

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2006

or

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the
transition period from _____ to _____

Commission File Number: 000-30709

POWERCOLD CORPORATION

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

23-2582701

(I.R.S. Employer Identification No.)

PO Box 1239

115 CANFIELD ROAD

LA VERNIA, TEXAS

(Address of principal executive offices)

78121

(Zip Code)

830-779-5213

(Registrant's telephone number, including area code)

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 is a shell company (as defined by Rule 12b-2 of the Exchange Act.):

Yes ☐ **No ☒**

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ☐ **Yes** ☐ **No**

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. **Common Stock, par value \$0.001 – 27,523,593 shares outstanding at March 31, 2006.**

SEC 1296 (12-05) Potential persons who are required to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

POWERCOLD CORPORATION CONSOLIDATED BALANCE SHEETS

	March 31, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash	\$ 12,527	\$ 317,248
Restricted cash	83,550	83,419
Accounts receivable, net of allowance	333,117	123,876
Note receivable	88,784	88,784
Inventory	25,654	64,030
Prepaid expenses	356,484	290,024
Total Current Assets	<u>900,116</u>	<u>967,381</u>
OTHER ASSETS		
Property and equipment, net	198,171	214,767
Patent rights and related technology, net	105,007	107,547
Note receivable, net of current portion	266,351	266,351
Deposits	3,651	3,650
Total Other Assets	<u>573,180</u>	<u>592,315</u>
TOTAL ASSETS	<u>\$ 1,473,296</u>	<u>\$ 1,559,696</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 450,418	\$ 228,485
Accrued expenses	842,379	958,620
Notes payable, related party	1,052,597	988,597
Line of credit	-	500,000
Customer deposit	55,050	-
Convertible debt, net of discounts	2,000,000	2,000,000
Total Current Liabilities	<u>4,400,444</u>	<u>4,675,702</u>
LONG-TERM LIABILITIES		
Convertible note payable, net of current portion	1,085,315	1,418,648
Total Long-term Liabilities	<u>1,085,315</u>	<u>1,418,648</u>
COMMITMENTS AND CONTINGENCIES	<u>-</u>	<u>-</u>
STOCKHOLDERS' EQUITY (DEFICIT)		
Convertible preferred stock, Series A, \$0.001 par value; 5,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 200,000,000 shares authorized, 27,523,593 and 23,485,817 shares issued and outstanding, respectively	27,524	25,503
Additional paid-in capital	23,720,079	22,742,100
Accumulated deficit	(27,760,066)	(27,302,257)
Total Stockholders' Equity (Deficit)	<u>(4,012,463)</u>	<u>(4,534,654)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 1,473,296</u>	<u>\$ 1,559,696</u>

See accompanying condensed notes.

POWERCOLD CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Three Months Ended March 31,		
	2006	2005	2004
		Restated	Restated
REVENUES FROM EQUIPMENT SALES			
Equipment	\$ 624,959	\$ 153,528	\$ 127,875
Total Revenues	<u>624,959</u>	<u>153,528</u>	<u>127,875</u>
COST OF REVENUES			
Direct labor and material-equipment	394,401	95,206	52,141
Warranty expense	-	-	29,584
Manufacturing supplies	1,427	9,932	4,486
Shipping and handling	8,519	10,530	14,248
Total Cost of Revenues	<u>404,347</u>	<u>115,668</u>	<u>100,458</u>
GROSS PROFIT (LOSS)	<u>220,611</u>	<u>37,860</u>	<u>27,417</u>
OPERATING EXPENSES			
Sales, marketing and advertising	89,111	-	18,000
General and administrative	301,576	90,139	139,508
Research and development	82,725	93,453	5,274
Legal and accounting	19,652	39,577	34,755
Depreciation and amortization	19,135	36,937	16,769
Total Operating Expenses	<u>512,200</u>	<u>260,106</u>	<u>214,305</u>
LOSS FROM OPERATIONS	<u>(291,589)</u>	<u>(222,246)</u>	<u>(186,888)</u>
OTHER INCOME (EXPENSES)			
Interest income	748	2,083	-
Interest and financing expense	(180,480)	(206,025)	-
Other income	13,512	-	1,175
Total Other Income (Expenses)	<u>(166,220)</u>	<u>(203,943)</u>	<u>1,175</u>
LOSS BEFORE INCOME TAX	<u>(457,809)</u>	<u>(426,188)</u>	<u>(185,713)</u>
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>	<u>-</u>
LOSS FROM CONTINUING OPERATIONS	<u>(457,809)</u>	<u>(426,188)</u>	<u>(185,713)</u>
LOSS FROM DISCONTINUED OPERATIONS	<u>-</u>	<u>(783,536)</u>	<u>(187,975)</u>
NET LOSS	<u>\$ (457,809)</u>	<u>\$ (1,209,724)</u>	<u>\$ (373,688)</u>
NET LOSS PER COMMON SHARE:			
BASIC AND DILUTED FROM CONTINUING OPERATIONS	<u>\$ (0.02)</u>	<u>(0.02)</u>	<u>(0.01)</u>
NET LOSS PER COMMON SHARE:			
BASIC AND DILUTED FROM DISCONTINUED OPERATIONS	<u>\$ -</u>	<u>(0.03)</u>	<u>(0.01)</u>
TOTAL NET LOSS PER COMMON SHARE	<u>\$ (0.02)</u>	<u>(0.05)</u>	<u>(0.02)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	<u>25,055,363</u>	<u>23,585,817</u>	<u>21,703,416</u>

See accompanying condensed notes.

POWERCOLD CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	March 31, 2006	Restated March 31, 2005	Restated March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (415,595)	\$ (1,209,724)	\$ (373,688)
Discontinued operations	-	783,536	187,975
	(415,595)	(426,188)	(185,713)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	19,135	36,937	16,769
Amortization of discount on note payable	98,885	132,502	-
Issuance of common stock for services	120,000	150,000	4,250
Issuance of common stock for interest	93,901	-	-
Options issued for services	-	23,145	-
Warrants issued for financing fees	-	125,934	-
Warrants issued for services			154,853
(Increase) decrease in assets:			
Accounts receivable	(209,241)	-	1,971
Inventories	38,376	(49,024)	3,954
Prepaid expenses	(66,460)	(110,434)	(13,370)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	105,692	262,992	(339,402)
Deposit on sales	55,050	-	-
Cash used in discontinued operations	-	(840,956)	(636,592)
Net cash used in operating activities	(160,256)	(695,092)	(993,280)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	-	(8,954)	(92,221)
Deposits	-	140	-
Net cash used in investing activities	-	(8,814)	(92,221)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on capital lease	-	-	(633)
Principal payments on loans	(333,333)	-	-
Proceeds from issuance of shares	125,000	-	-
Proceeds from short-term borrowings	-	-	1,349,368
Proceed (repayment) of short-term borrowings, related party	64,000	(75,000)	(55,000)
Net cash provided by financing activities	(144,333)	(75,000)	1,293,735
Net increase (decrease) in cash	(304,590)	(778,906)	208,234
Cash at beginning of year	400,667	1,306,416	374,678
Cash at end of period	\$ 96,077	\$ 527,510	\$ 582,912
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	\$ -	\$ 79,564	\$ -
Income taxes paid	\$ -	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Stock options exercised for debt repayment	\$ 500,000	\$ -	\$ -

See accompanying condensed notes.

POWERCOLD CORPORATION
CONDENSED NOTES TO CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

PowerCold Corporation (“the Company”) was incorporated on October 7, 1987 in the State of Nevada. PowerCold is a solution provider of energy efficient products for the refrigeration, air conditioning, power, hospitality, chain restaurants and chain retail industries. The Company designs, develops, markets and installs proprietary equipment to achieve electric power cost savings for commercial and industrial firms. PowerCold's energy efficient products are designed to reduce power costs for air conditioning, refrigeration and on-site building power.

The Company derives its revenues from four principal product line applications. The first is proprietary applications for the HVAC industry including a patented four pipe integrated piping system for large commercial buildings and turnkey HVAC systems for light commercial national chain store applications. The second is a line of evaporative condensers, heat exchange systems and fluid coolers for the HVAC and refrigeration industry. The third is the design and packaging of custom chiller systems for the HVAC and refrigeration industry. The fourth is energy products including desiccant systems and engine driven chillers. The Company also provides engineering and project management for installation of its equipment in new construction.

In a minor acquisition, effective May 1, 2005 PowerCold Corporation acquired 100% of the assets of Sterling Mechanical, Inc. (SMI), an Englewood, Colorado based engineering and design firm that provides engineering and marketing supporting heating, ventilation and air conditioning (HVAC) systems and technologies.

PowerCold Technology, LLC is a Nevada limited liability company formed on February 22, 2004 (“PCT”) to hold title to all of the Company’s intellectual property as well as licensing such intellectual property.

On December 31, 2005 PowerCold Corporation disposed of its interest in its wholly owned subsidiary, PowerCold ComfortAir Solutions, Inc., by selling the entity to its previous employees. Included in the transaction was a Technology and Trademark license agreement for Comfort Air Solutions, Inc. that will provide royalty revenue for PowerCold Corporation.

Effective January 1, 2006, three of PowerCold Corporation’s wholly owned subsidiaries, PowerCold Products, Inc., PowerCold International, Ltd. and PowerCold Energy Systems, Inc., have been terminated and the assets transferred to PowerCold Corporation. PowerCold Technology, LLC., which holds title to all the intellectual property and licensing rights of the Company, will remain a wholly owned subsidiary of PowerCold Corporation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

POWERCOLD CORPORATION
CONDENSED NOTES TO CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
MARCH 31, 2006

Accounting Method

The Company's financial statements are prepared using the accrual method of accounting.

Accounting Pronouncements - Recent

In May, 2005, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections – a Replacement of APB Opinion No. 20 and FASB Statement No. 3 ("hereinafter" "SFAS No. 154"). This statement replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Internal Financial Statements" and revises the requirements regarding accounting for and reporting a change in accounting principle. This statement requires retrospective application of the accounting change to the financial statements of prior periods, unless it is impractical to determine the period-specific effects or the cumulative effect of changing to the new accounting principle. This statement also addresses the reporting issues related to a change in accounting principle if it is impractical to determine the period-specific effects or the cumulative effect of the change. The adoption of this statement had no immediate material effect on the Company's financial condition or results of operations.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153. This statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged.

The guidance in that opinion, however, included certain exceptions to that principle. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. Management believes the adoption of this statement will have no impact on the financial statements of the Company.

In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 151, "Inventory Costs— an amendment of ARB No. 43, Chapter 4." This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not believe the adoption of this statement will have any immediate material impact on the Company.

Advertising Expenses

Advertising expenses consist primarily of costs incurred in the design, development, and printing of Company literature and marketing materials. The Company expenses all advertising expenditures as incurred. The Company's advertising expenses were \$0, \$0 and \$0 for the quarters ending March 31, 2006, 2005 and 2004, respectively. This expense is in loss from discontinued operations for 2005 and 2004.

POWERCOLD CORPORATION
CONDENSED NOTES TO CONSOLIDATED
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Bad Debts Expense

The Company estimates bad debts utilizing the allowance method, based upon past experience and current market conditions. The Company recognized \$2,034,335 of bad debts in 2005 and included this expense in loss from discontinued operations. The Company did not accrue any additional bad debt expense in the year ended December 31, 2005, or the quarter ended March 31, 2006.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid investments with original maturities of three months or less and restricted cash to be cash equivalents.

Compensated Absences

Employees of the Company are entitled to paid vacation, sick, and personal days off, depending on job classification, length of service, and other factors. The Company accrues vacation expense throughout the year. Accrued vacation payable for the quarters ended March 31, 2006 and 2005 was \$15,997 and \$5,625, respectively, and is included in accrued expenses on the Company's balance sheets.

Concentration of Credit Risk

The Company maintains its cash in several commercial accounts at major financial institutions. At March 31, 2006, the Company's cash balance in any one account did not exceed Federal Deposit Insurance Corporation (FDIC) limits and at March 31, 2005, the Company's cash balance in three accounts exceeded (FDIC) limits by \$308,193.

Accounts Receivable

Receivables from the sale of heating and air-conditioning systems for commercial properties are based on contracted prices. Allowance for doubtful accounts is based upon a quarterly review of outstanding receivables, historical collection information, and existing economic conditions. Normal receivables are due 30 days after the date of the invoice. Receivables past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. The Company's policy is not to accrue interest on trade receivables.

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs, collections and current credit conditions. As of March 31, 2006, the Company's allowance account was \$0.

Derivative Instruments

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (hereinafter "SFAS No. 149"). SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 is not expected to have a material impact on the financial position or results of operations of the Company.

POWERCOLD CORPORATION
CONDENSED NOTES TO CONSOLIDATED
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In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB No. 133," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which is effective for the Company as of January 1, 2001. These standards establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

Historically, the Company has not entered into derivatives contracts to hedge existing risks or for speculative purposes.

At December 31, 2005 and 2004, the Company has not engaged in any transactions that would be considered derivative instruments or hedging activities.

Discontinued Operations

The Company adopted SFAS No. 144 effective August 1, 2001 and reports operating results of entities disposed of during the year as discontinued operations. Assets and liabilities of certain dispositions have been restated as net assets from discontinued operations for the years ended December 31, 2003, 2004 and 2005.

Earnings Per Share

On January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income/loss available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. Although there are common stock equivalents outstanding, they were not included in the calculation of earnings per share because they would have been considered anti-dilutive for the periods presented. At December 31, 2005 and 2004, the Company had 6,940,556 and 6,180,535 potentially dilutive securities outstanding.

Fair Value of Financial Instruments

The Company's financial instruments as defined by SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," include cash, advances from related party, trade accounts receivable, accounts payable, accrued expenses and notes payable. These instruments are accounted for on the historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at December 31, 2005 and 2004.

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Goodwill

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (hereinafter "SFAS No. 141") and Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (hereinafter "SFAS No. 142"). SFAS No. 141 provides for the elimination of the pooling-of-interests method of accounting for business combinations with an acquisition date of July 1, 2001 or later. SFAS No. 142 prohibits the amortization of goodwill and other intangible assets with indefinite lives and requires periodic reassessment of the underlying value of such assets for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS No. 142. Application of the nonamortization provision of SFAS No. 142 resulted in an increase in net income of approximately \$10,000 in fiscal 2003.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statements and tax bases of assets and liabilities using statutory income tax rates in effect for the year in which the differences are expected to reverse. See Note 15.

Investment in Securities

Investments in debt and marketable equity securities are designated as trading, held to maturity, or available for sale in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Trading securities are reported at fair value, with changes in fair value included in earnings. Available for sale securities are reported at fair value, with net unrealized gains and losses included as a component of stockholders' equity. Held to maturity securities are reported at amortized cost. Gains and losses on the sale of securities are determined using the specific identification method. For all investment securities, unrealized gains and losses that are other than temporary are recognized as a component of earnings in the period incurred. Market value is determined based on quoted market prices.

Line of Credit

At December 31, 2005 the Company established a warehousing line of credit for \$500,000 and borrowed the full amount as an advance on a customer purchase. This line is conventional convertible line with zero interest as long as the line is in good standing. At March 31, 2006, the Company converted the balance plus the origination fee into 1,438,119 shares of common stock with a fair market value of \$545,000.

Patents Right and Related Technology

The cost of intellectual property purchased from others that is immediately marketable or that has an alternative future use is capitalized as intangible assets and amortized, if it has a determinable life. Capitalized costs are amortized using the straight-line method over the estimated economic life, typically ten to fifteen years, of the related asset. The Company periodically reviews its capitalized patent costs to assess recoverability based on the projected undiscounted cash flows from operations. Impairments are recognized in operating results when a permanent diminution in value occurs. Research and development are charged to operations as incurred.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, after elimination of intercompany accounts and transactions. Wholly owned subsidiaries of the Company are listed in Note 1.

POWERCOLD CORPORATION
CONDENSED NOTES TO CONSOLIDATED
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Product Warranties

The Company sold the majority of its products with one-year unconditional repair or replacement warranties. Warranty expense of \$0, \$0 and \$29,584 for the quarters ended March 31, 2006, 2005 and 2004, respectively, is included in cost of sales.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years.

Reclassification & Restatements

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the fiscal 2006 presentation. The reclassifications principally consists of revised reporting of operating results of the discontinued segment of PowerCold Comfort Air Solutions, Inc. at March 31, 2005, and at March 31, 2004. These reclassifications have resulted in no changes to the Company's accumulated deficit or net losses presented.

Restricted Cash

The Company is required pursuant to its loan agreement with Laurus to maintain \$100,000 in its lock box account at all times. As of March 31, 2006 and December 31, 2005, approximately \$83,000 was maintained in the lock box.

Revenue Recognition

The Company recognizes revenue from product sales upon shipment of our product to customers, upon fulfillment of acceptance terms, if any, when no significant contractual obligations remain and collection of the related receivable is reasonably assured. Revenue is reported net of a provision for estimated product warranties.

Stock-Based Compensation

Historically, the Company accounted for stock issued for compensation in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees." Under this standard, compensation cost is the difference between the exercise price of the option and fair market of the underlying stock on the grant date. In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," for December 31, 2003 and 2004 the Company discloses the pro forma effects on net income and earnings per share as if compensation had been measured using the "fair value method" described therein.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensations." This statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123. This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." The Company adopted this statement in 2005.

POWERCOLD CORPORATION
CONDENSED NOTES TO CONSOLIDATED
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Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 3 – GOING CONCERN

The accompanying consolidated financial statements, which contemplate continuation of the Company as a going concern, have been prepared in conformity with accounting principles generally accepted in the United States of America. At March 31, 2006, the Company had a large accumulated deficit and recurring losses from operations for each year presented. Property, equipment and intangibles comprise a material portion of the Company's assets. The recovery of these assets is dependent upon achieving profitable operations. The ultimate outcome of these uncertainties cannot presently be determined.

Management plans to exploit its proprietary applications and technology and plastic products, while focusing on growth segments of the hospitality industry, national account chain stores and restaurants. Management expects to improve its cash management by addressing past due accounts receivable through rigorous collections policy. The Company intends to raise capital through the licensing of its heat exchange technology in markets outside of North America with five and ten year licensing agreements that include annual renewal fees and royalties on sales.

NOTE 4 – RELATED PARTY TRANSACTIONS

The Company has received funding on several occasions from the Company's chairman and Simco Group, Inc, ("Simco"), a separate legal entity wholly owned by the Company's chairman. This funding is unsecured, due on demand, and memorialized by conventional debt instruments (notes).

During the year ended December 31, 2005, Simco made two loans to the Company in the total amount of \$1,507,060 payable upon demand with interest. These loans are conventional loans. During 2005, Simco was repaid \$290,700 and converted \$400,400 in loans to 616,000 shares of common stock at \$0.65 per share, the prior ten day average of the closing price on the day of conversion. Simco was issued 100,000 shares of common stock for consulting services valued at \$100,000 during 2005. In addition Simco was issued 200,000 shares of common stock for financial funding services at \$1.35 per share, the prior three day average of the closing price on the day of issuance, for a total of \$270,000, and exercised 150,000 options with an average in cash exercise price of \$0.61 per share for \$422,940.

During the year ended December 31, 2004, the Company repaid \$245,080 of a related party note to Simco. In addition, \$95,500 of consulting fees were paid to Simco in advance by issuing 106,111 shares of common stock.

NOTE 5 – INVENTORY

Inventories are stated at the lower of average cost or market. The cost of finished goods includes the cost of raw material, direct and indirect labor, and other indirect manufacturing costs.

Inventories at March 31, 2006 consist of raw materials.

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NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	March 31, 2006	December 31, 2005
Machinery and equipment	\$ 267,556	\$ 267,556
Prototypes and molds	96,850	96,850
Furniture and fixtures	85,235	85,235
Total Property and Equipment	449,641	449,841
Less Accumulated Depreciation	251,470	234,874
Net Property and Equipment	<u>\$ 198,171</u>	<u>\$ 214,967</u>

Depreciation expense for the three months ended March 31, 2006, 2005 and 2004 was \$19,135, \$36,937 and \$16,769, respectively. See Note 17 for assets included in discontinued operations.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations” (hereinafter “SFAS No. 143”). SFAS No. 143 establishes guidelines related to the retirement of tangible long-lived assets of the Company and the associated retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. The Company adopted SFAS No. 143 and the adoption did not have a material impact on the financial statements of the Company.

NOTE 7 — INTANGIBLE ASSETS

The Company’s intangible assets are summarized as follows:

	March 31, 2006	December 31, 2005
Patents and related technology	\$ 1,042,263	\$ 1,042,263
Less: Accumulated amortization	937,256	934,716
Net Intangibles Assets	<u>\$ 105,007</u>	<u>\$ 107,547</u>

Amortization expense for the three months ended March 31, 2006 and 2004 was \$57,926, \$57,926 and \$77,236, respectively.

The Company holds six patents for heat exchange and condenser technology for air conditioning, which expire 17 years from date of issue. The Company also holds a ten-year license on patented integrated piping technology, has five trademarks, and nine patents pending. See Note 17 for intangibles included in discontinued operations.

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NOTE 8 – NOTES PAYABLE AND CONVERTIBLE DEBT

Long-Term Note Payable

On July 29, 2004 the Company entered into an agreement with Laurus Master Fund, Ltd., a Cayman Islands company (“Laurus”) to borrow \$5,000,000 under a convertible term note (“note”). Under the terms of the agreement, the Company also issued common stock purchase warrants to Laurus to purchase 615,000 shares of common stock, exercisable for three years from the initial exercise date. The exercise prices of the warrants are \$2.63 for 300,000 shares and \$3.07 for the remaining shares.

The note, which matures on July 29, 2007, bears interest at the prime rate of interest plus 1 percentage point, with a minimum interest rate of 5% and a maximum rate of 8%. The note is convertible into common stock with a conversion price of \$1.87 on July 29, 2004, subject to conversion by Laurus as well as an automatic conversion. The fixed conversion price of \$1.87 per share is applicable when the PowerCold stock average closing price for the five days prior to the repayment is at or above 110% of the fixed conversion price. Conversion at less than the fixed conversion price is set at 90% of the average of the five lowest trading days in the 22 trading days prior to the conversion date. The fixed price cannot be less than \$1.10 per share. The beneficial conversion feature of this note has been recorded as additional paid-in capital of \$569,106 and as a discount to the note, amortizable over three years. At December 31, 2004, \$79,042 has been amortized. The Company also retains the right to prepay the note at 125% of the unpaid balance for 12 months from July 29, 2004; 115% of the unpaid balance for 12-24 months from July 29, 2004; and 110% of the unpaid balance after 24 months from July 29, 2004. As consideration for investment banking services in connection with the securities purchase agreement, the Company paid 4.29% of the gross proceeds to Laurus Capital Management, LLC, (an affiliate of Laurus Master Fund, Ltd), which received consideration for investment banking services in connection with the aforementioned agreement.

Laurus can convert to equity any portion of the principal balance and accrued but unpaid interest subject to certain limitations.

On March 22, 2006, the Company requested the withdrawal of its Form S-1 registration Statements (File No. 333-129658 for 5,797,995 shares of common stock, and File No. 333-115094 for 2,360,431 shares of common stock) in anticipation of a new private placement offering. No securities were sold in connection with the proposed offerings. As a result of the S-1 withdrawal, the Company no longer has the prospective option of repaying convertible debt with newly registered stock.

Accordingly, without the availability of newly registered stock, the Company’s convertible debt has reverted to conventional loans, which payment must be made in cash. The \$5,000,000 convertible note to Laurus Master Fund LTD issued on April 29, 2004 was recently partially repaid in cash at the request of Laurus as there is no newly registered common stock available for Laurus to exercise the conversion feature of its note. Laurus cannot effectively exercise its option to convert the debt and continues to be repaid in cash.

Monthly amortizing payments of the aggregate principal amount outstanding under the note began on February 1, 2005 in the amount of \$166,667 plus interest. The Company has recorded a discount on the note for deferred financing costs of \$641,500 which will be amortized over the life of the loan. Amortization expense for 2004 was \$53,460, \$213,833 and \$98,885 for the three months ended Mrch 31, 2006. The Company has recorded a discount on the note for beneficial conversion of \$569,105 which will be amortized over the life of the loan. Amortization expense at December 31, 2005 was \$189,701.

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The Company also agreed to file a registration statement within 45 days from July 29, 2004, registering the number of shares underlying the secured convertible term note and the warrants, and to have that registration statement declared effective with the Securities and Exchange Commission within 120 days from July 29, 2004. In the event that the registration statement is not declared effective by the Securities and Exchange Commission by the required deadline, the Company is obligated to pay to Laurus Master Fund 1% of the original principal amount of the convertible note, for each 30-day period, or portion thereof, during which the registration statement is not effective.

Future minimum principal payments on the note are as follows:

Year	Annual Maturity Amount
2006	\$2,000,000
2007	\$1,418,648

The Company received from Simco Group, Inc., a related party, loans of \$1,052,697 and \$1,052,697 during 2005 and 2006, respectively. The loans made in 2005 are payable upon demand with an annual interest rate of prime, as published in the Wall Street Journal, plus 1%, not to exceed 8%. \$290,700 was repaid in 2005. At March 31, 2006, the interest accrued for the loan from Simco was \$62,308. At March 31, 2006 the balance of the Notes payable to Related Party (Simco) was \$1,052,597. The interest expense, related to these loans, recorded in 2005, and 2006 is \$34,394 and \$19,200, respectively.

NOTE 9 – COMMON STOCK

Upon incorporation, the Company was authorized to issue 200,000,000 shares of its \$0.001 par value common stock.

NOTE 10 – STOCK-BASED COMPENSATION AND STOCK OPTIONS

During the year ended December 31, 2005, the Company issued 1,675,000 common stock options with an average exercise price of \$1.06 per share and a fair market value of \$315,235. These options expire from July 2008 through December 2010. The Company issued as compensation 1,025,000 options with an average exercise price of \$0.80 per share and a fair market value of \$230,357, with an exercise price from \$0.70 to of \$1.46 per share and a fair market value of \$62,000, with an exercise price from \$0.65 to \$2.50. The Company issued 150,000 common stock options for acquisitions with an exercise price of \$1.50 per share with 50,000 common stock options vested in 2005 with a fair market value of \$22,870.

The board of directors approved the exercise price of the options issued to employees to be at market value at the time of grant commencing January 2004. In prior periods, the exercise price was discounted because the stock is restricted.

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The following is a summary of the Company's open stock option plans:

Equity compensation approved by security holders	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
2002 Stock Option Plan	465,000		293,370
Total	<u>465,000</u>	\$1.50	<u>293,370</u>

During the three months ended March 31, 2006, the Company issued 185,000 for services at a fair market value of \$120,000, 277,778 shares for cash of \$125,000, 1,388,889 shares for debt repayment of \$500,000 and 169,230 shares for interest and financing expenses of \$93,901.

The Company applies APB Opinion No. 25 in accounting for options and, accordingly, recognized no compensation cost for its stock options in 2004 and 2003. The following reflects the Company's pro forma net loss and net loss per share as if the Company had determined compensation costs based upon fair market values of options at the grant date, as well as the related disclosures required by SFAS 123:

	Year Ended December 31, 2004
Net loss as reported	\$ (4,267,631)
Adjustment required by SFAS 123	(3,794,926)
Pro forma net loss	\$ (8,131,958)
Pro forma net loss per share, basic and diluted	\$ (0.40)

	Number of Shares Under Option	Weighted Average Exercise Price
Outstanding and exercisable at December 31, 2004	5,373,503	1.36
Granted	2,850,000	1.28
Exercised	(695,879)	0.61
Rescinded or expired	(1,394,100)	1.43
Outstanding at December 31, 2005	<u>6,133,524</u>	\$ <u>1.41</u>
Exercisable at December 31, 2005	<u>5,408,524</u>	\$ <u>1.36</u>

At December 31, 2005, exercise prices for outstanding options ranged from \$0.50 to \$3.50. The weighted average contractual life remaining of such options was 2.6 years.

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In accordance with Statement on Financial Accounting Standard No. 123, the fair value of the options granted was estimated using the Black-Scholes Option Price Calculation. The following assumptions were made to value the stock options:

Risk-free Interest Rate	4.25%
Expected Life	1 to 5 years
Expected Volatility	35%
Dividends Paid	-0-

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable.

In addition, option valuation models require the input of subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Some options issued have been approved by the Company's board of directors but have not been approved by the Company's shareholders. Under the 2002 Stock Option Plan, 758,370 shares were approved by the Company's board of directors and the Company's shareholders and 465,000 have been issued in accordance with the plan

NOTE 11 – DISPOSITION OF POWERCOLD COMFORAIR SOLUTIONS, INC.

During the year ended December 31, 2005, the Company elected to fully dispose of PowerCold ComfortAir Solutions, Inc. ("PCAS") and recorded costs associated from discontinued operations of \$5,000,930. The assets and liabilities disposed of from the discontinued operations of PCAS are as follows:

Account receivable	1,938,964
Other assets	8,828
Equipment, net	114,892
Intellectual property	860,000
Total Assets	<u>\$2,922,684</u>
Accounts payable	\$2,733,187
Billing in excess of costs and estimated earnings on contracts in progress	380,873
Notes payable	45,595
Total Liabilities	<u>\$3,159,655</u>

Costs associated with the disposal of PCAS were accounted for in discontinued operations.

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In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (hereinafter "SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 was issued in June 2002, effective December 31, 2002 with early adoption encouraged. The effect on the Company's financial statement of the adoption of SFAS No. 146 is reflected in discontinued operations.

NOTE 12 – RESTATEMENT OF PRIOR YEARS' FINANCIAL STATEMENTS

In accordance with generally accepted accounting principles, the financial results of the business segment discontinued (PCAS) are reported as discontinued operations.

The Company's financial results of prior periods have been reclassified to reflect the discontinued operations of PCAS in 2005. Condensed results of discontinued segments are as follows:

	March 31, 2005	March 31, 2004
Net Sales	\$ <u>1,424,770</u>	<u>2,113,228</u>
Net Income (Loss)	\$ <u>(783,536)</u>	\$ <u>(187,975)</u>

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (hereinafter "SFAS No. 144"). SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations to include a "component of an entity" (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity that is classified as held for sale, or has been disposed of, is presented as a discontinued operation if the operations and cash flows of the component will be (or have been) eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component.

The Company adopted SFAS No. 144 effective August 1, 2001. Consequently, the operating results of PCAS, which was disposed of during the year ended December 31, 2005, are included in discontinued operations.

POWERCOLD CORPORATION AND SUSIDIARIES
FORM 10-Q
March 31, 2006

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward looking statements made herein are based on current expectations of the Company that involves a number of risks and uncertainties and should not be considered as guarantees of future performance. The factors that could cause actual results to differ materially include; interruptions or cancellation of existing contracts, impact of competitive products and pricing, product demand and market acceptance risks, the presence of competitors with greater financial resources than the Company, product development and commercialization risks and an inability to arrange additional debt or equity financing. The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand PowerCold Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes ("Notes").

Our financial statements for the year ended December 31, 2005, were audited by our independent certified public accountants, whose report includes an explanatory paragraph stating that the financial statements have been prepared assuming we will continue as a going concern and that we have incurred operating losses since inception that raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements contemplate continuation of the Company as a going concern. At March 31, 2006 we had an accumulated deficit of \$27,760,066 and recurring losses from operations for each year presented. Property, equipment, accounts receivables and intangibles comprise a material portion of the Company's assets. Accounts receivable as of March 31, 2006 are \$333,117 with reported revenue for the three month period ended March 31, 2006 at \$624,959. The recovery of these assets is dependent upon the collection of outstanding receivables and achieving profitable operations. The ultimate outcome of these uncertainties cannot presently be determined. We actively seek sufficient financing to support our growth and achieve profitability. Realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company and the success of its future operations. Our plans for 2005 include concentrating on two specific proprietary applications: Central HVAC Air Condition Systems and Plastic Heat Exchange Products. During 2006 we experienced a significant growth in revenue from Plastic Heat Exchange Products. We have expended considerable capital and manpower resources developing these applications over the last two years. Subsequently, business opportunities from projects for Plastic Heat Exchange Products in 2006 support our plans going forward. We intend to raise capital through the licensing of our heat exchange technology. Exploratory discussions with several companies are underway for long term (five to ten year) nonexclusive territorial distributions rights for our patented heat exchange technology. Discussions are ongoing and no agreements have been finalized. We see this as an opportunity to capitalize upon the intellectual property of PowerCold and our ongoing R&D efforts regarding heat exchange technology for the HVAC industry. Projections regarding revenue, income, margins and cash flow should not be considered a certainty and in fact projections may not be met at all. We believe that actions presently being taken to increase sales, collect receivables and obtain additional financing as needed provide the opportunity to continue as a going concern.

OVERVIEW

PowerCold designs, develops and markets heating, ventilating and air conditioning systems (HVAC) and energy related products for commercial use. Air conditioning and refrigeration are two of the more energy intensive operational costs many businesses face. Over the past few years we have acquired and developed various technologies related to the HVAC industry and employ experienced and qualified industry professionals. Our focus is to provide HVAC turnkey solutions that are designed to reduce energy consumption and provide a clean and comfortable indoor air environment.

Future profitability is dependant upon maintaining gross profit margins in excess of 30% and execution of the company's sales and market plans to generate sufficient gross profit from sales to cover operating and financing expense. The proper management of travel, administration, warranty, legal, accounting, regulatory and other controllable expenses within the constraints of the budget is necessary for sustained profits; however, there is no guarantee that we will be able to achieve the budgeted gross margin, revenue and expense targets necessary for future profitability. Sufficient cash may not be generated from operations due to the extended payment terms required for some of our sales in order to meet our operating needs. Cash availability is a significant concern. Revenue growth strains our resources as material must be purchased, salaries paid and operating and administrative overhead supported. Future cash needs from debt or equity are dependant upon the collection of receivables and gross margins. Our primary focus is on revenue growth, improved gross margins and the timely collection of receivables.

We intend to maximize our intangible assets with continued development and marketing of new and existing products based upon our intellectual property. Accounts receivables and intangible assets comprise the material portion of our assets. Continued emphasis on more effective collection effort and accelerated project completion are expected to improve cash flow and reduce future funding needs however there are no guarantees that we will be successful in these efforts.

Our continued existence is uncertain, as there may be insufficient cash to support operations for the next twelve months. We have secured a \$5 Million convertible note with a term of three years. Accelerated collection of existing receivables will provide additional cash to fund operations but continued growth at the current pace will create a significant demand for limited funds. At present there are no immediate plans to raise more capital beyond the senior debt offering, however the cash is monitored closely and future fund raising may be necessary at some time in the future.

Products:

Nauticon Evaporative Condensers and Fluid Coolers - The Company envisions worldwide market demand for its proprietary evaporative condensing systems used in air conditioning systems. The Nauticon patented products are simple to manufacture. They are used for evaporative condensers, fluid coolers, sub-coolers, refrigeration system components and custom refrigeration products for commercial and industrial use. Nauticon products can reduce power cost in the air condition and refrigeration industry by up to 40% compared to typical, standard air cooled condensers utilized on many refrigeration and air conditioning systems smaller than 200 ton capacity. The efficiency of water cooled condenser technology is well understood in the industry and is the preferred method in large central chiller plants reducing kW per ton of cooling for chilled water air conditioning from a typical 1.08 kW/ton at a suction temperature of 45 F and condensing temperature of 130 F for air cooled condensers to 0.67 kW/ton at a suction temperature of 45 F and condensing temperature of 95 F for evaporative (water) cooled condenser, a 38% reduction in KW demand. Capacity and power consumption is estimated from data published in the ASHRAE 2004 Handbook, HVAC Systems and Equipment Handbook, Chapter 34.6, Fig. 2 Capacity and Power-Input curves for Typical Hermetic Reciprocating Compressor. Nauticon's primary advantage is energy savings, yielding EER ratings as high as 18 even as the industry, through regulation, changes to lower efficiency refrigerants. Nauticon products provide a cost effective alternative to the less energy efficient air cooled condenser typically utilized on commercial roof top refrigeration and AC units. Nauticon evaporative condenser units have beneficial features; they are free of water treatment chemicals, have self-cleaning coils that shed scale and are low-maintenance. Nauticon's primary advantage is energy savings, yielding EER ratings as high as 18 even as the industry, through regulation, changes to lower efficiency refrigerants. The industry faces serious changes for the first time in years due to energy and environmental concerns worldwide.

HVAC Systems – PowerCold owns the exclusive U.S. technology rights for an integrated piping technology system for heating, ventilating and air conditioning systems (HVAC). The significant feature of the patented HVAC system is the use of the existing pipes, as the delivery system, to provide hot and chilled water to individual fan coil units. The proprietary technology is designed to utilize the fire sprinkler piping to circulate the cooling water around the building. In addition, the domestic hot water lines also distribute heating energy.

The dual use of the piping systems provide cost effective heating and cooling from a central system with compressor-free guest rooms for the hospitality industry. The PowerCold ComfortAir system provides the precise comfort control of four-pipe air conditioning at a lower capital cost. Guest rooms offer the precise comfort of a typical four-pipe air conditioning/space heating system at a lower installed cost achieved through the dual purpose use of the fire sprinkler system to deliver chilled water and the domestic hot water system to deliver hot water for space heating to the fan coil units eliminating the need to install two additional pipes. Installation and construction costs are comparable to conventional through-the-window Package Terminal Air Conditioners (PTAC) units. The PowerCold ComfortAir System also avoids the discomfort of poor temperature/humidity control and sleepless nights from noisy compressor cycling. PowerCold's HVAC system provides energy saving and operating advantages through the integration of energy recovery and other technologies to increase efficiency and reduce operating costs.

PowerCold's Energy Efficient HVAC and Refrigeration Technologies Can Significantly Cut Peak Power Demand and Costs: Deregulated electricity during the hot summer peak-power-demand-days can cost 10-100 times more than normal. Commercial customers' demand-surcharges, which are based on their peak-power usage during the 20-30 days per year when temperatures soar to 95° + F, can represent 30-50% of their total electric bill in some parts of the country. Consequently, reducing peak power demand during these few days could significantly reduce or eliminate surcharge costs. Commercial air conditioning and refrigeration (accounting for \$7 billion of 2000's \$37 billion in peak-power demand costs) are the Company's initial target markets. America is well entrenched with air condition and refrigeration systems, but there is a great niche market for the Company's evaporative condensers and chiller products. PowerCold and its related entities have the refrigeration engineering expertise and new products to reduce energy costs for an industry that hasn't seen many changes in the last 50 - 60 years.

Significant Events During First Quarter 2006:

On January 10, 2006, The Company announced today a major restructuring of the Company to focus on growth and profits producing and marketing its proprietary plastic products.

Effective January 1, 2006, PowerCold Corporation will operate with one wholly owned subsidiary, PowerCold Technology, LLC, which will hold title to all of the intellectual property as well as licensing of such intellectual property. PowerCold Products, Inc., PowerCold International, Ltd. and PowerCold Energy Systems, Inc. have been terminated and the assets transferred to PowerCold Corporation.

On January 6, 2006, PowerCold entered into a Stock Purchase and Sale Agreement, effective December 31, 2005, for the sale of its wholly owned subsidiary, PowerCold ComfortAir Solutions, Inc. to Comfort Air Solutions, Inc., a Florida corporation that will be operated by previous employees of PowerCold ComfortAir Solutions, Inc. Included with the Agreement are a five year Technology License Agreement and Trademark License Agreement. The Company anticipates a close productive working relationship with Comfort Air Solutions, Inc., as the first licensing program in the U.S.

Comfort Air Solutions, Inc. acquired all of PowerCold's outstanding shares of PowerCold ComfortAir Solutions, Inc. common stock. The purchase price for the common stock is \$355,135.00 and shall be paid in accordance with the terms of a Promissory Note. In addition, Comfort Air Solutions, Inc. shall pay to PowerCold the greater of a Royalty Fee of Ten Percent (10%) on the Net Sales Value on the use of any and all Patents and Intellectual Property or two percent (2%) of the Net Sales Value on all sales invoices of Comfort Air Solutions, Inc., all in accordance with the terms and conditions of the Technology License Agreement.

On February 1, 2006, The company announced the opening of a new corporate sales office in Denver, Colorado. The first month of operations exceeded product sales expectations. The Company secured 29 new product orders that include: 10 Nauticon® Plastic Fluid Coolers from its Mexico distributor, 11 Nauticon® Evaporative Condensers from one of the largest HVAC companies in the world, and 9 Plastic Kits from 2 OEM cooling tower companies. In addition, the Denver office secured an HVAC Equipment Package contract for an extended care facility in Montana; included will be additional Equipment Package contracts for 3 new extended care facilities pending final contracts.

PowerCold® recently announced a reorganization on January 6, 2006. Mr. Glen Thiessen has been appointed Vice President Sales and Marketing and will supervise all sales operations from the central Denver office. Mr. Thiessen has over 30 years experience in the industry, including owning and operating his own HVAC business for 18 years. Mr. John Papastavrou has been appointed Product Sales Manager. He previously held the position of Product Manager for PowerCold Comfort Air Solutions for the past 2 years. Mr. Papastavrou will be responsible for product sales of evaporative condensers and fluid coolers to sales agents, manufacture reps and OEM companies.

On MAY 9, 2006 – The Company announced today that the Company received a major order from Grupo Termo Control, Monterrey, Mexico for thirty-nine WDFC Fluid Coolers valued over \$500,000 for seven shopping center projects in Mexico.

The recent successful installation of PowerCold® Fluid Coolers at the Galerias Monterrey Shopping Center (News Release December 13, 2005) supported Grupo Termo Control and their customers decision to install the same cooling equipment in seven other shopping centers. The cooling equipment for the shopping centers was selected based on low kw/ton cost and low water consumption. PowerCold's PlexCoil®, a newly developed proprietary heat transfer tubing/coil using DuPont™ Caltrel® engineered polymer materials (News Release October 11, 2005) is used in the WDFC Fluid Cooler. The units operate wet and dry - wet in hot weather and dry in cooler weather resulting in water savings up to 70%.

RESULTS OF OPERATIONS – First Quarter 2006

Total Revenue for the three months ended March 31, 2006 are \$624,959 up \$471,431 or 307% from \$153,528 in 2005 and up \$497,084 or 389% from 2004 for comparable prior periods. Revenue growth was driven by Plastic fluid cooler sales, equipment sales for our patented four-pipe system and engineering services sales. Gross profit for the three months ended March 31, 2006 are \$202,612, at 35.4% of revenue, and increase of 182,752 or 483% from \$37,860 in 2005, and an increase of \$193,195 or 705% from \$27,417 in 2004 for comparable prior periods. The gross profit margin was fairly uniform across all product lines. Operating Losses for the three months ended March 31, 2006 are (\$291,589) and increase of \$69,343 or 31.2% from (\$222,246) in 2005 and an increase of \$104,701 or 56% from (186,888) from 2004. High costs of investment banking and consulting services pushed operating expenses upward. It is anticipated that operating expenses will be at a more tolerable level during the remainder of the year. Net Loss for the three-month ended March 31, 2006 increased \$31,621 to (\$457,809), a 7.4% increase from (\$426,188) in 2005 and an increased of \$272,096 or 147% from 2004 for comparable prior periods.

Net Loss Per Share for the three-month period ended March 31, 2006 decreased to (\$0.02) from (\$0.05) for the same quarter of the prior year. Net loss per share was based on weighted average number of shares of 25,055,363 for the three-month period ended March 31, 2006 and 23,585,817 for the three month period ended March 31, 2005. Interest and financing expense decreased 12.4% to \$180,480 as compared to the first quarter of 2005.

PowerCold's production facility has continued to improve its operations with an emphasis on cost reduction programs based on new sales initiatives focused on volume markets for Fluid Coolers and Evaporative Condensers. New marketing programs related to the new plastic products have been implemented with direct emphasis the newly designed wet/dry fluid coolers that use DuPont's Caltrel® plastic tubing.

The Company's Consolidated Balance Sheet as of the first quarter ended March 31, 2006 compared to year ending December 31, 2005:

For the first quarter ended March 31, 2006, total current assets decreased 7% to \$900,116 from \$967,381 and total assets decreased 5.5% to \$1,473,296 from \$1,559,696 for the year ending December 31, 2005. Total Current Liabilities decreased 5.9% to \$4,400,444 for the first quarter ended March 31, 2006 compared to \$4,675,702 for the year ending December 31, 2005. Total liabilities at March 31, 2006 increased to \$5,485,759 with a resultant negative total stockholders' equity of (\$4,012,463), a decrease of \$522,191 as compared to (\$4,534,654) for the year ending December 31, 2005.

Inventory decreased 59.9% to \$25,654 from the year ended December 31, 2005 due to increased demand for Nauticon Fluid Coolers, Evaporative Condensers and the new Plastic coil product ramp up.

Status of Operations: We intend to continue to utilize and develop our intangible assets. At March 31, 2006, intangible assets comprised 7.1% of our total assets. The recovery of these intangible assets is dependent upon achieving profitable operations. It's our opinion that the cash flow generated from current intangible assets is not impaired, and that recovery of its intangible assets, upon which profitable operations will be based, will occur. We believe that our working capital is insufficient to support its growth plans for 2006.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The company, at the present time, has no exposure to market risk sensitive instruments entered into for trading purposes and instruments related to interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market risks, such as equity price risk.

ITEM 4. CONTROLS AND PROCEDURES

QUARTERLY EVALUATION OF THE COMPANY'S DISCLOSURE CONTROLS AND INTERNAL CONTROLS.

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods. As of the end of the period covered by this report, PowerCold's Chief Executive Officer (CEO) and PowerCold's Chief Financial Officer (CFO) evaluated, with the participation of PowerCold's management, the effectiveness of the Company's disclosure controls and procedures. Based on the evaluation, which disclosed no significant deficiencies or material weaknesses, PowerCold's Principal Executive and Principal Financial Officer each concluded that the Company's disclosure controls and procedures are effective. There were no changes in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter that may have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CEO and CFO CERTIFICATIONS

Appearing immediately following the Signatures section of this Quarterly Report there are two separate forms of "Certifications" of the CEO. The second form of Certification is required in accord with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certification). This section of the Quarterly Report, which you are currently reading is the information concerning the Controls Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS.

Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (Exchange Act), such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal Controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS.

The Company's management, including the CEO and CFO, does not expect that our Disclosure Controls or our Internal Controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Further, 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 the realities 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 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

PowerCold ComfortAir Solutions and PowerCold Products is also named as a Defendant in an action for recovery of \$37,708.25 in a suit filed by Nickson's Machine Shop against Alturdyne Energy Systems (a California company) for repair work for two engine drive chiller sold by Alturdyne to Grapetech Winery Solutions a division of Nickson's Machine Shop. PowerCold Products provided materials and packaging. The contract for the equipment purchase was between Alturdyne Energy Systems and Grapetech Winery Solutions. PowerCold is negotiating an equitable settlement for a release from this action by Nickson's Machine Shop. The suit was filed on January 25, 2005 in the Superior Court of California, County of Santa Barbara, Santa Maria, CA, Cook Division, Case No. 1171633. Service was acknowledged on February 7, 2005 for PowerCold ComfortAir Solutions and February 17, 2005 for PowerCold Products, Inc. As of April 3, 2006 a settlement offer has been reached in the amount of \$50,000.

PowerCold ComfortAir Solutions, Inc., filed suit against Compass Group, Inc. (a General Contractor), Centennial Insurance Company, Florida Community Bank and Sea-Wall Motor Lodge, Inc in the Circuit Court, Seventh Judicial Circuit for St. Johns County, Florida – Case No.CA04-525 Division 55 on October 11, 2004; for damages for breach of bond contract including cost overruns for change orders and failure to pay for equipment and services provided in excess of \$15,000 and attorney's fees. In addition PowerCold has placed a construction lien on the property seeking payment of \$91,675.80 in unpaid and past due receivables on a contract of \$285,579.00 after the first change order. Additional sums may become due in the future.

PowerCold ComfortAir Solutions, Inc., filed suit against Takagi USA, Inc. for damages related to defective products sold to PowerCold ComfortAir Solutions, Inc. in Circuit Court in Pinellas County, Florida – Case No. 04-7819-CI-13 on November 2, 2004 for damages in excess of \$160,000 and attorney's fee. As of August 13, 2005 discovery between the parties is proceeding and mediation has been scheduled with the court on October 12, 2005.

PowerCold ComfortAir Solutions, Inc. had filed a claim with Mid-Continent Casualty Company against Bond No.BD-89172 for the Project: CO; Wingate Inn, Principal: TDC/Bass Joint Venture, LLC in the amount of \$195,882.10 which was acknowledged on September 24, 2004. As of April 25, 2005 no resolution regarding payment has been reached and PowerCold is moving forward with mediation, arbitration or litigation in the appropriate venue in Colorado.

PowerCold Corporation produced a demand letter on February 25, 2005, through its attorney, in the amount of \$128,589.50 due by March 15, 2005, regarding claims against Industrias Polaris, S.A. for costs incurred for defective product, the return of advance payments for product never delivered and \$2,000 for attorney fees in regards to the material breach of the manufacturing agreement between PowerCold and Polaris. Polaris has engaged counsel in Texas and initiated discussions. Pending failure to comply with the demand for payment or an appropriate settlement offer, arbitration as stipulated in the manufacturing agreement, will be pursued. Prior to July 26, 2005 Polaris had agreed to a settlement proposal but has failed to execute the agreement. We have instructed our attorney to proceed with binding arbitration in Texas.

It is the opinion of management that the three matters in which PowerCold is a defendant will not have a materially adverse effect on the Company as third party engineering designs are believed to be the cause of the problems and not our equipment.

We are vigorously defending these matters, however the company has reserved \$64,000 for settlement in the unresolved actions where PowerCold is the defendant. .

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

Reports on Form 8-K relating to the quarter ended March 31, 2006:

- 8 –K January 6, 2006 - Registrant restructured its subsidiary operations
- 8 –K January 10, 2006 - Registrant engaged Flagstone Securities
- 8 –K January 30, 2006 – New officer and Board Advisor, and resignation of officer

Item 6. Exhibits.

<u>No.</u>	<u>Description</u>
Exhibit 31.1	Certification of Francis L. Simola, President and Chief Executive Officer pursuant to 18 U.S.C. 1350.
Exhibit 31.2	Certification of Grayling Hofer, Chief Financial Officer pursuant to 18 U.S.C. 1350.
Exhibit 32.1	Certification of Francis L. Simola, President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Grayling Hofer, Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POWERCOLD CORPORATION

/S/ Francis L. Simola

Francis L. Simola
President and CEO

Date: May 15, 2006

Exhibit 31.1

CERTIFICATION

I, Francis L. Simola, certify that:

- (1) I have reviewed this Form 10-Q of PowerCold Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of PowerCold Corporation as of, and for, the periods presented in this report;
- (4) PowerCold Corporation's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for PowerCold Corporation and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PowerCold Corporation, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of PowerCold Corporation's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in PowerCold Corporation's internal control over financial reporting that occurred during PowerCold Corporation's most recent fiscal quarter (PowerCold Corporation's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, PowerCold Corporation's internal control over financial reporting; and
- (5) PowerCold Corporation's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PowerCold Corporation's auditors and the audit committee of PowerCold Corporation's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PowerCold Corporation's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PowerCold Corporation's internal control over financial reporting.

Date: May 15, 2006

/s/ Francis L. Simola

Francis L. Simola

Chairman, President and CEO

CERTIFICATION

I, Grayling Hofer, certify that:

- (1) I have reviewed this Form 10-Q of PowerCold Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of PowerCold Corporation as of, and for, the periods presented in this report;
- (4) PowerCold Corporation's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for PowerCold Corporation and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PowerCold Corporation, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of PowerCold Corporation's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in PowerCold Corporation's internal control over financial reporting that occurred during PowerCold Corporation's most recent fiscal quarter (PowerCold Corporation's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, PowerCold Corporation's internal control over financial reporting; and
- (5) PowerCold Corporation's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PowerCold Corporation's auditors and the audit committee of PowerCold Corporation's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PowerCold Corporation's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PowerCold Corporation's internal control over financial reporting.

Date: May 15, 2006

/s/ Grayling Hofer
Grayling Hofer
Chief Accounting Officer
Principal Financial Officer

CERTIFICATION PURSUANT TO THE SARBANES-OXLEY ACT
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Francis L. Simola, Chairman, President and CEO of PowerCold Corporation (the “Company”) do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. This Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2005 as filed with the Securities and Exchange Commission (the “report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: Date: May 15, 2006

/s/ Francis L. Simola

Francis L. Simola

Chairman, President and CEO

CERTIFICATION PURSUANT TO THE SARBANES-OXLEY ACT
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Grayling Hofer, Chief Accounting Officer and Principal Financial Officer of PowerCold Corporation (the “Company”) do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. This Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2005 as filed with the Securities and Exchange Commission (the “report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2006

/s/ Grayling Hofer
Grayling Hofer
Chief Accounting Officer
Principal Financial Officer