

POWER EFFICIENCY CORP

Form 10QSB

August 13, 2007

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-QSB**

**☐ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended: June 30, 2007**

**OR**

**○ TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 0-31805**

**POWER EFFICIENCY CORPORATION**

**(Exact Name of Small Business Issuer as Specified in its Charter)**

**Delaware**

**(State or Other Jurisdiction of  
Incorporation or Organization)**

**22-3337365**

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

**3960 Howard Hughes Pkwy, Ste 460**

**Las Vegas, NV 89169**

**(Address of Principal Executive Offices)**

**(702) 697-0377**

**(Issuer's Telephone Number,  
Including Area Code)**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the Company 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 Company is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ○ No ☐

The number of shares outstanding of the Issuer's Common Stock, \$.001 par value, as of July 31, 2007 was 38,516,676.  
Transitional Small Business Disclosure Format (check one): Yes ○ No ☐

---

**POWER EFFICIENCY CORPORATION  
FORM 10-QSB INDEX**

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

Condensed Balance Sheet as of June 30, 2007 3

Condensed Statements of Operations for the three months ended June 30, 2007 and 2006 and six months ended June 30, 2007 and 2006 4

Condensed Statements of Cash Flows for the six months ended June 30, 2007 and 2006 5

Notes to Condensed Financial Statements 6-9

ITEM 2. Management's Discussion and Analysis Or Plan of Operation 10-13

ITEM 3. Controls and Procedures 13

Part II OTHER INFORMATION

ITEM 1. Legal Proceedings 14

ITEM 2. Changes in Securities and Use of Proceeds 14

ITEM 3. Defaults Upon Senior Securities 14

ITEM 4. Submission of Matters to a Vote of Security Holders 14

ITEM 5. Other Information 15

ITEM 6. Exhibits and Reports on Form 8-K 15

Signatures 16

EXHIBIT 10.1

EXHIBIT 31.1

EXHIBIT 31.2

EXHIBIT 32.1

EXHIBIT 32.2

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

**POWER EFFICIENCY CORPORATION**  
**CONDENSED BALANCE SHEET**  
 Unaudited

	June 30, 2007
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash	\$ 1,381,514
Accounts receivable, net	166,975
Accounts receivable, other	20,000
Inventory, net of reserve	91,316
Prepaid expenses and other current assets	44,320
<b>Total Current Assets</b>	<b>1,704,125</b>
PROPERTY AND EQUIPMENT, Net	100,852
<b>OTHER ASSETS:</b>	
Patents, net	40,242
Deposits	38,611
Goodwill	1,929,963
Inventory - long term, net	30,439
Deferred financing costs, net	4,491
<b>Total Other Assets</b>	<b>2,043,746</b>
<b>Total Assets</b>	<b>\$ 3,848,723</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable and accrued expenses	\$ 574,928
Accrued salaries and payroll taxes	47,970
<b>Total Current Liabilities</b>	<b>622,898</b>
<b>LONG TERM LIABILITES</b>	
Notes payable - 2008, net	1,554,990
<b>Total Liabilities</b>	<b>2,177,888</b>

STOCKHOLDERS EQUITY:

Series A-1 Convertible Preferred Stock, \$.001 par value, 10,000,000 shares authorized, none issued or outstanding

Common stock, \$.001 par value, 140,000,000 shares authorized, 38,516,676 issued and outstanding

Additional paid-in capital

Accumulated deficit

38,517

26,309,663

(24,677,345)

Total Stockholders Equity

1,670,835

Total Liabilities and Stockholders Equity

\$ 3,848,723

**Accompanying notes are an integral part of the financial statements**

3

---

**Table of Contents**

**POWER EFFICIENCY CORPORATION**  
**CONDENSED STATEMENTS OF OPERATIONS**  
Unaudited

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
REVENUES	\$ 230,195	\$ 44,390	\$ 266,810	\$ 68,734
COST OF SALES	153,705	36,091	188,344	64,095
GROSS MARGIN	76,490	8,299	78,466	4,639
COSTS AND EXPENSES:				
Research and development	138,091	123,970	232,803	220,626
Selling, general and administrative	620,526	756,815	1,295,981	1,645,940
Depreciation and amortization	11,611	7,872	20,586	14,344
Total Costs and Expenses	770,228	888,657	1,549,370	1,880,910
LOSS FROM OPERATIONS	(693,738)	(880,358)	(1,470,904)	(1,876,271)
OTHER INCOME (EXPENSE):				
Interest income	12,800	620	25,120	4,338
Interest expense	(156,694)	(813,893)	(313,591)	(950,379)
Total Other Expenses, net	(143,894)	(813,273)	(288,471)	(946,041)
NET LOSS	\$ (837,632)	\$ (1,693,631)	\$ (1,759,375)	\$ (2,822,312)
BASIC AND FULLY DILUTED LOSS PER COMMON SHARE	\$ (0.02)	\$ (0.07)	\$ (0.05)	\$ (0.12)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, BASIC	38,516,676	23,708,391	37,645,746	23,674,848

**Accompanying notes are an integral part of the financial statements**

**Table of Contents**

**POWER EFFICIENCY CORPORATION**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
Unaudited

	<b>For the six months ended June</b>	
	<b>30,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,759,375)	\$ (2,822,312)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	20,586	14,344
Loss on disposal of property and equipment		586
Amortization of deferred financing costs	6,737	36,624
Bad debt expense		13,414
Debt discount related to issuance of debt securities	158,087	813,872
Warrants and options issued in connection with the issuance of debt securities, and to employees and consultants	360,503	596,085
Common stock issued for consulting services		90,000
Changes in assets and liabilities:		
Accounts receivable, net	(134,783)	6,025
Accounts receivable, other	(20,000)	
Inventory	35,097	(27,325)
Prepaid expenses and other assets	19,222	21,137
Deposits	(4,736)	(33,875)
Accounts payable and accrued expenses	37,793	(78,738)
Accrued salaries and payroll taxes		(7,706)
<b>Net Cash Used for Operating Activities</b>	<b>(1,280,869)</b>	<b>(1,377,869)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(44,886)	(67,169)
<b>Net Cash Used for Investing Activities</b>	<b>(44,866)</b>	<b>(67,169)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of equity securities	1,024,796	
Payments on notes payable	(11,111)	(16,667)
Proceeds from line of credit related party		600,000
Payments to former officers		(25,112)
<b>Net Cash Provided by Financing Activities</b>	<b>1,013,685</b>	<b>558,221</b>
Decrease in cash	(312,070)	(886,817)
Cash at beginning of period	1,693,584	1,009,120

Cash at end of period	\$ 1,381,514	\$ 122,303
-----------------------	--------------	------------

**Accompanying notes are an integral part of the financial statements**

5

---



**Table of Contents**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying financial statements have been prepared by the Company, without an audit. In the opinion of management, all adjustments have been made, which include normal recurring adjustments necessary to present fairly the condensed financial statements. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the operating results for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The Company believes that the disclosures provided are adequate to make the information presented not misleading. These unaudited condensed financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's Annual Report for the year ended December 31, 2006 on Form 10-KSB, Form SB-2 and Post Effective Amendment No. 2 to Form SB-2. The preparation of condensed financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 GOING CONCERN**

The accompanying financial statements have been prepared assuming the Company is a going concern, which assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company suffered recurring losses from operations, a recurring deficiency of cash from operations, including a cash deficiency of approximately \$1,281,000 from operations for the six months ended June 30, 2007, and lacks sufficient liquidity to continue its operations.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount of liabilities that might be necessary should the Company be unable to continue in existence. Continuation of the Company as a going concern is dependent upon achieving profitable operations in the long-term and raising additional capital to support existing operations for at least the next twelve months. Management's plans to achieve profitability include developing new products, obtaining new customers and increasing sales to existing customers.

**NOTE 3 ACCOUNTS RECEIVABLE, OTHER**

On March 19, 2007, the Company reached an agreement with GE Fanuc Automation North America, Inc. ( GE ) for the Company to cease using its Power Genius name for its products. As consideration, GE agreed to pay the Company a total of \$20,000 in cash. Such amount was used to decrease expenses related to advertising, website development and legal fees related to the trademark.

**Table of Contents**

**NOTE 4 NOTES PAYABLE**

On November 30, 2006, the Company entered into a financing transaction in which the Company issued \$2,000,000, before discount, of its two year, senior, secured promissory notes (collectively the Notes, individually a Note). The Notes bear interest of 15% per annum. Interest due under the Notes is payable quarterly, with the principal and final quarterly interest payment becoming due November 30, 2008. The Notes have a first priority security interest in all of the assets of the Company. Upon the occurrence of an Event of Default (as defined in the Note, included herein as an exhibit) the holder may, upon written notice to the Company, elect to declare the entire principal amount of the Note then outstanding together with accrued unpaid interest thereon due and payable. Upon receipt of such notice, the Company shall have seven business days to cure the Event of Default, and if uncured on the eighth business day, all principal and interest shall become immediately due and payable. The Company also issued with 2,500,000 warrants (the Debt Warrants) to purchase common stock of the Company to the holders of the Notes. The Debt Warrants have a per share exercise price of \$0.40 and expire November 29, 2011. 1,250,000 of the Debt Warrants are exercisable immediately, with the remaining 1,250,000 Debt Warrants becoming exercisable in equal amounts over 24 months beginning December 29, 2006. The common stock issuable upon exercise of the Debt Warrants has piggyback registration rights, and can be included in the Company's next registration statement. The Debt Warrants have a cashless exercise provision, but only if the registration statement on which the common stock issuable upon exercise of the Debt Warrants is not then effective.

The \$2,000,000 loan consisted of \$550,000 from Steven Strasser, the Company's Chairman, Chief Executive Officer and the Company's largest beneficial shareholder, \$200,000 from Commerce Energy Group, Inc, the Company's second largest shareholder prior to the Offering, and \$1,250,000 from individual investors. \$1,450,000 of these Notes came from the exchange of existing promissory notes of the Company.

The Company's previously issued notes, including \$1,464,306 issued on October 27, 2004, \$125,000 issued on February 24, 2005 (collectively the Pali Notes) and \$1,500,000 issued to EMTUCK, were paid off and such paid off note holders no longer hold a security interest in the Company's assets.

**NOTE 5 COMMITMENTS AND CONTINGENCIES**

**Leases:**

On July 1, 2007, the Company began leasing a research and development facility in Las Vegas, Nevada. The lease includes a payment of \$1,995 per month, which does not include cleaning, utilities, phone or internet service. The term of the lease is three years and one month.

**Table of Contents**

**NOTE 6 CONSULTING AGREEMENTS**

On March 21, 2007, the Company entered into a consulting agreement with a product manager. The term of this agreement is for two years and calls for the product manager to assist the company in product development and marketing. For his services, the Company agreed to pay the product manager \$6,250 per month, due on the 1<sup>st</sup> of each month, as well as 400,000 stock options, which vest over the term of the agreement. In addition, the Company will reimburse all reasonable and necessary expenses incurred by the product manager. The agreement contains confidentiality and non-competition provisions. Each party has the right to cancel this agreement upon 30 days written notice. On April 11, 2007, the Company and the product manager mutually agreed to terminate this agreement. All options issued in connection with this agreement to the product manager were cancelled as of April 11, 2007.

On June 9, 2007, the Company amended its consulting agreement with its Senior Technical Advisor, who is also a Director of the Company. The agreement, which previously expired on June 9, 2007, was amended and now expires on June 9, 2009 and calls for the advisor to continue providing Senior Technical Advisory services as defined in the original agreement. For his continued services, the Company agreed to issue the advisor 1,000,000 stock warrants, which will vest upon the date the United States Patent and Trademark Office grants the Company a patent where the advisor is listed as an inventor, or the date when the Company undergoes a Change in Control as defined in the warrant, whichever is earlier.

**NOTE 7 ACCOUNTING FOR SHARE BASED PAYMENTS**

Beginning in 2006, the Company is accounting for employee stock options as compensation expense, in accordance with SFAS No. 123R, Share Based Payments. SFAS No. 123R requires companies to expense the value of employee stock options and similar awards, and applies to all outstanding and vested stock-based awards.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. The impact of applying SFAS No. 123R approximated \$360,000 in additional compensation expense during the first and second quarters of 2007 and \$522,000 during the first and second quarters of 2006. Such amount is included in selling, general and administrative expense and research and development expenses on the statement of operations. Shown in the table at the end of this note are the Company's operations on an unaudited, pro forma basis with non-cash compensation and non-cash interest expense stated separately.

**Table of Contents**

	<b>For the six months ended June 30</b>	
	<b>(Unaudited)</b>	
	2007	2006
Total Revenues	\$ 266,693	\$ 68,734
Total Cost of Product Revenues	188,344	64,095
Gross Margin	78,466	4,639
Costs and Expenses:		
Research and development	211,179	220,626
Selling, general and administration	957,102	959,855
SFAS 123 stock option expense*	360,503	521,655
Other non-cash consideration*		164,430
Depreciation and amortization	20,586	14,344
Total Costs and Expenses	1,549,370	1,880,910
Loss From Operations	(1,470,904)	(1,876,271)
Other (Expense) Income:		
Cash interest (expense) income, net	(130,384)	(132,169)
Non-cash interest (expense) income, net*	(158,087)	(813,872)
Total Other (Expense) Income	(288,471)	(946,041)
Net Loss	\$ (1,759,375)	\$ (2,822,312)
*Sum of non-cash compensation and non-cash interest expense	518,590	1,499,957
Net Loss excluding non-cash compensation and non-cash interest	\$ (1,240,785)	\$ (1,322,355)

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION  
OVERVIEW**

The Company generates revenues from a single business segment: the design, development, marketing and sale of proprietary solid state electrical components designed to reduce energy consumption in alternating current induction motors.

The Company began generating revenues from sales of its patented line of motor controllers in late 1995. As of June 30, 2007, the Company had total stockholders' equity of \$1,670,818 primarily due to (i) the Company's sale of 12,950,016 shares of common stock in a private stock offering from November of 2006 through March of 2007, (ii) the Company's sale of 14,500,000 shares of common stock in a private stock offering in July and August of 2005, (iii) the Company's sale of 2,346,233 shares of Series A-1 Convertible Preferred Stock to Summit Energy Ventures, LLC in June of 2002 and (iv) the conversion of notes payable of approximately \$1,047,000 into 982,504 shares of Series A-1 Convertible Preferred stock in October of 2003.

**RESULTS OF OPERATIONS: FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006.  
REVENUES**

Total revenues for the three months ended June 30, 2007 were approximately \$230,000, compared to \$44,000 for the three months ended June 30, 2006, an increase of \$186,000 or 423%. This increase is mainly attributable to an increase in sales in the elevator and escalator market segment. Specifically, sales to a local transit authority, for the use on elevators and escalators, totaled approximately \$150,000 during the three months ended June 30, 2007. No such sales occurred during the three months ended June 30, 2006.

Total revenues for the six months ended June 30, 2007 were approximately \$267,000, compared to \$69,000 for the six months ended June 30, 2006, an increase of \$198,000 or 287%. This increase is mainly attributable to an increase in sales in the elevator and escalator market segment as described above.

**COST OF SALES**

Total manufacturing cost of product revenues, which includes material, direct labor, and overhead for the three months ended June 30, 2007 were approximately \$154,000, compared to \$36,000 for the three months ended June 30, 2006, an increase of \$118,000 or 328%. As a percentage of sales, total cost of sales decreased to approximately 67% of revenue for the three months ended June 30, 2007, compared to approximately 82% of revenue for the three months ended June 30, 2006. The decrease in the costs as a percentage of sales was primarily due to the sale of higher priced units resulting in higher margins. Also, overhead costs were \$2,800 for the three months ended June 30, 2007 compared to \$3,700 for the three months ended June 30, 2006. Overhead costs as a percentage of sales decreased due to higher sales volumes in the second quarter of 2007. Material and labor costs as a percentage of sales decreased to 65% for the three months

**Table of Contents**

ended June 30, 2007, compared to 73% for the three months ended June 30, 2006. This decrease was largely due to the sale of higher priced units resulting in higher margins.

Total manufacturing cost of product revenues, which includes material and direct labor and overhead for the six months ended June 30, 2007 were approximately \$188,000 compared to approximately \$64,000 for the six months ended June 30, 2006, an increase of \$124,000 or 194%. As a percentage of sales, total cost of sales decreased to approximately 71% for the six months ended June 30, 2007 compared to approximately 93% for the six months ended June 30, 2006. The decrease in the costs as a percentage of sales was primarily due to the sale of higher priced units resulting in higher margins. Also, overhead costs were \$5,700 for the six months ended June 30, 2007 compared to \$5,700 for the six months ended June 30, 2006. Overhead costs as a percentage of sales decreased due to higher sales volumes in the first six months of 2007.

**OPERATING EXPENSES**

**Research and Development Expenses**

Research and development expenses were approximately \$138,000 for the three months ended June 30, 2007, as compared to approximately \$124,000 for the three months ended June 30, 2006, an increase of \$14,000 or 11%. This increase is mainly attributable to the Company's continued research and development efforts on its digital controller for both its single-phase and three-phase products, including additional personnel in the Company's research and development department, which resulted in higher salaries and related payroll costs.

Research and development expenses were approximately \$233,000 for the six months ended June 30, 2007, as compared to approximately \$221,000 for the six months ended June 30, 2006, an increase of \$12,000 or 5%. This increase is mainly attributable to the Company's continued research and development efforts on its digital controller for both its single-phase and three-phase products, including additional personnel in the Company's research and development department, which resulted in higher salaries and related payroll costs.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses were approximately \$621,000 for the three months ended June 30, 2007, as compared to \$757,000 for the three months ended June 30, 2006, a decrease of \$136,000 or 18%. The decrease in selling, general and administrative expenses over the prior year was due primarily to a decrease in payroll and payroll related costs, including SFAS 123R expenses (see Note 7 to the condensed financial statements), and to decreases in financing costs.

Selling, general and administrative expenses were approximately \$1,296,000 for the six months ended June 30, 2007, as compared to \$1,646,000 for the six months ended June 30, 2006, a decrease of \$350,000 or 21%. The decrease in selling, general and administrative expenses over the prior year was due primarily to a decrease in payroll and payroll related costs, including SFAS 123R expenses (see Note 7 to the condensed financial statements), and to decreases in financing costs.

**Table of Contents**

Interest expense was approximately \$157,000 for the three months ended June 30, 2007, as compared to \$814,000 for the three months ended June 30, 2006, a decrease of 657,000 or 81%. The decrease in interest expense is primarily related to a non-cash finance charge related to the value of stock warrants issued in connection with a line of credit, recorded in 2006. Total non-cash interest expense for the three months ended June 30, 2007 and 2006 was approximately \$78,000 and \$755,000, respectively.

Interest expense was approximately \$313,000 for the six months ended June 30, 2007, as compared to \$950,000 for the six months ended June 30, 2006, a decrease of \$637,000 or 67%. The decrease in interest expense is primarily related to a non-cash finance charge related to the value of stock warrants issued in connection with a line of credit, recorded in 2006. Total non-cash interest expense for the six months ended June 30, 2007 and 2006 was approximately \$158,000 and \$814,000, respectively.

**Financial Condition, Liquidity, and Capital Resources: For the Six Months Ended June 30, 2007 and 2006**

Since inception, the Company has financed its operations primarily through the sale of its equity and debt securities and using available bank lines of credit. As of June 30, 2007, the Company had cash of \$1,381,514.

Cash used for operating activities for the six months ended June 30, 2007 was \$1,280,869, which consisted of: a net loss of \$1,759,375; less depreciation and amortization of \$20,586, amortization of deferred financing costs of \$6,737, amortization of debt discount related to the issuance of debt securities of \$158,087, and warrants and options issued in connection with the issuance of debt securities and to employees and consultants of \$360,503; offset by increases in trade accounts receivable of \$134,783, other accounts receivable of \$20,000 and deposits of \$4,736, and decreases in inventory of \$35,097, prepaid expenses and other assets of \$19,222, and accounts payable and accrued expenses of \$37,793.

Cash used for operating activities for the six months ended June 30, 2006 was \$1,377,869, which consisted of: a net loss of \$2,822,312; less depreciation and amortization of \$14,344, loss on the disposal of equipment of \$586, amortization of deferred financing costs of \$36,624, bad debt expense of \$13,414, amortization of debt discount related to the issuance of debt securities and notes payable of \$813,872, warrants and options issued in connection with the issuance of debt securities and to employees and consultants of \$596,085, and common stock issued in connection with consulting services of \$90,000; offset by increases in inventory of \$27,325 and deposits of \$33,875, and decreases in accounts receivable of \$6,025, prepaid expenses and other assets of \$21,137, accounts payable and accrued expenses of \$78,738, and accrued salaries and payroll taxes of \$7,706.

Net cash used for investing activities for the six months ended June 30, 2007 was \$44,886, compared to \$67,169 for the six months ended June 30, 2006. The amounts for both periods consisted of the purchase of fixed assets.

Net cash provided by financing activities for the six months ended June 30, 2007 was \$1,013,685, which consisted of the proceeds from the issuance of equity securities of \$1,024,796, offset by repayments of notes payable of \$11,111.

**Table of Contents**

Net cash provided by financing activities for the six months ended June 30, 2006 was \$558,221, which consisted of: proceeds from a line of credit of \$600,000, offset by repayments on notes payable of \$16,667, and repayments on loans to former officers of \$25,112.

The Company expects to experience growth in its operating expenses, particularly in research and development and selling, general and administrative expenses, for the foreseeable future in order to execute its business strategy. As a result, the Company anticipates that operating expenses will constitute a material use of any cash resources.

Since capital resources are insufficient to satisfy the Company's liquidity requirements, management intends to sell additional equity or debt securities. The Company believes it can raise additional funds through private placements of equity or debt. However, there are no assurances that sufficient capital can be raised.

**Cash Requirements and Need for Additional Funds**

The Company anticipates a substantial need for cash to fund its working capital requirements. In accordance with the Company's prepared expansion plan, it is the opinion of management that approximately \$3.0 - \$3.6 million will be required to cover operating expenses, including, but not limited to, the development of the Company's next generation products, marketing, sales and operations during the next twelve months. In addition, the Company has debt securities maturing in November 2008.

When its operations require additional financing, if the Company is unable to obtain it on reasonable terms, the Company will be forced to restructure, file for bankruptcy or cease operations. Management's plans to achieve profitability include developing new products, obtaining new customers and increasing sales to existing customers. Management is seeking to raise additional capital through equity issuance, debt financing or other types of financing. However, there are no assurances that sufficient capital will be raised.

**ITEM 3. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures.** Under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in the Company's Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Changes in Internal Controls.** There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. Accordingly, no corrective actions were required or undertaken.



**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Company held its 2007 Annual Meeting of Stockholders on June 8, 2007 in Las Vegas, Nevada.

At the 2007 Annual Meeting of Stockholders, the stockholders elected the following individuals as directors, to serve until the 2008 Annual Meeting of Stockholders, and until their successors are elected and qualified:

Name	Votes For	Votes Withheld
Steven Strasser	23,782,114	324,818
John (BJ) Lackland	23,954,114	152,818
Raymond J. Skiptunis	24,087,114	19,818
George Boyadjieff	24,062,114	44,818
Douglas M. Dunn	24,087,114	19,818
Richard Morgan	24,088,413	18,518
Gary Rado	24,088,414	18,518

Also, at the 2007 Annual Meeting of Stockholders, the stockholders:

Approved the ratification of the appointment of Sobel & Co., LLC as the Company's independent registered public accounting firm for the year ended December 31, 2007. There were 23,800,901 votes cast for the ratification, 16,031 votes cast against the ratification and 290,000 abstentions;

Approved the amendment of the Company's Certificate of Incorporation, as amended, to increase the amount of the Company's authorized common stock from one hundred ten million (110,000,000) to one hundred fifty million (150,000,000). There were 23,736,358 votes cast for the amendment, 337,238 votes cast against the amendment, and 33,336 abstentions;

Approved the amendment of the Company's 2000 Stock Option and Restricted Stock Plan by striking Section 10.2(b) of the Plan in its entirety. There were 16,740,476 votes cast for the amendment, 371,990 votes cast against the amendment, and 19,000 abstentions.

**Table of Contents**

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

Number	Description of Document
10.1	Consulting Agreement amendment with George Boyadjieff, dated June 9, 2007, filed herewith.
10.2	Consulting Agreement with George Boyadjieff, dated June 9, 2005; incorporated by reference to Exhibit 10.54 to the Company's Form 10-KSB filed on March 31, 2006
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification by the Chief Executive Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification by the Chief Financial Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

(b) Reports on Form 8-K.

On May 16, 2007, the Company filed a current report on Form 8-K reporting an Item 2 event. The Item 2 event involved the reporting of results of operations and financial conditions.

On June 14, 2007, the Company filed a current report on Form 8-K reporting an Item 5 and an Item 8 event. The Item 5 event involved the appointment of the Treasurer of the Company. The Item 8 event involved the reporting of the results of the Company's 2007 Annual Meeting of Stockholders.

**Table of Contents**

**SIGNATURES**

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

POWER EFFICIENCY CORPORATION

Date: August 13, 2007

By: /s/ Steven Strasser  
Chief Executive Officer

Date: August 13, 2007

By: /s/ John Lackland  
Chief Financial Officer (Principal  
Financial and  
Accounting Officer)

**Table of Contents**

EXHIBIT INDEX

Exhibit No.	Description
10.1	Consulting Agreement amendment with George Boyadjieff, dated June 9, 2007, filed herewith.
10.2	Consulting Agreement with George Boyadjieff, dated June 9, 2005; incorporated by reference to Exhibit 10.54 to the Company's Form 10-KSB filed on March 31, 2006
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification by the Chief Executive Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification by the Chief Financial Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.