

COOL TECHNOLOGIES, INC.
Form 10-Q/A
April 24, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended September 30, 2016

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.)

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

(Do not check if a smaller reporting company)

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

As of April 19, 2017, there were 117,704,312 shares of common stock, \$0.001 par value, issued and outstanding.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 as originally filed with the Securities and Exchange Commission on November 11, 2016: (i) Item 1 of Part I “Financial Information,” (ii) Item 2 of Part I, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” This Form 10-Q/A includes Exhibits 31.1, 31.2, 32.1 and 32.2, new certifications by the Company’s principal executive officer and principal financial officer as required by Rule 12b-15.

We have determined that our previously reported results for the quarter ended September 30, 2016 did not properly represent a reclassification of common share equivalents to derivative liabilities as a result of insufficient authorized but unissued shares. The financial impact of this adjustment is an \$8,285,484 increase to derivative liability and corresponding reduction in additional paid-in capital. Despite being a non-cash, balance sheet reclassification, an amended filing is necessary because the reclassification is material. We have made necessary conforming changes in the “Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections.

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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,” “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. FINANCIAL STATEMENTS**

Cool Technologies, Inc. and subsidiary
Condensed Consolidated Balance Sheets

	September 30, 2016 (Unaudited) (Restated)	December 31, 2015
ASSETS		
Current assets:		
Cash	\$ 727	\$ 10,882
Prepaid expenses and other assets	225,000	95,175
Total current assets	225,727	106,057
Intangibles	161,170	153,434
Equipment, net	78,148	97,600
Total assets	\$ 465,045	\$ 357,091
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 1,569,751	\$ 1,278,307
Accrued liabilities – related party	646,602	591,870
Customer deposits – related party	400,000	400,000
Accrued payroll taxes	93,512	33,737
Debt, current portion	506,750	697,903
Derivative liability	8,386,474	356,554
Total current liabilities	11,603,089	3,358,371
Debt, long-term portion, net of debt discount	379,496	77,803
Total liabilities	11,982,585	3,436,174
Commitments and contingencies (Note 5)	-	-
Stockholders' equity (deficit):		
Preferred stock, \$.001 par value; 15,000,000 shares authorized; 122 and 136 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	-	-
	99,026	65,929

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Common stock, \$.001 par value; 140,000,000 shares authorized;
112,890,120 and 66,600,367 shares issued and outstanding at September
30, 2016 and December 31, 2015, respectively

Additional paid-in capital	31,086,427	36,038,551
Common stock issuable	291,000	180,900
Common stock held in escrow	8,441	8,441
Accumulated deficit	(42,964,641)	(39,344,245)
Total deficit	(11,479,747)	(3,050,424)
Noncontrolling interest in subsidiary	(37,793)	(28,659)
Total stockholders' deficit	(11,517,540)	(3,079,083)
Total liabilities and stockholders' deficit	\$ 465,045	\$ 357,091

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended				Nine months ended			
	September 30,		September 30		September 30		September 30	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues	\$	--	\$	--	\$	--	\$	--
Cost of revenues		--		--		--		--
Gross profit		--		--		--		--
Operating expenses								
Payroll and related expenses		129,668		198,787		540,320		612,325
Consulting		157,500		48,203		1,523,041		814,856
Professional fees		33,113		88,488		241,488		503,165
Research and development		156,484		150,398		175,739		717,988
General and administrative		63,130		490,056		661,420		1,441,376
Total operating expenses		539,895		975,932		3,142,008		4,089,710
Operating loss		(539,895)		(975,932)		(3,142,008)		(4,089,710)
Other income (expense):								
Interest expense, net		(207,087)		(7,080)		(1,023,818)		(11,655)
Legal Settlement – replacement warrants		--		--		--		(1,119,450)
Change in fair value of derivative liability		409,994		2,324		1,164,806		2,324
Loss on Extinguishment of Debt		(56,221)		--		(628,510)		--
Net loss		(393,209)		(980,688)		(3,629,530)		(5,218,491)
Less: Noncontrolling interest in net loss		(3,389)		(3,345)		(9,134)		(12,708)
Net loss to shareholders	\$	(389,820)	\$	(977,343)	\$	(3,620,396)	\$	(5,205,783)
Net loss per common share:								
Basic and diluted	\$	(0.01)	\$	(0.01)	\$	(0.04)	\$	(0.08)
Weighted average common shares outstanding:								
Basic and diluted		84,142,499		66,089,776		80,677,522		63,938,744

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See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended	
	September 30,	
	2016	2015
	(Restated)	
Operating Activities:		
Net loss	\$ (3,629,530)	\$ (5,218,491)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock issued for services	332,090	571,207
Warrants issued for services	1,188,933	55,849
Legal Settlement – replacement warrants	-	1,119,450
Loss on extinguishment of debt	628,510	
Employee stock options	327,000	981,000
Non-cash interest expense	307,097	--
Change in fair value of derivative liability	(1,164,807)	(2,324)
Amortization of debt discount	657,426	2,189
Depreciation expense	19,452	19,369
Changes in operating assets and liabilities:		
Prepaid expenses	95,175	(11,712)
Accounts payable	291,444	805,753
Accrued liabilities – related party	54,732	121,558
Accrued payroll liabilities	59,775	15,102
Net cash used in operating activities	(832,703)	(1,541,050)
Investing Activities:		
Purchase of intangible assets	(7,736)	(7,772)
Equipment purchase	--	(5,000)
Net cash used in investing activities	(7,736)	(12,772)
Financing Activities:		
Proceeds from sale of common stock	555,500	1,095,020
Proceeds from debt	643,347	325,000
Payments on debt	(368,563)	(12,895)
Net cash provided by financing activities	830,284	1,407,125
Net decrease in cash	(10,155)	(146,697)
Cash, beginning of period	10,882	171,871

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Cash, end of period	\$	727	\$	25,174
Cash paid for:				
Interest	\$	27,092	\$	5,219
Income taxes		--		--
Non-cash investing and financing activities:				
Derivative liability offset by debt discount	\$	281,329	\$	75,650
Reduction of stock issuable by issuing common Stock		465,400		410,950
Debt and interest settled for common stock		1,014,756		--
Reclassification of common share equivalents to derivative liability		8,285,484		--

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, the Company 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.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2015, has been derived from audited financial statements. 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. 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, 2015.

Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company have incurred net losses of \$42,964,641 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. The Company 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) as well as retrofitted vehicles that incorporate our proprietary gearing system. There can be no assurance, however, that the Company will be successful in raising additional financing and accomplishing these objectives.

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Financial Accounting Standards Board, or FASB, Accounting Standards Update, or FASB ASU 2016-09 “Compensation – Stock Compensation (Topic 718)” – In March 2016, the FASB issued ASU 2016-09, which includes multiple provisions intended to simplify various aspects of accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, earnings per share, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We are currently evaluating the potential impact this standard will have on our consolidated financial statements and related disclosures.

FASB ASU 2016-10 “Revenue from Contracts with Customers (Topic 606)” – In April 2016, the FASB issued ASU 2016-10, clarify identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. This ASU is effective for annual reporting periods beginning after December 15, 2017, with the option to adopt as early as December 15, 2016. We are currently assessing the impact of adoption of this ASU on our consolidated results of operations, cash flows and financial position.

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.

Note 3 – Debt

Debt consists of the following:

	September 30, 2016	December 31, 2015
Notes payable -- original issue discount	\$ 225,000	\$ 400,000
Convertible notes payable	373,714	365,350
Test vehicle financing	68,009	77,075
Note payable – related party	7,844	22,910

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Note payable – UPT minority owner	250,000	250,000
	924,567	1,115,335
Debt discount	(38,321)	(339,629)
	886,246	775,706
Less: current portion	(506,750)	(697,903)
	\$ 379,496	\$ 77,803

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Notes payable – secured promissory notes

On September 30, 2016, the Company received \$225,000 under two secured promissory notes of \$180,000 and \$45,000, each bearing an interest rate of 5%. The principal and interest are payable in full on June 30, 2017. In the event of default, the interest rate will be 18% per annum. The Company has the right to redeem in cash the remaining balance with no pre-payment penalty at any time.

Notes payable – original issue discount

In October 2015, the Company 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. The notes were amended on April 28, 2016. In exchange for the note holders refraining from taking legal action in relation to non-payment of the notes until May 16, 2016, the Company agreed to pay liquidated damages of \$80,000 and forbearance fees of \$5,000 each. In the event that the notes were not paid in full by the end of the forbearance period, then the note holders would be due additional liquidated damages of \$98,000. Payment was not made, so the damages were added to the balance due. On May 23, 2016, one of the note holders agreed to a second amendment which extended the maturity date of his note until September 30, 2016. In exchange, the note holder received the right to convert a portion or all of the unpaid principal balance at a rate of 75% of the average of the volume weighted average price (VWAP) in the twelve trading days immediately preceding the request for conversion date as well as continued accrual of 3% liquidated damages each month and 18% interest on the total balance due.

The Company tested the first amendment to ascertain if it should be accounted for as a modification to the notes or treated as an extinguishment. As a result of the impact on the present value of cash flows from the liquidated damages and forbearance fees, the Company determined that the first amendment to the notes qualified for extinguishment treatment. Accordingly, the Company recognized a loss on extinguishment equal to the liquidated damages and forbearance fees of \$90,000.

The Company also tested the second amendment to one of the notes to ascertain if it should be accounted for as a modification to the note or treated as an extinguishment. As a result of the impact on the present value of cash flows from the additional liquidated damages and the inclusion of a conversion feature, the Company determined that the second amendment to one of the notes qualified for extinguishment treatment. Accordingly, the Company recognized a loss on extinguishment equal to the additional liquidated damages, accrued interest and fair value of the conversion option of \$307,358.

From June 10 to August 16, 2016, a total of \$437,181 was converted into 5,596,907 shares of common stock and the note was retired on August 26, 2016 with a payment of \$60,751.27.

On May 24, 2016, the second noteholder agreed to exchange his notes with a third party lender who extinguished the debts and was issued two convertible notes to cover the debts assumed from the second noteholder. The two new convertible notes were issued in the principal amounts of \$104,802 and \$26,571, respectively. Both notes bear interest at 10% with principal and interest payable on May 24, 2017. In the event of default, the interest rate will be the lower of 20% per annum or the highest rate permitted by law. At any time, the third party lender has the right to convert a portion or all of the unpaid principal balances at a rate of 65% of the average of the four lowest volume weighted average prices of the Company's common stock during the 10 consecutive trading days immediately preceding the request for conversion date.

From June 2 to August 17, 2016, a total of \$104,791 were converted into 2,710,328 shares of common stock. A total of \$11 remains to be converted or paid. On August 31, 2016, a payment of \$27,303 was made to cover all outstanding principal and interest on the second convertible note.

On September 28, 2016, in keeping with a clause in the original warrants which stated that, while the warrants were outstanding, if the company were to sell common stock for less than the exercise price of the warrants, then the exercise price will be reduced to equal the lower price and the number of warrant shares will be increased to equal the prior aggregate exercise price. As a result, the exercise prices of the two warrants previously issued in conjunction with two notes payable were adjusted from \$0.30 to \$0.0169 and the shares of common stock were adjusted from 321,429 to 4,705,840 and from 1,178,571 to 20,921,379, respectively.

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Convertible notes payable

September 2015 Convertible Note -- In September 2015, the Company entered into a convertible note agreement, which allows us to borrow up to \$250,000, bearing interest at 10%, with principal and interest payable on September 15, 2017. The Company borrowed \$75,000 in September 2015 and \$50,000 in November 2015, for a total of \$125,000 due on September 15, 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 the lesser of \$0.305 per share or 65% of the volume weighted average price of our common stock during the five consecutive trading days immediately preceding the applicable conversion date. 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 condensed consolidated balance sheet. In February 2016, the \$75,000 note and interest of \$16,667 were converted in exchange for 467,740 shares of our common stock. In May and June, 2016, the remaining \$50,000 note and \$14,256 of interest were converted in exchange for 649,450 shares of our common stock.

December 2015 Convertible Notes -- In December 2015, the Company entered into a convertible note agreement, bearing interest payable quarterly at 10%, allowing us to borrow up to \$248,800. In December 2015, the Company received \$200,000 under the convertible note agreement, with an original issue discount of \$20,350 and \$20,000 distributed to the lender's legal counsel, for a total amount of \$240,350 due on December 1, 2016, with a debt discount of \$40,350. In January 2016, the Company received the remaining \$48,800 with an original issue discount of \$5,850, for a total amount of \$54,650 due on February 26, 2017. At the holder's option, a portion or all of the unpaid principal balance may be converted into shares of our common stock at a rate of \$0.12 per share. In the event of a default, the conversion price becomes 70% of the volume weighted average price of our common stock during the three consecutive trading days immediately preceding the applicable conversion date. The Company also issued warrants to purchase 500,000 shares of our common stock in two separate tranches for 250,000 shares each, with exercise prices of 125% and 150% of our common stock price on the day prior to closing the agreement, or \$0.175 per share and \$0.21 per share. The Company determined that the conversion feature and the warrants meet the requirements for derivative treatment and have recorded a derivative liability and a corresponding debt discount on the condensed consolidated balance sheet. The convertible notes have prepayment penalties of 115%, 120%, 125% and 130%, respectively, in the event the note is settled within 45 days, 46-90 days, 91-120 days, and 121 days through the due date. The Company placed 13,291,667 shares of our common stock in escrow as collateral for this agreement.

On May 30, 2016, the Company executed an amendment to the convertible note agreement. In consideration for removing limitations, until November 15, 2016, on sales of securities of at least \$500,000 including variable rate transactions, convertible notes and third party transactions set forth in the Securities Purchase Agreement signed on December 3, 2015 as well as authorizing the withdrawal of a registration statement filed on January 11, 2016, the Company agreed to file a new registration statement covering the shares issuable to the holder of the Notes.

The Company tested the amendment to ascertain if it should be accounted for as a modification to the notes or treated as an extinguishment. As a result of the change in the fair value of the conversion feature and warrants, the Company

determined that the amendment qualifies for extinguishment treatment. Accordingly, the Company recognized a loss on extinguishment equal to the difference in the fair value of the conversion feature and warrants before and after the amendment of \$34,673.

In consideration for amending the Notes to permit borrowings by the Company of up to \$6,500,000, the Company agreed to amend the Notes to enable the conversion price to be equal to the lesser of \$0.12 and 70% of the average of three VWAPs from the 20 trading days prior to the notice of conversion. Furthermore, the Company agreed that if it were to issue new notes with greater discounts than those detailed above, the existing Notes would be reset to match the lower conversion price. Finally, the Company agreed to lower the exercise prices (from \$0.21 to \$0.168, and from \$0.175 to \$0.140, respectively) on two existing warrants totaling 500,000 shares previously issued to the holder of the Notes and to issue a cashless, two-year warrant to purchase 250,000 shares at an exercise price of \$0.168 per share.

The Company tested the two notes that replaced the other OID note to determine if they should be accounted for as modification of the original note or treated as an extinguishment. As a result of the impact on the present value of cash flows from the additional liquidated damages and the inclusion of a conversion feature, the Company determined that the new notes qualified for extinguishment treatment. Accordingly, the Company recognized a loss on extinguishment equal to the additional liquidated damages, accrued interest and fair value of the conversions options of \$140,258.

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From June 10 to August 16, 2016, a total of \$240,350 were converted into 6,495,516 shares of common stock and on August 30, 2016, a total of \$54,650 were converted into 4,313,339 shares of common stock. The Company paid interest fees of \$4,119 on August 26, 2016 and \$3,114 on September 15, 2016 and the notes were retired.

February 2016 Convertible Note – In February 2016, the Company entered into a convertible note agreement. We received \$125,000, with an original issue discount of \$15,500 in lieu of interest, for a total amount of \$140,500 due on August 10, 2016. In the event of default, the interest rate will be 22% per annum. 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. The Company determined that the conversion feature meets the requirements for derivative treatment and have recorded a derivative liability and a corresponding debt discount on the condensed consolidated balance sheet.

On August 5, 2016, the lender declared the company in default due to insufficient shares required to maintain the reserve. As a result, the Note began accruing interest at the default rate of 22% per annum. The lender also increased the outstanding balance by 15% or \$21,075 bringing the total outstanding balance to \$161,575. On August 17, 2016, the Company reached an agreement with the lender on a two week extension thereby extending the maturity date to August 24, 2016. In exchange for granting the extension, the lender requested and received a \$15,000 extension fee as well as the right to convert the extension fee and \$10,000 in principal into common shares. On August 26, 2016, the lender was wired the balance of the principal and interest remaining: \$152,945. On August 30, 2016, the lender received 1,953,125 common shares in exchange for the \$25,000.

May 2016 Convertible Note – In May 2016, the Company entered into a convertible note agreement. We received \$120,600, bearing interest at 12%, with principal and interest payable on September 15, 2017 in a total amount of \$141,102. In the event of default, the interest rate will be 18% per annum. At any time following after the 180th day from the date of issuance, the lender has the right to convert a portion or all of the unpaid principal balance at a rate of 60% of the average of the lowest trading price in the fifteen trading days immediately preceding the request for conversion date. The Company determined that the conversion feature meets the requirements for derivative treatment and have recorded a derivative liability and a corresponding debt discount on the condensed consolidated balance sheet.

On July 18, 2016, the lender increased the share reserve from 7,000,000 to 18,572,365 shares. Following a request on August 19, 2016 to increase the share reserve to 48,000,000 shares that we could not accommodate, the company paid off the principal of \$120,600 on August 29, 2016 and interest of \$4,243 on August 30, 2016. On September 7, 2016, the lender declared the company in default and the Company commenced negotiations on a final pre-payment fee. On October 3, 2016, a settlement agreement was signed and on October 4, 2016 \$42,210 was wired to the lender.

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 condensed consolidated balance sheet.

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Test Vehicle Financing

In October 2014, the Company 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 are as follows:

Year ending December 31,	
2016	\$ 267,189
2017	244,564
2018	394,503
2019	18,311
	\$ 924,567

Note 4 – Derivative Liability

Under the terms of the convertible note agreements, the Company 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:

	January 27, 2016 ⁽¹⁾	February 10, 2016 ⁽²⁾	February 24, 2016 ⁽³⁾	March 31, 2016
Volatility	121%	121%	118%	121–127%
Risk-free interest rate	0.5%	0.4%	0.7%	0.3–0.8%
Expected life (years)	1.0	0.5	1.6	0.4 – 2.7
Dividend yield	--	--	--	--

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	April 11, 2016⁽³⁾	April 19, 2016⁽³⁾	April 27, 2016⁽³⁾	May 3, 2016⁽³⁾
Volatility	111.5%	113.4%	119%	120.3%
Risk-free interest rate	0.62%	0.65%	0.71%	0.64%
Expected life (years)	1.43	1.41	1.39	1.37
Dividend yield	--	--	--	--

	May 6, 2016⁽³⁾	May 16, 2016⁽³⁾ (6)	May 23, 2016⁽⁵⁾	May 24, 2016⁽⁵⁾
Volatility	120.4%	124–137.9%	138.1%	139%
Risk-free interest rate	0.63%	0.48-0.57%	0.28%	0.69%
Expected life (years)	1.36	0.76 - 1.33	0.36	1.0
Dividend yield	--	--	--	--

	May 27, 2016⁽³⁾⁽⁸⁾	May 30, 2016	June 10, 2016⁽⁴⁾⁽⁷⁾	June 13, 2016⁽⁸⁾
Volatility	125-139%	111–157.5%	145%	146%
Risk-free interest rate	0.58-0.69%	0.49-0.95%	0.26-0.42%	0.55%
Expected life (years)	0.99 - 1.30	0.51 – 2.51	0.31- 0.48	0.95
Dividend yield	--	--	--	--

	June 21, 2016⁽⁷⁾	June 29, 2016⁽⁴⁾⁽⁷⁾	June 30, 2016	July 8, 2016⁽⁸⁾
Volatility	146.2%	144.2%	118–144.2%	142.7%
Risk-free interest rate	0.27%	0.26-35%	0.2–0.65%	0.48%
Expected life (years)	0.28	0.25 – 0.42	0.11 – 2.42	0.88
Dividend yield	--	--	--	--

	July 12, 2016⁽⁸⁾	July 19, 2016⁽¹²⁾	July 20, 2016⁽⁸⁾	July 26, 2016⁽⁸⁾
Volatility	143.8%	146.3%	146.1%	146.6%
Risk-free interest rate	0.29%	0.31%	0.32-0.56%	0.55%
Expected life (years)	0.22	0.37	0.20 - 0.84	0.83
Dividend yield	--	--	--	--

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	Aug. 8, 2016⁽⁸⁾⁽¹²⁾	Aug. 9, 2016⁽⁸⁾	Aug. 16, 2016⁽⁸⁾⁽¹²⁾	Aug. 17, 2016⁽¹¹⁾
Volatility	147.8%	151.3%	163.7%	164.8%
Risk-free interest rate	0.29-0.31%	0.50%	0.27%	0.27-0.52%
Expected life (years)	0.15 - 0.32	0.79	0.12- 0.29	0.0 - 0.77

	Aug 30, 2016 (9)(10)	Sept 30, 2016
Volatility	178.4%	145.1–254.32%
Risk-free interest rate	0.47-0.52%	0.29-1.6%
Expected life (years)	0.00 - 0.41	0.25 – 10.26
Dividend yield	--	--

(1) Additional borrowing under the December 2015 Convertible Note.

(2) Borrowing under the February 2016 Convertible Note.

(3) Partial conversion of the September 2015 Convertible Note.

(4) Partial conversion of the December 2015 Convertible Note.

(5) Notes Payable Original Issue Discount converted into Exchange Notes.

(6) Borrowing under the May 2016 Convertible Note.

(7) Partial Conversion of Notes Payable Original Issue Discount

(8) Partial Conversion of Exchange Notes

(9) Partial Conversion February 2016 Convertible Note

(10) Conversion of January 2016 Convertible Note

(11) Exchange – February 2016 Convertible Note

(12) Partial Conversion of May 2016 Convertible Note

An estimated 53,643,328 number of shares were issuable if the conversion features and warrants had been exercised on September 30, 2016. We determined that as of September 30, 2016 we did not have sufficient authorized but

unissued shares of our common stock available to settle all of the common share equivalents represented by our convertible notes, warrants, options and convertible preferred stock. As a result, the common share equivalents that exceeded our authorized but unissued shares of common stock were reclassified from equity to derivative liabilities on a latest inception date first basis using the inception date of the related instrument.

Changes in the derivative liability were as follows:

	Amount
December 31, 2015	\$ 356,554
December 2015 Convertible Note – additional borrowing	53,951
February 2016 Convertible Note	252,271
Exchange – Notes Payable Original Issue Discount	347,672
May 2016 Convertible Note	200,529
Exchange – December Convertible Note	34,673
Conversion – September 2015 Convertible Note	(171,276)
Conversion - December 2015 Convertible Note	(75,305)
Conversion – Notes Payable Original Issue Discount	(110,093)
Exchange – February 2016 Convertible Note	20,146
Conversion – December 2015 Convertible Note	(120,817)
Conversion – January 2016 Convertible Note	(86,141)
Conversion – Notes Payable Original Issue Discount	(227,280)
Conversion – February 2016 Convertible Note	(33,594)
Reclassification of common share equivalents to derivative liabilities	8,285,484
Change in fair value at September 30, 2016	(340,300)
September 30, 2016	\$ 8,386,474

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Note 5 -- Commitments and Contingencies

On December 12, 2012, the Company 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, the Company 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 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.

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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.

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.

From time to time, the Company 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.

Note 6 – Equity

Preferred Stock

The Company has 15,000,000 preferred shares authorized and 122 Series A preferred shares issued and outstanding as of September 30, 2016. A total of 3,636,360 Series B preferred shares are 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 \$0.70 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.

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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 may be exercised on a cashless basis in which the holder may be entitled to obtain a certificate of shares of the Company's common stock equal to the quotient obtained by dividing $[(A-B)(X)]$ by (A), where:

(A) = the average of the daily VWAPs for the three (3) Trading Days immediately preceding the date of such election;

(B) = the Exercise Price of this Warrant, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

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.

Common stock issuable on the condensed consolidated balance sheet represents common stock to be issued for either cash received or services performed. As of September 30, 2016 and December 31, 2015, the number of shares of common stock to be issued was 291,000 and 701,018 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 September 30, 2016, and changes during the period then ended is presented below:

	Number of Warrants	Weighted-average Exercise Price	Weighted-average Remaining Life (Years)	Aggregate Intrinsic Value
Outstanding, December 31, 2015	20,726,707	\$ 0.49		
Granted	15,471,186	0.23		
Forfeited or cancelled	(4,667,358)	0.58		
Outstanding, September 30, 2016	31,530,535	0.35	2.3	\$ 978,595
Exercisable, September 30, 2016	31,530,535	0.35	2.3	\$ 978,595

Included in the warrants granted and cancelled above are 3,729,164 warrants for which the life was extended by one year, for which the Company 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:

	Nine months ended	
	September 30,	
	2016	2015
Nonemployee common stock	\$ --	\$ 571,207
Nonemployee preferred stock (Series B)	50,000	--
Nonemployee warrants – fully-vested upon issuance	445,390	--
Nonemployee warrants – service and performance conditions	18,392	55,849
Legal Settlement – replacement warrants	--	1,119,450
Employee stock options – market price-based	327,000	981,000
Total share-based expense charged against income	\$ 840,782	\$ 2,727,506
Impact on net loss per common share:		
Basic and diluted	\$ (0.01)	\$ (0.04)

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

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

Condition	Number of Shares
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 September 30, 2016, 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.

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, the Company 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.

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In January, 2016, we entered into an agreement with a company, which subsequently became a shareholder, to provide investor relations services. Under the terms of this agreement, the Company agreed to issue 150,000 one year warrants per month through February 2016, for a total of 300,000 warrants. In March 2016, we renewed the agreement through December 2016. Under the terms of the renewed agreement, the Company agreed to issue 50,000 restricted common shares and 150,000 one year warrants each month for three months. Thereafter, we agreed to issue 100,000 restricted common shares and 100,000 warrants each month for the duration of the renewed agreement. A total of 2,000,000 restricted common shares and warrants are due to be issued under the renewed agreement.

The warrants were priced based upon the closing bid price on the last day of the previous month before issuance. The shares were priced based upon the closing bid price on the day of issuance. Warrants were issued for services rendered during the months of January, February, March and April. Twenty-five thousand shares were issued for services rendered during the month of March. Therefore, the exercise prices of the warrants are \$0.18, \$0.22, \$0.40 and \$0.30, respectively, and the shares were priced at \$0.38. A total of 1,675,000 restricted common shares and warrants remain to be issued.

Other

During the quarters ended September 30, 2016 and 2015, the Company issued no other shares of common stock in exchange for services.

Nonemployee common stock warrants -- Fully-vested upon issuance

Financing Advisory Services

In January 2016, the Company 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, the Company 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 the Company recognized expense of \$246,500.

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

	Replacement Warrants	Additional Warrants
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, the Company 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	--

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

In July, 2014, the Company 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:

Vesting Condition	Category	Number of Warrants
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 – September 30, 2016		(420,000)
Nonvested – September 30, 2016		2,180,000

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 September 30, 2016, 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 three months ended September 30, 2016 and 2015, 60,000 of the common stock warrants under the service condition vested with the passage of time and the Company recognized expense of \$9,856 and \$24,877, respectively.

Financing advisory services

In March, 2014, the Company 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. As of December 31, 2014, we deemed it probable that the vesting conditions would be met. Accordingly, during the year ended December 31, 2014, the Company recognized estimated expense of \$200,379. As of September 30, 2015, the service conditions were met and the award was re-valued at \$179,964, resulting in a reduction in expense of \$20,415 during the quarter ended September 30, 2015.

Employee stock options – Fully-vested

The Company granted no additional fully-vested options during the three months ended September 30, 2016.

Employee stock options – Market-based

The Company granted no additional options that vest upon the achievement of certain stock prices during the three months ended September 30, 2016. No additional non-vested market-based options vested during the quarter ended September 30, 2016.

Table of Contents**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:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net loss available for stockholders	\$ (389,820)	\$ (977,343)	\$ (3,620,396)	\$ (5,205,783)
Weighted average outstanding shares of common stock	84,143,586	66,089,776	80,677,887	63,938,744
Dilutive effect of stock options and warrants	--	--	--	--
Common stock and equivalents	84,143,586	66,089,776	80,677,887	63,938,744
Net loss per share – Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.08)

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

Note 9 – Subsequent Events

Pursuant to a Resignation, Waiver and Release with the Company, Theodore Banzhaf resigned as President of the Company, effective October 1, 2016

and is entitled to receive \$10,000 as full and final payment for any amounts owed to him by the Company. The Resignation contains a release of the Company by Mr. Banzhaf for any liabilities and also contains an 18-month non-competition provision.

In May 2016, the Company entered into a convertible note agreement. We received \$120,600, bearing interest at 12%, with principal and interest payable on September 15, 2017 in a total amount of \$141,102. On July 18, 2016, the lender increased the share reserve from 7,000,000 to 18,572,365 shares. Following a request on August 19, 2016 to increase the share reserve to 48,000,000 shares that we could not accommodate, the company paid off the principal of \$120,600 on August 29, 2016 and interest of \$4,242,55 on August 30, 2016. On September 7, 2016, the lender declared the company in default and the Company commenced negotiations on a final pre-payment fee. On October 3, 2016, a settlement agreement was signed and on October 4, 2016, \$42,210 was wired to the lender.

On October 7, 2016, the Company received a service of process for a complaint filed on July 28, 2016 in the US District Court for the Eastern District of New York against the Company and our Chief Executive Officer Timothy Hassett. It alleges breach of contract for failing to register shares sold to the plaintiffs in February and March of 2014.

Although it is early in the legal process, management believes that the complaint is without merit and that the ultimate resolution of this matter will not have a material adverse effect on our consolidated results of operations, financial position, or cash flow. And we will seek disposal of this matter.

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.

In connection with the sale of the Series B Preferred Stock, on October 31, 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.

Table of Contents**Note 10 – RESTATEMENT**

During the Company’s closing process for the 2016 10-K, we determined that our previously reported results for the quarter ended September 30, 2016 did not properly represent a reclassification of common share equivalents to derivative liabilities as a result of insufficient authorized but unissued shares. The financial impact of this adjustment is an \$8,285,484 increase to derivative liability and corresponding reduction in additional paid-in capital. Despite being a non-cash, balance sheet adjustment, an amended filing is necessary because the reclassification is material. We have made necessary conforming changes in the “Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections.

The following tables reflect the impact of these corrections on our unaudited condensed consolidated financial statements.

Cool Technologies, Inc. and subsidiary
Condensed Consolidated Balance Sheets
(Unaudited)

Balance Sheet

	As of September 30, 2016	Restatement Adjustments	As of September 30, 2016
	As Previously Reported		As Restated
ASSETS			
Current assets:			
Cash	\$ 727	--	\$ 727
Prepaid expenses and other assets	225,000	--	225,000
Total current assets	225,727	--	225,727
Intangibles	161,170	--	161,170
Equipment, net	78,148	--	78,148
Total assets	\$ 465,045	--	\$ 465,045

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	1,569,751	--	1,569,751
Accrued liabilities – related party	646,602	--	646,602
Customer deposits – related party	400,000	--	400,000
Accrued payroll taxes	93,512	--	93,512
Debt, current portion	506,750	--	506,750
Derivative liability	100,990	8,285,484	8,386,474
Total current liabilities	3,317,605	8,285,484	11,603,089

Debt, long-term portion, net of debt discount	379,496	--	379,496
Total liabilities	3,697,101	8,285,484	11,982,585

Stockholders' equity (deficit)

Preferred stock: \$.001 par value: 15,000,000 shares authorized; 122 and 136 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively shares authorized, 200 shares issued and outstanding as of September 30, 2016 and December 31, 2015,

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Common stock, \$.001 par value, 140,000,000 shares authorized; 112,890,120 and 66,600,367 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	99,026	--	99,026
Additional paid-in capital	39,371,911	(8,285,484)	31,086,427
Common stock issuable	291,000	--	291,000
Common stock held in escrow	8,441	--	8,441
Accumulated deficit	(42,964,641)	(8,285,484)	(6,329,626)
Total deficit	(3,194,263)	--	(11,479,747)
Noncontrolling interest in subsidiary	(37,793)	--	(37,793)
Total stockholders' (deficit)	(3,232,056)	(8,285,484)	(11,517,540)

Total liabilities and stockholders' equity	\$ 465,045	--	\$ 465,045
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(a) To correctly account for reclassification to derivative liabilities

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

	Nine months ended September 30, 2016	Restatement Adjustments	Nine months ended September 30, 2016
	As Previously Reported		As Restated
Operating Activities:			
Net loss	\$ (3,629,530)	--	\$ (3,629,530)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock issued for services	332,090	--	332,090
Warrants issued for services	1,188,933	--	1,188,933
Legal Settlement – replacement warrants	-		-
Loss on extinguishment of debt	628,510	--	628,510
Employee stock options	327,000	--	327,000
Non-cash interest expense	307,097	--	307,097
Change in fair value of derivative liability	(1,164,807)	--	(1,164,807)
Amortization of debt discount	657,426	--	657,426
Depreciation expense	19,452	--	19,452
Changes in operating assets and liabilities:			
Prepaid expenses	95,175	--	95,175
Accounts payable	291,444	--	291,444
Accrued liabilities – related party	54,732	--	54,732
Accrued payroll liabilities	59,775	--	59,775
Net cash used in operating activities	(832,703)	--	(832,703)
Investing Activities:			
Purchase of intangible assets	(7,736)	--	(7,736)
Equipment purchase	--	--	--
Net cash used in investing activities	(7,736)	--	(7,736)
Financing Activities:			
Proceeds from sale of common stock	555,500	--	555,500
Proceeds from debt	643,347	--	643,347
Payments on debt	(368,563)	--	(368,563)
Net cash provided by financing activities	830,284	--	830,284
Net decrease in cash	(10,155)	--	(10,155)

Cash, beginning of period	10,882	--	10,882
Cash, end of period	\$ 727	-- \$	727
Cash paid for:			
Interest	\$ 27,092	-- \$	27,092
Income taxes	--	--	--
Non-cash investing and financing activities:			
Derivative liability offset by debt discount	\$ 281,329	-- \$	281,329
Reduction of stock issuable by issuing common Stock	465,400	--	465,400
Debt and interest settled for common stock	1,014,756	--	1,014,756
Reclassification of common share equivalents to derivative liability	--	8,285,484	8,285,484

(a) To correctly denote and account for reclassification

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

General Discussion and Outlook

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. The Company currently has one trademark: TEHPC.

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

We are commercializing 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. The simplicity of the heat pipe architecture as well as the fact that it provides new applications for existing manufacturing processes should enhance the cost structure in several large industries including motor/generator and engine manufacturing.

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 are also commercializing 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, it should be able to output more power than any other generator of its size on the market. Such a development will magnify the benefits over towable generators and any other competition 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 September 30, 2016, we have five US patents and seven patent applications 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 hope 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 generated our first Mobile Generation order during the quarter ended September 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. We have not generated any revenues to date. Currently, we primarily incur expenses to commercialize our products, which include costs for research and development, professional fees and general operations.

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.

	Three months ended		Change	%
	2016	September 30, 2015		
Revenues	\$ --	\$ --	N/A	N/A
Operating expenses				
Payroll and related expenses	129,668	198,787	(69,119)	-34.8%
Consulting	157,500	48,203	109,297	226.7%
Professional fees	33,113	88,488	(55,375)	-62.6%
Research and development	156,484	150,398	6,086	4.0%
General and administrative	63,130	490,056	(426,926)	-87.1%
Total operating expenses	539,895	975,932	(436,037)	-44.7%
Interest expense, net	(207,087)	(7,080)	(200,007)	2,825.0%
Legal settlement – warrants		--		
Change in fair value of derivative liability	409,994	2,324	407,670	17541.7%
Loss on extinguishment of debt	(56,221)		(56,221)	