

HPEV, INC.
Form S-1
January 11, 2013

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 11, 2013
REGISTRATION NO. 333-_____

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

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

HPEV, INC.
(Exact name of registrant as specified in its charter)

Nevada (State or jurisdiction of incorporation or organization)	3510 (Primary Standard Industrial Classification Code Number)	75-3076597 (I.R.S. Employer Identification No.)
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27420 Breakers Drive
Wesley Chapel, Florida 33544
(813) 929-1877
(Address and telephone number of principal executive offices)

Timothy Hassett
27420 Breakers Drive
Wesley Chapel, Florida 33544
(813) 929-1877
(Name, address and telephone number of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

(COVER CONTINUES ON FOLLOWING PAGE)

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

- Large accelerated filer
- Accelerated filer
- Non-accelerated filer
- Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed Maximum Offering Price Per Security	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$.001 par value per share	6,000,000(2)			
Common Stock, \$.001 par value per share	6,000,000(3)			
Common Stock, \$.001 par value per share	4,000,000(4)			
Common Stock, \$.001 par value per share	4,000,000(5)			
Common Stock, \$.001 par value per share	1,491,054(6)			
Total	21,491,054	\$ 0.26(1)	\$ 5,587,674.04	\$ 762.16

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, using the average of the high and low prices as reported on the OTCQB on January 7, 2013, which was \$0.26 per share.

(2) Represents shares of common stock of HPEV, Inc., offered by selling stockholders, issuable upon exercise of common stock warrants purchased pursuant to the Securities Purchase Agreement between HPEV, Inc. and Spirit Bear Limited dated December 14, 2012.

(3) Represents shares of common stock of HPEV, Inc., offered by selling stockholders, issuable upon exercise of common stock warrants which HPEV, Inc. may require Spirit Bear Limited to purchase pursuant to the Securities Purchase Agreement between HPEV, Inc. and Spirit Bear Limited dated December 14, 2012.

(4) Represents share of common stock of HPEV, Inc., offered by the selling stockholders, issuable upon conversion of Series A Convertible Preferred Shares of HPEV, Inc. purchased pursuant to the Securities Purchase Agreement between HPEV, Inc. and Spirit Bear Limited dated December 14, 2012.

(5) Represents shares of the common stock of HPEV, offered by the selling stockholders, issuable upon conversion of Series A Convertible Preferred Shares of HPEV, Inc. which HPEV, Inc. may require Spirit Bear Limited to purchase pursuant to the Securities Purchase Agreement between HPEV, Inc. and Spirit Bear Limited dated December 14, 2012.

(6) Represents shares of common stock of HPEV, offered by the selling stockholders, issuable upon exercise of common stock warrants previously obtained by Spirit Bear Limited from HPEV, Inc.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not

permitted.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS, SUBJECT TO COMPLETION, DATED JANUARY 11, 2013

HPEV, INC.

21,491,054 Shares of Common Stock

This prospectus relates to the public offering of up to 21,491,054 shares of common stock, par value \$.001 per share, of HPEV, Inc. ("Common Stock"), by the selling stockholders.

The selling stockholders may sell Common Stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions.

We will not receive any of the proceeds from the sale of Common Stock by the selling stockholders. We will pay the expenses of registering these shares.

Investment in the Common Stock involves a high degree of risk. You should consider carefully the risk factors beginning on page 10 of this prospectus before purchasing any of the shares offered by this prospectus.

Our common stock is quoted on the OTCQB and trades under the symbol "WARM". The last reported sale price of our common stock on the OTCQB on January 7, 2013, was \$.26 per share.

We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should read the entire prospectus and any amendments or supplements carefully before you make your investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2013.

HPEV, INC.

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You may only rely on the information contained in this prospectus or that we have referred you to. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the common stock offered by this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any common stock in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made in connection with this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information contained by reference to this prospectus is correct as of any time after its date.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, or Exchange Act. Forward-looking statements reflect the current view about future events. When used in this prospectus, the words “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan,” or the negative of these terms and similar expressions they relate to us or our management, identify forward-looking statements. Such statements, include, but are not limited to, statements contained in this prospectus relating to our business strategy, our future operating results and liquidity and capital resources outlook. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees of assurance of future performance. We caution you therefore against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, without limitation, a continued decline in general economic conditions nationally and internationally; decreased demand for our products and services; market acceptance of our products and services; our ability to protect our intellectual property rights; the impact of any infringement actions or other litigation brought against us; competition from other providers and products; our ability to develop and commercialize new and improved products and services; our ability to raise capital to fund continuing operations; changes in government regulation; our ability to complete customer transactions and capital raising transactions; and other factors (including the risks contained in the section of this prospectus entitled “Risk Factors”) relating to our industry, our operations and results of operations and any businesses that may be acquired by us. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The selling stockholders are offering to sell and seeking offers to buy shares of our common stock, including shares they acquire upon exercise of their derivative securities, only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. The prospectus will be updated and updated prospectuses made available for delivery to the extent required by the federal securities laws.

No person is authorized in connection with this prospectus to give any information or to make any representations about us, the selling stockholders, the securities or any matter discussed in this prospectus, other than the information and representations contained in this prospectus. If any other information or representation is given or made, such information or representation may not be relied upon as having been authorized by us or any selling stockholder. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy the securities in any circumstances under which the offer or solicitation is unlawful. Neither the delivery of this prospectus nor any distribution of securities in accordance with this prospectus shall, under any circumstances, imply that there has been no change in our affairs since the date of this prospectus. The prospectus will be updated and updated prospectuses made available for delivery to the extent required by the federal securities laws.

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before investing in our securities. You should read the entire prospectus carefully, including the section entitled “Risk Factors” and our consolidated financial statements and the related notes. Some of the statements contained in this prospectus, including statements under “Prospectus Summary” and “Risk Factors” as well as those noted in the documents incorporated herein by reference, are forward-looking statements and may involve a number of risks and uncertainties. We note that our actual results and future events may differ significantly based upon a number of factors. The reader should not put undue reliance on the forward-looking statements in this document, which speak only as of the date on the cover of this prospectus.

Corporate Information

Our corporate headquarters are located at 27420 Breakers Drive, Wesley Chapel, FL 33544 and our telephone number is (813) 929-1877.

Our common stock is quoted on the OTCQB under the symbol “WARM”. On January 7, 2013, the last reported market price of our common stock was \$0.26 per share.

About Us

HPEV, Inc. a Nevada corporation (the “Company”, “HPEV”, “we”, “us” or “our”) was incorporated in the State of Nevada July 22, 2002 under the name “Bibb Corporation”. On September 3, 2010, the Company amended its Articles of Incorporation to change its name to “Z3 Enterprises, Inc.” and then again amended its Article of Incorporation, on April 5, 2012, to change its name to “HPEV, Inc.” HPEV, Inc., a Delaware corporation (“HPEV-DE”) is a wholly owned subsidiary of HPEV.

The Company began its development stage in July 2002. Since inception we focused primarily on research and development activities, organizing our company, and finding and negotiating with vendors.

The original planned principal operations were to produce fully integrated multi-media products targeting the marginally literate. That changed when we signed a joint venture with Phoenix Productions and Entertainment Group (PPEG) and the focus shifted to educational, entertainment and reality show programming as well as feature films and special event marketing.

As a result of the joint venture, the Company changed its name from Bibb Corporation to Z3 Enterprises, Inc. A few months later, PPEG bought out the majority shareholder of the Company and there was a change of control of the Company.

On March 29, 2011, Z3 Enterprises (“Z3”) 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 Z3.

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 during the fourth quarter of 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.

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.

Z3E changed its business direction and now plans to commercialize the patents held by HPEV, Inc. On May 5, 2011, a total of 7 patents (1 granted (Patent No. 7,569,955), 6 pending) were assigned to HPEV-DE by Thermal Motors Innovations, LLC, a company controlled by the developers of the patents. On March 13, 2012, HPEV-DE was awarded Patent No. 8,134,260 covering Motor with Heat Pipes, Submersible Motors. On April 3, 2012, HPEV-DE was granted Patent No. 8,148,858 covering the incorporation of a totally enclosed heat pipe technology Air Cooled. On June 12, 2012, HPEV-DE was granted Patent No. 8,198,770 covering Heat Cooled Bearings "Bearing Cooler." On October 9th, 2012, HPEV-DE was awarded Patent No. 8,283,818 covering Motor with Heat Pipes, Hermetic Motors.

HPEV began its commercialization stage on March 24, 2011. Since inception, the Company has focused primarily on commercializing its patented and patent pending technologies, research and development activities, organizing the Company, finding and negotiating with vendors, and raising capital.

The patents and patents-pending assigned to HPEV-DE cover thermal dispersion technologies and their applications as well as an electric load assist and on board auxiliary generation power. The utilization of thermal technologies should increase the horsepower of electric motors and generators, reduce the cost to produce with reduction of active material, and enhance the lifespan and effectiveness of heat-producing components. The electric load assist is based on the Company's parallel redundant vehicle platform which makes it possible for conversion of standard vehicles to plug-in hybrid electric vehicles to utilize power in any combination from the gas or diesel engine and an electric motor installed on-board. The technology is both vehicle and energy agnostic.

On April 5, 2012, a Certificate of Amendment to the Articles of Incorporation was filed with the Nevada Secretary of State noting the change in the Company name to HPEV, Inc.; the increase in authorized common stock to 100,000,000 shares; the increase in preferred stock to 15,000,000 shares; and the authorization of the Board of Directors (the "Board") to divide or change the powers, preferences, qualifications, limitations and rights of the preferred shares by resolution.

On April 5, 2012, the Board of Directors voted to amend the bylaws and establish the new registered agent in the State of Nevada as InCorp Services. It voted to change the number and titles of corporate officers and to enable the alteration, amendment or repeal of the bylaws either by approval of a majority of shareholders or by the approval of the Board. It also removed clauses that restricted the duties and authority of the Board committees as well as removed a clause regarding the resignation of officers. Finally, it appointed Timothy Hassett, Chief Executive Officer; Quentin Ponder, Chief Financial Officer (he remains Treasurer); Theodore Banzhaf, President; and Judson Bibb, Vice President (he remains Secretary).

On April 6, 2012, the Board of Directors amended other articles and sections of 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.

On April 20, 2012, the Financial Industry Regulatory Authority (FINRA) approved the name change from Z3 Enterprises, Inc. to HPEV, Inc and the symbol change from BIBB to WARM. The changes took effect on April 23, 2012.

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

About This Offering

On December 14, 2012, (the "Closing Date"), the Company entered into a Securities Purchase Agreement (the "SBL SPA"), pursuant to which it sold to Spirit Bear Limited ("SBL") (i) 200 shares of the Company's Series A Convertible Preferred Stock, \$.001 per share (the "Preferred Stock") and (ii) warrants to purchase (a) 2,000,000 shares of the Company's common stock at an exercise price of \$0.35 per share; (b) 2,000,000 shares of the Company's common stock at an exercise price of \$.50 per share; (c) 2,000,000 shares of the Company's common stock at an exercise of \$.75 per share (all amounts subject to adjustment as provided in the respective warrants, and "a", "b" and "c" collectively the "Common Stock Warrants"). Each share of the Preferred Stock is convertible into 20,000 shares of Company's common stock (the "Preferred Stock Shares") 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, pursuant to the SBL SPA, at the Company's discretion, upon the satisfaction of certain conditions outside the control of SBL, the Company may require SBL to purchase an additional 200 shares of the Preferred Stock and common stock warrants to purchase 6,000,000 share of the Company's common stock.

The Company and the SBL also entered into a Registration Rights Agreement, dated December 14, 2012 (the "Registration Rights Agreement"). Pursuant to the Registration Rights Agreement, the Company shall file a registration statement to register the shares issuable upon conversion of the Preferred Stock and the shares issuable upon the exercise of the Warrants. If the Registration Statement is not filed within thirty days of the Closing Date, then the number of Warrant Shares shall be increased by 500,000 to 6,500,000. If the Securities and Exchange Commission has not declared the Registration Statement effective within 120 days of the Closing Date, then the Company shall pay to each holder of Preferred Shares an amount in cash per Preferred Share held equal to the product of (i) \$5,000.00

multiplied by (ii) the product of (A) .02 multiplied by (B) the number of months after the Effectiveness Deadline that the Registration Statement is not declared effective by the SEC.

This prospectus includes (i) 12,000,000 shares issuable upon exercise of the Common Stock Warrants, (ii) 8,000,000 shares of common stock issuable upon conversion of the Preferred Stock, and (iii) 1,491,054 shares issuable upon conversion of previously purchased common stock warrants.

Estimated use of proceeds

This prospectus relates to shares of our Common Stock that may be offered and sold from time to time by the selling stockholders. We will not receive any of the proceeds resulting from the sale of Common Stock by the selling stockholders.

Summary of the Shares offered by the Selling Stockholders.

The following is a summary of the shares being offered by the selling stockholders:

Common Stock offered by the selling stockholders	Up to 21,491,054 shares of Common Stock (including 7,491,054 shares of common stock issuable upon exercise of warrants, and 8,000,000 shares of common stock issuable upon conversion of preferred stock.
Common Stock outstanding prior to the offering	47,646,441 (1)
Common Stock to be outstanding after the offering	69,137,495 assuming the full exercise of the warrants and full conversion of the preferred stock, the underlying shares of which are included in this prospectus.
Use of proceeds	We will not receive any proceeds from the sale of the Common Stock hereunder.

(1) Based upon the total number of issued and outstanding shares as of January 4, 2013.

RISK FACTORS

An investment in the Company's common stock involves a high degree of risk. You should carefully consider the risks described below as well as other information provided to you in this prospectus, including information in the section of this document entitled "Forward Looking Statements." The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected, the value of our common stock could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS AND THE INDUSTRY IN WHICH WE OPERATE

Our limited operating history and recent change in business direction makes evaluating our business and future prospects difficult, and may increase the risk of your investment.

We have a very limited operating history on which investors can base an evaluation of our business, operating results and prospects. Of even greater significance is that fact that we have no operating history with respect to converting internal combustion motor vehicles into plug-in hybrid electric vehicles by utilizing electric load assist on a parallel platform.

While the basic technology has been verified, we only recently have begun the final commercialization of the complete HPEV system in preparation for our initial conversion of a vehicle. This limits our ability to accurately forecast the cost of the conversions or to determine a precise date on which the commercial platform for vehicle conversions will be widely released.

We are currently evaluating, qualifying and selecting our suppliers for the hybrid conversion system. However, we may not be able to engage suppliers for the remaining components in a timely manner, at an acceptable price or in the necessary quantities. In addition, we may also need to do extensive testing to ensure that the conversions are in compliance with applicable National Highway Traffic Safety Administration (NHTSA) safety regulations and United States Environmental Protection Agency (EPA) regulations prior to full distribution to our licensees. Our plan to complete the initial commercialization of the hybrid conversion system is dependent upon the timely availability of funds, upon our finalizing the engineering, component procurement, build out and testing in a timely manner. Any significant delays would materially adversely affect our business, prospects, financial condition and operating results.

Equally, we have no operating history with respect to commercializing our heat pipe technology by incorporating it in brake components nor licensing it to motor and generator manufacturers.

Consequently, it is difficult to predict our future revenues and appropriately budget for our expenses, and we have limited insight into trends that may emerge and affect our business. In the event that actual results differ from our estimates or we adjust our estimates in future periods, our operating results and financial position could be materially affected. If the markets for hybrid electric conversions and/or electric motors, generators and brake components enhanced with composite heat pipe technologies does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and operating results will be harmed.

The market for plug-in hybrid electric vehicle conversions is relatively new, rapidly evolving, characterized by rapidly changing technologies, evolving government regulation, and changing consumer demands and behaviors. Factors that may influence the conversions to plug-in hybrid electric vehicles include:

Decreases in the price of oil, gasoline and diesel fuel may slow the growth of our business and negatively impact our financial results.

Prices for oil, gasoline and diesel fuel can be very volatile. Increases in the price of fuels will likely raise interest in plug-in hybrid conversions. Decreases in the price of fuels will likely reduce interest in conversions and reduced interest could slow the growth of our business.

Our growth depends in part on environmental regulations and programs mandating the use of vehicles that get better gas mileage and generate fewer emissions. Modification or repeal of these regulations may adversely impact our business.

Enabling commercial customers to meet environmental regulations and programs in the United States that promote or mandate the use of vehicles that get better gas mileage and generate fewer emissions is an integral part of our business plan. For instance, the Ports of Los Angeles and Long Beach have adopted the San Pedro Bay Ports Clean Air Action Plan, which outlines a Clean Trucks Program that calls for the replacement of 16,000 drayage trucks with trucks that meet certain clean truck standards.

Industry participants with a vested interest in gasoline and diesel invest significant time and money in efforts to influence environmental regulations in ways that delay or repeal requirements for cleaner vehicle emissions. For instance, the American Trucking Association has filed suit to challenge specific concession requirements in the Clean Trucks Program, either of which may delay the program's implementation.

Furthermore, the economic recession may result in the delay, amendment or waiver of environmental regulations due to the perception that they impose increased costs on the transportation industry or the general public that cannot be absorbed in a shrinking economy. The delay, repeal or modification of federal or state regulations or programs that encourage the use of more efficient and/or cleaner vehicles could slow our growth and adversely affect our business.

If we are unable to keep up with rapid technological changes in our field or compete effectively, we will be unable to operate profitably.

We are entering a field which is characterized by extensive research efforts and rapid technological progress. If we fail to anticipate or respond adequately to technological developments, our ability to operate profitably could suffer. We cannot assure you that research and discoveries by other companies will not render our technologies or potential products or services uneconomical or result in products superior to those we develop or that any technologies, products or services we develop will be preferred to any existing or newly-developed technologies, products or services.

Some aspects of our business will depend in part on the availability of federal, state and local rebates and tax credits for hybrid electric vehicles. A reduction in these incentives would increase the cost of conversions for our customers and could significantly reduce our revenue.

Hybrid conversions for the general public will depend in part on tax credits, rebates and similar federal, state and local government incentives that promote hybrid electric vehicles. We anticipate that fleet owners will be less reliant on incentives. As for other products we create, there should be no reliance at all.

Nonetheless, any reduction, elimination or discriminatory application of federal, state and local government incentives and other economic subsidies or tax credits because of policy changes, the reduced need for such subsidies or incentives due to the perceived success of the hybrid conversions, fiscal tightening or other reasons could have a material adverse effect on our business, financial condition, and operating results.

We may experience significant delays in the design and implementation of our thermal technology into the motors and/or generators of the companies with which we have research and development agreements could harm our business and prospects.

Any delay in the financing, design, and implementation of our thermal technology into the motor and/or generator lines of the companies with which we have research and development agreements could materially damage our brand,

business, prospects, financial condition and operating results. Motor manufacturers often experience delays in the design, manufacture and commercial release of new product lines.

If we are unable to adequately control the costs associated with operating our business, including our costs of sales and materials, our business, financial condition, operating results and prospects will suffer.

If we are unable to maintain a sufficiently low level of costs for designing, marketing, selling and distributing our conversion system and thermal technologies relative to their selling prices, our operating results, gross margins, business and prospects could be materially and adversely impacted. We have made, and will be required to continue to make, significant investments for the design and sales of our system and technologies. There can be no assurances that our costs of producing and delivering our system and technologies will be less than the revenue we generate from sales, licenses and/or royalties or that we will achieve our expected gross margins.

We may be required to incur substantial marketing costs and expenses to promote our systems and technologies, even though our marketing expenses to date have been relatively limited. If we are unable to keep our operating costs aligned with the level of revenues we generate, our operating results, business and prospects will be harmed. Many of the factors that impact our operating costs are beyond our control. For example, the costs of our components could increase due to shortages as global demand for these products increases. Indeed, if the popularity of hybrid conversions exceeds current expectations without significant expansion in battery production capacity and advancements in battery technology, shortages could occur which would result in increased costs to us.

A small number of customers will account for a significant portion of our revenues from our motor/generator technology, and the loss of one or more of these customers or our inability to ultimately realize future revenue could materially adversely affect our financial condition and results of operations.

The electric motor and generator industry is a global industry with annual sales of approximately \$120 billion USD. The industry has many participants, but more than 60% of the global market share is attributed to 10 companies including NIDEC, ABB, REGAL, WEG, SIEMENS, EMERSON, ONAN, Hyundai, TECO Westinghouse and Group Schneider. We will derive a significant portion of our revenues from our motor/generator technology from a few companies which consist primarily of large, multi-national electric motor manufacturers. Our financial condition and results of operations could be materially and adversely affected if any one