September 30, 2010 of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), 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: November 12, 2010

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

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