

COOL TECHNOLOGIES, INC.  
Form 10-Q  
August 14, 2017

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2017**

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**

**COOL TECHNOLOGIES, INC.**  
(Exact name of registrant as specified in its charter)

**Nevada**

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

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(State or other jurisdiction of incorporation  
or organization)

**8875 Hidden River Parkway, Suite 300**

**Tampa, FL**  
(Address of principal executive offices)

**33637**  
(Zip Code)

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

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
(Do not check if a smaller reporting company)		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 10, 2017, there were 138,819,203 shares of common stock, \$0.001 par value, issued and outstanding.



**COOL TECHNOLOGIES, INC.**

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## CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as "anticipate," "believe," "estimate," "intend," "could," "should," "would," "may," "seek," "plan," "might," "will," "expect," "anticipate," "predict," "project," "forecast," "potential," "continue" negatives thereof or similar expressions. Forward-looking statements speak only as of the date they are made, are based on various underlying assumptions and current expectations about the future and are not guarantees. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, level of activity, performance or achievement to be materially different from the results of operations or plans expressed or implied by such forward-looking statements.

We cannot predict all of the risks and uncertainties. Accordingly, such information should not be regarded as representations that the results or conditions described in such statements or that our objectives and plans will be achieved and we do not assume any responsibility for the accuracy or completeness of any of these forward-looking statements. These forward-looking statements are found at various places throughout this Quarterly Report on Form 10-Q and include information concerning possible or assumed future results of our operations, including statements about potential sales and revenues; acquisition or merger targets; business strategies; future cash flows; financing plans; plans and objectives of management; any other statements regarding future acquisitions, future cash needs, future operations, business plans and future financial results, and any other statements that are not historical facts.

These forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of the Quarterly Report on Form 10-Q. All subsequent written and oral forward-looking statements concerning other matters addressed in this Quarterly Report on Form 10-Q and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Quarterly Report on Form 10-Q.

Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.



Table of Contents**PART I. – FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements**

**Cool Technologies, Inc. and subsidiary**  
**Condensed Consolidated Balance Sheets**

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 161,645	\$ 62,291
Prepaid expenses	36,999	--
Total current assets	198,644	62,291
Intangibles	178,454	166,402
Equipment, net	58,696	71,664
Total assets	\$ 435,794	\$ 300,357
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,657,118	\$ 1,595,883
Accrued liabilities – related party	654,001	553,953
Customer deposits – related party	400,000	400,000
Accrued payroll taxes	106,917	93,512
Debt, current portion	743,383	825,170
Derivative liability	84,196	4,851,760
Total current liabilities	3,645,615	8,320,278
Debt, long-term portion, net of debt discount	250,702	18,311
Total liabilities	3,896,317	8,338,589
Commitments and contingencies (Note 5)	--	--
Stockholders' equity (deficit):		
Preferred stock, \$.001 par value; 15,000,000 shares authorized; 2,727,323 and 3,636,360 Preferred A and Preferred B shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	2,727	3,636
	128,725	110,865

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Common stock, \$.001 par value; 350,000,000 shares authorized; 129,298,133 and 111,438,236 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively

Preferred stock payable	51,000	51,000
Common stock payable	187,000	
Additional paid-in capital	39,450,215	31,891,116
Common stock issuable	-	125,500
Common stock held in escrow	8,441	8,441
Accumulated deficit	(43,241,867)	(40,188,414)
Total deficit	(3,413,759)	(7,997,856)
Noncontrolling interest in subsidiary	(46,764)	(40,376)
Total stockholders' deficit	(3,460,523)	(8,038,232)
Total liabilities and stockholders' deficit	\$ 435,794	\$ 300,357

See accompanying notes to condensed consolidated financial statements.

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**Cool Technologies, Inc. and subsidiary**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenues	\$ --	\$ --	\$ --	\$ --
Cost of revenues	--	--	--	--
Gross profit	--	--	--	--
<b>Operating expenses</b>				
Payroll and related expenses	126,546	190,348	264,949	410,652
Consulting	211,611	152,651	332,029	1,365,541
Professional fees	55,578	97,031	104,283	208,375
Research and development	31,970	6,484	111,798	19,253
General and administrative	73,548	135,338	143,038	598,291
Total operating expenses	499,253	581,852	956,097	2,602,112
Operating loss	(499,253)	(581,852)	(956,097)	(2,602,112)
<b>Other income (expense):</b>				
Interest expense, net	(351,326)	(445,488)	(566,346)	(816,731)
Change in fair value of derivative liability	127,087	901,689	(1,537,400)	754,812
Loss on extinguishment of debt		(572,289)		(572,289)
Net loss	(723,492)	(697,940)	(3,059,843)	(3,236,320)
Less: Noncontrolling interest in net loss	(2,986)	(2,165)	(6,388)	(5,745)
Net loss to shareholders	\$ (720,506)	\$ (695,775)	\$ (3,053,455)	\$ (3,230,575)
<b>Net loss per common share:</b>				
Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.04)
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	121,158,343	82,148,475	117,073,968	88,558,027

See accompanying notes to condensed consolidated financial statements



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**Cool Technologies, Inc. and subsidiary**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating Activities:</b>		
Net loss	\$ (3,059,843)	\$ (3,236,320)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock issued for services	115,329	282,090
Warrants issued for services	47,229	1,182,548
Loss on extinguishment of debt	--	572,289
Employee stock options	--	327,000
Non-cash interest expense	45,817	290,495
Change in fair value of derivative liability	1,537,400	(754,812)
Amortization of debt discount	503,485	491,348
Depreciation expense	12,968	12,968
Changes in operating assets and liabilities:		
Prepaid expenses	(36,999)	92,474
Accounts payable	61,235	127,387
Accrued liabilities – related party	100,048	(107,125)
Accrued payroll liabilities	13,405	59,775
Net cash used in operating activities	(659,926)	(659,883)
<b>Investing Activities:</b>		
Intangible assets	(12,052)	(7,736)
Net cash used in investing activities	(12,052)	(7,736)
<b>Financing Activities:</b>		
Proceeds from sale of common stock	357,500	400,000
Proceeds from debt	424,985	267,037
Payments on debt	(11,153)	(7,536)
Net cash provided by financing activities	771,332	659,501
Net (decrease) increase in cash	99,354	(8,118)
Cash, beginning of period	62,291	10,882
Cash, end of period	\$ 161,645	\$ 2,764
<b>Cash paid for:</b>		
Interest	\$ 8,019	\$ 15,263
Income taxes paid	--	--

Non-cash transaction:

Derivative liability offset by debt discount	\$	54,985	\$	281,329
Reduction of common stock issuable by issuing stock		30,000		465,400
Debt and interest settled for common stock		298,370		434,410
Reclassification of common shares equivalents to additional paid-in capital		(6,364,224)		--

See accompanying notes to condensed consolidated financial statements.

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**Cool Technologies, Inc. and subsidiary**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 1 – Description of Business and Summary of Significant Accounting Policies**

***Description of Business***

Cool Technologies, Inc. and subsidiary, (we, us, our, the "Company" or "Cool Technologies") was incorporated in the State of Nevada in July 2002. In April 2014, we formed Ultimate Power Truck, LLC ("Ultimate Power Truck" or "UPT"), of which we own 95% and a shareholder of Cool Technologies owns 5%. We were formerly known as Bibb Corporation, as Z3 Enterprises, and as HPEV Inc. On August 20, 2015, we changed our name to Cool Technologies, Inc.

We have developed and intend to commercialize heat dispersion technologies in various product platforms, and have developed and are commercializing a parallel power gearing system around which we have designed a mobile power generation system that retrofits onto Class 3 to 7 work trucks. In preparation, we have applied for trademarks for one of our technologies and its acronym. We currently own one trademark: TEHPC. We believe that our proprietary technologies, including our patent portfolio and trade secrets, can help increase the efficiency and positively affect manufacturing cost structure in several large industries beginning with motors/generators and fleet vehicles. The markets for products utilizing our technology include consumer, industrial and military markets, both in the U.S. and worldwide.

Our technologies are divided into two distinct but complementary categories: a) mobile power generation and b) heat dispersion technology. As of June 30, 2017, we have seven US patents, one granted Mexican patent, four pending applications and one filed provisional application in the area of composite heat structures, motors, and related structures, heat pipe architecture, applications (commonly referred to as "thermal" or "heat dispersion technology") and a parallel vehicle power platform. We intend to commercialize our patents by licensing our thermal technologies and applications to electric motor, pump and vehicle component manufacturers; by licensing a plug-in hybrid conversion system for heavy duty trucks, buses and tractor trailers to fleet owners and service centers; and by licensing a mobile electric power system powered by our proprietary gearing system to commercial vehicle and fleet owners. On May 25, 2017, the company received its first order: 10 mobile power generation systems.

***Basis of Presentation***

The accompanying condensed consolidated balance sheet as of June 30, 2017, has been derived from audited financial statements. They include the accounts of Cool Technologies, Inc. and Ultimate Power Truck, LLC. Intercompany accounts and transactions have been eliminated. The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual audited financial statements and in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. In the opinion of management, such unaudited information includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of this interim information. All intercompany transactions have been eliminated in consolidation. Noncontrolling interest represents the 5% third party ownership of our subsidiary, UPT. There are no restrictions on the transfer of funds or net assets from UPT to Cool Technologies. Operating results and cash flows for interim periods are not necessarily indicative of results that can be expected for the entire year. The information included in this report should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

***Going Concern***

The accompanying condensed consolidated financial statements have been prepared assuming we will continue as a going concern. We have incurred net losses of \$43,241,867 since inception and have not fully commenced operations, raising substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our ability to generate revenue, achieve profitable operations and repay our obligations when they come due. We will have to obtain additional debt and / or equity financing; however, we cannot provide investors with assurance that we will be able to raise sufficient capital to fund our operations. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty. As of the filing date of this Quarterly Report on Form 10-Q, management is negotiating additional funding arrangements to support completion of the commercialization phases of our business plan: to license its thermal technologies and applications, including submersible dry-pit applications and to license and sell mobile generation retrofit kits (our Ultimate Power Truck business) driven by our proprietary gearing system. There can be no assurance, however, that we will be successful in accomplishing these objectives.

Table of Contents**Note 2 – Customer deposits – Related party**

These represent advance payments of \$400,000 received on orders that have not yet been fulfilled, with companies controlled by the individual who is the 5% owner of UPT and a shareholder of Cool Technologies.

**Note 3 – Debt**

Debt consists of the following:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Notes payable -- original issue discount	\$ 225,000	\$ 225,000
Convertible notes payable	820,703	641,129
Test vehicle financing	50,656	61,811
Note payable – related party	237	237
Note payable – UPT minority owner	250,000	250,000
	1,346,596	1,178,177
Debt discount	(352,511)	(334,696)
	994,085	843,481
Less: current portion	(743,383)	(825,170)
Long-term portion	\$ 250,702	\$ 18,311

***Notes payable – original issue discount***

In October 2015, we received \$350,000 under two notes payable with an original issue discount of \$50,000, in lieu of interest. The \$400,000 principal balance was payable in full on March 31, 2016. In the event of default, the interest rate will be 18% per annum.

Negotiations to extend the maturity date commenced before the end of March and were concluded with the signing of the Forbearance and Amendment Agreement on April 28, 2016. \$377,142 and \$102,857 for a total of \$480,000 plus a forbearance fee of \$5,000 payable to each holder of a note payable. In exchange, the holders agreed to refrain from taking legal action until May 16, 2016.

An Extension and Amendment Agreement signed on May 23, 2016 extended the Maturity Date of one of the Note until September 30, 2016. And amended Conversion Rights at a price equal to 75% of the VWAP for the preceding 12 business days. The outstanding principal amount including interest, forbearance fees, liquidated damages and expenses was amended to \$458,571 from the previous \$382,142 and the original \$314,285. The second note holder exchanged his debt with a third party for a payment of \$104,801 on May 24, 2016.

A series of conversions from June 7 to August 15, 2016 reduced the outstanding principal to the remaining noteholder to \$60,751. The note was extinguished with a payment on August 26, 2016.

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***Convertible notes payable***

*August 2016 Convertible Note* – In August 2016, the Company entered into a senior convertible note agreement. We received \$400,000, bearing interest at 3%, with principal and interest payable on August 24, 2018. In addition, the Company received the right to require the buyer to purchase from the company four million restricted shares of common stock at a purchase price of \$0.05 per share and a warrant to purchase four million shares of common stock with an exercise price of \$0.06 per share. At the same time, the Company granted the buyer the right to require the company to sell to the buyer four million restricted shares of common stock at a purchase price of \$0.05 per share and a warrant to purchase four million shares of common stock with an exercise price of \$0.06 per share. In the event of default, the interest rate will be 18% per annum, require the Company to (i) redeem all or any portion of the note at a premium of 150% or (ii) convert any portion of this note then held by noteholder into shares of common stock at the conversion price of \$0.025, equal to a number of shares of common stock equal to the principal amount outstanding on the note (divided by 0.025) and multiplied by the premium of 150%.

The note may be converted at any time into shares of the common stock at the conversion price pursuant to the terms of the note. The buyer may not, however, convert more than 50% of the note's purchase price prior to September 30, 2016. On April 18, 2017, the buyer converted \$28,300 into 1,132,000 shares of common stock.

*November 2016 Convertible Note* – In November 2016, the Company entered into a convertible note agreement. We issued 350,000 inducement shares of common stock and received \$100,000, with an original issue discount of \$10,000 in lieu of interest, for a total amount of \$110,000 due on June 9, 2017. At the holder's option, a portion or all of the unpaid principal and interest may be converted into shares of our common stock at \$0.07 per share. In the event of default, the outstanding balance will increase by 25%. At any time following an event of default, the lender has the right to convert a portion or all of the unpaid principal balance at a rate of 65% of the average of the three lowest closing prices in the twenty trading days immediately preceding the request for conversion date.

On May 22, 2017, a total of \$35,000 were converted into 500,000 shares of common stock.

On June 9, 2017, the company signed an amendment to the convertible promissory note which extended the maturity date to August 10, 2017 and reduced the conversion price from \$0.07 to \$0.05 per share.

Subsequent to the signing of the amendment, from June 6 to June 15, 2017, a total of \$55,000 were converted into 1,100,000 shares of common stock. On June 28, 2017, the buyer converted \$25,500 into 510,000 shares of common stock and the note was retired.

*December 2016 Convertible Notes* -- In December 6, 2016, the Company entered into a note purchase agreement which provides for the purchase of up to an aggregate of \$150,000 principal amount of convertible promissory notes (the "Notes"). The Notes have a 5% original issue discount and bear interest at 5% per annum. On December 7, 2016, \$85,000 was paid pursuant to the initial Note (after the deduction of \$10,000 for legal expenses) which is due on December 5, 2017. On December 28, 2016, after the filing by the Company of a registration statement with the SEC, the Company issued another Note in the original principal amount of \$50,000 for \$47,500.

The Notes may be prepaid in whole or in part by the Company at a 115% premium if within 120 days of the issue date or 125% after 120 days of the issue date. The Notes are convertible into common stock at a 30% discount to the lowest trading price for the ten trading days immediately prior to the delivery of a conversion notice, provided that the conversion price will not be less than \$0.06 per share.

The Note Purchase Agreement also provides that it is an event of default if the Company does not obtain FINRA's approval to effectuate a 1:15 reverse stock split no later than January 15, 2017, which was extended to January 20, 2017, then extended to February 15, 2017 and further extended to April 24, 2017. As part of the last extension to April 24, 2017, Bellridge agreed to add an increase in the authorized share capital of the Company as another method to avoid the triggering of an event of default. The increase in amounts required under the Notes held by Bellridge necessitated that the Company amend its Articles of Incorporation. This was accomplished on March 22, 2017.

The Company also agreed to reserve the greater of (i) 1,000,000 shares of common stock or (ii) 300% of the maximum aggregate number of shares issued or issuable. The Company determined that the conversion feature meets the requirements for derivative treatment and has recorded a derivative liability and a corresponding debt discount on the consolidated balance sheet.

On May 3, 2017, we issued an aggregate of 1,411,426 shares of common stock to Bellridge Capital, LLC upon the exercise of the \$150,000 principal amount of convertible promissory notes issued to Bellridge on December 6, 2016. The Note in the principal amount of \$100,000 was converted into an aggregate of 941,867 shares of the Company's common stock, which included 17,226 shares representing accrued interest of \$1,863.01. The Note in the principal amount of \$50,000 was converted into an aggregate of 469,559 shares of the Company's common stock, which included 7,219 shares representing accrued interest of \$780.82.

*March 2017 Convertible Note.* On March 14, 2017, the Company entered into an additional note purchase agreement with Bellridge which provides for the purchase of a \$78,750 convertible promissory note on the same terms as the December 6, and December 28, 2016 Notes. The note has a 5% original issue discount and bears interest at 5% per annum. The maturity date is March 14, 2018.

The Note may be prepaid in whole or in part at a 115% premium if within 120 days of the issue date or 125% after 120 days of the issue date. The Note is convertible into common stock at a 30% discount to the lowest trading price for the ten trading days immediately prior to the delivery of a conversion notice, provided that the conversion price will not be less than \$0.06 per share.

*April Convertible Note* – On April 5, 2017, the Company entered into a convertible note agreement. We issued 300,000 inducement shares of restricted common stock and received \$150,000, with an original issue discount of \$15,000 in lieu of interest, for a total amount of \$165,000 due on November 5, 2017. At the holder's option, a portion or all of the unpaid principal and interest may be converted into shares of our common stock at \$0.10 per share. In the event of default, the outstanding balance will increase by 25% and a daily penalty of \$100 will accrue until the default is remedied.

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***Test Vehicle Financing***

In October 2014, we entered into financing agreements for the purchase of test vehicles, bearing interest at 5.99% payable monthly over five years, collateralized by the vehicles.

***Note payable – related party***

On February 3, 2016, an agreement was signed with the Secretary of Cool Technologies to retire a non-interest bearing note that was due on demand. The note was retired with the issuance of 143,187 shares of restricted common stock on June 24, 2016.

***Note payable – UPT minority owner***

Held by the 5% minority owner of UPT. The terms of the note have not been finalized.

Future contractual maturities of debt net of discount are as follows:

<b>Year ending December 31,</b>	
2017	\$ 709,845
2018	367,984
2019	(83,744)
2020	--
	\$ 994,085

**Note 4 – Derivative Liability**

Under the terms of the September 2015, December 2015, February 2016, May 2016, December 2016, February 2017, March 2017, April 2017 Convertible Notes, we identified derivative instruments arising from embedded conversion features, as well as warrants issued with the December 2015 Convertible Note.

The following summarizes the Black-Scholes assumptions used to estimate the fair value of the derivative liability at the dates of issuance and the revaluation dates:

	<b>Six Months Ended June 30, 2017</b>
Volatility	171–199%
Risk-free interest rate	0.54–1.3%
Expected life (years)	0.15–1.67
Dividend yield	--

Changes in the derivative liability were as follows:

	<b>Six Months Ended June 30, 2017</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Convertible debt and other derivative liabilities at December 31, 2016	--	--	\$ 4,851,760
Conversions of convertible debt	--	--	(247,641)
Issuance of convertible debt and other derivatives	--	--	306,901
Reclassification of common share equivalents to additional paid in capital	--	--	(6,364,224)
Change in fair value	--	--	1,537,400
Convertible debt and other derivative liabilities at June 30, 2017	\$ --	\$ --	\$ 84,196

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**Note 5 – Commitments and Contingencies**

On December 12, 2012, we concluded negotiations on a debt settlement agreement by and among the Company, Phoenix Productions and Entertainment Group ("PPEG"), Action Media Group, LLC ("Action Media") and Spirit Bear Limited ("Spirit Bear") (PPEG and Action Media collectively, the "Debt Holders"). The Debt Holders were to return to escrow a total of 4,676,000 shares of our common stock. 3,676,000 of these shares were returned and cancelled on January 14, 2013, following our filing a registration statement with the SEC on January 11, 2013. The remaining 1,000,000 shares will be purchased by the Company or a nominee of the Company at \$0.40 per share (or \$400,000) at the rate of \$10,000 per month commencing within 90 days of the Company achieving \$1,000,000 in gross revenues for products or services from business operations. PPEG and Action Media will divide the \$400,000 on a pro rata basis, based on each company's respective amount of debt forgiven. The historical cost of the shares held in escrow are reflected in equity on the condensed consolidated balance sheets as common stock held in escrow.

Effective May 1, 2015, we executed a First Amendment to Settlement Agreement (the "Amendment") with Spirit Bear and the parties identified as the assignees of Spirit Bear who are signatories to the Amendment, which amends certain provisions of our original Settlement Agreement with Spirit Bear. In accordance with the terms of the Amendment, Jay Palmer, Carrie Dwyer and Donica Holt, the Spirit Bear holdover directors, tendered their resignation from the Board of Directors of the Company. Spirit Bear also agreed that it will no longer have any rights to appoint nominees to the Board of Directors. Pursuant to the Amendment, the Company agreed to file a registration statement on Form S-1 covering an aggregate of 14,028,385 shares of common stock, preferred stock and warrants on behalf of Spirit Bear and its assignees no later than July 15, 2015, which was filed with the SEC on July 15, 2015. A representative of Spirit Bear agreed that the obligation to register the shares on a Form S-1 need only include shares of common stock and shares of common stock issuable upon conversion of the Preferred Stock and exercise of the warrants held by Spirit Bear and its assignees. The Company agreed to issue replacement warrants for certain previously-issued warrants, which will be canceled in connection with the replacement issuance. Within 10 business days of June 1, 2015, the parties agreed to dismiss all of the pending litigation between and among them.

On November 4, 2016, Spirit Bear agreed to the withdrawal of the registration statement in exchange for confirmation that the warrants owned by Spirit Bear and its associate which were subject to a separate court action shall not expire even if the court action continued beyond the warrants' initial expiration date. The registration had not been declared effective by the SEC and the Company filed a request to withdraw the Registration Statement on November 14, 2016.

On August 28, 2015, the parties filed a stipulation to dismiss the direct claims of the Company against Spirit Bear and of Spirit Bear against the Company in the Nevada Lawsuit. By order dated September 1, 2015, and filed September 2, 2015, the court ordered dismissal of all direct claims in the Nevada Lawsuit.

Additionally, on February 20, 2015, the Court issued its preliminary approval to the derivative action settlement agreement (the "DASA"), which would lead to the ultimate dismissal of the derivative suit also filed by Spirit Bear in the same action. The Court has scheduled a fairness hearing for November 20, 2015, to consider giving its final approval to the DASA. No shareholder filed any objections to the DASA by April 30, 2015, which was the deadline established by the Court for filing objections. On October 22, 2015, however, Peak Finance, LLC ("Peak Finance") filed a Motion to Intervene in the action seeking, among other things, approval to file a new derivative Complaint in this matter. The Company has opposed this Motion.

On August 31, 2015, the Company received notice of a summons in the matter styled Peak Finance, Derivatively on Behalf of Nominal Defendant, HPEV, Inc. v. Hassett, et al., No. 2:15-cv-01590-GMN-CWH, filed in the United States District Court for the District of Nevada (the "Peak Finance Claim"). Plaintiff Peak Finance, LLC ("Peak Finance") alleges that certain members of the Company's Board of Directors and officers caused a misleading proxy statement to issue and breached alleged fiduciary duties from and after June 18, 2013. Peak Finance further alleges that its claim is related to the Spirit Bear Lawsuit described above. The Company has not determined that there is any merit to the allegations, and has decided to submit the claims to an Independent Director Committee consisting of Directors Christopher McKee, Richard J. "Dick" Schul, and Donald Bowman for their review and consideration. Additionally, on September 28, 2015, the Company filed a motion to dismiss the initial Complaint filed by Peak Finance. On October 22, 2015, rather than oppose the motion to dismiss, Peak Finance filed an amended complaint in this case in addition to the Motion to Intervene in the pending Spirit Bear litigation set forth above. On November 9, 2015, the Company filed a new motion to dismiss the first amended complaint filed by Peak Finance on October 22, 2015.

At the November 20, 2015, fairness hearing, the Court denied Peak Finance's Motion to Intervene. However, the Court did allow Peak Finance to formally argue its objections to the DASA. The Court ordered additional briefing on certain issues, which has not been completed. The Court further ordered another hearing to consider the DASA on April 1, 2016.

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On April 1, 2016, Peak Finance and the Company advised the Court that they had agreed in principle to a settlement that would include withdrawal of Peak Finance's objection to the DASA. On April 20, 2016, the parties filed a Stipulation and Proposed Order for Withdrawal of Objection to DASA, which was granted by the Court on April 21, 2016. On May 3, 2016, the Court issued an Order, which fully and finally approved the DASA and dismissed the Peak Finance and the Spirit Bear cases, with prejudice. On May 17, 2016, the Company filed a document to show cause as to the effect of the Stipulation and Proposed Order Regarding Settlement on the pending Motion to Dismiss Amended Complaint.

Also on May 17, 2016, Peak Finance and the Company filed a Stipulation and Proposed Order to Modify Stay of Proceedings so that the stay issued on January 6, 2016 could be modified in order to permit the Court to consider the Stipulation and Proposed Order Regarding Settlement and for the Court and all parties to take all necessary actions to seek final approval of a settlement prior to the Court ruling on the pending Motion to Dismiss.

On October 11, 2016, the United States District Court, District of Nevada orally approved the derivative action settlement agreement ("Peak Settlement Agreement") reached in Peak Finance, LLC v. Timothy J. Hassett et. al., Case No. 2:15-cv-01590-GMN-CWH. Noting that no non-party shareholder filed any objections to the Peak Settlement Agreement, the District Court specifically found that it is "fundamentally fair, reasonable and adequate" and serves the best interest of the Company. The Court further directed that counsel for the parties prepare a proposed formal written order finally approving the Peak Settlement Agreement and dismissing the case.

On October 20, 2016, the Derivative Action Settlement Agreement was formally approved and the case was formally dismissed with prejudice.

Subsequent to the dismissal, an Independent Directors Committee consisting of directors Christopher McKee, Richard J. "Dick" Schul and Donald Bowman reviewed the allegations made by Peak Finance, LLC to determine a proper corporate response. On December 6, 2016, a quorum of the members of the Independent Directors Committee met with Peak Finance, LLC in New York City, to fulfill the judges' final orders. No further action is required by the Company in this matter.

On October 7, 2016, the Company received a complaint, Wang et al v. Cool Technologies, Inc. et al, filed on July 28, 2016 in the U.S. District Court for the Eastern District of New York (Brooklyn) Civil docket #1:16CV04101RRMPK alleging damages of \$1,100,000 for inter alia breach of contract for failing to register shares sold to the Plaintiffs in February and March 2014. On March 30, 2017, the Company and Timothy Hassett, the Company's Chief Executive Officer, requested leave of the court to move to dismiss the matter, on both Substantive and Jurisdictional grounds. On April 13, 2017, the Honorable Roslynn R. Mauskopf granted leave to renew our March 30, 2017 request for a pre-motion conference after the initial conference before Magistrate Judge Kuo. At the initial conference, Corporate counsel informed the court that the Company, in fact, filed a registration statement for said shares in July 2014 and the

Warrants were in the possession of Plaintiff Gary Zse Kong J.D. and located on his computer and printed at his office in the Law Offices of Gary Park. Magistrate Judge Peggy Kuo directed plaintiff to file an amended complaint and directed plaintiff Gary Sze Kong to preserve all computer and other records which may still be at the Law Offices of Gary Park. Defendants were also granted leave to subpoena such records if they are no longer under the control of Plaintiff Kong. On June 30th Plaintiff filed an “attorney verified” amended complaint inter alia admitting that the company registered the shares. On August 7, 2017, Corporate Counsel requested leave for a pre-motion conference to move to dismiss the matter.

From time to time, we may be a party to other legal proceedings. Management currently believes that the ultimate resolution of these other matters, if any, and after consideration of amounts accrued, will not have a material adverse effect on our consolidated results of operations, financial position, or cash flow.

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**Note 6 – Equity**

***Preferred Stock***

The Company has 15,000,000 preferred shares authorized and 53 Series A and 2,727,270 Series B preferred shares issued and outstanding as of June 30, 2017. A total of 927,270 Series B preferred shares is issuable.

On August 12, 2016, the Company entered into a Securities Purchase Agreement with four accredited investors pursuant to which it sold 3,636,360 shares of the Company's Series B Convertible Preferred Stock. Each share of the preferred stock is convertible into one share of company's common stock. The conversion price of the preferred stock is equal to the \$0.055.

In addition to the preferred stock, the Securities Purchase Agreement included warrants to purchase (i) 3,636,360 shares of the Company's common stock at an exercise price of \$0.07 per share. The aggregate purchase price of the preferred stock and warrants was \$200,000, of which \$150,000 was paid in cash and \$50,000 was paid in services.

In connection with the sale of the Preferred Stock, on October 20, 2016, the Company filed with the Secretary of the State of Nevada, an amended Certificate of Designations of the Rights, Preferences, Privileges and Restrictions, which have not been set forth in the Certificate of Designation of the Series B Convertible Preferred Stock nor the first Amendment to Certificate of Designation filed on August 12, 2016.

The preferred stock has the same rights as if each share of Series B Convertible Preferred Stock were converted into one share of common stock. For so long as the Series B Convertible Preferred Stock is issued and outstanding, the holders of such Series B Convertible Preferred Stock vote together as a single class with the holders of the common stock and the holders of any other class or series of shares entitled to vote with the common stock, with the holders of Series B Stock being entitled to 66 2/3% of the total votes on all such matters.

In the event of the death of a holder of the Class B Preferred Stock, or a liquidation, winding up or bankruptcy of a holder which is an entity, all voting rights of the Class B Preferred Stock shall cease.

The holder of any shares of Class B Preferred Stock have the right to convert their shares into common stock at any time, in a conversion ratio of one share of common stock for each share of Class B Preferred. If the Corporation's common stock trades or is quoted at a price per share in excess of \$2.25 for any twenty consecutive day trading period, the Class B Preferred Stock will automatically be convertible into the common stock of the Corporation in a conversion ratio of one share of Common Stock for each share of Class B Preferred.

The holders of Class B Preferred Stock are not entitled to receive any distributions in the event of any liquidation, dissolution or winding up of the Corporation.

The warrants cannot be exercised on a cashless basis.

On October 31 and November 1, 2016, three of the accredited investors provided \$51,000 to the company and are due to receive an additional 927,270 Series B Preferred shares.

Preferred stock issuable on the consolidated balance sheet represents preferred stock to be issued for either cash received or services performed. On May 8, 2017, Inverom Corporation converted its 909,090 Series B preferred shares into 909,090 shares of common stock. The represented all of the shares of Series B stock held by Inverom Corporation.

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As of June 30, 2017 and 2016, the number of shares of preferred stock to be issued was 927,270 and 0 shares, respectively.

Spirit Bear, a related party, holds 50 shares of our Series A preferred stock and KHIC, Inc., a related party, holds the remaining 3 shares of our Series A preferred stock. Each share of Series A Preferred Stock ("Preferred Stock") is convertible into 50,000 shares of common stock. Each share of Preferred Stock has voting rights as if they were converted into 50,000 shares of common stock. The holders of each share of Preferred Stock then outstanding shall be entitled to be paid out of the Available Funds and Assets (as defined in the "Certificate of Designation"), and prior and in preference to any payment or distribution (or any setting apart of any payment or distribution) of any Available Funds and Assets on any shares of common stock, an amount per preferred share equal to the Preferred Stock Liquidation Price (\$2,500 per share).

***Common Stock***

On August 19, 2015, the stockholders voted to increase the number of authorized shares of common stock from 100,000,000 shares to 140,000,000 shares. On February 10, 2017, the board of directors and the holders of Series B Preferred shares voted to amend the Articles of Incorporation and thereby, approved to increase the number of authorized shares to 350,000,000. Amending the Articles of Incorporation requires an affirmative vote from the holders holding at least a majority of the voting rights of the outstanding common stock. As per an amended and restated Certificate of Designation filed with the state of Nevada on October 31, 2016, the holders of Series B Preferred shares are entitled to sixty-six and two-thirds percent (66 2/3%) of the total votes on all such matters that shareholders are allowed to vote on.

Common stock issuable on the condensed consolidated balance sheet represents common stock to be issued for either cash received or services performed. As of June 30, 2017 and December 31, 2016, the number of shares of common stock to be issued was 2,411,364 and 821,364 shares, respectively.

***Common stock warrants issued with the sale of our common stock***

When we sell shares of our common stock the buyer also typically receives fully-vested common stock warrants with a maximum contractual term of 3-5 years. A summary of common stock warrants issued with the sale of our common stock as of June 30, 2017, and changes during the period then ended is presented below:

				<b>Aggregate</b>
	<b>Number of</b>	<b>Weighted-average</b>	<b>Weighted-average</b>	<b>Intrinsic</b>
	<b>Warrants</b>	<b>Exercise Price</b>	<b>Remaining Life</b>	<b>Value</b>
			<b>(Years)</b>	
Outstanding, December 31, 2016	34,045,467	\$ 0.30		
Granted	5,500,000	0.07		
Forfeited or cancelled	(3,729,164)	0.57		
Outstanding, June 30, 2017	35,816,303	0.23	2.2	\$ 222,496
Exercisable, June 30, 2017	35,816,303	0.23	2.2	\$ 222,496

Included in the warrants granted and cancelled above are 3,729,164 warrants for which the life was extended by one year, for which we recorded expense of \$660,000.

Table of Contents**Note 7 – Share-based payments**

Amounts recognized as expense in the consolidated statements of operations related to share-based payments are as follows:

	<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Nonemployee common stock	\$ 115,329	\$ --
Nonemployee preferred Series B	--	--
Nonemployee warrants – fully-vested upon issuance	41,111	445,390
Nonemployee warrants – service and performance conditions	6,118	9,856
Employee common stock	--	--
Employee stock options – market price-based	--	327,000
Total share-based expense charged against income	\$ 162,558	\$ 782,246
<b>Impact on net loss per common share:</b>		
Basic and diluted	\$ (0.00)	\$ (0.01)

***Nonemployee common stock******UPT management agreement***

In July, 2014, we entered into an agreement with the company managing the operations of UPT, whereby we would issue common stock under the following conditions:

<b>Condition</b>	<b>Number of Shares</b>
UPT recognizes \$100 million of revenue or a change in control	500,000
UPT recognizes \$100 million of revenue	150,000
	650,000

As of June 30, 2017, and from the date of the agreement, meeting these conditions was not deemed probable, so no expense was recognized under this agreement and no common stock was issued.



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*Investor relations agreement*

In June 2014, we entered into an agreement with a company, which subsequently became a shareholder, to provide investor relations services. Under the terms of this agreement we agreed to issue 60,000 shares of common stock each quarter through May 2015, for a total of 240,000 shares. We recognized expense of \$31,200, during the quarter ended March 31, 2015, for the issuance of 60,000 shares.

In January 2016, we entered into a 2 month agreement with a company, which subsequently became a shareholder, to provide corporate consulting, communications and market outreach services. Under the terms of this agreement we agreed to pay \$25,000 in fees and agreed to issue 150,000 one year warrants with an exercise price of \$0.18 per share through February 2016, for a total of 300,000 warrants.

In March 2016, we renewed the agreement for a period ending December 31, 2016. Under the terms of this renewal, we agreed to pay a total of \$102,000 in fees and agreed to issue a total of 425,000 shares of restricted common stock per and 575,000 warrants with an exercise price of \$0.40 per share. We recognized expense of \$70,151 during the year ended December 31, 2016.

*Financial advisory agreements*

During the quarter ended June 30, 2015, we entered into separate agreements with three companies, which subsequently became shareholders, to provide financial advisory services, including developing, studying and evaluating a financing plan, strategic and financial alternatives, and merger and acquisition proposals. Under the terms of the agreements, we agreed to issue an aggregate of 333,332 shares of common stock each month through June 2016, as services were delivered, for a total of 5,000,000 shares over the term of the agreements. These agreements may be canceled by either party with a 30 day notice. During the three months ended June 30, 2015, we recorded expense at fair value of \$510,007 for the issuance of 1,000,013 shares. If the services are provided and the agreements are not canceled, an additional 3,999,987 shares remain to be issued. At management's request, no further services have been provided, and no stock was earned or issued under these agreements after June 30, 2015.

On July 27, 2016, the company signed a consulting agreement with Uptick Capital, LLC pursuant to which Uptick would provide business development services and strategic introductions to the financial community for an initial term of 3 months.

Subsequent to the removal of share reserves committed at that time to convertible debentures, the company agreed to issue \$25,000 worth of restricted common shares priced at the 3-day average closing price per share prior to the effective date of the agreement. Equal amounts were to follow for the two months thereafter with each \$25,000 share amount to be priced at the 3-day average closing price of the prior month. Therefore on May 1, 2017, we issued a total of 1,543,305 shares of our common stock to Uptick Capital, LLC.

*Other*

During the quarters ended June 30, 2017 and 2016, we issued no other shares of common stock in exchange for services.

Table of Contents*Nonemployee common stock warrants -- Fully-vested upon issuance*

We may issue fully-vested common stock warrants with a maximum contractual term of 5 years to non-employees in return for services or to satisfy liabilities, such as accrued interest.

				<b>Aggregate</b>
	<b>Number of Warrants</b>	<b>Weighted-average Exercise Price</b>	<b>Weighted-average Remaining Life (Years)</b>	<b>Intrinsic Value</b>
Outstanding, December 31, 2016	10,866,071	0.72		
Granted	700,000	0.45		
Forfeited or expired	(1,200,000)	0.54		
Outstanding, June 30, 2017	10,366,071	0.46	2.3	\$ 6,000
Exercisable, June 30, 2017	10,366,071	0.46	2.3	\$ 6,000

On June 28, 2017, we issued three year warrants to purchase at total of 500,000 shares of common stock at an exercise price of \$0.07 per to six individuals who provide services to the company. We recognized \$27,727 of expense for these warrants.

Volatility	144%
Risk-free interest rate	1.5%
Expected life (years)	3.0
Dividend yield	--

*Financing Advisory Services*

In January 2016, we modified the terms of previously issued warrants and issued additional warrants to a company that provides us with financial consulting services. We lowered the exercise price on 2,533,000 warrants to \$0.30 per share for warrants that previously had exercise prices ranging from \$0.56 to \$2.50 per share. As a result of modifying the previously issued warrants, we recognized expense of \$64,000. We also issued 1,266,503 additional warrants with an exercise price of \$0.30 per share that expire in five years, for which we recognized expense of \$246,500.

The following summarizes the Black-Scholes assumptions used to estimate the fair value of these common stock warrants:

	<b>Replacement Warrants</b>	<b>Additional Warrants</b>
Volatility	133–182%	204%
Risk-free interest rate	1.1–1.3%	1.4%
Expected life (years)	3.0 – 4.3	5.0
Dividend yield	--	--

*Board of Advisors*

In February 2016, we issued three year warrants to purchase 400,000 shares of common stock at an exercise price of \$0.27 per share and 200,000 shares of common stock at an exercise price of \$0.31 per share, to five individuals serving on our board of advisors. We recognized \$134,890 of expense for these warrants.

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The following summarizes the Black-Scholes assumptions used to estimate the fair value of these common stock warrants:

Volatility	127%
Risk-free interest rate	0.9%
Expected life (years)	3.0
Dividend yield	--

On June 1, 2017, we issued a 30 month warrant to purchase 200,000 shares of common stock at an exercise price of \$0.24 to an individual who joined our board of advisors. We recognized \$13,383 of expense for the warrant.

Volatility	155%
Risk-free interest rate	1.2%
Expected life (years)	2.4
Dividend yield	--

***Nonemployee common stock warrants -- Service and performance conditions****UPT management agreement*

In July, 2014, we entered into a three year agreement with the company managing the operations of UPT, whereby we would issue common stock warrants under the following conditions:

<b>Vesting Condition</b>	<b>Category</b>	<b>Number of Warrants</b>
Fully vest upon UPT generating \$1 million of revenue	Performance	350,000
45,945 warrants for every \$3 million of revenue generated by UPT up to \$100 million	Performance	1,530,000
60,000 warrants for every three months of completed service managing UPT	Service	720,000
Total		2,600,000
Vested – June 30, 2017		(720,000)
Nonvested – June 30, 2017		1,880,000

The common stock warrants have a three year life and an exercise price of \$1.00 per share. The grant date fair value was \$2,586,000. As of June 30, 2017, and since the date of the agreement, we have not deemed it probable that the

performance conditions will be met, so no expense was recognized and no common stock warrants vested. During the six months ended June 30, 2017 and 2016, 120,000 of the common stock warrants under the service condition vested with the passage of time and we recognized expense of \$6,118 and \$12,007, respectively.

*Financing advisory services*

In March, 2014, we entered into an agreement with a company, which is also a shareholder, to provide financing advisory services, in return for 400,000 common stock warrants having a five year life and an exercise price of \$2.50, with vesting in March, 2015 upon satisfactory performance under the agreement. In addition, a second issuance of 400,000 warrants with an exercise price of \$2.50 would be due on the one year anniversary of the execution of the agreement. As of December 31, 2014, we deemed it probable that the vesting conditions will be met. Accordingly, during the year ended December 31, 2014, we recognized expense of \$200,379. When the warrants vested in March 2015, the fair value was \$179,964. The change in fair value between December 31, 2014 and March 2015, of \$20,415 was recognized as a reduction of expense in 2015. The grant date fair value of these warrants was \$352,000.

In May of 2015, the exercise price of the first and second issuance of warrants was reduced to \$0.45. The fair value of the first issuance increased from \$180,484 to \$188,525 and the second issuance increased from \$203,010 to \$203,569.

In January of 2016, the exercise price of the first and second issuance of warrants was reduced from \$0.45 to \$0.30. The fair value of the first issuance decreased from \$188,525 to \$54,950 and the second issuance decreased from \$203,569 to \$74,464.

Table of Contents**Employee stock options – Fully-vested**

We granted no additional fully-vested options during the three months ended June 30, 2017.

**Employee stock options – Market-based**

We granted no additional options that vest upon the achievement of certain stock prices during the three months ended June 30, 2017. No additional non-vested market-based options vested during the quarter ended June 30, 2017.

**Note 8 – Net Loss per Share**

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the reporting period. Diluted net loss per share is computed similarly to basic loss per share, except that it includes the potential dilution that could occur if dilutive securities are exercised.

The following table presents a reconciliation of the denominators used in the computation of net loss per share – basic and diluted:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net loss available for stockholders	\$ (720,506)	\$ (697,490)	\$ (3,053,455)	\$ (3,236,320)
Weighted average outstanding shares of common stock	121,158,343	82,148,475	117,073,968	88,558,027
Dilutive effect of stock options and warrants	--	--		
Common stock and equivalents	121,158,343	82,148,475	117,073,968	88,558,027
Net loss per share – Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.04)

Outstanding stock options and common stock warrants are considered anti-dilutive because we are in a net loss position.

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Stock options	4,000,000	10,000,000
Common stock warrants	61,323,753	29,849,336
Common stock issuable	2,411,364	290,412
Convertible notes	19,677,133	13,810,748
Convertible preferred stock	5,377,270	6,100,000
Convertible preferred stock issuable	927,270	--
Total	93,716,790	60,050,496
Total exercisable at June 30	90,378,156	55,760,084

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**Note 9 – Subsequent Events**

On June 5<sup>th</sup>, 2017, the company signed a Master Retainer Agreement with Cornerstone Growth Advisors to retain the services of David Gerrard. As per the Statement of Work attached thereto, the Company agreed to issue 100,000 shares in lieu of paying the monthly retainer fees for the first two months of work. Therefore, on July 3, 2017, the Company issued Cornerstone Growth Advisors a three year warrant for 100,000 shares with an exercise price of \$0.07. The warrant expires July 3, 2020 and includes a cashless exercise option.

On July 6, 2017, we sold a total of 545,455 shares of common stock and a three-year warrant to purchase 545,455 shares of our common stock at an exercise price of \$0.10 per share, to an accredited investor in a private offering. We received \$30,000 as consideration for the sale of such securities. The warrant may be exercised on a non-cashless basis.

On July 10, 2017, we sold a total of 2,000,000 shares of common stock and a five-year warrant to purchase 2,000,000 shares of our common stock at an exercise price of \$0.06 per share, to an accredited investor in a private offering. We received \$100,000 as consideration for the sale of such securities. The warrant may be exercised on a non-cashless basis.

On July 12, 2017, the Company engaged CoBuilder Inc., a California corporation as its agent for generating revenue and investment funding from various organizations including investment funds, end-users, channel partners, integrators, and Original Equipment Manufacturers (OEMs).

On July 16, 2017, we issued 67,176 shares of restricted common stock to address a shortfall in the commitment fee of 1,250,000 shares issued to Bellridge Capital LP on February 16, 2017 in connection with the securities purchase agreement entered into on December 6, 2016. As per the agreement and as set forth in the 8-K filed with the Securities Exchange Commission in conjunction with the purchase, Bellridge was owed 1,317,176 shares as a commitment fee.

On July 21, 2017, we sold a total of 285,714 shares of common stock and a five-year warrant to purchase 285,714 shares of our common stock at an exercise price of \$0.10 per share, to Timothy Hassett in exchange for \$20,000 in accrued salary. The warrant may be exercised on a cashless basis.

On July 21, 2017, we sold a total of 1,000,000 shares of common stock and a five-year warrant to purchase 1,000,000 shares of our common stock at an exercise price of \$0.10 per share, to Summit Management Consulting in exchange

for \$70,000 in accrued salary. The warrant may be exercised on a cashless basis.

On July 21, 2017, we sold a total of 1,400,000,714 shares of common stock and a five-year warrant to purchase 1,400,000 shares of our common stock at an exercise price of \$0.10 per share, to Judson Bibb in exchange for \$98,000 in accrued salary. The warrant may be exercised on a cashless basis.

On July 25, 2017, we sold a total of 545,455 shares of common stock and a three-year warrant to purchase 545,455 shares of our common stock at an exercise price of \$0.10 per share, to an accredited investor in a private offering. We received \$30,000 as consideration for the sale of such securities. The warrant may be exercised on a non-cashless basis.

On July 27, 2017, we issued 309,090 common shares to 3 accredited investors who provided \$51,000 to the company on October 31 and November 1, 2016. The investors, who already own Series B preferred stock, were due to receive an additional 927,270 shares of the same, however, as the preferred stock is convertible into common stock on a one to one basis, they agreed to have the shares they were due issued as common stock as soon as shares were available.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

Cool Technologies, Inc., (we, us, our, the "Company" or "Cool Technologies") was incorporated in the State of Nevada on July 22, 2002. We were formerly known as Bibb Corporation, Z3 Enterprises and HPEV, Inc. On August 20, 2015, we changed our name to Cool Technologies, Inc. We have developed and intend to commercialize thermal dispersion technologies in various product platforms and a parallel power input gearbox, around which we have designed a mobile generator system that can be retrofit onto new and existing trucks. In preparation, we have applied for trademarks for one of our technologies and its acronym.

Our technologies are divided into two distinct but complementary categories: heat dispersion technology and mobile power generation (MG).

We plan to commercialize thermal dispersion technologies based on proprietary composite heat structures and heat pipe architecture in various product platforms such as electric motors, pumps, turbines, bearings and vehicle components. We believe that our technologies can help increase the efficiency and lifespan as well as help meet regulatory emissions standards for heat producing equipment and components. We believe that the simplicity of the heat pipe architecture as well as the fact that it provides effective new applications for existing manufacturing processes should enhance the cost structure in several large industries including motor/generator and engine manufacturing.

We also plan to commercialize an integrated parallel power input system that can be retrofit onto new and existing American trucks. The integrated system enables work trucks to run an on-board generator to deliver mobile electric power. When the generator is enhanced by our thermal technology, we believe it should be able to output more power than any other generator of its size on the market.

The markets we intend to serve with our mobile generation system include consumer, industrial and military markets, both in the U.S. and worldwide.

As of June 30, 2017, we have seven US patents, one granted Mexican patent, four pending applications and one filed provisional application pending in the area of composite heat structures, motors, and related structures, heat pipe architecture, applications (commonly referred to as "thermal" or "heat dispersion technology") and a parallel power

vehicle platform system. We also have a Patent Cooperation Treaty ("PCT") applications filed for a heat pipe cooled brake system, a parallel power input gearing system (PPIG) and radial vent thermal technology.

We intend to commercialize our patents by integrating our technology with Original Equipment Manufacturer (OEM) partners, by licensing our thermal technologies and applications to electric motor, generator, pump and vehicle component (brake, resistor, caliper) manufacturers; and by licensing or marketing a mobile electric power system powered by our proprietary gearing system to commercial vehicle and fleet owners. Third party representatives and our UPT subsidiary are also taking pre-orders for new retrofitted work trucks.

We opened our UPT headquarters in Largo, Florida in May 2014. We use the facility to perform research and development for our mobile generator business and it will serve as a sales showroom in the future.

### **Plan of Operation**

We have developed and intend to commercialize thermal dispersion technologies in various product platforms, a parallel power input gearbox, around which we have designed a mobile generator system and an electric load assist around which we have designed a vehicle retrofit system. As part of our commercialization efforts, we have applied for and received a trademark for our Totally Enclosed Heat Pipe Cooled technology or 'TEHPC'.

We have not generated any revenues to date. We generated our first Mobile Generation order during the quarter ended June 30, 2014, and received a partial deposit in advance of completing the sale. There can be no assurances that we will be able to fulfill the order, however, a laboratory mobile electric power system has been successfully tested and is being readied for future field testing. Currently, we primarily incur expenses to commercialize our products, which include costs for research and development, professional fees and general operations.

Management is currently negotiating additional funding arrangements to support completion of the initial phases of our business plan, which is to license our thermal technologies (radial vent heat pipe and wet disc clutch/brake) and applications; to license or sell mobile generation units (MG 30 – MG 200) powered by the Company's proprietary and patent-pending MG system; and to license its submersible motor dry pit technologies and/or to bring to market its technologies and applications through key distribution partners.

Currently, our primary focus is on the mobile generation systems from MG 30 to MG 80. Appearances at public events such as the North American International Auto Show and the Kentucky Derby as well as presentations at private events such as Craftsmen Industries 35th Anniversary Party have generated interest from potential customers including truck manufacturers, distributors and up-fitters, trailer manufacturers, the US military and military vehicle providers, disaster relief agencies, and a global conglomerate. The Company is working to turn the interest into orders. Craftsmen is currently testing the Ford F-350 80 kVA work truck. The company is in the process of acquiring and

retrofitting Class 4 and 7 trucks to address the specific needs of interested customers. We believe that public demonstrations of the technology are an effective way to generate interest. Therefore, additional demonstrations targeting specific industries are being arranged.

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**Recent Developments**

***PGC Investments***

On July 1, 2014, we entered into a 36-month independent contractor agreement ("PGC Agreement"), with PGC Investments LLC, a Florida limited liability company ("PGC") to provide the full-time services of Dennis Campbell to manage the day-to-day operations of UPT. Under the PGC Agreement, PGC and Mr. Campbell may not solicit or hire any of the Company's current or former (within one year) employees, consultants or contractors for six months following the termination of the PGC Agreement. Either party to the PGC Agreement may terminate the PGC Agreement upon 30 days' notice to the other party. The Company may immediately terminate the PGC Agreement for "cause" (as defined in the PGC Agreement), subject to a 10-day cure period. Until the Sign-On Warrants become exercisable, upon termination, PGC shall be entitled to a severance payment equal to three months of consulting fees and any earned bonuses, warrants and shares. As consideration for such consulting services, PGC will be paid monthly consulting fees (payable at the end of each month) of \$10,000 during the first year, with a \$10,000 bonus to be paid upon the opening of the Tampa Bay store; \$12,000 in the second year with a \$10,000 bonus payable in the last month of the second year upon satisfactory performance; and \$13,500 in the third year with a \$10,000 bonus payable in the last month of the third year upon satisfactory performance.

Under the PGC Agreement, on July 1, 2014, we also issued PGC three-year warrants as a sign-on bonus ("Sign-On Warrants") to purchase an aggregate of 350,000 shares of our common stock at an exercise price of \$1.00 per share exercisable upon the Company receiving revenues in excess of \$1,000,000.

PGC will be entitled to (i) a three-year (commencing upon vesting) cashless warrant to purchase an aggregate of 1,530,000 shares of common stock exercisable at \$1.00 per share that vests ratably upon reaching incremental revenues of \$3,000,000 (from MG product sales which result from the efforts of Dennis Campbell and PGC) with a total target revenue of \$100,000,000 and (ii) a three-year cashless warrant to purchase an aggregate of 720,000 shares of common stock at an exercise price of \$1.00 that vests ratably on a quarterly basis; and (iii) 500,000 shares of our common stock that vest upon reaching revenues of \$100,000,000 or upon sale of the Company. PGC will also be entitled to a \$25,000 cash bonus at sales milestones for every \$5,000,000 in new revenue.

On July 30, 2014, we reached preliminary terms on a LLC Agreement (the "Preliminary LLC Agreement") with Alfred A. Cullere ("Cullere") concerning the governance and operations of UPT. Under the terms of the Preliminary LLC Agreement, we would own 95% of the membership interests and Cullere would own 5%. Cullere's interest cannot be diluted, even if additional membership interests are issued. These terms may change upon formalizing the final agreement which will occur as soon as possible.

The Company's current operations include product development with MJ Engineering, Quality Castings and other companies developing products that include the Company's intellectual property.

*Amendment of Series B Preferred Stock*

On October 31, 2016, the Company filed an amended and restated Series B Preferred Stock Certificate of Designation (which was originally filed with the Secretary of State of Nevada on April 19, 2016, and amended on August 12, 2016) to designate 3,636,360 shares as Series B Preferred Stock and to provide for supermajority 66 2/3% voting rights for the Series B Preferred Stock. The Series B Preferred Stock will not bear dividends, will not be entitled to receive any distributions in the event of any liquidation, dissolution or winding up of the Company, and will have no other preferences, rights, restrictions, or qualifications, except as otherwise provided by law or the articles of incorporation of the Company. The holders of Class B Stock shall have the right, at such holder's option, at any time to convert such shares into common stock, in a conversion ratio of one share of common stock for each share of Class B Stock. If the common stock trades or is quoted at a price per share in excess of \$2.25 for any twenty consecutive day trading period, (subject to appropriate adjustment for forward or reverse stock splits, recapitalizations, stock dividends and the like), the Series B Stock will automatically be convertible into the common stock in a conversion ratio of one share of common stock for each share of Series B Stock. The Series B Stock may not be sold, hypothecated, transferred, assigned or disposed without the prior written consent of the Company and the holders of the outstanding Series B Preferred Stock.

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***Bellridge Capital, LP***

On December 6, 2016, we entered into a securities purchase agreement and a registration rights agreement (the “Registration Rights Agreement”) with Bellridge, pursuant to which Bellridge has agreed to purchase from us up to \$5,000,000 in shares of our common stock, subject to certain limitations from time to time over a 36 month period commencing on the date of effectiveness of the registration statement which provides for the resale of such shares pursuant to the Registration Rights Agreement which registration statement has not been declared effective by the Securities and Exchange Commission. We may direct Bellridge, at our sole discretion and subject to certain conditions (including the effectiveness of the registration statement), to purchase a minimum of \$25,000 and a maximum of \$500,000 of shares (each a “Draw Down”) that is no more than 300% of the average trading volume of our common stock during the 10 day period immediately prior to the Draw Down. In addition, we may direct Bellridge to purchase shares only if during the fifteen consecutive days following a Draw Down request by us, the common stock equals or exceeds \$0.06 per share. We will control the timing and amount of any sales of common stock to Bellridge but we may not request a Draw Down less than ten business days apart. The proceeds we receive are expected to be used for general corporate purposes. The securities purchase agreement limits our sales of shares of common stock to Bellridge to no more than the number of shares that would result in the beneficial ownership by Bellridge, at any single point in time, of more than 4.99% of the then outstanding shares of our common stock. However, the 4.99% limitation may be increased by Bellridge up to 9.99% upon at least 61 days’ prior notice to us. As consideration for its commitment to purchase shares of common stock pursuant to the securities purchase agreement, we issued to Bellridge 1,250,000 shares of common stock on February 16, 2017.

On December 6, 2016, we also entered into a note purchase agreement which provides for the purchase by Bellridge of up to an aggregate of \$150,000 principal amount of convertible promissory notes (the “Notes”). The Notes have a 5% original issue discount and bear interest at 5% per annum (or the lesser of 22% per annum or the maximum amount permitted by applicable law in the event of a default as described in the Notes). On December 7, 2016, \$85,000 was paid pursuant to the initial Note (after the deduction of \$10,000 for Bellridge’s legal expenses) which is due on December 5, 2017. On December 28, 2016, after the filing by the Company of a registration statement with the SEC, the Company issued Bellridge another Note in the original principal amount of \$50,000 for \$47,500.

On May 3, 2017, the Notes were converted in full and Bellridge was issued an aggregate of 1,411,426 shares of the Company’s common stock. The Note in the principal amount of \$100,000 was converted into an aggregate of 941,867 shares of the Company’s common stock, which included 17,226 shares representing accrued interest of \$1,863.01. The Note in the principal amount of \$50,000 was converted into an aggregate of 469,559 shares of the Company’s common stock, which included 7,219 shares representing accrued interest of \$780.82.

On March 14, 2017, the Company entered into an additional securities purchase agreement pursuant to which we issued Bellridge a one-year 5% convertible note in the principal amount of \$78,750 for which we received \$75,000. The terms of the securities purchase agreement entered into and the note issued to Bellridge on March 14, 2017 are the same as the terms of the securities purchase agreement and Notes dated December 6, 2016 described above.

*Amended Articles of Incorporation*

We filed an amendment to our Articles of Amendment with the Secretary of State of the State of Nevada increasing our authorized shares of common stock, from 140,000,000 shares to 350,000,000 shares, effective March 22, 2017. We currently believe that the increase in authorized share capital eliminates the need for any other type of corporate action such as a reverse stock split.

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***Craftsmen Industries, Inc.***

As a consequence of the first public demonstration of the MG 30 kilovolt amp (“kVA”) system at the North America International Auto Show in Detroit in January, the Company entered into an agreement in principle, dated February 21, 2017, with Craftsmen Industries, Inc. (“Craftsmen”), a company engaged in the design, engineering and production of mobile marketing vehicles, experiential marketing platforms and industrial mobile solutions.

On April 25, 2017, we delivered to Craftsmen Industries, a Class III Vehicle (Ford F-350 dually) up-fitted with a production-ready MG 30 kVA (single phase/three phase) system. For up to 60 days, the two companies will test, tune and finalize the system’s design to ensure it meets the technical criteria required by Craftsmen’s customer base and our target customers.

Subsequently, Craftsmen invited the Company to demonstrate its mobile generation technology and the potential benefits for Craftsmen products at Craftsmen’s 35<sup>th</sup> Anniversary Party on April 27, 2017. Over 100 current and prospective Craftsmen customers were in the audience for the demonstrations.

The result: an order for 10 MG systems from Craftsmen.

The order from Craftsmen concluded a sales process that began in December. And with the order of 10 MG systems, the company secured revenues and took the first steps to profitability.

**Veteran Technology Group**

The demonstration also jump started the execution of the Strategic Alliance Agreement with Veteran Technology Group LLC (“Vet Tech”), a developer of artificial intelligence (AI) software for advanced troubleshooting of complex systems. With clients in tow, Vet Tech saw the demo and felt assured they could successfully promote or sell the MG System. As a result, the agreement was signed on May 26<sup>th</sup>, 2017.

The agreement requires each company to identify business opportunities with their respective strategic partners, make referrals and then sell and produce products in tandem or on their own.

Vet Tech has a contract pipeline with the US Army and Marines due to their expertise in software development and AI combined with their previous military service. Beyond enhancing the potential for sales to the military, the possible incorporation of AI in CoolTech software has intrigued potential investors and customers.

### **Cornerstone Growth Partners**

On June 5<sup>th</sup>, 2017, the company signed a Master Retainer Agreement with Cornerstone Growth Advisors to retain the services of David Gerrard. Mr. Gerrard was President and CEO of the largest single market truck dealership in North America and was subsequently tapped to head North American dealer operations, corporate stores and used trucks for Navistar. Now a managing partner at Cornerstone Growth Advisors, David's connections at the truck industry user and leadership levels are extensive.

As a result of the signing, he now spearheads the industry integration strategy for CoolTech, positioning the company, nurturing client relationships and mining his network of contacts to help secure new customers and manage sales with Fortune 500 companies. The targets: Class 3 to 7 work trucks with applications ranging from disaster relief units, mobile kitchens and command centers, utility and telecom vehicles, digger derricks, crane trucks, bucket trucks, refrigerated trucks, electric vehicle chargers and mobile power platforms.

Table of Contents**Results of Operations**

The following table sets forth, for the periods indicated, condensed consolidated statements of operations data. The table and the discussion below should be read in conjunction with the accompanying condensed consolidated financial statements and the notes thereto, appearing elsewhere in this report.

	<b>Three months ended June 30,</b>			
	<b>2017</b>	<b>2016</b>	<b>Change</b>	<b>%</b>
Revenues	\$ --	\$ --	N/A	N/A
<b>Operating expenses</b>				
Payroll and related expenses	126,546	190,348	(63,802)	(34)%
Consulting	211,611	152,651	58,960	(39)%
Professional fees	55,578	97,031	(41,453)	(43)%
Research and development	31,970	6,484	25,486	393%
General and administrative	73,548	135,338	(61,790)	(46)%
Total operating expenses	499,253	581,852	(82,599)	(14)%
Interest expense, net	(351,326)	(445,488)	94,162	21%
Change in fair value of derivative liability	127,087	901,689	(774,602)	86%
Loss on extinguishment of debt	--	(572,289)	572,289	(100)%
Net loss	(723,492)	(697,940)	25,552	4%
Less: Noncontrolling interest	(2,986)	(2,165)	(821)	38%
Net loss to shareholders	\$ (720,506)	\$ (695,775)	\$ (24,731)	4%

	<b>Six months ended June 30,</b>			
	<b>2017</b>	<b>2016</b>	<b>Change</b>	<b>%</b>
Revenues	\$ --	\$ --	N/A	N/A
<b>Operating expenses</b>				
Payroll and related expenses	264,949	410,652	(145,703)	(35)%
Consulting	332,029	1,365,541	(1,033,512)	(76)%
Professional fees	104,283	208,375	(104,092)	(50)%
Research and development	111,798	19,253	92,545	481%
General and administrative	143,038	598,291	(455,253)	(76)%
Total operating expenses	956,097	2,602,112	(1,646,015)	(63)%

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Interest expense, net	(566,346)	(816,731)	250,385	31%
Change in fair value of derivative liability	(1,537,400)	754,812	(2,292,212)	(304)%
Loss on extinguishment of debt	--	(572,289)	572,289	(100)%
Net loss	(3,059,843)	(3,236,320)	176,477	5%
Less: Noncontrolling interest	(6,388)	(5,745)	(643)	11%
Net loss to shareholders	\$ (3,053,455)	\$ (3,230,575)	\$ 177,120	5%

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**Revenues**

During the three months ended June 30, 2017, and since inception, we have not generated any revenues.

**Operating Expenses**

Payroll and related expenses decreased in the three months ended June 30, 2017 compared to the three months ended June 30, 2016 because of the resignation of an officer. Consulting expense decreased between the periods due to a reduction in share-based payments for financing advisory services and for our board of advisors during the three months ended June 30, 2017. Professional fees decreased in 2017 because funding shortages necessitated a reduction in the use of outside assistance. Research and development increased in the first two quarters of 2017 to address the final requirements for the completion of the Company's first two trucks. General and administrative expense decreased during the periods reported due to the reduction of \$327,000 stock-based compensation in 2017.

**Other Income and Expense**

Interest expense decreased in the three months ended June 30, 2017 compared to the three months ended June 30, 2016 due to (a) fewer borrowings, and (b) recording fewer debt-related derivatives as interest expense. Interest expense in the three months ended June 30, 2016 related primarily to debt discount amortization. The change in fair value of derivative liability between the two periods reflects the change in fair value of the conversion feature embedded in the convertible debt agreements of \$148,219 and the change in fair value of the common share equivalent reclassified to derivative liability of \$1,516,268 both of which are included in the June 30, 2017 number.

**Net Loss and Noncontrolling interest**

Since we have incurred losses since inception, we have not recorded any income tax expense or benefit. Accordingly, our net loss is a result of our operating and other expenses. Noncontrolling interest represents the 5% third-party ownership in UPT, which is subtracted from 'Net loss' to calculate 'Net loss to shareholders'.

**Liquidity and Capital Resources**

We have historically met our liquidity requirements primarily through the public sale and private placement of equity securities, debt financing, and exchanging common stock warrants and options for professional and consulting services. At June 30, 2017, we had cash and cash equivalents of \$161,645.

Working capital is the amount by which current assets exceed current liabilities. We had negative working capital of \$3,446,971 and \$8,257,987, at June 30, 2017 and December 31, 2016, respectively. The decrease in working capital was due to an increase in prepaid expense, accounts payable, amounts due to related parties, a reduction in the current portion of the outstanding debt, and a significant decrease in derivative liability as a result of a reclassification of derivative liabilities to common share equivalents.

*August 2016 Convertible Note* – In August 2016, the Company entered into a senior convertible note agreement. We received \$400,000, bearing interest at 3%, with principal and interest payable on August 24, 2018. In addition, the Company received the right to require the buyer to purchase from the company four million restricted shares of common stock at a purchase price of \$0.05 per share and a warrant to purchase four million shares of common stock with an exercise price of \$0.06 per share. At the same time, the Company granted the buyer the right to require the company to sell to the buyer four million restricted shares of common stock at a purchase price of \$0.05 per share and a warrant to purchase four million shares of common stock with an exercise price of \$0.06 per share. In the event of default, the interest rate will be 18% per annum, require the Company to (i) redeem all or any portion of the note at a premium of 150% or (ii) convert any portion of this note then held by noteholder into shares of common stock at the conversion price of \$0.025, equal to a number of shares of common stock equal to the principal amount outstanding on the note (divided by 0.025) and multiplied by the premium of 150%.

The note may be converted at any time into shares of the common stock at the conversion price pursuant to the terms of the note. The buyer may not, however, convert more than 50% of the note's purchase price prior to September 30, 2016. We determined that the conversion feature meets the requirements for derivative treatment and have recorded a derivative liability and a corresponding debt discount on the consolidated balance sheet.

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The note may be converted at any time into shares of the common stock at the conversion price pursuant to the terms of the note. The buyer may not, however, convert more than 50% of the note's purchase price prior to September 30, 2016. We determined that the conversion feature meets the requirements for derivative treatment and have recorded a derivative liability and a corresponding debt discount on the consolidated balance sheet.

*September 2016 Promissory Notes* – In September 2016, we sold two promissory notes in the aggregate principal amount of \$225,000. The notes totaled \$180,000 and \$45,000, respectively. Each note bears the same terms: 5% interest per annum with a maturity date of June 30, 2017. In the event of a default, the interest rate will increase to 18%.

On June 30, 2017, the two promissory note holders signed an extension agreement that extended the maturity date of the promissory notes to September 30, 2017. The terms and conditions remain the same,

*November 2016 Convertible Note* – In November 2016, we entered into a convertible note agreement. We received \$100,000 with an original issue discount of \$10,000 in lieu of interest for a total amount of \$110,000 due on June 9, 2017. In exchange, the lender received 350,000 inducement shares and the right to convert a portion or all of the unpaid principal balance and interest at a conversion price of \$0.07 per share. In the event of default, the outstanding balance will increase by 25%. Shares reserved for future conversions total 1,571,450.

*December 2016 Equity Line of Credit* -- On December 6, 2016, we entered into a securities purchase agreement and a registration rights agreement with Bellridge, pursuant to which Bellridge has agreed to purchase from us up to \$5,000,000 in shares of our common stock, subject to certain limitations including an effective registration statement registering the shares issuable to Bellridge under the line of credit, which registration statement has not yet been declared effective by the Securities and Exchange Commission, from time to time over a 36 month period commencing on the date of effectiveness of the registration statement which provides for the resale of such shares pursuant to the Registration Rights Agreement. We may direct Bellridge, at our sole discretion and subject to certain conditions, to purchase a minimum of \$25,000 and a maximum of \$500,000 of shares that is no more than 300% of the average trading volume of our common stock during the 10 day period immediately prior to the Draw Down. In addition, we may direct Bellridge to purchase shares only if during the fifteen consecutive days following a Draw Down request by us, the common stock equals or exceeds \$0.06 per share. We will control the timing and amount of any sales of common stock to Bellridge but we may not request a Draw Down less than ten business days apart. The proceeds received by us are expected to be used for general corporate purposes. The securities purchase agreement limits our sales of shares of common stock to Bellridge to no more than the number of shares that would result in the beneficial ownership by Bellridge, at any single point in time, of more than 4.99% of the then outstanding shares of our common stock. However, the 4.99% limitation may be increased by Bellridge up to 9.99% upon at least 61 days' prior notice to us. As consideration for its commitment to purchase shares of common stock pursuant to the securities purchase agreement, we issued to Bellridge 1,250,000 shares of common stock on February 16, 2017.

*December 2016 Convertible Promissory Notes* -- On December 6, 2016, we also entered into a note purchase agreement which provides for the purchase by Bellridge of up to an aggregate of \$150,000 principal amount of the Notes. The Notes have a 5% original issue discount and bear interest at 5% per annum (or the lesser of 22% per annum or the maximum amount permitted by applicable law in the event of a default as described in the Notes). On December 7, 2016, \$85,000 was paid pursuant to the initial Note (after the deduction of \$10,000 for Bellridge's legal expenses) which is due on December 5, 2017. On December 28, 2016, after the filing by the Company of a registration statement with the SEC, the Company issued Bellridge another Note in the original principal amount of \$50,000 for \$47,500.

On May 3, 2017, the Notes were converted in full and Bellridge was issued an aggregate of 1,411,426 shares of the Company's common stock. The Note in the principal amount of \$100,000 was converted into an aggregate of 941,867 shares of the Company's common stock, which included 17,226 shares representing accrued interest of \$1,863.01. The Note in the principal amount of \$50,000 was converted into an aggregate of 469,559 shares of the Company's common stock, which included 7,219 shares representing accrued interest of \$780.82.

*March 2017 Convertible Note.* On March 14, 2017, the Company entered into an additional note purchase agreement with Bellridge which provides for the purchase of a \$78,750 convertible promissory note on the same terms as the December 6, and December 28, 2016 Notes. The note has a 5% original issue discount and bears interest at 5% per annum. The maturity date is March 14, 2018.

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The Note may be prepaid in whole or in part at a 115% premium if within 120 days of the issue date or 125% after 120 days of the issue date. The Note is convertible into common stock at a 30% discount to the lowest trading price for the ten trading days immediately prior to the delivery of a conversion notice, provided that the conversion price will not be less than \$0.06 per share.

The Note Purchase Agreement also provides that it is an event of default if the Company does not obtain FINRA's approval to effectuate a 1:15 reverse stock split no later than January 15, 2017. On February 16, 2017, Bellridge agreed to extend the deadline to April 24, 2017 and that in lieu of a reverse stock split, the Company may increase its authorized shares of common stock. On March 22, 2017, the Company amended its Articles of Incorporation and increased its authorized shares from 140,000,000 to 350,000,000.

The Company also agreed to reserve the greater of (i) 1,000,000 shares of common stock or (ii) 300% of the maximum aggregate number of shares issued or issuable to Bellridge (without giving effect to any beneficial ownership restrictions).

So long as Bellridge owns the Notes and the shares issuable under the Notes, if the Company fails to satisfy certain current public information requirements under Rule 144 for more than 30 consecutive days, the Company will be required to pay liquidated damages to Bellridge in cash equal to 5% of the aggregate conversion price of the Note(s) on the day of a such failure and on every 30th day thereafter. If the Company fails to make such liquidated damages payments in a timely manner, such payments will bear interest of 1.5% per month until paid in full.

As consideration for its commitment to purchase shares of common stock pursuant to the securities purchase agreement, we issued to Bellridge 200,000 shares of common stock on March 14, 2017.

*April Convertible Note* – On April 5, 2017, the Company entered into a convertible note agreement. We issued 300,000 inducement shares of restricted common stock and received \$150,000, with an original issue discount of \$15,000 in lieu of interest, for a total amount of \$165,000 due on November 5, 2017. At the holder's option, a portion or all of the unpaid principal and interest may be converted into shares of our common stock at \$0.10 per share. In the event of default, the outstanding balance will increase by 25% and a daily penalty of \$100 will accrue until the default is remedied. Shares reserved for future conversions must equal to at least 100% of the full number of shares of common stock issuable upon conversion of all outstanding amounts under this note.

**Cash Flows**

Our cash flows from operating, investing and financing activities were as follows:

	<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Net cash used in operating activities	\$ (659,926)	\$ (659,883)
Net cash used in investing activities	(12,052)	(7,736)
Net cash provided by financing activities	771,332	659,501

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Net cash used in operating activities was basically unchanged from the six months ended June 30, 2016 to the six months ended June 30, 2017. Payroll expense decreased by \$145,703 from 2016 to 2017. The resignation of an officer in October 2016 reduced executive salary and automobile expenses by approximately \$48,000. Consulting expense decreased primarily due to a reduction in share-based payments for financing advisory services and for our board of advisors of \$1,033,512 during the six months ended June 30, 2017. Professional fees decreased by \$104,092 from 2016 to 2017 because lack of funds necessitated a reduction in the use of outside assistance. Research and development increased by \$92,545 in 2017 to address the final requirements for the completion of the Company's first two trucks. General and administrative expense decreased primarily due to the reduction of \$455,253 stock-based compensation during the six months ended June 30, 2017.

Our investing activity relates to the purchase of test vehicles in 2015 into which we have retrofit our Mobile Generation technology. Investing activity also relates to the on-going development of patents which has remained steady since inception. The Company received its sixth patent (a radial vent heat pipe system) on February 24, 2017 and a seventh patent (heat pipe cooled wet rotating disc engagement systems more commonly known as wet clutches or wet disc brakes) on April 3, 2017.

Cash provided by financing activities included debt borrowings of \$424,985 and \$267,037 for the six months ended June 30, 2017 and 2016, respectively. A total of \$357,500 was provided through the sale and issuance of equity during the first six months of 2017 whereas cash provided from equity sales totaled \$400,000 during the first three months of 2016.

The reason for the increased debt borrowings during the first and second quarters of 2017 was due to the low price of the Company's stock which made the issuance of equity more expensive when compared to the issuance of debt.

The Company's capital requirements for the next 12 months will consist of \$6 million with anticipated expenses of \$1.5 million for salaries, public company filings, and consultants and professional fees.

Management believes the Company's funds are insufficient to provide for its projected needs for operations for the next 12 months. We will need additional funding to support product development and working capital needs. We hope to raise additional funds by selling our equity securities; however, there can be no assurance that we will be able to raise such additional financing.

***Going Concern***

We have incurred net losses of \$43,241,867 since inception and have not fully commenced operations, raising substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our ability to raise capital, generate revenue, achieve profitable operations and repay our obligations when they come due. We will have to obtain additional debt and / or equity financing; however, we cannot provide investors with assurance that we will be able to raise sufficient capital to fund our operations. As of the filing date of this Quarterly Report on Form 10-Q, management is negotiating additional funding arrangements to support completion of the commercialization phases of our business plan: to license its thermal technologies and applications, including submersible dry-pit applications; and to license and sell mobile generation retrofit kits (our Ultimate Power Truck business) as well as retrofitted vehicles that incorporate our proprietary gearing system. There can be no assurance, however, that we will be successful in raising additional financing and accomplishing these objectives.

### **Critical Accounting Estimates**

Our condensed consolidated financial statements and the accompanying notes have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, and expenses. We continually evaluate the accounting policies and estimates used to prepare the condensed consolidated financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations and financial position are discussed in our Annual Report on Form 10-K for the year ended December 31, 2016 in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, we are not required to provide the information required by this Item.

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**Item 4. Controls and Procedures**

Our management does not expect that our internal controls over financial reporting will prevent all errors and all fraud. Control systems, no matter how well conceived and managed, can provide only reasonable assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of June 30, 2017, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer have concluded that as of June 30, 2017, based on the material weaknesses discussed below, our disclosure controls and procedures were not effective as of such date to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act were recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Act Commission's rules and forms and that our disclosure controls are not effectively designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our internal controls are not effective for the following reasons, (1) there are no entity level controls, because of the limited time and abilities of the Company's four officers, (2) there is no separate audit committee, and (3) we have not implemented adequate system and manual controls. As a result, the Company's internal controls have inherent weaknesses.

Going forward, we intend to evaluate our processes and procedures and, where practicable, implement changes in order to have more effective controls over financial reporting.

**(c) Remediation of Material Weaknesses**

We can provide no assurance that our internal controls over financial reporting will be compliant in the near future. As revenues permit, the Company will enhance its internal controls through additional software and other means. If and when it becomes a listed company under SEC rules, the Company will create an audit committee comprised of independent directors.

***Changes in Internal Control over Financial Reporting***

There have been no changes in our internal control over financial reporting during the last quarterly period covered by this report that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

*U.S. District Court Action, District of Nevada*

Effective May 1, 2015, we executed a First Amendment to Settlement Agreement (the "Amendment") with Spirit Bear and the parties identified as the assignees of Spirit Bear who are signatories to the Amendment, which amends certain provisions of the Settlement Agreement. In accordance with the terms of the Amendment, Jay Palmer, Carrie Dwyer and Donica Holt, the Spirit Bear holdover directors, tendered their resignations from the Board of Directors of the Company. Spirit Bear also agreed that it will no longer have any rights to appoint nominees to the Board of Directors. Pursuant to the Amendment, the Company agreed to file a registration statement on Form S-1 covering an aggregate of 14,845,072 shares of common stock, preferred stock and warrants on behalf of Spirit Bear and its assignees no later than July 15, 2015, which was filed with the SEC on July 15, 2015. A representative of Spirit Bear agreed that the obligation to register the shares on a Form S-1 need only include shares of common stock and shares of common stock issuable upon conversion of the Series A Stock and exercise of the warrants held by Spirit Bear and its assignees. The Company agreed to issue replacement warrants for certain previously-issued warrants, which will be canceled in connection with the replacement issuance. Within 10 business days of June 1, 2015, the parties agreed to dismiss all of the pending litigation between and among them.

On August 28, 2015, the parties filed a Stipulation to dismiss the direct claims of the Company against Spirit Bear and of Spirit Bear against the Company in the Nevada Lawsuit. By Order dated September 1, 2015 and filed September 2, 2015, the Court ordered dismissal of all direct claims in the Nevada Lawsuit.

Additionally, on February 20, 2015, the Court issued its preliminary approval to the derivative action settlement agreement (the "DASA") which would lead to the ultimate dismissal of the derivative suit also filed by Spirit Bear in the same action. The Court scheduled a fairness hearing for November 20, 2015 to consider giving its final approval to the DASA. No shareholder filed any objections to the DASA by April 30, 2015 which was the deadline established by the Court for filing objections. However, on October 22, 2015, Peak Finance, LLC ("Peak") filed a Motion to Intervene in the action seeking, among other things, approval to file a new derivative complaint in this matter. The Company opposed this Motion.

At the November 20, 2015 fairness hearing, the Court denied Peak's Motion to Intervene. However, the Court did allow Peak Finance to formally argue its objections to the DASA. The Court ordered additional briefing on certain issues. The Court ordered another hearing to consider the DASA on April 1, 2016.

On April 1, 2016, Peak and the Company advised the Court that they had agreed in principle to a settlement that would include withdrawal of Peak's objection to the DASA. On April 20, 2016, the parties filed a Stipulation and Proposed Order for Withdrawal of Objection to DASA which was granted by the Court on April 21, 2016. On May 3, 2016, the Court issued an Order which fully and finally approved the DASA and dismissed the case, with prejudice.

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***Spirit Bear Ltd.***

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