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UNITED STATES DISTRICT COURT  
DISTRICT OF ARIZONA  
PHOENIX DIVISION

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SECURITIES AND EXCHANGE COMMISSION,	:	
	:	06 Civ. ____ ( )
Plaintiff,	:	
	:	
-against-	:	
	:	COMPLAINT
HOWARD R. BAER and	:	
KEVIN C. BAER,	:	
	:	
Defendants.	:	

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The plaintiff Securities and Exchange Commission (“Commission”) alleges the following against defendants Howard R. Baer (“Howard Baer”) and Kevin C. Baer (“Kevin Baer”):

**PRELIMINARY STATEMENT**

1. Howard Baer and his son, Kevin Baer, participated in a fraudulent scheme to manipulate the stock of Health Enhancement Products, Inc. (“HEPI”), a start-up nutraceutical company.
2. In the fall of 2003, Howard Baer, a recidivist securities law violator, obtained control over a majority of HEPI’s common stock, and became the Chief Executive Officer (“CEO”) of HEPI. Howard Baer, with the assistance of Kevin Baer, HEPI’s executive vice-

president, then disseminated materially misleading information about HEPI and the company's primary product, ProAlgaZyme, a purported natural dietary supplement, in press releases and the company's annual, quarterly, and current public filings. HEPI claimed that ProAlgaZyme was a potential cure-all for numerous diseases and illnesses. For instance, in a January 20, 2004 press release, HEPI announced that the biochemistry department of Arizona State University ("ASU") had conducted an independent study that "concluded that . . . ProAlgaZyme . . . possesses fibrinolytic properties, required in the breakdown of pathological fibrin gel, thus decreasing the risk of a stroke or heart attack." Further, the press release quoted Howard Baer as saying that "[t]he study provides conclusive evidence of the efficacy of ProAlgaZyme." These representations were false. In fact, the ASU scientists did not conclude that ProAlgaZyme reduced the risk of a stroke or heart attack.

3. While HEPI was issuing these misleading press releases, Howard Baer executed numerous trades in the company's stock to ensure that the price and trading volume increased. In fact, HEPI's stock price increased from approximately \$0.01 per share in October 2003 to \$7.54 per share in February 2004.

4. Howard Baer profited from his fraudulent conduct. During the relevant period, Howard Baer sold over 390,000 shares of HEPI stock, primarily in an account in his wife's name, for proceeds of more than \$1,349,000.

#### **VIOLATIONS OF FEDERAL SECURITIES LAWS**

5. Howard Baer, directly or indirectly, singly or in concert, has engaged in transactions, acts, practices, or courses of business that constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. § 78j(b), and Rules 10b-5 and 13a-14, 17

C.F.R. §§ 240.10b-5 and 240.13a-14. Howard Baer has also engaged in acts, practices, or courses of business that have aided and abetted violations of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, 13a-11, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, 240.13a-13.

6. Kevin Baer has engaged in acts, practices, or courses of business that have aided and abetted violations of Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5.

#### **NATURE OF THE PROCEEDINGS AND RELIEF SOUGHT**

7. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), and Section 21(d)(1) of the Exchange Act, 15 U.S.C. § 78u(d)(1). The Commission seeks a permanent injunction to restrain and enjoin Howard Baer and Kevin Baer from engaging in the transactions, acts, practices, and courses of business alleged herein. The Commission seeks a judgment ordering Howard Baer to disgorge his ill-gotten gains and to pay prejudgment interest thereon. The Commission seeks the imposition of civil money penalties against Howard Baer and Kevin Baer pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3). The Commission seeks an order, pursuant to Section 20(e) of the Securities Act, 15 U.S.C. § 77t(e), and Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2), prohibiting Howard Baer and Kevin Baer from serving as officers or directors of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 781, or that is required to file reports pursuant to Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d). The Commission also seeks an order enjoining Howard Baer from participating in the offering of a penny stock, pursuant to Section 20(g) of the Securities Act, 15 U.S.C. § 77t(g), and

Section 21(d)(6) of the Exchange Act, 15 U.S.C. § 78u(d)(6). Finally, the Commission seeks all other just and appropriate relief.

### **JURISDICTION AND VENUE**

8. This Court has jurisdiction over this action pursuant to Sections 20(d) and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(d) and 77v(a), and Sections 21(e) and 27 of the Exchange Act, 15 U.S.C. §§ 78u(e) and 78aa.

9. Venue lies in this District pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C. § 78aa. Certain of the transactions, acts, practices, and courses of business alleged herein occurred within the District of Arizona. For instance, HEPI maintained its principal place of business in Tempe, Arizona, and Howard Baer and Kevin Baer engaged in the conduct alleged herein while working at HEPI's Tempe office.

10. Howard Baer and Kevin Baer, directly or indirectly, made use of the means or instrumentalities of interstate commerce, the means or instruments of transportation or communication in interstate commerce, and/or the mails, in connection with the transactions, acts, practices, and courses of business alleged herein.

### **DEFENDANTS AND RELEVANT ENTITY**

#### **Defendants**

11. **Howard Baer**, age 63, is a resident of Scottsdale, Arizona. Since the fall of 2003, Howard Baer has served as HEPI's Chairman of the Board of Directors and sole director, as well as the company's CEO, Secretary, and Treasurer. Howard Baer is a recidivist securities law violator. In 1994, a United States District Court entered a final judgment permanently enjoining Howard Baer from future violations of Section 10(b) of the Exchange Act and Rule 10b-5

thereunder. SEC v. Baer, Civil Action No. 93-5159 (JFK) (S.D.N.Y.). In that action, the Commission's complaint alleged that Howard Baer engaged in a free-riding scheme in which he placed orders to purchase stock through numerous broker-dealers without the intent or ability to pay for the purchases. The final judgment ordered Howard Baer to pay disgorgement of \$3,210,013 plus prejudgment interest of \$152,041, and imposed a civil money penalty of \$100,000.

12. **Kevin Baer**, age 38, is a resident of Tempe, Arizona. From the fall of 2003 through the summer of 2005, Kevin Baer was an officer of HEPI. Specifically, he served as an executive vice-president of HEPI in charge of the development and marketing of ProAlgaZyme.

#### **Relevant Entity**

13. **HEPI** is a Nevada corporation. HEPI maintains its principal place of business in Tempe, Arizona. HEPI common stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act, and is quoted on the Over-The-Counter Bulletin Board. HEPI has described itself as a "fast growing nutraceutical company" that is "directed specifically at the development and marketing of supplementary health-enhancing products using only pure, all-natural and herbal extracts." HEPI's primary product is ProAlgaZyme, which purportedly is "an immune system enhancing water that is produced from an algae grown in 100% distilled water." According to HEPI's periodic filings with the Commission, from 2003 through 2005, HEPI has generated less than \$200,000 in revenue, primarily from sales of ProAlgaZyme. HEPI incurred net losses of approximately \$568,000 in 2003; \$3.8 million in 2004; and \$5.9 million in 2005.

## FACTS

### **Howard Baer Acquired Control of HEPI**

14. In the fall of 2003, Howard Baer acquired Health Enhancement Corporation, a private company that purportedly owned the material necessary to manufacture ProAlgaZyme.

15. Howard Baer then sought to acquire a public shell company to merge with Health Enhancement Corporation in order to access the public securities markets.

16. Howard Baer learned of a public shell company named Western Glory Hole, Inc., which had no assets or liabilities, and he negotiated a transaction through which Western Glory Hole acquired Health Enhancement Corporation.

17. After the acquisition, the name of the company was changed to Health Enhancement Products, Inc.

18. As of December 31, 2003, there were more than 10,000,000 shares of HEPI common stock issued and outstanding, including 9,000,000 shares issued to Health Enhancement Corporation shareholders in a one-for-one share exchange.

19. As of December 31, 2003, Howard Baer owned or controlled over 6,500,000 shares of HEPI stock.

20. After becoming the majority shareholder, Howard Baer became HEPI's CEO.

### **Howard Baer Directed an Effort to Increase the Price of HEPI Common Stock**

21. After obtaining control of HEPI, Howard Baer orchestrated a scheme to increase the price and trading volume of HEPI stock.

22. Beginning in late 2003, Howard Baer directed HEPI to disseminate press releases and file periodic reports with materially misleading information about ProAlgaZyme, as well as HEPI's business prospects.

23. While HEPI was issuing these misleading public statements, Howard Baer (primarily through a brokerage account in his wife's name) executed numerous trades in HEPI stock in order to inflate artificially the price and trading volume of HEPI stock.

**Howard Baer Directed HEPI to Issue Misleading Press Releases and to File Misleading Periodic Reports with the Commission**

24. Beginning on October 30, 2003, HEPI made materially misleading public statements in press releases and public filings.

*HEPI Falsely Announced that It had Conducted "Clinical Trials" on ProAlgaZyme*

25. HEPI falsely indicated that it was conducting "clinical trials" on ProAlgaZyme. Specifically, HEPI disseminated a press release on October 30, 2003 that stated:

Recent clinical trials performed by the company have indicated that ProAlgaZyme may increase and activate the white blood cells in individuals whose white cells are low or inactive, in effect enhancing the immune system. Heath Enhancements is currently doing internal clinical trials on several illnesses and diseases with ProAlgaZyme, including various types of cancer, HIV/AIDS, diabetes and Chronic Fatigue Syndrome.

26. As of October 30, 2003, however, HEPI had not completed any "clinical trials" as the term is generally understood in the scientific community on the effects of ProAlgaZyme on the body.

27. In particular, the term "clinical trial" has a specific meaning within the scientific community, and indicates that the trials are following a certain accepted protocol.

28. HEPI had not complied with accepted protocols with regard to testing of ProAlgaZyme as of October 30, 2003.

29. Rather, HEPI's Director of Medical Research had simply given ProAlgaZyme to his patients and gathered anecdotal evidence of its purported efficacy. HEPI never disclosed the informal nature of its purported "clinical trials" to investors.

30. Additionally, as of October 30, 2003, HEPI had not performed sufficient testing to determine that ProAlgaZyme may increase or activate white blood cells.

31. HEPI made similarly false representations in a Form 8-K filed with the Commission on December 9, 2003, which Howard Baer signed.

32. Specifically, HEPI's December 9, 2003 Form 8-K stated:

Recent clinical trials performed by [HEPI] have indicated that [ProAlgaZyme] may increase and activate white blood cells in individuals whose white cells are low or inactive, in effect enhancing the immune system.

33. As of December 9, 2003, however, HEPI had not completed any "clinical trials" as the term is generally understood in the scientific community on the effects of ProAlgaZyme on the body, and had not performed sufficient testing to determine whether ProAlgaZyme may increase or activate white blood cells.

34. In HEPI's Form 10-KSB filed with the Commission for the fiscal year ended December 31, 2003, HEPI again indicated that it had conducted "clinical trials" on ProAlgaZyme.

35. This statement was false. As of December 31, 2003, HEPI had not completed any "clinical trials" as the term is generally understood in the scientific community.

36. Howard Baer signed HEPI's December 31, 2003 Form 10-KSB.

37. Additionally, Howard Baer certified the December 31, 2003 Form 10-KSB pursuant to Rule 13a-14(a) of the Exchange Act representing, among other things, that the "report does not contain any untrue statement of a material fact."

*HEPI Falsely Announced that Researchers at Arizona State University  
Concluded that ProAlgaZyme Decreased the Risk of a Stroke or Heart Attack*

38. Howard Baer, Kevin Baer, and HEPI's Director of Medical Research drafted a press release that HEPI issued on January 20, 2004.





and supplement use,” and quoted Howard Baer as saying that “[w]e also have the potential of generating additional revenue by licensing our trademarks to other companies for relevant product usage.” The press release then indicated that HEPI “[e]xpects revenues for the year of \$16 m[illion] or greater” based on anticipated sales of Zodiac Herbal Vitamins, a multivitamin designed for horoscope readers. Finally, the press release quoted Howard Baer as saying that “[Zodiac Herbal Vitamins] is a very attractive acquisition for us which we expect to be profitable in the first year, based on conservative estimates.”

45. HEPI had no reasonable basis to forecast revenue of \$16 million based on anticipated sales of Zodiac Herbal Vitamins.

46. HEPI had no history of sales of herbal vitamins (or other comparable products) upon which it could base its revenue projection.

47. Rather, Howard Baer and Kevin Baer, and others, created the \$16 million revenue projection simply by assuming that a certain percentage of existing, worldwide horoscope readers would buy Zodiac Herbal Vitamins.

48. HEPI ultimately decided to abandon the Zodiac Herbal Vitamin and Zodiac Herbal Tea products.

*HEPI Misrepresented the Reasons Why An Independent Research Company had Stopped Testing on ProAlgaZyme*

49. HEPI’s Form 10-QSB filed with the Commission for the quarter ended March 31, 2005 misrepresented the reasons why an independent research company, which had conducted tests to determine ProAlgaZyme’s effects on diabetes, had stopped its testing.

50. The March 31, 2005 Form 10-QSB indicated that the independent research company had terminated the study because the independent research company “was not able to recruit the specified number of participants (60).”





I need [HEPI stock] to be at a price and will get it there myself if I have to...  
[Y]ou and I had a verbal agreement as to what I wanted done.

*Howard Baer and Others Executed Trades in HEPI Stock*

61. As part of his plan to manipulate the price of HEPI stock, Howard Baer executed numerous trades in HEPI stock, and he enlisted the RR and others to purchase HEPI stock.

62. After HEPI stock first began trading publicly on October 30, 2003, the RR and his customers began purchasing HEPI stock.

63. The RR asked Howard Baer whether there were additional HEPI shares available for trading.

64. Howard Baer then sold shares of HEPI stock held in an account in his wife's name to the RR, the RR's customers, and others.

*Howard Baer Profited From His Sales of HEPI Stock*

65. Howard Baer's scheme to increase the price of HEPI stock was successful. From October 2003 through February 2004, HEPI's stock price increased from approximately \$.01 per share to \$7.54 per share.

66. During this time period, Howard Baer sold HEPI stock. For example, from November 26, 2003 through February 17, 2004, Howard Baer (through the account in his wife's name) sold at least 325,700 shares of HEPI stock at prices ranging from \$1.85 to \$7.12 per share for total proceeds of at least \$1,267,386.

67. Further, between March 3, 2004 and August 15, 2005, Howard Baer (through the account in his wife's name) sold an additional 68,864 shares of HEPI stock at prices ranging from \$0.40 to \$2.57 for total proceeds of at least \$82,206.











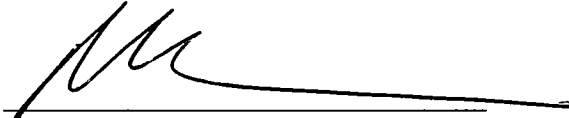




VII.

Granting such other and further relief as the Court may deem just and proper.

Dated: New York, New York  
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