

HPEV, INC.
Form 10-Q/A
March 04, 2014

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

Form 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2013

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 000-53443

HPEV, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation
or organization)

75-3076597
(I.R.S. Employer Identification No.)

8875 Hidden River Parkway, Suite 300
Tampa, FL
(Address of principal executive offices)

33637
(Zip Code)

Registrant's telephone number, including area code (813) 975-7467

(Former name, if changed since last report)

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

Indicate by 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 S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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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	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

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

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. As of February 26, 2014 , there were 50,372,714 shares of common stock, \$0.001 par value, issued and outstanding.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 as originally filed with the Securities and Exchange Commission on August 19, 2013 (the "Original Form 10-Q"): (i) Item 1 of Part I "Financial Information," (ii) Item 2 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations,". The subsequent events footnote to the financial statements has been updated to reflect events that occurred after the filing date of the Quarterly Report. This Form 10-Q/A includes Exhibits 31.1, 31.2, 32.1 and 32.2, new certifications by the company's principal executive officer and principal financial officer as required by Rule 12b-15.

We have determined that our previously reported results for the quarter ended June 30, 2013 did not properly represent certain transactions related to shares and warrants issued for cash and services and accrued compensation and consulting fees. (See Note 12. Restatement). We have made necessary conforming changes in "Management's Discussion and Analysis of Financial Condition and Results of Operations" resulting from other minor changes, none of which were considered material.

HPEV, INC.

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PART I – FINANCIAL INFORMATION

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the “Exchange Act”). These statements are based on management’s beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning our possible or assumed future results of operations set forth under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements also include statements in which words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate,” “consider” or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Our future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

ITEM 1 Financial Statements

HPEV, INC.
(A Development Stage Company)
Condensed Consolidated Balance Sheets
(Unaudited)

	As of June 30, 2013 (Restated)	As of December 31, 2012
ASSETS		
Current assets		
Cash	\$ 49,136	\$ 194,721
Prepaid expenses	-	373,679
Total current assets	49,136	568,400
Intangible	94,807	73,582
Total assets	143,943	\$ 641,982
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 159,730	\$ 177,280
Accounts payable – related party	174,979	52,305
Notes payable-related party	22,910	34,110
Total current liabilities	357,619	263,695
Total liabilities	357,619	263,695
Stockholders' equity		
Preferred stock: \$.001 par value: 15,000,000 shares authorized, 200 shares issued and outstanding as of June 30, 2013	-	-
Common stock; \$.001 par value; 100,000,000 shares authorized, 44,060,441 shares issued and outstanding as of June 30, 2013	44,060	42,970
Additional paid-in capital	6,852,228	6,116,420
Common stock held in escrow	8,441	39,469
Accumulated deficit during development stage	(7,118,405)	(5,820,572)
Total stockholders' equity (deficit)	(213,676)	378,287
Total liabilities and stockholders' equity	\$ 143,943	\$ 641,982

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

HPEV, INC.
(A Development Stage Company)
Condensed Consolidated Statement of Operations
(Unaudited)

	Three Months Ended June 30, 2013 (Restated)	Three Months Ended June 30, 2012 (Restated)	Six Months Ended June 30, 2013 (Restated)	Six Months Ended June 30, 2012 (Restated)	From inception (March 24, 2011) through June 30, 2013 (Restated)
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of goods sold	-	-	-	-	-
Gross profit	-	-	-	-	-
Operating expenses					
Director stock Compensation	-	-	-	(2,650,000)	-
Consulting	595,314	533,775	1,022,317	906,079	4,529,289
Professional fees	38,853	211,937	86,369	242,733	1,071,987
Research and development	87,700	105,898	89,700	449,131	446,772
General and administrative	66,912	38,936	118,922	59,866	270,786
Loss on deposit	-	-	-	-	100,000
Loss on intangible property	-	-	-	-	75,000
Total operating expenses	788,779	890,546	1,317,308	(992,191)	6,493,834
Other income and expenses					
Interest expense	-	(2,417)	-	(2,928)	(277,545)
Finance cost	-	(197,826)	-	(197,826)	(622,522)
Gain on settlement of debt	-	-	19,475	-	275,496
Net loss	\$ (788,779)	\$ (1,090,789)	\$ (1,297,833)	\$ 791,437	\$ (7,118,405)
Basic loss per common share					
Basic loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ 0.02	
Fully diluted loss per common share					
Fully diluted loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ 0.02	
Basic weighted average common shares outstanding					
Basic weighted average common shares outstanding	43,505,741	47,618,639	43,268,781	41,939,874	
Fully diluted weighted average common shares outstanding					
Fully diluted weighted average common shares outstanding	50,616,423	47,618,639	50,025,752	41,939,874	

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

HPEV, INC.
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2013 (Restated)	Six Months Ended June 30, 2012 (Restated)	From March 24, 2011 (Date of Inception) Through June 30, 2013 (Restated)
Operating Activities:			
Net income (loss)	\$ (1,297,833)	\$ 791,437	\$ (7,118,405)
Adjustments to reconcile net loss to Net cash used by operating activities:			
Stock issued to founder	-	-	22,000
Stock issued for consulting services	373,679	763,097	3,602,391
Gain on settlement of debt	(19,475)	-	(275,496)
Warrants issued for loan penalty	-	99,229	197,413
Warrants issued for services	349,370	-	349,370
Warrants issued for interest	-	-	390,426
Stock compensation	-	-	-
Director stock compensation from shareholder	-	(2,650,000)	-
Amortization of financing cost	-	197,826	622,522
Impairment of intangible asset and deposit	-	-	175,000
Changes in operating assets and liabilities:			
Increase in accrued interest	-	3,164	6,021
Increase in accounts payable related party	122,674	2,928	174,979
Increase in accounts payable	8,425	291,424	244,068
Net cash used by operating activities	(463,160)	(500,895)	(1,609,711)
Investing Activities:			
Increase of intangible assets	(21,225)	(19,767)	(94,807)
Cash acquired through reverse merger	-	-	37
Net cash used by investing activities	(21,225)	(19,767)	(94,770)
Financing Activities:			
Proceeds from sale of common stock	350,000	5,000	405,000
Proceeds from sale of preferred stock	-	-	500,000
Proceeds from loans payable	-	-	-
Proceeds from notes payable	-	-	439,722
Payments on notes payable	-	-	(189,722)
Proceeds from notes payable – related party	900	50,410	611,507
Payments on notes payable - related party	(12,100)	(200)	(13,300)
Bank Overdraft	-	869	410
Net cash (used) provided by financing activities	338,800	56,079	1,753,617
Net decrease/increase in cash	(145,585)	(464,583)	49,136

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Cash, beginning of period	194,721	78,361	-
Cash, end of period	49,136	(386,222)	49,136
Supplemental Information			
Interest paid with cash	\$ -	\$ -	\$ 1,327
Supplemental schedule of non –cash activities			
Shares issued to settle accounts payable	\$ (25,974)	\$ -	\$ (25,974)
Shares held in escrow	\$ (31,028)	\$ -	\$ (31,028)
Accrued interest forgiven	\$ -	\$ -	\$ 6,021
Related party accrued salary forgiven	\$ -	\$ -	\$ 70,000
Related party notes payable forgiven	\$ -	\$ -	\$ 911,894
Shares issued for services	\$ -	\$ -	\$ 1,358,016
Warrants issued for services	\$ 245,376	\$ -	\$ 245,376
Common stock receivable	\$ -	\$ (8,000,000)	\$ -
Warrants granted as finance cost	\$ -	\$ (583,173)	\$ (583,173)
Warrants granted to secure financing	\$ -	\$ (120,255)	\$ (120,255)
Assumed as part of reverse merger			
Intangible assets	\$ -	\$ -	\$ 75,000
Deposit	\$ -	\$ -	\$ 100,000
Prepaid asset	\$ -	\$ -	\$ 375,002
Accounts payable	\$ -	\$ -	\$ (11,637)
Notes payable – related party	\$ -	\$ -	\$ (336,187)
Shares issued for prepaid services	\$ -	\$ 1,090,000	\$ 1,090,000

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

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013
(Unaudited)

The accompanying condensed consolidated financial statements of HPEV, Inc. (“HPEV” or the “Company”) are unaudited, but in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary to fairly state the Company’s financial position, results of operations, and cash flows as of and for the dates and periods presented. The condensed consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the twelve months ended December 31, 2012, filed with the Securities and Exchange Commission (the “Commission”). The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2013 or for any future period.

NOTE 1 – DESCRIPTION OF BUSINESS

HPEV, Inc., a Nevada corporation (formerly known as Bibb Corporation and Z3 Enterprises) (hereinafter referred to as “HPEV” or “The Company”), was incorporated in the State of Nevada on July 22, 2002.

The Company’s principal operations were to produce fully integrated multi-media products targeting the marginally literate. The Company changed its focus to educational entertainment and reality show programming; feature films and special event marketing upon entering into a Joint Venture Agreement (the “Joint Venture Agreement”) with Phoenix Productions and Entertainment Group (PPEG) in September 2010.

From September 2010 through March 2011, Z3E pursued business opportunities, but agreements were never fulfilled and the entertainment projects have been terminated.

On March 24, 2011, Z3 Enterprises entered into a Share Exchange Agreement to acquire 100 shares, constituting all of the issued and outstanding shares of HPEV Inc. (“HPEV”) in consideration for the issuance of 22,000,000 shares of Z3E common stock. Upon closing of the Share Exchange on April 15, 2011, HPEV became a wholly owned subsidiary of Z3E.

The terms of the Share Exchange Agreement required the current board of directors of Z3E (the “Board”) to designate Quentin Ponder and Timothy Hassett as directors of Z3E, as well as two other directors to be named later by HPEV.

On April 5, 2012, the Company amended its Articles of Incorporation to change its name from Z3 Enterprises, Inc. to HPEV, Inc. On the same date, the board appointed Timothy Hassett as Chief Executive Officer, Quentin Ponder as Chief Financial Officer (he remains Treasurer), Theodore Banzhaf as President and Judson Bibb as Vice President (he remains Secretary).

On April 6, 2012, the Board of Directors amended the bylaws. Specifically, they voted to increase the number of directors, to enable the filling of vacancies on the board of directors by majority vote of the remaining directors or director and to appoint Timothy Hassett and Quentin Ponder to serve as Chairman of the Board and Vice Chairman, respectively.

Control of Z3E changed hands on April 15, 2011 with the issuance of 21,880,000 shares of Z3E common stock to the original shareholders of HPEV pursuant to the terms of the as amended Share Exchange Agreement. An additional 120,000 shares were issued on December 14, 2011 which completed the issuance of 22,000,000 shares of Z3E common stock to HPEV, Inc. under the terms of the as-amended Share Exchange Agreement.

HPEV, INC.
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(Unaudited)

For accounting purposes, the acquisition of HPEV, Inc. by Z3 Enterprises, Inc. has been recorded as a reverse acquisition of a public company and recapitalization of Z3 Enterprises, Inc. based on factors demonstrating that HPEV represents the accounting acquirer.

HPEV was incorporated under the laws of the State of Delaware on March 25, 2011 to commercialize the technology from patents developed by two of its shareholders. Activities during its start-up stage were nominal.

Subsequent to the closing of the Share Exchange, Z3E changed its business focus to attempting to commercialize the HPEV technologies in a variety of markets by licensing its heat pipe technologies to electric motor, generator and vehicle component manufacturers. The Company also plans to license its hybrid conversion system to fleet owners and service centers.

Effective April 23, 2012, the Financial Industry Regulatory Authority (“FINRA”) approved the Company’s name change and the symbol change from BIBB to WARM.

Pursuant to the Securities Purchase Agreement with Spirit Bear Limited, (See Note 5), Jay Palmer and Carrie Dwyer were appointed to our board of directors effective February 20, 2013 and Donica Holt was appointed to our board of directors on March 7, 2013.

On May 5, 2011, a total of 7 patents (1 granted, 6 pending) were assigned to HPEV by Thermal Motors Innovations, LLC, a company controlled by the developers of the patents. Since then, additional patents have been awarded and filed. Therefore, as of August 15, 2013, our subsidiary, HPEV, owns the rights to five patents, and five patent-applications pending with two remaining to be assigned. See Note 7 – Intellectual Property.

The patents and patents-pending owned by HPEV cover composite heat pipes and their applications, a parallel power platform and a parallel power gearing system. The utilization of composite heat pipes should increase the horsepower of electric motors and enhance the lifespan and effectiveness of heat-producing vehicle components. The parallel power platform enables vehicles to alternate between two sources of power and forms the basis of the electric load assist delivered to the engine. The parallel power input gearing unit enables vehicles to run an on-board generator to deliver mobile electric power.

The Company intends to license heat pipe technology to manufacturers of electric motors and generators as well as vehicle parts such as brakes, resistors and calipers. It also plans to commercialize the patents by implementing and licensing a plug-in hybrid electric vehicle conversion system based on the parallel vehicle platform.

The Company is currently sourcing or commissioning the components to perform its initial conversion. The conversion, if successful, will be used to showcase the effectiveness of the technology, generate data and function as a marketing tool to generate orders. The target markets include commercial and fleet vehicles ranging from heavy duty pick-ups to tractor-trailer trucks and buses.

The parallel power input gearing unit forms the basis of the Company’s Mobile Generator (MG) system. The Company is currently negotiating with a number of fleet owners and manufacturers to install the MG system into their work vehicles.

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013

(Unaudited)

To facilitate the incorporation of the Company's heat pipe technology in industrial electric motors and generators, the Company has signed product development agreements with two multi-national manufacturers.

To prove the effectiveness of heat pipe technology under extreme conditions, the Company has signed agreements with racing teams to test its technology in high performance vehicle components.

As operations have consisted of general administrative and pre-production activities, HPEV, Inc. is considered a development stage company in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 915.

On December 9, 2011, Z3E and PPEG mutually agreed to dissolve their Joint Venture Agreement. The reason was due to a change in business direction by Z3E as a result of its acquisition of HPEV, Inc. The Joint Venture Agreement did not provide for any termination penalties.

NOTE 2 – GOING CONCERN

The accompanying condensed, consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of approximately \$7,118,405 during the period from March 24, 2011 (Date of Inception) through June 30, 2013 and has not fully commenced its operations. The Company is still in the development stages, raising substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing from shareholders or other sources to meet its obligations and repay its liabilities arising from normal business operations when they come due. At this time, the Company is seeking additional sources of capital through the issuance of debt, equity, or joint venture agreements, but there can be no assurance the Company will be successful in accomplishing its objectives.

These condensed, consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

As of the filing date of this report on Form 10-Q/A, management believes that it has adequate funding to ensure completion of the initial phases of its business plan: to license its thermal technologies and applications; to license a plug-in hybrid conversion system for heavy duty trucks, buses and tractor trailers; and to license or sell a mobile electric power system powered by the Company's proprietary gearing system.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of HPEV, Inc. is presented to assist in understanding the Company's condensed, consolidated financial statements. The condensed, consolidated financial statements and notes are representations of the Company's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the condensed, consolidated financial statements.

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013

(Unaudited)

Basis of Presentation

The accompanying unaudited condensed interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. All references to Generally Accepted Accounting Principles (“GAAP”) are in accordance with The FASB Accounting Standards Codification (“ASC”) and the Hierarchy of Generally Accepted Accounting Principles.

The unaudited condensed interim consolidated financial statements have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These condensed financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2012 included in Annual Report on Form 10-K. The results of the six month period ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year ending December 31, 2013.

Cash and Cash Equivalents

The Company considers all highly liquid investments and short-term debt instruments with original maturities of three months or less to be cash equivalents. There are \$49,136 and \$194,721 in cash and no cash equivalents as of June 30, 2013 and December 31, 2012, respectively.

Revenue Recognition

The Company recognizes revenue on arrangements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” and No. 104, “Revenue Recognition”. In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability is reasonably assured. For the periods ended June 30, 2013 and 2012, and for the period from inception to June 30, 2013, the Company did not report any revenues.

Earnings per Share

The Company has adopted the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) 260-10 which provides for calculation of “basic” and “diluted” earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income or loss available to common stockholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. The calculation of diluted net loss per share gives effect to common stock equivalents; however, potential common shares are excluded if their effect is anti-dilutive. As of June 30, 2013, 200 preferred shares (which can be converted into common shares at a ratio of 1 to 50,000) and 10,020,304 warrants were outstanding.

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013

(Unaudited)

Fair Value of Financial Instruments

The carrying amounts reflected in the balance sheets for cash, accounts payable, prepaid assets and accrued expenses approximate the respective fair values due to the short maturities of these items. The Company does not hold any investments that are available-for-sale.

As required by the Fair Value Measurements and Disclosures Topic of the FASB ASC, fair value is measured based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Income Taxes

The Company provides for federal and state income taxes payable, as well as for those deferred because of the timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled. The effect of a change in tax rates is recognized as income or expense in the period of the change. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amount that is more likely than not to be realized.

Upon inception, the Company adopted the provisions of ASC 740-10. The Company did not recognize a liability as a result of the implementation of ASC 740-10. A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there is no unrecognized benefit as of the date of adoption. The Company did not recognize interest expense or penalties as a result of the implementation of ASC 740-10. If there were an unrecognized tax benefit, the Company would recognize interest related to unrecognized tax benefits in interest expense and penalties in other operating expenses.

HPEV, INC.
(A Nevada Corporation)
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June 30, 2013

(Unaudited)

Employee Stock Based Compensation

ASC 718-10 provides investors and other users of financial statements with more complete and neutral financial information, by requiring that the compensation cost relating to share-based payment transactions be recognized in the condensed, consolidated financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. ASC 718-10 covers a wide range of share-based compensation arrangements, including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. As of June 30, 2013, the Company has not implemented an employee stock based compensation plan.

Non-Employee Stock Based Compensation

The Company accounts for stock based compensation awards issued to non-employees for services, as prescribed by ASC 718-10, at either the fair value of the services rendered or the instruments issued in exchange for such services, whichever is more readily determinable, using the measurement date guidelines enumerated in ASC 505-50. The Company issues compensatory shares for services including, but not limited to, executive, management, accounting, operations, corporate communication, financial and administrative consulting services.

Use of Estimates

The process of preparing condensed, consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the condensed, consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Recent accounting standards

The Company has evaluated the recent accounting pronouncements through ASU 2014 -05 and believes that none of them will have a material effect on the Company's condensed, consolidated financial statements.

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013

(Unaudited)

NOTE 4 – INCOME (LOSS) PER SHARE

Components of net income (loss) per share for the three and six months ended June 30, 2013 and 2012 are as follows:

	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Net income (loss) attributable to common stockholders	\$ (788,779)	\$ (1,090,789)	\$ (1,297,833)	\$ 791,437
Basic loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ 0.02
Fully diluted loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ 0.02
Basic weighted average common shares outstanding	43,505,741	47,618,639	43,268,781	41,939,874
Fully diluted weighted average common shares outstanding	50,616,423	47,618,639	50,025,752	41,939,874

NOTE 5 – CAPITAL STOCK

Preferred Stock

The Company has 15,000,000 preferred shares authorized and 200 Series A Convertible Preferred Stock, issued and outstanding as of June 30, 2013.

On December 14, 2012, the Company entered into a Securities Purchase Agreement with Spirit Bear Limited (“Spirit Bear”) pursuant to which it sold to Spirit Bear 200 shares of the Company’s Series A Convertible Preferred Stock. Each share of the Preferred Stock was initially convertible into 20,000 shares of Company’s common stock and, under certain circumstances, the Preferred Stock is convertible into Senior Convertible Notes. The Conversion Price of the Preferred Stock is equal to the \$2,500.

In addition to the preferred stock, the Securities Purchase Agreement included warrants to purchase (i) 2,000,000 shares of the Company’s common stock at an exercise price of \$0.35 per share (subject to adjustment as provided in the warrant); (ii) 2,000,000 shares of the Company’s common stock at an exercise price of \$.50 per share (subject to adjustment as provided in the warrant); (iii) 2,000,000 shares of the Company’s common stock at an exercise of \$.75 per share (subject to adjustment as provided in the warrant). The purchase price for sale of the preferred stock and warrants was \$500,000, of which \$313,777 was paid in cash and \$186,222 was paid by cancelation of \$186,222 in outstanding indebtedness held by Spirit Bear.

