Z3 ENTERPRISES, INC.
Form 10-Q
November 22, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended **June 30, 2011**

or

[ ] 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

Z3 Enterprises, Inc.
(Name of registrant as specified in its charter)

Nevada	75-3076597
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7322 S. Rainbow Blvd., Suite 194, Las Vegas, Nevada	89139
(Address of principal executive offices)	(Zip Code)

(702) 508-9255
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, 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 [X]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, 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 o No [X]

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 [ ] Small Reporting Company [X]

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

The registrant had 47,993,125 shares of Common Stock outstanding as of November 15, 2011.

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CAUTIONARY NOTE 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 the Company's future financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause the 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 "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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," the negative of these terms or other comparable terminology.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. The Company discusses many of these risks in the annual report on Form 10-K in greater detail under the heading "Risk Factors." Given these uncertainties, one should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent the management's beliefs and assumptions only as of the date of this report. One should read the annual report on Form 10-K and this quarterly report on Form10-Q and the documents that have been filed as exhibits to these reports completely and with the understanding that the actual future results may be materially different from what management expects.

Except as required by law, the Company assumes 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.

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.

All forward-looking statements, whether made in this report or elsewhere, should be considered in context with the various disclosures made by the Company about its business.

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

Z3 ENTERPRISES, INC. AND SUBSIDIARY

(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

	As of June 30, 2011 Un-Audited	
ASSETS		
Current assets		
Cash	$	13,514
Prepaid expenses		871,200
Investment deposit		100,000
Intellectual property deposit		75,000
Total current assets	1,059,714	
Long term portion of prepaid expense	569,739	
Total assets	$ 1,629,453	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$	8,045
Notes payable -related party		539,404
Total current liabilities		547,449
Total liabilities		547,449
Stockholders' equity		
Common stock; $.001 par value; 105,000,000 shares authorized, 48,259,875 shares issued and outstanding as of June 30, 2011		48,260
Additional paid-in capital		9,963,224
Common stock payable		350,120

Common stock receivable		(8,000,000)
Accumulated deficit during development stage	(1,279,600)	
Total stockholders' equity		1,082,004
Total liabilities and stockholders' equity	$	1,629,453

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

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Z3 ENTERPRISES, INC. AND SUBSIDIARY

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2011 Un-Audited	**From inception (March 24, 2011) through June 30, 2011 Un-Audited**
Revenue	$ -	$ -
Cost of goods sold	-	-
Gross profit	-	-
Operating expenses		
Professional fees	37,950	37,950
General and administrative	18,685	18,685
Independent contractors	1,221,355	1,221,355
Prototype development	1,610	1,610
Total operating expenses	1,279,600	1,279,600
Net loss	$ (1,279,600)	$ (1,279,600)
Basic loss per common share	$ (0.03)	$ (0.03)
Basic weighted average common shares outstanding	40,377,017	41,939,874

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

Z3 ENTERPRISES, INC. AND SUBSIDIARY

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2011 Un-Audited	From March 24, 2011 (Date of Inception) through June 30.2011 Un-Audited
Cash flows from operating activities:		
Net loss	$ (1,279,600)	$ (1,279,600)
Adjustments to reconcile net loss to	-	-
net cash used by operating activities:	-	-
Stock compensation	1,093,453	1,093,453
Changes in operating assets and liabilities:	-	-
Increase in accounts payable	(3,592)	(3,592)
Net cash used by operating activities	(189,740)	(189,740)
Cash flows from investing activities:		
Cash acquired through reverse merger	37	37
Net cash used by investing activities	37	37
Cash flows from financing activities:		
Repayment to notes payable – related party	(3,000)	(3,000)
Proceeds from notes payable - related party	206,217	206,217
Net cash provided by financing activities	203,217	203,217
Net increase in cash and cash equivalents	13,514	13,514
Cash, beginning of period	-	-
Cash, end of period	$ 13,514	$ 13,514
Supplemental Schedule of non-cash activities		
Shares issued for prepaid services	$ (1,253,439)	$ (1,253,439)
Prepaid expense acquired under reverse merger	$ (375,003)	$ (375,003)
Intangible asset acquired under reverse merger	$ (75,000)	$ (75,000)
Deposit acquired under reverse merger	$ (100,000)	$ (100,000)
Accounts payable acquired under reverse merger	$ 11,637	$ 11,637
Notes payable acquired under reverse merger	$ 336,187	$ 336,187
Common stock receivable acquired under reverse merger	$ (8,000,000)	$ (8,000,000)

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

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Z3 ENTERPRISES, INC. AND SUBSIDIARY

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

1 . DESCRIPTION OF BUSINESS AND HISTORY

Description of business and history – Z3 Enterprises, Inc., a Nevada corporation (formerly known as Bibb Corporation) (hereinafter referred to as "Z3E" 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 health and wellness books; 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 29, 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. Pursuant to Share Exchange Agreement, HPEV became a wholly owned subsidiary of Z3 upon closing of the Share Exchange on April 15, 2011.

The terms of the Share Exchange Agreement require the current board of directors of Z3E (the "Board") to designate Quentin Ponder and Tim Hassett as directors of Z3E, as well as two other directors to be named later by HPEV. The Board has not yet appointed Mr. Ponder and Mr. Hassett to the Board due to current Bylaw restrictions. The Company plans to amend the bylaws and make these appointments as soon as practicable.

Control of the 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 will be issued prior to the year end which will complete the issuance 22,000,000 shares of Z3E common stock to the shareholders of 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.

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 applications in a variety of applications and markets by licensing the conversion systems to fleet owners, vehicle dealers and service centers. The Company also plans to license the heat pipes technologies to engine and vehicle component manufacturers.

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, two other patents have been applied for and remain to be assigned.

Z3 ENTERPRISES, INC. AND SUBSIDIARY

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

1. DESCRIPTION OF BUSINESS AND HISTORY, Continued

The patents and patents-pending assigned to HPEV cover composite heat pipes and their applications as well as an electric load assist. 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 vehicle platform enables vehicles to alternate between two sources of power.

The newly-merged Company 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 also intends to license heat pipe technology to manufacturers of parts such as brakes, resistors and calipers.

The Company is currently sourcing 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 consumer, commercial and fleet vehicles ranging from cars to tractor-trailer trucks and buses.

As operations have consisted of general administrative and pre-production activities, Z3 Enterprises is considered a development stage company in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 915.

On June 29, 2011, Ross Giles informed the Board of Directors that he will resign as Z3E’s Chief Executive Officer, President, Treasurer and Secretary effective upon the filing of all Z3E reports with the Securities and Exchange Commission that were then currently past due, specifically the first quarter 10Q.

On June 29, 2011, the Board appointed Quentin Ponder as Z3E's Chief Executive Officer and President, effective on the date of the filing of the first quarter 10Q. On October 20, 2011, as a result of the filing of the Form 10Q, Quentin Ponder replaced Ross Giles as the CEO and President of the Company.

2. GOING CONCERN

The Company incurred net losses of approximately $1,279,600 during the period from March 24, 2011 (Date of Inception) through June 30, 2011 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 without additional capital infusion. 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 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.

It is possible management may decide that the Company cannot continue with its business operations as outlined in the current business plan because of a lack of financial resources and may be forced to seek other potential business opportunities that may be available.

Z3 ENTERPRISES, INC. AND SUBSIDIARY

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

3. SIGNIFICANT ACCOUNTING POLICIES

Presentation and disclosure- It is management’s opinion that all adjustments necessary for a fair statement of results for the interim period have been made, and all adjustments are of a normal recurring nature.

Year end – The Company’s year end is December 31.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes – The Company accounts for its income taxes in accordance with Income Taxes Topic of the FASB ASC 740, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

Management believes the Company will have a net operating loss carryover to be used for future years. Such losses may not be fully deductible due to the significant amounts of non-cash service costs as well as restrictions on carryovers resulting from reverse mergers. The Company has established a valuation allowance for the full tax benefit of the applicable operating loss carryovers.

Current tax laws limit the amount of loss available to be offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount available to offset future taxable income may be limited.

Net loss per common share – The Company computes net loss per share in accordance with the Earning per Share Topic of the FASB ASC 260. Under the provisions of ASC, basic net loss per share is computed by dividing the net loss available to common stockholders for the period by the weighted average number of shares of common stock outstanding during the period. 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. For the period from March 24, 2011 (Date of Inception) through June 30, 2011, no options and warrants were outstanding.

Stock Based Compensation - Stock based compensation is accounted for using the Equity-Based Payments to Employees Topic of the FASB ASC 718, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for services. It also addresses transactions in which an entity incurs liabilities in exchange for services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. The Company determines the value of stock issued at the date of grant. The Company also determines at the date of grant the value of stock at fair market value or the value of services rendered (based on contract or otherwise) whichever is more readily determinable.

Shares issued to employees are expensed upon issuance.

Z3 ENTERPRISES, INC. AND SUBSIDIARY

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

3. SIGNIFICANT ACCOUNTING POLICIES, Continued

Stock based compensation for non-employees is accounted for using the Stock Based Compensation Topic of the FASB ASC 505. The Company uses the fair value method for equity instruments granted to non-employees and will use the Black Scholes model for measuring the fair value of options, if issued. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

Financial Instruments - The carrying amounts reflected in the consolidated balance sheets for cash and accounts payable 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.

Concentration of risk – A significant amount of Z3E's assets and resources have been dependent on the financial support of Phoenix Productions and Entertainment Group. The company is pursuing other avenues of financial support.

Revenue recognition –Revenues are recognized in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition in Financial Statements". The Company recognizes revenues when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed or determinable, and 4) collection is reasonably assured.

Advertising costs –The Company has recorded $293 in advertising and promotion costs for the quarter ended June 30, 2011.

Legal Procedures – The Company is not aware of, nor is it involved in any pending legal proceedings.

New accounting standards- The Company has evaluated the recent accounting pronouncements through ASU 2011-09 and believes that none of them will have a material effect on the Company's financial statements.

4. STOCKHOLDERS' EQUITY

The Company has 105,000,000 common shares authorized and 48,259,875 issued and outstanding as of June 30, 2011.

On April 1, 2011, 600,000 Z3E common shares valued at $0.70 per share as of the date of the agreement were issued to Brian Duffy in exchange for his consulting services. The Company agreed to issue a total of 1,100,000 shares to Brian Duffy as compensation for services, 500,000 remain unissued and a stock payable of $350,000 was recorded.

On March 29, 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. 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.

Z3 ENTERPRISES, INC. AND SUBSIDIARY

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

4. STOCKHOLDERS' EQUITY, Continued

On April 4, 2011, 21,880,000 shares out of the 22,000,000 shares of Z3E common stock were issued to Tim Hassett, Quentin Ponder, Mark Hodowanec and Darren Zellers. 120,000 shares remain to be issued and were recorded as stock payable. Since the shares were deemed to be founder shares of HPEV, Inc. the Company recorded the value at par.

Prior to the reverse merger, Z3E had 23,956,690 common shares outstanding. Due to the recapitalization of Z3E with HPEV, the shares were deemed issued as of April 15, 2011 as part of the reverse merger and recapitalization. The value of the shares was based on the net asset value of Z3E as of April 15, 2011, the date the merger was deemed closed.

On May 11, 2011, 1,823,185 common shares valued at $0.75 per share as of the date of the agreement were issued to Capital Group Communication, Inc. in exchange for investor relations services covering a period of twenty four-months valued at $1,367,389. See Note 8 for further information.

5. RELATED PARTY TRANSACTIONS

As a consequence of the reverse merger, HPEV took over the obligations of Z3E consisting of accounts payable of $11,637 (non related party) and a note payable balance of $336,187 due to Phoenix Productions and Entertainment Group, Inc., a significant shareholder of the Company's common stock. The terms of the loan agreement do not require payment of interest, repayment of the loan to begin 15 days after receipt of initial revenues related to projects funded by PPEG loan. Maturity of the loan is perpetual or upon mutual agreement of both parties or if conditions are breached or default.

During the three months period ended June 30, 2011, Phoenix Productions and Entertainment Group, Inc. made loans to Z3 Enterprises of $186,017 and the Company made payments of $3,000 leaving a balance due as of June 30, 2011 of $519,204.

During the three month period ended June 30, 2011, Judson Bibb, Director, loaned $20,000 of unsecured, interest free funds which are due on demand.

During the three month period ended June 30, 2011, Quentin Ponder, CEO, advanced $200 to HPEV, Inc used to open the Company’s bank account. The advance is unsecured, interest free, due on demand

6. INVESTMENT DEPOSIT

The Company has the negotiating rights that come with a non-refundable, earnest deposit of $100,000 that Z3E provided to Trinity Springs, Ltd (“Trinity”). Z3E previously entered into an Asset Purchase and Sale Agreement with Trinity Springs, Ltd. (“Trinity”), to purchase Trinity for $18,600,000. The $100,000 deposit would be credited to the buyer at closing.

Final realization of the agreement was dependent upon the approval of Trinity’s board and shareholders. That approval was never granted, so on March 24, 2011, Z3E terminated the Agreement. Discussions concerning the purchase of Trinity Springs are on-going and the Company has not written off the $100,000 deposit.

Z3 ENTERPRISES, INC. AND SUBSIDIARY

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

7. INTELLECTUAL PROPERTY DEPOSIT

Z3E has acquired various intangible rights to the works of the Aleem Brothers many of which featured Jimi Hendrix.

In consideration for the rights, the Z3 Enterprises provided a good faith deposit of $75,000. The intangible rights are recorded on the Company's books as an intellectual property deposit.

Z3 Enterprises wholly owned subsidiary, HPEV, Inc. has been assigned the rights to one issued patent and six other patents pending. The issued patent and five patents-pending all relate to the utilization of heat pipes to remove heat from various types of electric motors and generators. By removing heat in a more efficient manner, the heat pipe provide lower costs and improved performance benefits. The seventh patent-pending is an electric load assist that makes it possible for plug-in hybrid electric vehicles to utilize power in any combination from the gas or diesel engine and an electric motor installed on-board.

8. PREPAID EXPENSE

Z3E has $375,503 in stock-based prepaid expense for investment banking services to be performed by Network 1 Financial Services. As of June 30, 2011 the balance is $187,500.

On May 11, 2011, 1,823,185 common shares valued at $0.75 per share were issued to Capital Group Communication, Inc. in exchange for investor relations services valued at $1,367,389. T