HPEV, INC.
Form 10-K
April 15, 2013

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

[_] 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 (IRS Employer Identification No.)

27420 Breakers Drive
Wesley Chapel, Florida 33544

(Address of principal executive office)

Registrant's telephone number, including area code: (813) 929-1877

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [__] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes [__] No [X]

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 [X] 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 [X] No[__]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [__]

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.

Large accelerated filer [__] Accelerated filer [__]

Non-accelerated filer [__] Smaller reporting company [X]

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

As of June 30, 2012, the aggregate market value of the registrant’s common stock held by non-affiliates (based on the closing price of $0.40 on that date) was $9,334,576.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 44,085,441 shares of common stock as of March 29, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Proxy Statement relating to the registrant’s 2013 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Information Regarding Forward-Looking Statements

In addition to historical information, this report contains predictions, estimates and other forward-looking statements that relate to future events or our future financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. These risks and other factors include those listed under “Business”, “Risk Factors” and elsewhere in this report, and some of which we may not know. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts “potential,” “continue” or the negative of these terms or other comparable terminology.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in this report in greater detail under the heading “Risk Factors.” Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this report. You should read this annual report on Form 10-K and the documents that we have filed as exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Readers are urged to carefully review and consider the various disclosures made by the Company in this report and the Company’s reports periodically filed with the Securities and Exchange Commission that seek to advise of the risks and other factors that affect the Company’s business.

The risks affecting the Company’s business include, among others: lack of other sources of funding, the Company’s continuing compliance with applicable laws and regulations, product acceptance; competition in the industry and technological changes.

PART 1

ITEM 1, BUSINESS

OVERVIEW

HPEV, Inc. (the “Company” or ”HPEV”) was incorporated in the State of Nevada on July 22, 2002. under the name “Bibb Corporation”. On September 3, 2010, we changed our name to Z3 Enterprises, Inc.. On April 5, 2012, the Company further amended its Articles of Incorporation to change its name to HPEV, Inc.

THE COMPANY

The Company is a development stage company. Since inception we focused primarily on organizing our company, finding and negotiating with vendors and raising capital. In March 2011, we began commercialization of our technologies and research and development activities.

Our original planned principal operations were to produce fully integrated multi-media products targeting the marginally literate. On September 3, 2010, we signed a joint venture agreement (“Joint Venture Agreement”) with Phoenix Productions and Entertainment Group, a Nevada limited liability company (“PPEG”), to produce and distribute television shows, feature films, and other entertainment and educational projects and, consequently, our focus shifted to educational, entertainment and reality show programming as well as feature films and special event marketing. Pursuant to the Joint Venture Agreement, PPEG agreed to provide us with a minimum of $10 million in loans, lines of credit, or investments (up to $100 million) to fund the production, distribution and implementation of entertainment and educational projects. In return for the loan or line of credit, PPEG would receive the full amount of its loans or investment plus an interest payment of 5% upon receipt of revenues by us from each project. No projects had ever reached the production phase and no loans were ever made under the terms of the Joint Venture Agreement. The Joint Venture Agreement was terminated on December 9, 2011.

As a result of the joint venture, the Company changed its name from Bibb Corporation to Z3 Enterprises, Inc. In December 2010, PPEG bought out the majority shareholder of the Company and there was a change of control of the Company. The Joint Venture Agreement was terminated on December 9, 2011 by mutual consent due to the Company’s further change in business direction at that time.

From September 2010 through March 2011, the Company pursued various business opportunities which were never consummated.

On March 29, 2011, we entered into a share exchange agreement (which was amended on June 14, 2011) with HPEV, Inc., a Delaware corporation (“the Share Exchange Agreement”) to acquire 100 shares, constituting all of the issued and outstanding shares of HPEV, Inc. in consideration for the issuance of 22,000,000 shares of common stock. Upon closing of the share exchange on April 15, 2011, HPEV, Inc. became our wholly owned subsidiary.

The terms of the Share Exchange Agreement required us, among other things to designate Quentin Ponder and Timothy Hassett as directors.

There was a change of control of our company on April 15, 2011 as a result of the issuance of 21,880,000 shares of our common stock to the original shareholders of HPEV, Inc. pursuant to the terms of the 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 common stock under the terms of the Share Exchange Agreement.

Our intent is now to commercialize our patents by implementing and licensing a plug-in hybrid electric vehicle conversion system based on the parallel vehicle platform. We also intend to incorporate our heat pipe technology in automotive components such as brakes. As of March 28, 2013, we have 5 patents and 12 patent applications pending which relate to thermal dispersion technologies and applications as well as a parallel vehicle power platform. The Company intends to license the thermal technologies and applications to electric motor and vehicle component manufacturers; license a plug-in hybrid conversion system for heavy duty trucks, buses and tractor trailers and to fleet owners and service centers; and license or sell a mobile electric power system powered by the Company's proprietary gearing system to commercial vehicle and fleet owners

On April 5, 2012, we amended our Articles of Incorporation to: (i) change our name from Z3 Enterprises, Inc. to HPEV, Inc.; (ii) increase our authorized common stock from 95,000,000 shares to 100,000,000 shares; (iii) increase our authorized preferred stock from 10,000,000 shares to 15,000,000 shares and (iii) to authorize "blank check" preferred stock, which may be issued in one or more classes or series, with such rights, preferences, privileges and restrictions as will be fixed by our board of directors. We also amended our bylaws to, among other things, permit our bylaws to be amended by majority shareholder or board approval.

On April 5, 2012, our 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, we further amended our bylaws to increase the number of directors from one to three directors and appointed Timothy Hassett and Quentin Ponder to serve as Chairman of the Board and Vice Chairman, respectively.

Effective April 23, 2012, the Financial Industry Regulatory Authority ("FINRA") approved our name change and the symbol change from BIBB to WARM.

Pursuant to the Securities Purchase Agreement with Spirit Bear Limited ("Spirit Bear"), 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.

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.

BUSINESS DESCRIPTION

We have developed and intend to commercialize thermal dispersion technologies in various product platforms, and have developed and intend to commercialize an electric load assist technology around which we have designed a vehicle retrofit system. The Company hopes to generate revenues from license and royalty agreements with manufacturers and end-users.

As of March 29, 2013, the Company has five patents and 12 pending patents or patent applications that relate to composite heat pipe architecture, applications and a parallel vehicle platform which offers a complementary application to our thermal dispersion technology.

Our Technologies

Our technologies are divided into two distinct but complementary categories: heat dispersion technology, electric load assist and mobile auxiliary power technology.

Heat Dispersion Technology

Heat is an undesirable byproduct of anything that moves, especially motors and generators. Historically, a large percentage of the cost of manufacturing any motor has been in the technology necessary to remove heat during its operation to prevent failure and increase power. Heat can destroy motors, generators and many other types of machinery, and the energy necessary to remove heat can limit output.

Our thermal dispersion technology removes heat via patented heat pipe technologies. Heat pipes have been utilized for more than 50 years, but we have a proprietary process and design technology that makes our heat pipes usable in many applications that have previously not been effective. The key is that our heat pipes move heat in ANY direction in a system that requires little or no maintenance and can be applied to almost any motor, generator or industrial product. We believe that this allows for more efficient, smaller, and higher output machines, resulting in cooler motors and a longer operating life.

Our patent portfolio covers the application and integration of our heat pipes into various cooling schemes for enhanced heat removal in motors, generators and numerous other industrial applications including marine, aviation and military. We believe that our technologies have the potential to deliver power output increases and cost reductions, depending on the machine type or motor/generator size, as follows:

1. Increase power density of current motor platforms by 20% to 50%,
2. Reduce total product cost by 12.5% to 25%,
3. Increase motor and generator efficiency by 1% to 2%, and
4. Increase motor and generator life.

We believe that products produced with our technologies have the potential to deliver operational savings as well, including:

1. Savings from reduced maintenance costs,
2. Savings from the standardization of multiple platforms down to a single platform,
3. Savings from the standardization of drawings and data around existing platforms,
4. Savings from the ability to use standard designs and standard insulation systems versus custom, and
5. Savings from the ability to integrate and produce on existing production lines with no retooling and no additional or minimum capital investment.

Our revenue model for the heat dispersion technology is to license the technology in exchange for royalties.

We have entered into product development and commercialization agreements with manufacturing partners. We anticipate that we will begin to enter into license agreements, subject to successful completion of our initial product development, when the product is ready to be manufactured on the licensee's regular production line, after all development and testing have been completed.

We currently expect to begin to generate revenues from our heat dispersion technology business in the second half of 2013

Mobile Electric Power

A proprietary gearing system the Company developed for our electric load assist (see below) can also be used to power an on-board generator with the result that commercial vehicles no longer need to tow a mobile generator to a work site. Management believes it has uncovered an immediate need for on-board, continuous generation of up to 200 kW of power to remote jobsites as well as the mobile generation of emergency power in the event of an outage or disaster. Consequently, we intend to offer an on-board generator installation kit as a stand-alone (Auxiliary Mobile Power) and as part of a hybrid conversion (the Ultimate Work Truck).

We currently expect to begin to generate revenues from our heat dispersion technology business in the second half of 2013

Electric Load Assist Technology

We have also developed proprietary Electric Load Assist ("ELA") technology. The technology is the centerpiece of our vehicle retrofit system (separate and apart from our heat pipe technology and heat dispersion product development partnerships), which also relies on the benefits of heat removal and is protected by patents and patents-pending.

With ELA, a vehicle engine does not have to work as hard as some of the work that was done by the engine is now performed by an electric motor running in parallel. The vehicle still drives and feels the same, and our ELA controller allows full acceleration and braking control; however, the engine runs much more efficiently and burns significantly less fossil fuel. The ELA controller allows the vehicle operator to determine the amount of load assist during operation, ranging from all-fuel to all-electric. We believe that our ELA system will provide a significant difference and improvement from, and competitive advantage over, current market offerings such as the Toyota Prius. If either the electrical system or the internal combustion engine fails, an ELA vehicle can operate on the remaining system. In current market offerings, if either system fails, the vehicle fails.

Our ELA technology is compatible with any manufacturer as well as any power source, including traditional gasoline/diesel engines, compressed natural gas, batteries and fuel cells. We also believe that our technology will have a wide range of marine, aviation, industrial and military applications.

Initially, our ELA system business will implement a simple version of its technology for On-board mobile auxiliary power and hopes to generate revenue from transport companies and other businesses which own and/or manage fleets of Class 2, 3, 4 and 6 or light to medium-duty trucks. Our revenue model for the ELA technology will be to license the technology in exchange for royalties based on fuel savings.

We currently expect to begin to generate revenues from our ELA technology business in the second half of 2013.

The Company also plans to incorporate composite heat pipes in vehicle components which generate heat such as brake calipers, resistors and rotors. The new brake components should be incorporated in the initial conversion vehicle and the Company has granted two racing teams a one-year non-exclusive, revocable license to test its patented cooling technology's performance in their racing cars.

STRATEGY

We have developed and intend to commercialize thermal dispersion technologies in various product platforms, and an electric load assist technology around which we have designed a vehicle retrofit system. In preparation, we have applied for trademarks for some of our technologies and their acronyms including 'Totally Enclosed Heat Pipe Cooled', 'TEHPC', 'Electric Load Assist' and 'ELA'.

We believe that our proprietary technologies, including our patent portfolio and trade secrets, can help increase the efficiency and affect manufacturing cost structure in several large industries beginning with motor/generator and fleet vehicles.

The markets for products utilizing our technology include consumer, industrial and military markets, both in the U.S. and worldwide. Our initial target markets include those involved in moving materials and moving people, such as:

- Motors/Generators,
- Mobile auxiliary power,
- Compressors,

- Turbines (Wind, Micro),
- Bearings,

- Electric Vehicles: rail, off-highway, mining, delivery, refuse,
- Brakes/rotors/calipers,

- Pumps/fans,
- Passenger vehicles: auto, bus, train, aircraft,

- Commercial vehicles: SUV, light truck, tram,
- Military: boats, Humvee, truck, aircraft, and

- Marine: boats ranging in size from 30 feet to 120 feet and beyond.

COMPETITION

The Company has switched its short term focus to mobile electric power where management sees a market need for on-board, generators as opposed to trailer-mounted generators towed behind a vehicle. We believe we can provide up to 100 kW of auxiliary mobile power to any location for less than half the production cost of a towable, trailer-mounted generator. Equally, 100 kW trailer-mounted generators can weigh over 5,000 pounds. We intend to deliver the same power at under 1,000 pounds.

Many on-board power systems are designed to power the appliances and electronics of long haul, sleeper trucks. For instance, Mobile Electric Power Solutions uses the alternator to power a belt-driven system that provides up to 15 kilowatts. Energy Extreme offers on-board battery operated generators such as auxiliary power units which can deliver up to 50 kilowatts and, consequently, power a wider range of items and equipment.

As for the incorporation of thermal dispersion technology in industrial electric motors, generators and alternators, the vast majority of the cooling solutions currently being offered by manufacturers are based on technology that's over 50 years old. The Company is not aware of any new alternatives on the market.

While the new hybrid electric vehicle industry is intensely competitive and features several multi-national companies such as Ford, GM, and Volvo, the market for hybrid conversions is in its infancy. There are a number of small companies selling do-it-yourself conversion kits for individual vehicles, EV Power Systems is pitching conversions for fleet vehicles, AMP Holding Inc. maker of AMP Electric Vehicles and Wrightspeed Inc. offer replacement electric drive trains for high fuel consumption vehicles and VIA Motors is offering conversions of a GM pick-up, van and SUV. A competitor with a similar business plan is Echo Automotive which offers a technology based on a series platform. The technology features a bolt-on retrofit kit that attaches to the drive train and adds lithium ion batteries and a controller. To our knowledge, no other company has electric load assist technology in a parallel platform or an aftermarket commercial platform that is being retrofitted on a regular, on-going basis.

ALTe Powertrain Technologies and Eaton Corporation are converting commercial vehicles by replacing the entire power-train including the engine, transmission, fuel tank and drive shaft. We intend to perform conversions by adding standard components along with a patented thermal-engineered traction motor and the patent-pending electric load assist.

We aim to compete in the fleet markets for currently-owned vehicles.

We believe the primary competitive factors in our markets include, but are not limited to:

· technological innovation;
· product quality and safety;
· product performance; and
· price.

To a limited extent, we will be competing against new hybrid vehicles wherein the fleet owner has a vehicle that is near the end of its useful life and who elects to purchase a new hybrid vehicle rather than upgrade with a conversion to a plug-in hybrid. However, it may still be cost effective for the fleet owner to purchase new and then add the conversion depending on the added cost for a new hybrid versus the conversion cost.

Some of our competitors and potential competitors may have greater resources than we do, and may be able to respond more quickly and efficiently to changes in the marketplace whether technological, economic or, simply, customer requirements or preferences.

Some of our potential competitors are significantly larger than we are, have been in business much longer than we have, and have significantly more resources at their disposal. That enhances their ability to obtain top engineering talent as well as sales representatives with strong industry ties. Plus, their greater market clout could effectively overwhelm our promotional and marketing efforts.

Although, we believe that our products and services will compete favorably, we cannot ensure that they will be profitable nor that we can maintain a competitive position against potential competitors. Increased competition may result in price reductions, reduced gross margins, loss of market share and loss of licensees, any of which could materially and adversely affect our business, operating results and financial condition.

We cannot ensure that our current or future competitors will not develop products which may be superior to ours or which may prove to be more popular. It is possible that new competitors will emerge and rapidly acquire market share. We cannot ensure that we will be able to compete successfully against current or future competitors or that the competitive pressures will not materially and adversely affect our business, operating results and financial condition. We also cannot ensure that manufacturers, even in the absence of competition, will decide to change their products and opt to license and incorporate our technologies.

EQUIPMENT

As a Company that intends to commercialize or license our proprietary technology for others to install, manufacture and/or distribute; our equipment needs are project-specific and temporary. We do not intend to purchase any equipment to implement our business operations, but instead we will rent, lease or outsource as needed.

MANUFACTURING

No manufacturing will be done in-house. For our thermal technologies, the Company will rely on product development agreements with existing manufacturers who will then pay a license or royalty per unit. For plug-in, hybrid conversions, the Company will rely on off-the-shelf and made-to-order equipment combined with proprietary software created specifically for use on our parallel platform. To that end, the Company has already sourced and priced electric motors, generators and other components as well as software programming. Installations will be performed by our licensees for ELA but the Company plans to outsource manufacture of its on-board mobile auxiliary power kit while retaining control of both marketing and licensing.

INTELLECTUAL PROPERTY

Our success depends, at least in part, on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patents, patent applications, trade secrets, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology.

Our research and development is supported by a broad intellectual property portfolio. We currently own 5 patents and have 12 patent applications pending or in the process thereof in the field of composite heat structures, motors, and related structures. The Company has a policy of not disclosing its patent applications in order to ensure protection of the underlying technology.

Our success will likely depend upon our ability to preserve our proprietary technologies and operate without infringing the proprietary rights of other parties. However, we may rely on certain proprietary technologies and know-how that are not patentable. We protect such proprietary information, in part, by the use of confidentiality agreements with our employees, consultants and certain of our contractors.

The following table identifies the issued patents we own or license that we believe currently support our technology platform.

Owned by HPEV, Inc.

Number Patent	Country	Filing Date	Issue Date	Expiration Date*	Title
8,283,818 B2	US	February 4, 2010	October 9, 2012	October 9, 2032	Electric Motor with Heat Pipes
8,134,260 B2	US	July 31, 2009	March 13, 2012	March 13, 2032	Electric Motor with Heat Pipes
8,148,858 B2	US	August 6, 2009	April 3, 2012	April 3, 2032	Totally Enclosed Heat Pipe Cooled Motor
8,198,770 B2	US	April 3, 2009	June 12, 2012	June 12, 2032	Heat Pipe Bearing Cooler Systems and Methods
7,569,955 B2	US	June 19, 2007	August 4, 2009	August 4, 2029	Electric Motor with Heat Pipes

GOVERNMENT AND INDUSTRY REGULATIONS

The Magnuson–Moss Warranty Act is a federal law that protects consumers by not allowing a vehicle manufacturer to void the warranty on a vehicle due to an aftermarket part unless, the manufacturer can prove that the aftermarket part caused or contributed to the failure in the vehicle.

The Company intends to add an electric load assist on a parallel platform to motor vehicles. No original vehicle parts will be significantly modified in the conversion process. There will be some additional parts (motor, drive, battery and sensors and controls) added, but these parts will not change how the vehicle operates in any way.

Although we will be adding power directly to the rear wheels, the rest of the drive train will operate according to the manufacturer’s specifications. Therefore, the original warranty should remain in effect.

All our other components (motor, drive, batteries, controller/sensors) will be warranted by their respective manufacturers.

In addition, the total weight of the additional components added should remain within the vehicle’s Gross Vehicle Weight Rating. As a result, the conversion should not run afoul of either federal or state transportation regulations.

Any change to the original configuration of an EPA certified vehicle, including alternative fuel conversion, is a potential violation of the Clean Air Act prohibition against tampering. The EPA has established protocols through which we may seek exemption from the tampering prohibition by demonstrating that emission controls in the converted vehicle will continue to function properly and that pollution will not increase as a result of conversion. The Company intends to demonstrate that its converted vehicles satisfy EPA emissions requirements.

We also intend to comply with state emission regulations. For instance, California's regulations require that retrofit systems be evaluated and certified by the Air Resources Board.

Our auxiliary mobile power system, stand-alone version, will add a specialized gearing package to the drive train which will then connect to a generator that will be added on-board. We believe that the vehicle and drive train will operate normally in accordance with manufacturer's specifications and that no regulations will be violated or exceeded.

EMPLOYEES

As of March 29, 2013, we currently have one full time employee. We have independent contractors functioning as officers and working on our initial conversion. As funding is received and products or additional services are initiated, employees will be hired on an as-needed basis. We do not currently have any written agreements with our employee, although we do have consulting agreements with some of our consultants.

RESEARCH AND DEVELOPMENT

During fiscal 2011 and 2012, we incurred research and development costs of $114,355 and $242,717, respectively. Such costs will not be borne directly by customers.

ITEM 1A: RISK FACTORS

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

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information contained in this annual report before deciding to invest in our Company. 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 operating results