

U.S. Securities and Exchange Commission  
Washington, D.C. 20549  
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 June 30, 2012

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.)

**7 West Square Lake Rd., Bloomfield Hills, MI 48302**  
(Address of principal executive offices)

**(248) 452 9866**  
(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

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 **101,836,350** shares of common stock, \$0.001 par value, outstanding at August 8, 2012.

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**FORM 10-Q**  
**HEALTH ENHANCEMENT PRODUCTS, INC.**  
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(Inapplicable items have been omitted)

**PART I – FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 95,553	\$ 225,696
Deferred Finance Costs	40,111	13,722
Prepaid Expenses	37,689	10,412
Total Current Assets	<u>173,353</u>	<u>249,830</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>52,480</u>	<u>83,546</u>
<b>OTHER ASSETS:</b>		
Definite-life intangible Assets, net	6,717	7,201
Deposits	123,762	122,917
Total Other Assets	<u>130,480</u>	<u>130,118</u>
<b>TOTAL ASSETS</b>	<u>\$ 356,313</u>	<u>\$ 463,494</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 723,001	\$ 660,663
Current portion, long term debt	-	7,682
Customer deposits	27,837	27,837
Loan Payable – Other	57,000	-
Obligation to issue common stock and warrants	329,339	307,664
Convertible Debenture Payable, less Discount of \$875 at December 31, 2011	-	84,226
Derivative Liability	1,153,542	528,566
Deferred Rent	68,694	96,347
Accrued Liabilities	172,722	75,349
Total Current Liabilities	<u>2,532,135</u>	<u>1,788,334</u>
<b>LONG TERM LIABILITIES:</b>		
Convertible Debenture Payable, less Discount of \$1,123,640 and \$577,106 at June 30, 2012 and December 31, 2011, respectively	718,960	423,393
Deferred revenue, noncurrent	235,000	235,000
Deferred rent	12,265	48,264
Total Long term Liabilities	<u>966,225</u>	<u>706,657</u>
<b>TOTAL LIABILITIES</b>	<u>3,498,360</u>	<u>2,494,991</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT:</b>		
Common stock, \$.001 par value, 150,000,000 shares authorized 100,436,350 and 100,036,350 issued and outstanding at June 30, 2012 and December 31, 2011	100,436	100,036
Additional Paid-In Capital	27,826,600	27,130,276
Accumulated deficit	(31,069,083)	(29,261,809)
Total Stockholders' Deficit	<u>(3,142,047)</u>	<u>(2,031,497)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<u>\$ 356,313</u>	<u>\$ 463,494</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 June 30, 2012	For the three Months ended June 30, 2011	For the six Months ended June 30, 2012	For the six Months ended June 30, 2011
REVENUES:				
Net Sales	\$ -	\$ 24,110	\$ -	\$ 56,689
Licensing Fee	-	3,750	-	7,500
Total Revenues	<u>-</u>	<u>27,860</u>	<u>-</u>	<u>64,189</u>
COSTS AND EXPENSES:				
Cost of Sales	-	34,097	-	73,626
Selling	-	3,414	-	8,526
General and Administrative	162,453	69,581	315,938	182,839
Professional fees and Consulting expense	136,914	112,151	367,597	311,556
Research and Development	182,417	72,371	305,468	179,283
Total Costs and Expenses	<u>481,785</u>	<u>291,614</u>	<u>989,003</u>	<u>755,830</u>
LOSS FROM OPERATIONS	(481,785)	(263,754)	(989,003)	(691,641)
OTHER INCOME (EXPENSE):				
Fair Value Adjustment of Derivative Liability	492,870	-	379,315	-
Amortization of Bond Discount	(175,713)	(28,681)	(286,341)	(63,831)
Amortization of Deferred Finance Costs	(4,286)	(19,018)	(8,570)	(22,365)
Finance costs paid in cash	(22,950)	-	(22,950)	-
Finance costs paid in stock and warrants	(520,866)	-	(819,248)	-
Interest expense	(35,823)	(1,723)	(60,475)	(2,622)
Total Other Income (Expense)	<u>(266,768)</u>	<u>(49,422)</u>	<u>(818,269)</u>	<u>(88,818)</u>
NET LOSS	<u>\$ (748,552)</u>	<u>\$ (313,176)</u>	<u>\$ (1,807,272)</u>	<u>\$ (780,458)</u>
BASIC AND DILUTED LOSS PER SHARE				
	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING				
	<u>100,203,054</u>	<u>95,589,387</u>	<u>100,119,537</u>	<u>94,809,298</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 Six Months Ended June 30, 2012 (Unaudited)	For the Six Months Ended June 30, 2011 (Unaudited)
<b>Cash Flows for Operating Activities:</b>		
Net (Loss)	\$ (1,807,272)	\$ (780,458)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock and warrants issued for services rendered	21,441	33,584
Finance costs paid in stock and warrants	819,249	-
Amortization of deferred finance costs	8,570	22,365
Amortization of bond discount	286,341	63,830
Amortization of intangibles	484	484
Depreciation expense	34,566	15,097
Fair value adjustment of Derivative Liability	(379,315)	-
(Decrease) in deferred rent	(63,653)	(18,598)
Changes in assets and liabilities:		
(Increase) in inventories	-	(23,413)
(Increase) in prepaid expenses	(27,277)	(7,704)
(Increase) in security deposits	(845)	(635)
Increase in accounts payable	62,338	163,581
Increase in customer deposits	-	15,155
(Decrease) in deferred revenue	-	(7,500)
Increase in accrued liabilities	97,373	8,205
Net Cash (Used) by Operating Activities	<u>(948,002)</u>	<u>(516,007)</u>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(3,500)	(4,720)
Net Cash (Used) by Investing Activities	<u>(3,500)</u>	<u>(4,720)</u>
<b>Cash Flow from Financing Activities:</b>		
Proceeds of loan payable, related party	-	31,959
Proceeds of loan payable, other	57,000	-
Payment of Deferred Finance Costs	(34,958)	-
Repayments of loan payable, related party	-	(14,000)
Proceeds of other borrowings	-	13,500
Payments of other borrowings	( 7,683)	(3,038)
Proceeds from issuance of convertible debentures	757,000	114,500
Proceeds from sale of common stock and exercise of warrants	50,000	372,500
Net Cash Provided by Financing Activities	<u>821,359</u>	<u>515,421</u>
<b>(Decrease) in Cash</b>	(130,143)	(5,306)
<b>Cash at Beginning of Period</b>	<u>225,696</u>	<u>15,603</u>
<b>Cash at End of Period</b>	<u>\$ 95,553</u>	<u>\$ 10,297</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$ -	\$ 3,780
Income Taxes	\$ -	\$ 50

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:

**Six Months Ended June 30, 2012:**

During the quarter ended March 31, 2012, the Company issued convertible debentures totaling \$432,000 and recorded \$332,000 in discounts on debentures.

During the quarter ended June 30, 2012, the Company issued convertible debentures totaling \$325,000 and recorded \$500,000 in discounts on debentures.

During the quarter ended June 30, 2012, several three year 1% convertible notes in the aggregate principal amount of \$155,100, with various maturity dates during 2011 were extended for an additional two years. The Company incurred no additional cost as a result of these extensions.

**Six Months Ended June 30, 2011:**

During the quarter ended March 31, 2011, the Company issued convertible debentures for \$62,500 in principal and recorded a discount on the debentures of \$62,500. As an inducement to further invest in the Company, warrants were repriced from \$.25 to \$.15, resulting in deferred finance costs of \$57,706.

During the quarter ended June 30, 2011, the Company issued convertible debentures in the principal amount of \$52,000 and recorded a discount on the debentures of \$52,000. In addition, the Company issued 333,334 shares of common stock in satisfaction of an obligation to issue common stock valued at \$50,000.

During the quarter ended June 30, 2011, several three year 1% convertible notes in the aggregate principal amount of \$196,000, with various maturity dates during 2011 were extended for an additional three years at the request of the noteholder. The Company incurred no additional cost as a result of these extensions.

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, 2011 consolidated audited financial statements and supplementary data included in the Annual Report on Form 10-K filed with the SEC on March 30, 2012.

The results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2012, or any other period.

The Company incurred net losses of \$1,807,272 and \$780,458 for the six months ended June 30, 2012 and 2011, respectively. In addition, the Company had a working capital deficiency of \$2,358,782 and a stockholders’ deficit of \$3,142,047 at June 30, 2012.

These factors continue to raise substantial doubt about the Company’s ability to continue as a going concern. During the first six months of 2012, the Company raised \$757,000 in net proceeds from the issuance of convertible debentures, \$57,000 from loans payable – other and \$50,000 from the issuance of common stock. Until the Company can develop a stable source of revenue from operations, the Company will be dependent on its ability to raise capital. There can be no assurance that the Company will be able to raise additional capital.

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 - PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2012 and December 31, 2011 consists of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Furniture and fixtures	\$ 51,617	\$ 51,617
Equipment	112,879	112,879
Leasehold improvements	151,859	148,359
	316,355	312,855
Less accumulated depreciation and amortization	(263,875)	(229,309)
	<u>\$ 52,480</u>	<u>\$ 83,546</u>

Depreciation and amortization was \$34,566 and \$15,097 for the six months ended June 30, 2012 and 2011 respectively.

**NOTE 3 - DEFINITE-LIFE INTANGIBLE ASSETS**

Definite-life intangible assets at June 30, 2012 and December 31, 2011 consist of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Patent applications pending	\$ 14,501	\$ 14,501
Less: Accumulated amortization	(7,784)	(7,300)
	<u>\$ 6,717</u>	<u>\$ 7,201</u>

The Company's definite-life intangible assets are amortized, upon being placed in service, over the 15 year estimated useful lives of the assets, with no residual value. Amortization expenses for the six months ended June 30, 2012 and 2011 were \$484 and \$484, respectively. The Company estimates that amortization expenses for existing assets for each of the next five years will be approximately \$1,000 per year.

#### **NOTE 4 – CONVERTIBLE DEBT**

On December 2, 2011, the Company and HEP Investments, LLC, a Michigan limited liability company ("Lender"), entered into a loan arrangement (the "Loan") pursuant to which the parties executed the following documents, effective as of December 1, 2011: (i) a loan agreement under which the Lender has agreed to advance up to \$2,000,000 to the Company, subject to certain conditions (the "Loan Agreement"), (ii) a Convertible Secured Promissory Note in the initial principal amount of \$600,000 (the "Note") and (iii) (a) a Security Agreement, under which the Company granted the Lender a security interest in all of its assets and (b) an IP security agreement under which the Company and its subsidiaries granted the Lender a security interest in all their respective intellectual properties, including patents, in each case order to secure their respective obligations to the Lender under the Note and related documents. In addition, the Company's subsidiaries have guaranteed the Company's obligations under the Note.

As of December 5, 2011, the Lender has advanced the Company \$600,000, consisting of \$500,000 in cash and \$100,000 previously advanced by the Lender in connection with a transaction previously disclosed in a Current Report on Form 8-K dated September 12, 2011. The Lender has agreed to advance the remaining \$1,400,000 in \$250,000 increments (final increment of \$150,000) upon request of the Company's CEO, subject to satisfaction of certain conditions. In addition, the Company has agreed to (i) issue the Lender warrants to purchase 1,666,667 shares of common stock at an exercise price of \$.12 per share (including a cashless exercise provision), expiring September 30, 2016 and (ii) enter into a Registration Rights Agreement with respect to all the shares of common stock issuable to the Lender in connection with the Loan transaction, in each case subject to completion of funding of the full \$2,000,000 called for by the Loan Agreement.

Amounts advanced under the Note (i) are secured by all the Company's assets, (ii) are convertible into the Company's restricted common stock at the lesser of \$.12 per share or a 25% discount off of the ten day trailing quoted price of the common stock in the over the counter (OTC) market, and (iii) must bear interest at the rate of 11% per annum. Additionally, those amounts are subject to the following requirements: (x) accrued interest must be paid on the first and second anniversary of the Note, and (y) unpaid principal not previously converted into common stock must be repaid on the second anniversary of the Note December 1, 2013. The Company has also agreed to a specified use of proceeds. The Note may be prepaid upon sixty days written notice, provided that the Company shall be required to pay a prepayment premium equal to 5% of the amount repaid.

The Company has made certain agreements with the Lender which shall remain in effect as long as any amount is outstanding under the Loan. Such agreements include an agreement not to make any change in the Company's senior management, without the prior written consent of the Lender. Two representatives of the Lender will have the right to attend Board of Director meetings as non-voting observers.

The Company recorded a debt discount of \$500,000 against this Loan. In addition, the Company recorded a derivative liability of \$552,988. This represents the future value of the stock to be issued under the terms of the convertible debt. We valued this stock utilizing the Black-Scholes method of valuation relying on the following assumptions: volatility 151.45%, annual rate of dividends 0% and a risk free interest rate of .27%. In addition, the Company has recognized other income of \$24,422 representing the change in fair value of this derivative liability. We marked this derivative liability to fair value at December 31, 2011 utilizing the Black-Scholes method of valuation relying on the following assumptions: volatility 151.49%, annual rate of dividends 0%, and a risk free rate of .25%.

During the first quarter of 2012, the Company and The Venture Group, LLC, a Maryland limited liability company ("Venture Group", "Lender", or "Noteholder"), entered into the following agreements, effective as of January 26, 2012: (i) a Subscription Agreement under which the Lender has agreed to advance \$500,000 to the Company, as follows: \$332,000 on January 26, 2012, which advance has been made, and \$168,000 by February 3, 2012 (of which \$57,000 has been advanced as of June 30, 2012), (ii) a Subordinated Convertible Promissory Note in the principal amount of \$332,000 ("2012 Note"); (iii) (a) a Security Agreement, under which the Company granted the Lender a subordinated security interest in all of its assets and (b) an IP security agreement under which the Company granted the Lender a subordinated security interest in all its intellectual properties, including patents, to secure its obligations to the Lender under the Note and related documents; (iv) a Termination and Mutual Release Agreement under which the Company and Venture Group terminated their prior agreements and released each other from any liability, including liabilities related to the financing agreements they previously executed; and (v) a Termination and Release Agreement under which the Company and Oxford Holdings, LLC terminated their prior agreement and Oxford Holdings released the Company from any liability, including liabilities related to the agreement they previously executed. The Company also acknowledged an intercreditor agreement between Venture Group and HEP Investments, LLC, the Company's senior secured lender.



In addition, the Company has agreed to issue the Lender warrants to purchase an aggregate of 833,333 shares of common stock at an exercise price of \$.12 per share, for a term of three years (assuming funding of the full \$500,000). The Warrants are issuable to the Lender pro rata based on the amount invested in relation to the total investment amount (about 166,667 warrants per \$100,000 invested). Amounts advanced under the 2012 Note are (i) secured on a subordinated basis by all the Company's assets, (ii) convertible into the Company's restricted common stock at \$.12 per share, (iii) bear interest at the rate of 11% per annum (payable on the first and second anniversary of the 2012 Note (unless earlier paid off), in cash or stock, at the Company's option), and unpaid principal not previously converted into common stock must be repaid on the second anniversary of the 2012 Note (January 2, 2014). The 2012 Note may be prepaid upon thirty days written notice, but not before August 31, 2012, provided that in the event of prepayment, the Company must pay the Lender an additional 5% of the outstanding principal amount. The Company has agreed to pay the following aggregate fees to Oxford Holdings, LLC in connection with the Loan transaction (assuming funding of the full \$500,000): (i) finder's fees of approximately \$27,600 in cash, (ii) warrants to purchase 200,000 shares of common stock at an exercise price of \$.15 per share for a term of two years, and (iii) a \$15,000 non-accountable expense allowance. In addition, the Company has paid Venture Group \$10,000 for payment of the Venture Group's legal fees.

The Company recorded a deferred debt discount in the amount of \$332,000, to reflect the beneficial conversion feature of the convertible debt and fair value of the warrants in accordance with ASC standards. The Company valued the beneficial conversion feature and recorded the amount of \$130,264 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 (\$201,736) was calculated and recorded as a further reduction to the carrying amount of the convertible debt and an addition to additional paid-in capital. We valued this transaction utilizing the Black-Scholes method of valuation relying on the following assumptions: volatility - 154.35%, annual rate of dividends 0% and a risk free interest rate of .22%. In connection with the \$332,000 in convertible notes, the Company recorded non-cash finance charges of \$293,282 during the three months ended March 31, 2012.

During the three months ended March 31, 2012, 1% Convertible Debentures in the amount of \$47,500 matured and were extended by a noteholder and significant shareholder of the Company. Under the terms of the extension agreement the notes will all be extended by two years from their original maturity date. The extensions were requested by the noteholder for no consideration. These modifications were not considered significant under ASC standards.

On March 12, 2012, HEP Investments advanced the Company an additional \$100,000 pursuant to its previously disclosed agreement to invest up to \$2,000,000 in convertible notes.

During the second quarter of 2012, HEP Investments advanced the Company an additional \$325,000 pursuant to its previously disclosed agreement to invest up to \$2,000,000 in convertible notes. The Company recorded a deferred debt discount in the amount of \$500,000, to reflect the beneficial conversion feature of the convertible debt and fair value of the warrants in accordance with ASC standards (the debt discount calculation was inclusive of investments made in the fourth quarter of 2011 and the first quarter of 2012). The Company valued the beneficial conversion feature and recorded the amount of \$445,147 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 (\$54,853) was calculated and recorded as a further reduction to the carrying amount of the convertible debt and an addition to additional paid-in capital. We valued these transactions utilizing the Black-Scholes method of valuation relying on the following assumptions: volatility of 140.93%-143.36%, annual rate of dividends 0% and a risk free interest rate of .25%. In connection with the \$325,000 in convertible notes, the Company recorded non-cash finance charges of \$16,575 during the three months ended June 30, 2012.

Amortization of the debt discount on the remaining notes was \$545,659 for the six months ended June 30, 2012.

During the three months ended June 30, 2012, 1% Convertible Debentures in the amount of \$37,600 that matured, as well as \$70,000 in 1% Convertible Debentures that were due to mature in the third quarter were extended by a noteholder and significant shareholder of the Company. Under the terms of the extension agreement the notes will all be extended by two years from their original maturity date. The extensions were requested by the noteholder for no consideration. These modifications were not considered significant under ASC standards.

Convertible debt consists of the following:

	<u>June 30, 2012</u> (Unaudited)	<u>December 31, 2011</u>
1% Convertible notes payable, net of unamortized discount of \$67,036 and \$98,814 respectively, due at various dates ranging from January 2012 to November 2014	\$ 418,564	\$ 386,786
11% Convertible note payable, net of unamortized discount of \$795,211 and \$479,167, respectively, due at various dates ranging from December 2013 to January 2014	229,789	120,833
11% Subordinated Convertible note payable, net of unamortized discount of \$261,393 and \$0, respectively, due in January 2014	<u>70,607</u>	<u>0</u>
	718,960	507,619
Less: Current portion	<u>0</u>	<u>84,226</u>
Long term portion	<u>\$ 718,960</u>	<u>\$ 423,393</u>

#### NOTE 5 – OBLIGATION TO ISSUE COMMON STOCK

As of March 31, 2012, the Company was obligated to issue an aggregate of 1,595,320 shares of common stock to certain investors and Great Northern Reserve Partners, LLC, a former consultant (Andrew Dahl, CEO of the Company, is principal partner of Great Northern and Reserve Partners). We have recorded a liability in the amount of \$312,764, representing this obligation.

During the second quarter ended June 30, 2012 the Company was obligated to issue an additional 97,500 shares valued at \$16,575 to certain investors for which we recorded an additional liability.

As of June 30, 2012 the total amount of shares to be issued was 1,692,820 shares at a total value of \$329,339.

#### NOTE 6 – LICENSE AGREEMENT

On September 2, 2010, the Company entered into a multi-year exclusive worldwide License Agreement (“License Agreement”) for its ProAlgaZyme® product (“Product”) with a distributor of health and nutritional products, Zus Health, LLC (“Zus”). Under the terms of the License Agreement, Zus had 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”). On January 9, 2012, we notified the sole known representative of the exclusive distributor that we determined Zus and its purported assignee, Ceptazyme, LLC (“Ceptazyme”) had committed multiple breaches of its License Agreement, and that both Zus and Ceptazyme must immediately cease any and all activities with respect to the sale or distribution of HEPI products. The Company had received a payment of \$255,000, as provided in the License Agreement, for the exclusive distribution rights. The Company filed a lawsuit in Michigan against Zus and Ceptazyme on January 9, 2012, alleging breach of contract. Subsequently, Ceptazyme filed suit in Utah against the Company on January 24, 2012, also alleging breach of contract. Until this matter is resolved, the Company has classified the remaining \$235,000 as Deferred Revenue, noncurrent.

## NOTE 7 - RELATED PARTY TRANSACTIONS

### Stock Subscription Agreement

On May 10, 2012, Chris Maggiore, a significant shareholder, subscribed to the acquisition for 2,400,000 Units, each Unit is comprised of one share of common stock of the Company, \$.001 par value, and warrants to purchase one-tenth (1/10) of one shares of Common Stock, at a per Unit price of \$.125. The aggregate purchase price of the Units is \$300,000.

The Units are to be paid for as follows: (i) 800,000 Units shall be purchased for \$100,000 promptly following execution of the agreement, (ii) 800,000 Units shall be purchased for \$100,000 on or before June 23, 2012 and (iii) an additional 800,000 Units shall be purchased for \$100,000 on or before August 7, 2012. As of June 30, 2012, the Company had received \$50,000 of the first installment of \$100,000.

Subsequent to the balance sheet date, in July 2012, the Company received an additional \$50,000 (see Note 11, Subsequent Events).

## NOTE 8 - STOCKHOLDERS' DEFICIT

### Board of Directors fees

As compensation for serving as a member of the board of directors, the Company granted warrants to purchase 200,000 shares of common stock to Philip M. Rice (CFO and a Director) in January, 2012, at an exercise price of \$.12 per share. The warrants have a term of three years and vested or will vest as follows: 50,000 vested on the grant date, 50,000 vested on April 1, 2012, 50,000 vested on July 1, 2012, and the remaining 50,000 shall vest on October 1, 2012. The warrants vested during the two quarters ended March 31, 2012 and June 30, 2012, respectively. The warrants were valued at \$21,442 using the Black Scholes pricing model relying on the following assumptions: volatility 125.11%; annual rate of dividends 0%; discount rate 0.33%.

As compensation for joining the board of directors in June of 2012, the Company granted warrants to purchase 50,000 shares of common stock to Brian Young. The warrants were granted with an exercise price of \$.12 per share and shall vest quarterly over 3 years. In addition, Mr. Young will receive \$10,000 for each annual term served, paid quarterly.

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

	June 30, 2012		December 31, 2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	20,413,430	\$ 0.19	15,856,999	\$ 0.17
Issued	290,000	0.12	11,055,097	0.16
Exercised	-		(2,740,000)	0.09
Expired	(750,000)	0.10	(3,758,666)	0.11
Outstanding, end of period	19,953,430	\$ 0.195	20,413,430	\$ 0.19

Warrants outstanding and exercisable by price range as of June 30, 2012 were as follows:

Outstanding Warrants				Exercisable Warrants		
Range of	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price	
\$ .10	420,000	0.21	\$0.10	420,000	\$ .10	
0.12	250,000	2.47	0.12	112,500	0.12	
0.125	6,920,097	2.03	0.125	6,920,097	0.125	
0.15	3,923,333	1.19	0.15	3,923,333	0.15	
0.225	600,000	1.85	0.225	600,000	0.225	
0.25	6,825,000	1.06	0.25	6,825,000	0.25	
0.50	1,015,000	0.47	0.50	1,015,000	0.50	
	<u>19,953,430</u>	<u>1.41</u>		<u>19,815,930</u>	<u>\$ 0.195</u>	

## NOTE 9- COMMITMENTS AND CONTINGENCIES

### Employment Agreement

On August 10, 2012, the Company and Andrew Dahl entered into a new employment agreement. Under the terms of the Employment Agreement (“Employment Agreement”), he will continue to be CEO from the effective date of the agreement until December 16, 2013, with automatic renewal for successive one year terms, unless either party terminates the Employment Agreement on sixty days’ notice prior to the expiration of the initial term or any renewal term of the agreement. Pursuant to the employment agreement, Mr. Dahl will receive an annual base salary of \$240,000. In addition, Mr. Dahl is entitled to monthly bonus compensation equal to 2% of our revenue, but only to the extent that such bonus amount exceeds his base salary for the month in question. Finally, upon the effective date of the Employment Agreement, the Company will grant Mr. Dahl warrants with an exercise price of \$.25 per share which shall vest and become exercisable, upon the attainment of specified milestones as follows: (1) warrants to purchase 500,000 shares shall vest upon identification of bio-active agents in our product and filing of a patent with respect thereto, (2) warrants to purchase 500,000 shares shall vest upon the Company entering into a contract under which we receive at least \$500,000 in cash payments, (3) warrants to purchase 1,000,000 shares shall vest upon us entering into a co-development agreement with a research company to develop medicinal or pharmaceutical applications (where the partner provides at least \$2 million in cash or in-kind outlays), (4) warrants to purchase 1,000,000 shares shall vest upon us entering into a co-development agreement for nutraceutical or dietary supplement applications (where the partner provides at least \$2 million in cash or in-kind outlays), and (5) warrants to purchase 1,000,000 shares shall vest upon our entering into a pharmaceutical development agreement. Additionally, upon the effective date of the Employment Agreement, the Company will grant Mr. Dahl warrants to purchase 1,000,000 shares at an exercise price of \$.25 per share, which shall only vest and become exercisable if the Company terminates Mr. Dahl without Cause on or before December 16, 2012. If Mr. Dahl remains employed with the Company after December 16, 2012, such warrants will be immediately forfeited.

In the event there is a “Company Sale”, all of Mr. Dahl’s outstanding warrants that were granted under the Employment Agreement would become immediately vested, and Mr. Dahl would be entitled to a sale bonus equal to 2% of the total proceeds received by the Company and/or its shareholders. Solely for the purposes of determining vesting of the warrants, “Company Sale” means the first to occur of the following: (1) the sale or disposition of all or substantially all of the Company’s assets; (2) a merger or consolidation of the Company with any other corporation, at least 50% of the combined voting power of the voting securities of the Company outstanding immediately after such merger or consolidation, or (3) any person acquiring (directly or indirectly) securities of the Company representing 30% or more of the combined voting power of the Company’s then outstanding securities. Solely for the purposes of determining Mr. Dahl’s entitlement to the 2% cash sale bonus, “Company Sale” shall only occur if any person acquires (directly or indirectly) securities of the Company representing 30% or more of the combined voting power of the Company’s then outstanding securities.

In the event the Company terminates Mr. Dahl’s employment for Cause, he will immediately forfeit any entitlement to the monthly bonus, any warrants granted under the Employment Agreement, and the 2% sale bonus.

**NOTE 10 – LOSS PER SHARE**

Loss per common share is based upon the weighted average number of common shares outstanding during the period. Diluted loss per common share is the same as basic loss per share, as the effect of potentially dilutive securities (convertible debt – 18,698,000 shares and warrants - 19,815,930 shares) at June 30, 2012 and (convertible debt – 4,418,000 shares and warrants - 13,457,333 shares) at June 30, 2011 are anti-dilutive.

**NOTE 11 - SUBSEQUENT EVENTS**

On July 24, 2012 the Company's Articles of incorporation were amended to reflect an increase in authorized common shares from 150,000,000 to 200,000,000 shares. The Amendment was made after a vote of the shareholders of the Company met on July 18, 2012.

During July 2012, Chris Maggiore, a significant shareholder, invested an additional \$50,000 under the terms of the Stock Subscription Agreement dated May 10, 2012 (see Note 7 – Related Party Transactions).

In July 2012, the Company received \$125,000 from two current shareholders based on a subscription for 1,000,000 shares of common stock at \$.125 per share.

See Note 9 – Commitments and Contingencies above for a description of the employment agreement we entered into with Mr. Dahl on August 10, 2012.

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

### 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;
- market acceptance of our product and derivatives thereof;
- the results of current and future testing of our product;
- the anticipated performance and benefits of our product;
- the ability to generate licensing fees; and
- our financial condition or 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.

### Results of Operations for the three months ended June 30, 2012 and 2011.

**Net Sales.** We had no sales during the three months ended June 30, 2012 compared to net sales of \$24,110 for the three months ended June 30, 2011. Prior period sales reflect principally revenues from the distribution of our ProAlgaZyme® product. In the fourth quarter of 2010 we received an initial licensing fee payment of \$255,000 under the terms of this exclusive distributorship agreement. We recognized \$3,750 in revenue from this licensing fee during the first quarter of 2011. Around January 9, 2012, we notified Zus Health's purported assignee that the distributor was in breach of contract and directed that they immediately cease any and all activities with respect to the sale or distribution of HEPI products. We subsequently notified the distributor that the agreement was subject to termination due to these breaches. As a result, we do not expect to recognize any further sales revenue under this Agreement.

We have implemented a new business model under which we expect to derive future income from licensing and selling natural bioactive ingredients derived from our algae cultures to much larger, better-financed food, dietary supplement and medical food manufacturers. The anticipated income streams are to be generated from a) royalties and advances for licensed natural bioactive ingredients, and b) bulk sales of such ingredients. We expect that these bulk ingredients will be made by contracted ingredient manufacturers and then sold by us to food, dietary supplement and medical food processors and/or name-brand marketers.

**Cost of Sales.** We had no cost of sales during the current quarter, cost of sales of was \$34,097 for the three months ended June 30, 2011. Cost of Sales represented 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. As noted above, we have implemented a new business model under which we expect to derive future income from licensing and selling natural bioactive ingredients derived from its algae cultures to much larger, better-financed food, dietary supplement and medical food manufacturers. Consequently, there were no costs of sales for the period ending June 30, 2012. All costs relating to the continued activity associated with the controlled production environment for growing the algae cultures are included in research and development expenses.

**Research and Development Expenses.** For the three months ended June 30, 2012, we incurred \$182,418 in research and development expenses, as compared to \$72,371 for the comparable period in 2011. These expenses are mainly comprised of costs associated with external research. Our research and development costs will grow as we work to complete the research begun in the first quarter of 2012. This research was initiated to further explore ProAlgaZyme®'s potential efficacy on the management of cholesterol levels. We have identified several potential bioactive compounds, but further research aimed at isolating the compound further is expected to be completed during the second half of 2012.

**Selling and Marketing Expenses.** Selling and marketing expenses were \$3,414 for the three months ended June 30, 2011.

As noted above, we have implemented a new business model under which we expect to derive future income from licensing and selling natural bioactive ingredients derived from its algae cultures to much larger, better-financed food, dietary supplement and medical food manufacturers. As such, there were no selling and marketing expenses for the period ending June 30, 2012.

**General and Administrative Expenses.** General and administrative expenses were \$162,453 for the three months ended June 30, 2012, as compared to \$69,581 for the comparable prior period. The increase in general and administrative expense during 2012 is due primarily to the hiring of a new CEO and CFO.

**Professional and Consulting Expenses.** Professional and consulting expenses were \$136,914 for the three months ended June 30, 2012, as compared to \$112,151 for the comparable prior period. The increase in professional and consulting expense during 2012 is due primarily to negotiations relating to the convertible debt transactions.

#### **Results of Operations for the six months ended June 30, 2012 and 2011.**

**Net Sales.** We had no sales during the six months ended June 30, 2012 compared to net sales of \$56,689 for the six months ended June 30, 2011. Prior period sales reflect principally revenues from the distribution of our ProAlgaZyme® product. In the fourth quarter of 2010 we received an initial licensing fee payment of \$255,000 under the terms of this exclusive distributorship agreement. We recognized \$3,750 in revenue from this licensing fee during the first quarter of 2011. Around January 9, 2012, we notified Zus Health's purported assignee that the distributor was in breach of contract and directed that they immediately cease any and all activities with respect to the sale or distribution of HEPI products. We subsequently notified the distributor that the agreement was subject to termination due to these breaches. As a result, we do not expect to recognize any further sales revenue under this Agreement.

We have implemented a new business model under which we expect to derive future income from licensing and selling natural bioactive ingredients derived from our algae cultures to much larger, better-financed food, dietary supplement and medical food manufacturers. The anticipated income streams are to be generated from a) royalties and advances for licensed natural bioactive ingredients, and b) bulk sales of such ingredients. We expect that these bulk ingredients will be made by contracted ingredient manufacturers and then sold by us to food, dietary supplement and medical food processors and/or name-brand marketers.

**Cost of Sales.** We had no cost of sales during the current quarter, compared to cost of sales of was \$73,626 for the six months ended June 30, 2011. Cost of Sales represented 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. As noted above, we have implemented a new business model under which we expect to derive future income from licensing and selling natural bioactive ingredients derived from its algae cultures to much larger, better-financed food, dietary supplement and medical food manufacturers. Consequently, there were no costs of sales for the period ending June 30, 2012. All costs relating to the continued activity associated with the controlled production environment for growing the algae cultures are included in research and development expenses.

**Research and Development Expenses.** For the six months ended June 30, 2012, we incurred \$305,468 in research and development expenses, as compared to \$179,283 for the comparable period in 2011. These expenses are mainly comprised of costs associated with external research. Our research and development costs will grow as we work to complete the research begun in the first quarter of 2012. This research was initiated to further explore ProAlgaZyme®'s potential efficacy on the management of cholesterol levels. We have identified several potential bioactive compounds, but further research aimed at isolating the compound further is expected to be completed during the second half of 2012.

**Selling and Marketing Expenses.** Selling and marketing expenses were \$8,526 for the six months ended June 30, 2011.

As noted above, we have implemented a new business model under which we expect to derive future income from licensing and selling natural bioactive ingredients derived from its algae cultures to much larger, better-financed food, dietary supplement and medical food manufacturers. As such, there were no selling and marketing expenses for the period ending June 30, 2012.

**General and Administrative Expenses.** General and administrative expenses were \$315,938 for the six months ended June 30, 2012, as compared to \$182,839 for the comparable prior period. The increase in general and administrative expense during 2012 is due primarily to the hiring of a new CEO and CFO.

**Professional and Consulting Expenses.** Professional and consulting expenses were \$367,597 for the six months ended June 30, 2012, as compared to \$311,556 for the comparable prior period. The increase in professional and consulting expense during 2012 is due primarily to negotiations relating to the convertible debt transactions.

### **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 a near term 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.

As of July 31, 2012, we had a cash balance of approximately \$70,000. We have incurred significant net losses since inception, including a net loss of \$1,807,272 for the six months ended June 30, 2012. We have, since inception, consistently incurred negative cash flow from operations. During six months ended June 30, 2012, we incurred negative cash flows from operations of \$948,002. As of June 30, 2012, we had a working capital deficiency of \$2,358,782 and a stockholders' deficiency of \$3,142,047. Although we recently raised a limited amount of capital, we have an immediate and urgent need for additional capital.

During the six months ended June 30, 2012, our operating activities used \$948,002 in cash, an increase of \$431,995 from the comparable prior period. The approximate \$432,000 increase in cash used by operating activities was primarily attributable to the following (all of which are approximated): a \$1,027,000 increase in net loss, a \$63,000 increase in accounts payable, a \$45,000 decrease in deferred rent, a \$27,000 increase in prepaid expense, a \$12,000 decrease in stock and warrants issued for services rendered (a non-cash expense), an increase of approximately \$819,000 in stocks and warrants issued for finance costs and a \$379,000 decrease in fair value adjustment of derivative liability (a non-cash income item), an approximately \$223,000 increase in amortization of bond discount liability (a non-cash expense), a \$47,000 decrease in amortization of deferred finance costs (a non-cash expense), a \$22,000 increase in obligation to issue common stock, a \$89,000 increase in accrued liabilities and \$19,000 of depreciation (a non-cash expense).

During the six months ended June 30, 2012, our investing activities used \$3,500, a \$1,220 increase from the comparable prior period.

During the six months ended June 30, 2012, our financing activities generated \$821,359, a \$305,938 increase from the comparable prior period. The increase in cash provided by financing activities was due primarily to a \$642,500 increase in proceeds from the issuance of convertible debentures, a \$57,000 increase in loans payable – other, partially offset by a \$322,500 decrease in proceeds from the sale of common stock and deferred finance costs of \$34,958.

Although we raised a limited amount of capital during 2011 and the first half of 2012, 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. We will still be reliant upon external financing for the continuation of our research program.



We estimate that we will require approximately \$3,900,000 in cash over the next 12 months in order to fund our normal operations and research and development activities. HEP Investments, LLC, our senior secured lender has committed an aggregate of \$2,000,000, \$1,025,000 of which we have already drawn down, leaving \$975,000 which is available to be drawn down. Based on this cash requirement and availability from our senior secured lender, we have a near term need for substantial additional funding. Historically, we have had great difficulty raising funds from external sources; however, we recently were able to raise capital from outside sources. If we are unable to raise the required funding, we will have to curtail our research and development and other activities, in which case, there could be a material adverse effect on our business.

#### **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. For the six months ended June 30, 2012, we recognized \$379,315 in income for financial statement purposes based on the change in fair value of derivative liabilities as of June 30, 2012. We may incur income or expense in future periods arising out of changes in the fair value of derivative liabilities.

#### **Seasonality**

Based on our business model implemented at the beginning of 2012, anticipated income streams are to be generated from a) royalties and advances for licensed natural bioactive ingredients, and b) bulk sales of such ingredients. We do not anticipate that these will be affected by seasonality.

#### **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 have or are reasonably likely to have a current or future material effect on our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures or capital resources.

#### **Item 4. 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 June 30, 2012, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive/principal financial officers, 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 officers 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 1. Legal Proceedings.

See Note 6 to our Consolidated Financial Statements included in Part 1 of this report for a description of our current legal proceedings between the Company, Zus and Ceptazyme.

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

During the six months ended June 30, 2012, the Company issued Convertible debentures in the principal amount of \$757,000 (convertible into common stock at \$.125 per share), for gross proceeds of \$757,000.

On May 10, 2012, Chris Maggiore, a significant shareholder, subscribed to the acquisition of 2,400,000 units (“Units”). Each Unit represents one share of common stock, \$.001 par value of the Company and warrants to purchase one-tenth (1/10) of one share of Common Stock, at a per Unit price of \$.125. The aggregate purchase price of the Units is \$300,000. The Units are to be paid for as follows: (i) 800,000 Units shall be purchased for \$100,000 promptly following execution of the agreement, (ii) 800,000 Units shall be purchased for \$100,000 on or before June 23, 2012 and (iii) an additional 800,000 Units shall be purchased for \$100,000 on or before August 7, 2012. As of June 30, 2012, the Company had received \$50,000 of the first installment of \$100,000. Subsequent to the balance sheet date, in July 2012, the Company received an additional \$50,000 (see Note 11, Subsequent Events in Part I of this report). The Company expects the remainder of the transaction to be consummated by September 30, 2012.

We believe that the foregoing transactions were exempt from the registration requirements under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended (“the Act”) or Section 4(2) under the Act, based on the following facts: 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 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

On August 10, 2012, the Company and Andrew Dahl entered into a new employment agreement. See Note 9 to our Consolidated Financial Statements included in Part I of this report for a discussion of the Employment Agreement.

### Item 6. Exhibits

Exhibit Number	Description	
3.1	Certificate of Amendment to Articles of Incorporation to the Articles of Incorporation of Health Enhancement Products, Inc.	*
10.1	Andrew Dahl Employment Agreement dated August 10, 2012	*
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	**

\*Filed herewith

\*\*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: August 13, 2012

By: /s/Andrew Dahl  
Andrew Dahl  
Chief Executive Officer

## List of Exhibits

Exhibit Number	Description	
3.1	Certificate of Amendment to Articles of Incorporation to the Articles of Incorporation of Health Enhancement Products, Inc.	*
10.1	Andrew Dahl Employment Agreement dated August 10, 2012	*
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	**

\*Filed herewith

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

Certificate of Amendment to Articles of Incorporation  
For Nevada Profit Corporations  
(Pursuant to NRS 78.385 and 78.390 - After Issuance of Stock)

1. Name of corporation:

HEALTH ENHANCEMENT PRODUCTS, INC.

2. The articles have been amended as follows: (provide article numbers, if available)

Article 4. The total authorized capital stock of the corporation is 200,000,000 shares of Common Stock, with a par value of \$0.001. All stock when issued shall be deemed fully paid and nonassessable. No cumulative voting, on any matter to which Stockholders shall be entitled to vote, shall be allowed for any purpose.

The authorized stock of this corporation may be issued at such time, upon such terms and conditions and for such consideration as the Board of Directors shall, from time to time, determine. Shareholders shall not have preemptive rights to acquire unissued shares of stock of the Corporation.

3. The vote by which the stockholders holding shares in the corporation entitling them to exercise at least a majority of the voting power, or such greater portion of the voting power as may be required in the case of a vote by classes or series, or as may be required by the provisions of the articles of incorporation have voted in favor of the amendment is: 73,937,316.

4. Effective date of filing: (optional) \_\_\_\_\_  
(must not be later than 90 days after the certificate is filed)

5. Signature:

/S/ PHILIP M. RICE, II  
Philip M. Rice, II  
Chief Financial Officer

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of August 10, 2012 (the "Effective Date"), by and between Health Enhancement Products, Inc. a Nevada corporation, (the "Company"), and Andrew A. Dahl ("Employee").

### RECITALS:

A. The Company desires to employ Employee as its President and Chief Executive Officer and desires to enter into this Agreement with Employee setting forth the terms of that relationship and Employee desires to accept such employment with the Company on the terms and conditions set forth below.

B. Employee is in possession of and may come into possession of, or have access to, Confidential Information (defined below) with respect to the Business (defined below).

### AGREEMENTS:

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Term. Subject to the termination provisions set forth in Section 8 below, the term of Employee's employment with the Company under this Agreement shall commence on the Effective Date and continue until December 16, 2013 (the "Initial Term"); provided, however, that following the Initial Term, the term of this Agreement shall be automatically extended for successive terms of one (1) year each (each a "Renewal Term"), unless either party notifies the other party in writing of its desire to terminate this Agreement at least sixty (60) days before the end of the Initial Term or a Renewal Term then in effect (collectively, the "Employment Term").

2. Employment. Throughout the Employment Term, Employee shall serve as President & Chief Executive Officer of the Company and shall diligently perform all such services, acts and things as are customarily done and performed by individuals holding such offices of companies in similar businesses and in similar size to the Company, together with such other duties as may reasonably be requested from time to time by the Board of Directors of the Company or its designee (the "Board"). Employee shall periodically and regularly report to the Board.

3. Compensation. During the Employment Term, the Company shall pay or provide, as the case may be, to Employee the compensation and other benefits and rights set forth in Sections 4, 5 and 6 of this Agreement.

4. (a) Base Salary. As compensation for the services to be performed under this Agreement, the Company shall pay to Employee during the Initial Term and subsequent Renewal Terms, an annual base salary of two hundred-forty thousand dollars (\$240,000.00), payable in accordance with Company's usual pay practices, and in any event no less frequently than monthly (the "Base Salary"). In addition to his Base Salary, Employee shall be entitled to performance incentives as follows:

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(b) Cash Bonus relating to Revenue Contracts. The Employee is to receive a cash bonus representing two percent (2%) of Company gross revenue (the "Cash Bonus"), when collected by the Company each month, resulting from contracts or arrangements initiated, developed and closed during the Employment Term or after as provided below in Section 8(e) (collectively, the "Revenue Contracts"), minus any Base Salary payments the Employee received (or was entitled to receive without regard to any delayed payments described in Section 4(a) above) in the month such gross revenue was collected. Employee shall be entitled to the Cash Bonus with respect to each Revenue Contract until the last to occur of the following: (i) the fifth (5<sup>th</sup>) anniversary of the effective date of such Revenue Contract, or (ii) the third (3<sup>rd</sup>) anniversary of the date of Employee's termination of employment with the Company for any reason other than for "Cause" (as defined below). The Cash Bonus shall be paid monthly in a lump sum payment, but in no event shall such monthly Cash Bonus payments be paid later than the end of the taxable year in which the Company is first entitled to collect the gross revenue giving rise to such Cash Bonus payments, as determined by the Company's Board consistent with the rules under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that the Cash Bonus relating to gross revenue from Revenue Contracts collected in December of any year, shall be paid to Employee in a lump sum between the January 1 and January 31 immediately following such December period. Upon a termination of Employee's employment by the Company for Cause, Employee shall no longer be entitled to receive the Cash Bonus.

(c) Other Performance Based Compensation. In addition, as of the Effective Date, the Company shall grant the following warrants to Employee (collectively, the "Warrants"), which shall vest and become exercisable as described below subject to Employee's continued employment with the Company or as otherwise specified in Sections 8(e) or 9(b) below:

(i) A Warrant to purchase 500,000 shares of the Company's common stock, par value \$0.001 ("Shares") at an exercise price of \$0.25 per Share, which shall be exercisable upon the Company's identification of any bioactive agents and submission of a patent application by the Company with respect thereto, with which Employee shall assist the Company.

(ii) A Warrant to purchase 500,000 Shares at an exercise price of \$0.25 per Share, which shall be exercisable upon the Company entering into a significant agreement and receiving at least \$500,000 in payments from the contracting party pursuant to and during term of such agreement. In the event Employee's employment is terminated pursuant to Sections 8(a) or (c) below, but prior to the Company's receipt of the minimum \$500,000 in payments, the Warrant described in this paragraph (ii) shall remain outstanding and the Employee shall remain eligible to vest in such Warrants until the first to occur (A) the tenth (10<sup>th</sup>) anniversary of the date such Warrant was granted, or (B) the first (1<sup>st</sup>) anniversary of the date the Company enters into a significant agreement and receives at least \$500,000 in payments.

(iii) A Warrant to purchase 1,000,000 Shares at an exercise price of \$0.25 per Share, which shall be exercisable if the Company enters into a co-development partnership with a contract research organization to develop medicinal or pharmaceutical applications of any type during the Employment Term or the Covenant Period (as defined in Section 10 below). The co-development partnership must exceed \$2 million in actual cash or payment-in-kind outlay on the part of the co-development partner. Notwithstanding the foregoing, the Warrant shall become fully vested and exercisable upon a Company Sale, or in the event the Company is acquired by a contract research firm, an intermediary, its venture fund or other investment firm in a transaction not constituting a Company Sale.

(iv) A Warrant to purchase 1,000,000 Shares at an exercise price of \$0.25 per Share, which shall be exercisable if the Company enters into a nutraceutical or dietary supplement co-development partnership, remarketing or production arrangement during the Employment Term or the Covenant Period. The co-development, production or remarketing arrangement must exceed \$2 million in actual cash or payment-in-kind outlay by the partner or client. Notwithstanding the foregoing, the Warrant shall become fully vested and exercisable upon a Company Sale as described below, or in the event the Company is acquired by a partner company, an intermediary, or investment firm in a transaction not constituting a Company Sale.

(v) A Warrant to purchase 1,000,000 Shares at an exercise price of \$0.25 per Share, which shall be exercisable if the Company enters into a pharmaceutical development arrangement with a pharmaceutical company or a recognized pharmaceutical intermediary company such as a pharma venture fund or lead compound licensing entity owned or controlled by a pharma, foundation, contract research organization or investment consortium during the Employment Term or the Covenant Period. Notwithstanding the foregoing, the Warrant shall become fully vested and exercisable upon a Company Sale as described below, or in the event the Company is acquired by a pharmaceutical company, an intermediary, or investment firm in a transaction not constituting a Company Sale.

(vi) A Warrant to purchase 1,000,000 Shares at an exercise price of \$0.25 per Share, which shall only be exercisable if Employee is terminated by the Company without Cause as describe in 8(c) below on or before December 16, 2012. Such Warrant shall immediately be forfeited if the Employee remains employed by the Company on December 16, 2012.

In no event shall any Warrants issued pursuant to this Section 4(c) have a term greater than ten years from the date of grant of such Warrant.

5. Expenses. Subject to the requirements of Section 9 below, the Company shall reimburse Employee for all necessary and reasonable business expenses incurred by him in the performance of his duties under this Agreement, upon presentation of expense accounts and appropriate documentation in accordance with the Company's standard policies, as they may be amended from time to time.

6. Benefits. Employee, at his election, may participate, during the Employment Term, in all retirement plans, savings plans, health or medical plans and any other benefit plans of the Company generally available from time to time to other management employees of the Company and for which Employee qualifies under the terms of the plans.

7. Services. Employee shall perform his duties under this Agreement faithfully, diligently and to the best of his ability. He shall serve subject to the policies and instruction of the Board, and shall devote all of his business time, attention, energies and loyalty to the Company. The expenditure of reasonable amounts of time by Employee for personal, charitable, professional or other business activities, such as an outside director position, shall not be deemed a breach of this Agreement, provided that such activities do not interfere with the services required to be rendered by Employee under this Agreement and are not contrary to the interests of the Company. On reasonable notice, Employee shall make himself available to perform his duties under this Agreement at such times and at such places as the Company reasonably deems necessary, proper, convenient or desirable.

8. Termination.

(a) Death or Disability. Employee's employment under this Agreement shall terminate automatically upon the Employee's death or if Employee becomes Disabled. For purposes of this Agreement, Employee shall be deemed to be "Disabled" if Employee becomes unable to perform the essential functions and responsibilities of his position with reasonable accommodation, as required under the Americans with Disabilities Act, as the same has and may be amended (the "ADA"), by virtue of physical or mental disability, as defined under the ADA.

(b) "For Cause". During the Employment Term, the Company may immediately terminate this Agreement for "Cause". Upon termination for Cause, the Warrants, Cash Bonus and Sales Bonus are forfeited. For purposes of this Agreement, "Cause" shall mean, in each case as determined by the Board:

(i) Employee's conviction of a felony or other crime involving moral turpitude (but not automobile related matters);



(ii) Employee's commission of any act or omission involving dishonesty, fraud, embezzlement, theft, substance abuse or sexual misconduct with respect to the Company, any subsidiary of the Company or any of their respective employees, vendors, suppliers or customers, the specific nature of which shall be set forth in a written notice by the Company to Employee;

(iii) Employee's substantial and continued neglect of or failure to perform his duties, or failure to follow a "reasonable directive of the Board," which after written notice from the Board of such neglect or failure, has not been cured within ten (10) days after he receives such notice. For purposes of this Agreement, "reasonable directive of the Board," shall mean a directive that is applied equitably among the management employees of the Company;

(iv) Employee's gross negligence or willful misconduct in the performance of his duties; or

(v) Employee's misappropriation of funds or assets of the Company or any subsidiary of the Company.

(c) No Cause. During the Employment Term, either the Company or the Employee may voluntarily terminate this Agreement upon thirty (30) days advance written notice to the other party for any reason or no reason whatsoever.

(d) Any Reason. Upon the termination of this Agreement for any reason, Employee shall be entitled to, and the Company shall pay Employee, any accrued and unpaid Base Salary covering the period of employment prior to the effective date of termination, and other performance incentives earned, as specified in 8 (e) below.

(e) Upon the termination of this Agreement by the Company for the reasons specified in 8(c), Employee shall also be entitled to the following:

(i) A cash severance payment equal to three (3) months plus one week's salary for each year of service (with service crediting for three and one-half (3<sup>1</sup>/<sub>2</sub>) years of service the Employee has previously provided the Company prior to the Effective Date), which amount shall be payable in a lump sum payment by the thirtieth (30<sup>th</sup>) day following date of Employee's termination of employment.

(ii) The Cash Bonus described in Section 4(b) above, which shall be payable in accordance with the terms and conditions of that section, including any Cash Bonus resulting from Revenue Contracts initiated, developed and closed during the twenty-four (24) month period following Employee's termination of employment with the Company pursuant to Section 8(c) above.

(iii) Employee shall be entitled to continued vesting for each of the Warrants described in Section 4(c) above for the twenty-four (24) month period following the effective date of his termination of employment with the Company; provided that in no event shall such continued vesting extend the term of any Warrant beyond the tenth (10<sup>th</sup>) anniversary of the date of grant of such Warrant.

## 9. Company Sale.

(a) Company Sale Bonus. Upon the occurrence of a Company Sale as defined in this Section 9(a), the Company shall pay Employee a Company Sale bonus (the "Company Sale Bonus") as follows:

(i) The Company Sale Bonus shall equal to (i) two percent (2%) of the total proceeds the Company and/or its shareholders receive in connection with such Company Sale. Proceeds placed in escrow for indemnification or other such purposes will be valued when released from escrow and Employee will be entitled to receive a cash payment equal to 2% of the amount released from escrow, subject to the other terms and conditions described below. The value of any securities traded on a nationally recognized stock exchange which are received by the Company or its stockholders as part of the Company Sale will be determined at the time the securities are received by the Company or its stockholders. The Company Sale Bonus shall be based on the gross amount of proceeds received by the Company or its stockholders.

(ii) The Company Sale Bonus shall be due and payable in a lump sum within thirty (30) days following the occurrence of the Company Sale, except for any portion of the Company Sale Bonus from proceeds placed in escrow, which shall be due and payable in a lump sum within thirty (30) days following the release of such proceeds provided such payments shall be paid in accordance with the transaction-based compensation rules of Treas. Reg. §1.409A-3(i)(5)(iv)(A). Contingent proceeds, commonly referred to as an “earn out”, will not be deemed to be part of the Company Sale Bonus.

(iii) Employee shall not be permitted to assign the Company Sale Bonus, except that Employee may assign the Company Sale Bonus to a revocable trust of which Employee is the grantor, and Employee may make a testamentary disposition of the Company Sale Bonus to Employee’s spouse.

(iv) Notwithstanding anything to the contrary contained herein, the Company Sale Bonus shall automatically terminate if Employee is terminated for Cause.

(v) For the purposes of this Section 9(a) and subject to Section 13 below, a “Company Sale” means the consummation of (1) the sale or disposition of all or substantially all of the Company’s assets; or (2) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), at least 50% of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger or consolidation.

(b) Performance-Based Compensation. All outstanding Warrants granted to Employee by the Company pursuant to this Agreement shall become fully vested and exercisable coincident with the effective date of the Company Sale as defined in this Section 9(b). For the purposes of Section 4(c) and this Section 9(b), and subject to Section 13 below if applicable, a “Company Sale” means the first to occur of the following:

(i) The date on which any person (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Subsidiaries, or a corporation owned directly or indirectly by the common shareholders of the Company in substantially the same proportions as their ownership of Stock of the Company), as a result of acquiring, or during any 12-month period having acquired, voting securities of the Company, is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company’s then outstanding securities; or

(ii) The consummation of (1) the sale or disposition of all or substantially all of the Company’s assets; or (2) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), at least 50% of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger or consolidation.

10. Restrictive Covenant.

(a) The Company and Employee acknowledge and agree that for Employee to compete with the Company during the Employment Term and for a limited time after the end of the Employment Term would be contrary to the purposes for which the parties entered into this Agreement. In order to induce the Company to enter into this Agreement, Employee covenants, warrants and agrees, for the benefit of the Company, and its respective current and future subsidiaries, Affiliates, successors and assigns (collectively, the “Protected Parties”), that, without first obtaining the express written consent of the Company, Employee, for himself or for any other Person, either as a principal, agent, employee, contractor, director, officer or in any other capacity, shall not, either directly or indirectly:

(i) For a period of two (2) years from the termination of Employee's employment with the Company (the "Covenant Period"), be employed by, engage in or carry on any business or undertaking which competes with the Protected Parties in the Business, or those aspects of the Business involved in the specific area of cholesterol regulation and anti-inflammatory agents unique to the Company and protected by its patents or patent applications, in the State of Michigan and in any other State in which the Protected Parties conduct the Business or take active steps to conduct the Business during the Employment Term (the "Area of Non-Competition");

(ii) During the Covenant Period, have any interest in, assist in any manner or in any capacity, make any loan to, or be associated with (whether as a shareholder, partner, member, associate, owner, employee, independent contractor, consultant, agent or otherwise) any Person which is deemed to be engaged in the specific aspects of the Business as they relate to cholesterol regulation and anti-inflammatory agents unique to the Company and protected by its patents or patent applications, in each case as then currently conducted, anywhere within the Area of Non-Competition; provided, however, that Employee may invest in any publicly-held entity engaged in the Business if his aggregate investment does not exceed 1% in value of the issued and outstanding voting securities of such entity;

(iii) During the Covenant Period, request or advise any customer or supplier of any Protected Party to terminate its relationship with any Protected Party, or request or advise any person to refrain from becoming a customer or supplier of any Protected Party;

(iv) During the Covenant Period, solicit, induce or attempt to induce any employee or independent contractor of any Protected Party to (A) leave the employment of or terminate his, her or its contractual relationship with such Protected Party, or (B) enter into an employment or a contractual relationship with Employee or any Person in which Employee has any interest whatsoever; or

(v) During the Covenant Period, the Employee may be free to conduct the affairs of Great Northern & Reserve Partners, LLC, a privately held consulting and investment firm wholly owned and controlled by the Employee, and to serve on boards of other companies when such opportunities are offered.

(b) The parties intend that the covenants set forth in Section 10 above shall be deemed to be a series of separate covenants, one for each and every political subdivision of each state, province and county in the Area of Non-Competition. Employee acknowledges and agrees that the covenants set forth in Section 10 above are reasonable and valid in geographical and temporal scope and in all other respects. If any court determines that any covenant set forth in Section 10 above, or any portion of any such covenant, is invalid or unenforceable, the remainder of the covenants set forth in Section 10 above shall not be affected and shall be given full force and effect, without regard to the invalid covenant or the invalid portion. If any court determines that any covenant set forth in Section 10 above, or any portion of any such covenant, is unenforceable because of its duration or geographic scope, such court shall have the power to reduce such duration or scope, as the case may be, and enforce such covenant or portion in such reduced form. The parties intend to and hereby confer jurisdiction to enforce the covenants set forth in Section 10 above upon the courts of any jurisdiction in which Employee is alleged to have committed an act in violation of any of the covenants contained here. If the courts of any one or more of such jurisdictions hold the covenants set forth in Section 10 above, or any portion of such covenants, unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect the right of the Company to the relief provided above in the courts of any other jurisdiction within the geographical scope of such covenants as to breaches of such covenants in such other respective jurisdictions.

(c) In the event of a breach or attempted breach of any of the covenants set forth in this Section 10, Section 11 or Section 12 below, in addition to any and all legal and equitable remedies immediately available, such covenants may be enforced by a temporary and/or permanent injunction to secure the specific performance of such covenants, and to prevent a breach or contemplated breach of such covenants, without the need to post any bond or other security of any kind. Employee acknowledges and agrees that the remedy at law for a breach or threatened breach of any of the covenants set forth in this Section 10, Section 11 or Section 12 below, would be inadequate. Employee acknowledges and agrees that the remedies provided for in this Agreement are cumulative and are intended to be and are in addition to any other remedies available to the Company, either at law or in equity. In addition, Employee agrees that, in the event of a breach of the covenants set forth in this Section 10, Section 11 or Section 12 below, by Employee, he shall be liable, and shall reimburse the Company, for all fees, costs and expenses (including reasonable attorneys' fees and other professional fees) arising out of or in any way related to the enforcement of this Covenant. The Company agrees that in the event of a dispute or breach in which the Employee prevails, the Company shall be liable, and shall reimburse the Employee, for all fees, costs and expenses (including reasonable attorneys' fees and other professional fees) arising out of or in any way related to the enforcement of this Covenant.

(d) The following terms shall have the meanings described below:

(i) “Affiliate” means, as to any specified Person, any other Person controlling or controlled by or under common control with such specified Person;

(ii) “Business” means the business of selling or licensing the specific intellectual property, products and processes developed and owned by the Company in any market or application specifically as they relate to cholesterol regulation and non-steroidal anti-inflammatory agents unique to the Company and protected by patents or patents in application held by the Company.

(iii) “Person” means an individual, corporation, partnership, limited liability company, association, trust, joint venture, unincorporated organization, other entity or group, or a governmental authority.

11. Intellectual Property Rights. Employee recognizes that he may, individually or jointly with others, discover, conceive, make, perfect or develop inventions, discoveries, new contributions, concepts, ideas, developments, processes, formulas, methods, compositions, techniques, articles, machines and improvements, and all original works of authorship and all related know-how, whether or not patentable, copyrightable or protectable as trade secrets for and on behalf of the Company pursuant to this Agreement (“Inventions”). Employee agrees that all such Inventions are the sole and exclusive property of the Company. **EMPLOYEE AGREES THAT ANY PARTICIPATION BY HIM IN THE DESIGN, DISCOVERY, CONCEPTION, PRODUCTION, PERFECTION, DEVELOPMENT OR IMPROVEMENT OF AN INVENTION IS WORK MADE FOR HIRE, AS DEFINED IN TITLE 17, UNITED STATES CODE, FOR THE SOLE AND EXCLUSIVE BENEFIT OF THE COMPANY AND EMPLOYEE HEREBY ASSIGNS TO THE COMPANY ALL OF HIS RIGHTS IN AND TO SUCH INVENTIONS.** Employee shall maintain adequate and current written records of all Inventions, which shall remain the property of the Company and be available to the Company at all times. At the Company’s request, Employee shall promptly sign and deliver all documents necessary to vest in the Company all right, title and interest in and to any Inventions. If the Company is unable, after reasonable effort, to secure Employee’s signature on any document needed to vest in the Company all right, title and interest in and to any Inventions, whether because of Employee’s physical or mental incapacity or for any other reason whatsoever, Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee’s agent and attorney-in-fact, to act for and in Employee’s behalf and stead to execute and file any such document and to do all other lawfully permitted acts to further the prosecution and enforcement of patents, copyrights or similar protections with the same legal force and effect as if executed by Employee.

12. Confidentiality. Employee acknowledges and agrees that he shall treat all Confidential Information (as defined below) in a confidential manner, not use any Confidential Information for his own or a third party’s benefit and not communicate or disclose, orally or in writing, any Confidential Information to any person, either directly or indirectly, under any circumstances without the prior written consent of the Company. Employee further agrees that he shall not utilize or make available any Confidential Information, either directly or indirectly, in connection with his solicitation of employment or acceptance of employment with any third party. Employee further agrees that he will promptly return (or destroy if it cannot be returned) to Company all written or other tangible evidence of any Confidential Information and any memoranda with respect thereto which are in his possession or under his control upon Company’s request for the return of such items. Notwithstanding this Section 12, Employee may disclose Confidential Information if required (and then only to the extent required) by applicable law; provided, however, that prior to any such disclosure, Employee must provide the Company with written notice of such pending disclosure, sufficiently in advance thereof so as to allow the Company a reasonable opportunity to contest such required disclosure.

For the purposes of this Agreement, the term “Confidential Information” shall include all proprietary information related to the Business, including, but not limited to, processes, ideas, techniques, Inventions, methods, products, services, research, purchasing, marketing, selling, customers, suppliers or trade secrets. All information which Employee has a reasonable basis to believe to be Confidential Information, or which Employee has a reasonable basis to believe the Company or any of its Affiliates treat as Confidential Information, shall be deemed to be Confidential Information. Notwithstanding the foregoing, information shall not be deemed to be Confidential Information if it is generally known and publicly available, without the fault of Employee and without the violation by any person of a duty of confidentiality or any other duty owed to any Protected Party.

13. Compliance with Section 409A.

(a) The Parties intend that any amounts payable under this Agreement comply with, or are exempt from, the provisions of Section 409A of the Code, along with the rules, regulations and guidance promulgated thereunder by the Department of the Treasury or the Internal Revenue Service (collectively, “Section 409A”) and this Agreement shall be interpreted and administered in a manner consistent with that intention. Notwithstanding the foregoing, no particular tax result for Employee with respect to any income recognized by Employee in connection with this Agreement is guaranteed, and Employee will be responsible for any taxes, interest and penalties imposed on him under or as a result of Section 409A in connection with the Agreement.

(b) Notwithstanding any provisions of this Agreement to the contrary, if Employee is a “specified employee” (within the meaning of Section 409A and determined pursuant to any policies adopted by the Company consistent with Section 409A), at the time of Employee’s “separation from service” (as such term is defined in Section 409A) and if any portion of the payments or benefits to be received by Employee upon separation from service would be considered deferred compensation under Section 409A and cannot be paid or provided to Employee without Employee incurring taxes, interest or penalties under Section 409A, amounts that would otherwise be payable pursuant to this Agreement and benefits that would otherwise be provided pursuant to this Agreement, in each case, during the six-month period immediately following Employee’s separation from service will instead be paid or made on the later of (i) 18 months following the Effective Date, or (ii) 6 months following the date Employee’s separation from service.

(c) With respect to any amount of expenses eligible for reimbursement or the provision of any in-kind benefits under this Agreement, to the extent such payment or benefit would be considered deferred compensation under Section 409A or is required to be included in Employee’s gross income for federal income tax purposes, such expenses (including, without limitation, expenses associated with in-kind benefits) will be reimbursed by the Company no later than December 31st of the year following the year in which Employee incurs the related expenses. In no event will the reimbursements or in-kind benefits to be provided by the Company in one taxable year affect the amount of reimbursements or in-kind benefits to be provided in any other taxable year, nor will Employee’s right to reimbursement or in-kind benefits be subject to liquidation or exchange for another benefit.

(d) Each payment under this Agreement is intended to be a “separate payment” and not of a series of payments for purposes of Section 409A. To the extent that some portion of the payments under this Agreement may be bifurcated and treated as exempt from Section 409A of the Code under the “short-term deferral” or “separation pay” exemptions, then such amounts may be so treated as exempt from Section 409A of the Code.

(e) A termination of employment will not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits subject to Section 409A upon or following a termination of employment unless such termination is also a “separation from service” (within the meaning of Section 409A), and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place will be the termination date.

(f) Notwithstanding anything to the contrary contained herein, if any payment of compensation or benefits under this Agreement constitutes the payment of deferred compensation subject to Section 409A of the Code and the time or form of such payment is changed due to a Company Sale, such change in the time or form of payment shall not occur unless the event constituting the Company Sale is also a “change in control event” as defined in Treasury regulation 1.409A-3(i)(5).

14. Notices. All notices, requests, consents and other communications, required or permitted to be given under this Agreement shall be personally delivered in writing or shall have been deemed duly given when received after it is posted in the United States mail, postage prepaid, registered or certified, return receipt requested addressed as set forth below. In addition, a party may deliver a notice via another reasonable means that results in the recipient party receiving actual notice, as conclusively demonstrated by the party giving such notice.

If to the Company:

Philip M. Rice II, Chief Financial Officer  
Health Enhancement Products, Inc.  
c/o Legacy Results  
29193 Northwestern HWY Suite 477  
Southfield, MI 48034-1006  
[price@legacy-results.com](mailto:price@legacy-results.com)

With a required copy to:

Laith Yaldeo  
c/o Financial Transaction Services, Inc.  
2804 Orchard Lake Road  
Keego Harbor, MI 48320  
[laith@ftservice.com](mailto:laith@ftservice.com)

If to Employee:

Andrew A Dahl  
7 West Square Lake Road  
Bloomfield Hills, Michigan USA 48302  
[adah@greatnorthreserve.com](mailto:adah@greatnorthreserve.com)

With a required copy to:

Laith Yaldeo  
c/o Financial Transaction Services, Inc.  
2804 Orchard Lake Road  
Keego Harbor, MI 48320  
[laith@ftservice.com](mailto:laith@ftservice.com)

15. Miscellaneous.

(a) The failure of any party to enforce any provision or protections of this Agreement shall not in any way be construed as a waiver of any such provision or provisions as to any future violations thereof, nor prevent that party thereafter from enforcing each and every other provision of this Agreement. The rights granted the parties herein are cumulative and the waiver of any single remedy shall not constitute a waiver of such party's right to assert all other legal remedies available to it under the circumstances.

(b) This Agreement has been executed in, and shall be construed and enforced in accordance with the laws of, the State of Michigan.

(c) The provisions of this Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions and any partially unenforceable provision to the extent enforceable in any jurisdiction nevertheless shall be binding and enforceable.

(d) This Agreement sets forth the entire understanding and agreement of Employee and the Company with respect to its subject matter and supersedes and replaces all prior understandings and agreements, whether written or oral, in respect thereof (collectively, the "Prior Agreements"). By signing this Agreement, the Executive acknowledges that the Prior Agreements are terminated and cancelled, and releases and discharges the Company from any and all obligations and liabilities heretofore or now existing under or by virtue of such Prior Agreements, it being the intention of the parties hereto that this Agreement effective immediately shall supersede and be in lieu of the Prior Agreements. No modification, termination or attempted waiver of this Agreement shall be valid unless in writing and signed by the party against whom the same is sought to be enforced.

(e) The rights and obligations of Company under this Agreement shall inure to the benefit of, and shall be binding on, Company and its successors and assigns. This Agreement is personal to Employee and he may not assign his obligations under this Agreement in any manner whatsoever and any purported assignment shall be void. The Company, however, may assign this Covenant in connection with a sale of all or substantially all of its equity interests or assets.

(f) The parties acknowledge that each of them has equally participated in the final wording of this Agreement. Accordingly, the parties agree that this Agreement shall be construed equally against each party and shall not be more harshly construed against a party by reason of the fact that a particular party's counsel may have prepared this Agreement.

(g) The headings and captions used in this Agreement are for convenience of reference only and shall not be considered in interpreting this Agreement.

(h) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same agreement.

(i) Any payments provided for in this Agreement shall be paid net of any applicable income tax withholding required under federal, state or local law.

*[Signatures to follow on next page]*

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

**EMPLOYEE:**

/S/ ANDREW A. DAHL  
Andrew A. Dahl

**HEALTH ENHANCEMENT PRODUCTS, INC.**

By: /S/ PHILIP M. RICE II  
Name: Philip M. Rice II  
Its: Chief Financial 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, Andrew Dahl, 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: August 13, 2012

/s/Andrew Dahl  
Andrew Dahl,  
Chief Executive 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, Philip M. Rice II, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Health Enhancement Products, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly through the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations, and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2012

/s/Philip M. Rice II  
Philip M. Rice II  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ending June 30, 2012 of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), as filed with the Securities and Exchange Commission (the "Report"), I, Andrew Dahl, Chief Executive Officer of the Company, certify 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: August 13, 2012

/s/Andrew Dahl  
Andrew Dahl  
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

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the period ended June 30, 2012 as filed with the Securities and Exchange Commission (the "Report"), I, Philip M. Rice II, Chief Financial Officer of the Company, certify 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: August 13, 2012

/s/ Philip M. Rice II

Philip M. Rice II  
Chief Financial 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.