POWER EFFICIENCY CORP
Form 10QSB/A
September 09, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB (AMENDMENT NO. 1)

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2001

( ) 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 Registrant as specified in its charter)

Delaware	22-3337365
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification NO.)

4220 Varsity Drive Suite E
Ann Arbor, MI 48108
(734-975-9111)

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 registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.
Yes X No__

The number of shares outstanding of the Issuer's Common Stock, $.001 Par Value, as of March 31, 2001 was 6,393,370.
Transitional Small Business Disclosure Format (check one): Yes ___ No X

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Power Efficiency Corporation
Condensed Balance Sheets
March 31, 2001 and December 31, 2000

	(Unau March 3 (Rest
Assets	
Current Assets	
Cash and Equivalents	$
Accounts Receivable - Trade, Net of reserve of $5,000	1
Inventory	5
Prepaid Expenses	
Total Current Assets	6
Property and Equipment, Net	1
Other Assets	
Deposits	
Patent Application Costs (Net)	
Deferred Financing Costs	
Goodwill	2,0
Customer Contacts, Manuals and Sales Literature	1
Website and Customer List	1
Total Other Assets	2,3

	$ 3,2
Liabilities and Stockholders' (Deficit) Equity	
Current Liabilities	
Line of Credit Agreement	$ 3
Accrued Salaries and Payroll Taxes	
Accounts Payable and Accrued Expenses	4
Stockholder Loan Payable	
Total Current Liabilities	8
Stockholders' Equity	
Preferred Stock, $.001 par value 1,000,000 shares authorized, none outstanding	
Common Stock, $.001 par value, 9,000,000 shares authorized, 6,393,370 and 6,043,370 shares issued and outstanding in 2001 and 2000, respectively	
Additional Paid-in Capital	8,3
Accumulated Deficit	(6,0
Total Stockholders' Equity	2,3
Total Liabilities and Stockholders' Equity	$ 3,2

See notes to condensed Financial Statements.

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Power Efficiency Corporation
Condensed Statements of Operations - Unaudited

	Three Months Ended March 31,	
	2001 (Restated)	2000
REVENUES	$ 155,050	$ 7
COSTS AND EXPENSES:		
Cost of Sales	79,307	
Research and Development	67,174	5
Manufacturing	35,205	6,6
Selling, general and administrative	285,969	19,2
Depreciation and Amortization	72,195	6,5
Total Costs and Expenses	539,850	32,9

LOSS BEFORE PROVISION FOR INCOME TAXES	(384,800)	(32,1
PROVISION FOR INCOME TAXES	200	
NET LOSS	$ (385,000)	$ (32,1
BASIC LOSS PER COMMON SHARE	$ (.06)	$ (.
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	6,149,500	4,384,0

See notes to condensed Financial Statements

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Power Efficiency Corporation
Condensed Statements of Cash Flow - Unaudited
Quarter Ended March 31, 2001 and 2000

	March 31, 2001 (Restated)	March 31,
Cash Flow From Operating Activities		
Net Loss	$(385,000)	$ (32,1
Adjustments to reconcile net loss to net cash:		
Used for operating activities:		
Depreciation and Amortization	72,195	6,3
Debt restructuring	130,000	
Accounts Receivable - Trade	9,541	19,0
Inventory - Raw Materials/Finished Goods	(35,980)	
Accounts Payable and Accrued Expenses	(73,661)	7,2
Total Adjustments	(102,095)	32,6
Net Cash (Used For) Provided By Operating Activities	$(282,905)	$ 4
Investing Activities		
Equipment Purchases	(18,293)	
Financing Activities		
Proceeds from issuance of equity securities	200,000	
Notes Payable - Bank	95,000	

Net Cash Provided By Financing Activities	295,000	
Net (Decrease) Increase in Cash	$ (6,198)	$ 4
Summary:		
Cash Balance At End Of Period	$ 2,294	$
Cash Balance At Beginning Of Period	8,492	(3
Net (Decrease) Increase in Cash	$ (6,198)	$ 4
Non-cash Investing and Financing Activities		
Common Stock issued in connection with extinguishment of stockholder note payable	$ 230,000	

See notes to condensed Financial Statements

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POWER EFFICIENCY CORPORATION NOTES
TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1, BASIS OF PRESENTATION

The accompanying unaudited financial statements, which are for interim periods, do not include all disclosures required to be presented in the annual financial statements. These unaudited financial statements should be read in conjunction with the financial statements and the footnotes thereto for the year ended December 31, 2000 contained in Power Efficiency Corporation's (the "Company") Form 10-KSB Annual Report and Form 10-SB Registration Statement, as amended from time to time, as filed with the Securities and Exchange Commission. The March 31, 2001 balance sheet was derived from unaudited financial statements, and does not include all disclosures required by generally accepted accounting principles.

NOTE 2, INTERIM PERIODS

In the opinion of the Company, the accompanying unaudited financial statements contain all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the financial statements. The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year.

NOTE 3, GOING CONCERN

The accompanying condensed interim 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 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 on achieving profitable operations. Management's plans to achieve profitability include developing new products, obtaining new customers and increasing sales to existing customers. Management also plans to raise additional capital through equity issuance or other types of financing.

NOTE 4, PER SHARE DATA

Per share data was computed by dividing net loss by the weighted average number of shares outstanding during the period.

NOTE 5, REVENUE

For financial reporting purposes, the Company reports revenues from sales as product is shipped and invoiced.

NOTE 6, LINE OF CREDIT AGREEMENT

On May 1, 2001 the company renegotiated its line of credit agreement with the bank to extend the expiration date of its line of up to $750,000 to October 31, 2001. The line of credit agreement is collateralized by all inventory, accounts receivable, equipment and instruments. The bank has a general lien on all corporate assets.

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NOTE 7, ISSUANCE OF STOCK OPTIONS

On March 23, 2001, the Company granted 180,000 stock options at an exercise price of $2.00. Since the weighted average price per share was $1.83, the Company is not required to recognize compensation expense.

NOTE 8, DEBT RESTRUCTURING

On March 15, 2001, the Company settled a loan payable to a Stockholder in the amount of $100,000, plus interest thereon, and the option to purchase 75,000 shares of common stock for 125,000 shares of common stock. The Company accounted for this transaction as a capital transaction between related parties during the first quarter of 2001. The difference of $130,000 between the fair value of the equity interest and the carrying amount of the payable was recognized as a loss by the Company and is included in selling, general and administrative expenses.

NOTE 9, FILING OF FORM 10-KSB FOR FISCAL YEAR 2001-APRIL 2002

In conjunction with the Company's filing of its Form 10-KSB for the year ended December 31, 2001 with the United States Securities and Exchange Commission (the "SEC") on or about April 1, 2002, certain modifications were made to previously filed financial statements for 2000 and the first, second and third quarters of 2001. Such modifications related primarily to the valuation of the Performance Control acquisition, the valuation of the repriced options, the value of options issued during the periods and settlement of a loan payable for common stock.

Item 2. Management's Discussion and Analysis or Plan of Operation

The following discussion is designed to provide a review of the financial condition and results of operations of Power Efficiency Corporation (the "Company"). This discussion should be read in conjunction with the financial statements related notes.

Forward-Looking Statements

This discussion and analysis of financial condition and results of operations, and other sections of this report, contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the industrial and commercial motor industry, the economy, and about the Company itself. Words such as "anticipates," "believes," "estimates," "judgment," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Risk Factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed, implied or forecasted in such forward-looking statements.

Risk Factors include, but are not limited to, demand for products and services; the degree of competition by competitors; changes in tax laws; changes in prices, levies and assessments; the impact of technological advances and issues; governmental and regulatory policy changes; the outcomes of pending and future litigation and contingencies; trends in customer behavior; the ability to raise capital and maintain financing sources; development of the Company's products; and changes in the national economy. In addition, recent events relating to the terrorist attacks on September 11, 2001 and other terrorist activities have created significant global economic and political uncertainties that may have material and adverse effects on financial markets, the economy, and demand for the Company's service and products. These are representative of the Risk Factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement. The Company undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, further events or otherwise.

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

The Registrant began generating revenues from sale of its patented Power Commander line of motor controllers in 1995. As of December 31, 2000, the Registrant had total stockholders equity of $2,330,431, primarily as a result of the Registrant's August 7, 2000, purchase of the assets of Performance Control, LLC ("PerCon"), the largest distributor of the Registrant's products. The transaction was accounted for as a purchase and PerCon's Statement of Operations is not included in the first quarter results comparison. The Registrant relocated its principal offices and facilities to PerCon's facilities in Ann Arbor, Michigan.

The consolidation of both entities allowed the Registrant to incorporate the administrative, sales, marketing and manufacturing operations by PerCon. PerCon had developed sales contacts with major OEM's in the elevator/escalator industry and transferred those agreements. The fully integrated organization allowed the

Registrant to obtain a bank line of credit up to $750,000 for the build up in inventory collateralized by the current inventory and account receivables. Also, the recent Private Placement 506 offering had additional subscribers that enabled the Registrant to address the consolidated Accounts Payable.

The first quarter of 2001 reflects the combined entities with respect to operating expenses, research and development etc. The expected savings in operating expenses, cost of goods will be reflected in year 2001.

Results of Operation

Three Months Ended March 31,2001 Compared to Three Months Ended March 31, 2000

Revenues. Revenues for the three months ended March 31, 2001 was $155,050 compared to $782 of miscellaneous income for the prior comparable quarter, an increase of $154,268. The increase in revenue was principally attributable to the completion of performance testing by our clients and the conversion of the test units into purchases.

Cost of revenues. Cost of revenues for the three months ended March 31, 2001 was $79,307, or 51% of revenues. The increase in Cost of Revenues was due to the increased volume in sales.

Research and development. Research and development expenses were $67,174, or 43% of revenues, for the three months ended March 31, 2001 as compared to $500, or 64% of revenues, for the three months ended March 31, 2000 due to increased research and development activity after the acquisition of PerCon.

Selling, general, manufacturing and administrative. Selling, general, manufacturing and administrative expenses increased to $321,174, or 207% of revenues, for the three months ended March 31, 2001 from $25,866, or 3,307% of revenues, for the three months ended March 31, 2000. The increase in expenses was primarily due to a loss of $130,000 recognized on a loan settlement with a Stockholder, and increases in sales, marketing and administrative personnel from two to eight. There was additional travel due to new customers in the Asia-Pacific region and substantial administrative fees for professional services due to the filing of the Form 10-SB.

As a result, the Company incurred a net loss of $385,000 during the three months ended March 31, 2001, compared to a net loss of $32,168 during the three months ended March 31, 2000.

Liquidity and Capital Resources

Since inception, the Registrant has financed its operations primarily through the sale of equity securities and using bank borrowings. As of March 31, 2001, the Registrant has received a total of approximately $1,829,261 from public and private offerings of its equity securities and received approximately $372,887 under a bank line of credit. As of March 31, 2001, the Registrant had cash and cash equivalents of $2,294.

Cash used in operating activities was for the three months ended March 31, 2001, was $282,905 in 2001, and ($441) in 2000. Cash used in operating activities in the three months ended March 31, 2001 reflected a net loss of $385,000. In 2000, cash used in operating activities reflected a net loss of $32,168.

The Registrant 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 Registrant anticipates that operating expenses, as well as planned increases in inventory expenditures, will constitute a material use of any cash resources.

Management believes that its existing cash and cash equivalents are insufficient to meet the Registrant's anticipated cash needs for the next 6 months. Since capital resources are insufficient to satisfy the Registrant's liquidity requirements, Management intends to seek to sell additional equity securities or debt securities or obtain debt financing. The Registrant has not made arrangements to obtain additional financing and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to Management, if at all.

The Company was not required to and did not engage an independent accountant to review the quarterly financial statements for the year ended December 31, 2000. As such, the financial information for the quarter ended March 31, 2000, which is included with this filing, were not reviewed by an independent accountant.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved with certain claims and counterclaims related to litigation for breach of contract arising out of the manufacture and assembly of certain electronic component parts. The Company has accrued approximately $21,300 at March 31, 2001 related to these claims. In the opinion of management, after consultation with legal counsel, the outcome of such matter is not expected to have a material adverse effect on the Company's financial position or results of operations.

ITEM 2. CHANGES IN SECURITIES

In connection with a private placement memorandum dated May 16, 2000 the company sold 225,000 shares of its common stock in 1st quarter 2001. The company also issued 125,000 shares of common stock to cancel a note payable to a shareholder in the amount of $100,000. The Company accounted for this transaction as a capital transaction between related parties during the first quarter of 2001.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

Not applicable

ITEM 5. OTHER INFORMATION

ADDITION TO MANAGEMENT. On March 12, 2001 Douglas C. Finch was hired as Vice-President of Operations. Mr. Finch was President of Plastigage Corporation, a family-owned manufacturer of extruded and injection molded plastic automotive components from 1999 to 2000. He spent five years with Enprotech a subsidiary of Itochu Corporation involved in merger and acquisitions. He also spent two years managing a subsidiary of high-speed electric motors and power electronics. Mr. Finch received a BSc and Masters in Aeronautical Engineering from Massachusetts Institute of Technology and an MBA in 1991 from Harvard Graduate School of Business Administration. Mr. Finch has no beneficial ownership of common stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K NONE

SIGNATURES

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

POWER EFFICIENCY CORPORATION

Date: September 6, 2002   /s/ Raymond J. Skiptunis

Raymond J. Skiptunis
President, Chief Executive Officer
And Chief Financial Officer