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

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB (AMENDMENT NO. 1)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

OR

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FROM _____ TO _____

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.)

4220 Varsity Drive, Suite E
Ann Arbor, MI 48108
(Address of Principal Executive Office)

(734) 975-9111
(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 registrant was required to file such
reports), and (2) has been subject to such filing requirements for the past
90 days. Yes No

The number of shares outstanding of the Issuer's Common Stock, \$.001 Par Value,
as of June 30, 2001 was 6,522,120.

Transitional Small Business Disclosure Format (check one): Yes _____ No _____

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Power Efficiency Corporation
Condensed Balance Sheets
June 30, 2001 and December 31, 2000

	(Unaudited) June 30, 2001	December 31, 2000
Assets	----- (Restated)	----- (Restated)

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Current Assets		
Cash and Equivalents	\$ 84,511	\$ 8,492
Accounts Receivable - Trade Net of Reserve of \$5,000	198,638	114,166
Inventory	505,951	526,454
Prepaid Expenses	443	443
	-----	-----
Total Current Assets	789,543	649,555
	-----	-----
PROPERTY AND EQUIPMENT - Net	145,902	132,315
	-----	-----
OTHER ASSETS		
Deposits	15,500	6,000
Patent Application Costs - Net	12,872	17,089
Deferred Financing Costs	43,555	51,936
Goodwill - Net	2,001,000	2,072,043
Customer Contracts and Literature	175,888	197,426
Website and Customer List - Net	96,177	119,260
	-----	-----
Total Other Assets	2,344,992	2,463,754
	-----	-----
Total Assets	\$ 3,280,437	\$ 3,245,624
	=====	=====
Liabilities and Stockholders' (Deficit) Equity		
Current Liabilities		
Line of Credit Agreement	\$ 310,387	\$ 277,887
Accounts Payable and Accrued Expenses	152,104	485,695
Accrued Salaries and Payroll Taxes	49,922	51,611
Stockholder Loan Payable	--	100,000
	-----	-----
Total Current Liabilities	512,413	915,193
Long Term Liabilities		
Stockholder Note Payable (Subordinated)	300,000	--
	-----	-----
Total Liabilities	812,413	915,193
	-----	-----
Stockholders' Equity		
Preferred Stock, .001 par value, 1,000,000 shares authorized, none outstanding		
Common Stock, .001 par value, 9,000,000 authorized, 6,522,120 and 6,043,370 issued and outstanding in 2001 and 2000, respectively	6,523	6,043
Additional Paid-in Capital	8,866,559	7,950,094
Accumulated Deficit	(6,405,058)	(5,625,706)
	-----	-----
Total Stockholders' Equity	2,468,024	2,330,431
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 3,280,437	\$ 3,245,624
	=====	=====

See Notes to Condensed Financial Statements

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Power Efficiency Corporation
Condensed Statement of Operations
(Unaudited)

	Three Months Ended June, 30,		Six Months Ended June, 30,	
	2001	2000 (Restated)	2001	2000 (Restated)
REVENUES	\$ 212,408	\$ --	\$ 367,458	\$ 782
COSTS AND EXPENSES:				
Cost of Sales	122,905	--	202,211	--
Research and Development	61,600	--	128,774	500
Selling, General, Administrative and Manufacturing	350,060	16,495	671,235	42,361
Depreciation and Amortization	72,195	6,584	144,390	13,168
Total Costs and Expenses	606,760	23,079	1,146,610	56,029
LOSS BEFORE PROVISION FOR INCOME TAXES	(394,352)	(23,079)	(779,152)	(55,247)
PROVISION FOR INCOME TAXES	--	--	200	--
NET LOSS	\$ (394,352)	\$ (23,079)	\$ (779,352)	(55,247)
BASIC LOSS PER COMMON SHARE	\$ (0.06)	\$ (0.005)	\$ (0.12)	\$ (0.01)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	6,440,000	4,384,000	6,440,000	4,384,000

See Notes to Condensed Financial Statements

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Power Efficiency Corporation
Condensed Statements of Cash Flows (Unaudited)

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	Six Months Ended June 30, 2001	Si
	-----	-----
	(Restated)	
Cash Flow from Operating Activities		
Net Loss	\$ (779,352)	
Adjustments to reconcile Net Cash: used for operating activities:		
Depreciation and amortization	144,390	13,
Issuance of stock options	47,300	
Debt Restructuring	130,000	
Changes in certain assets and liabilities: (Increase) decrease in:		
Accounts Receivable	(84,472)	(43,
Deposits	(9,500)	4,
Inventory - Raw Materials/Finished Goods	20,503	28,
Increase (decrease) in:		
Accounts Payable and Accrued Expenses	(335,279)	(106,
Accrued salaries and payroll taxes		14,

Total Adjustments	(87,058)	
Net Cash Used for Operating Activities	----- (866,410)	
Cash Flow From Investing Activities		
Equipment Purchases	(29,716)	
Cash Flow From Financing Activities		
Notes Payable - stockholders	200,000	
Proceeds from issuance of equity securities	754,645	350,
Expenses associated with issuance of equity securities	(15,000)	
Line of credit agreement	32,500	
	-----	-----
Net Cash Provided by Financing Activities	972,145	
Net Increase in Cash	----- 76,019	
Summary:		
Cash Balance At End Of Period	\$ 84,511	
Cash Balance At Beginning Of Period	8,492	

Net Increase In Cash	\$ 76,019	
Non- Cash Investing and Financing Activities		
Common stock issued in connection with extinguishment of stockholders note payable	\$ 230,000	

Common Stock issued in connection with professional services rendered	\$ 30,000	

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See Notes to Condensed Financial Statements

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POWER EFFICIENCY CORPORATION NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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 June 30, 2001 balance sheet was derived from unaudited financial statements, and does not include all disclosures required by generally accepted accounting principles.

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 and six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

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.

4. PER SHARE DATA

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

5. LINE OF CREDIT AGREEMENT

On October 31, 2001 the Company renegotiated its line of credit

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agreement with the bank to extend the expiration date of its line of up to \$750,000 to January 31, 2002. All inventory, accounts receivable, equipment and instruments collateralize the line of credit agreement. The bank has a general lien on all corporate assets.

6. STOCKHOLDER LOAN

On May 24, 2001, the Company received a \$300,000 loan from a stockholder. On August 30, 2001 and September 12, 2001, the Company received additional loans of \$25,000 each from the same stockholder. These loans are due on June 1, 2003 and are subordinated to Bank One.

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7. 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.

8. ISSUANCE OF STOCK OPTIONS

On May 23, 2001, the Company granted 10,000 stock options at an exercise price of \$2.00. Because the weighted average price per share was \$6.73 the Company recognized additional compensation expense of \$47,300. This additional compensation expense is included in selling, general and administrative expenses.

9. AGREEMENT WITH A STRATEGIC ADVISOR

On May 23, 2001, the Company's board of directors ratified an agreement with a strategic advisor, owned by a director of the Company, to provide strategic direction and operational strategies to the Company. The initial term of this agreement is one year (January 1 to December 31, 2001) and it shall automatically renew for successive thirty-six month periods. The agreement may be terminated by either party giving notice of termination at least 180 days prior to its conclusion. The strategic advisor receives \$500 per month, plus expenses, until the Company raises \$1.0 million or more in investments at which time the monthly compensation shall increase to \$4,500 per month, plus expenses. The agreement also provides for the strategic advisor to receive non-qualified stock options to purchase 50,000 shares of common stock at an exercise price of \$2.00 per share each year. These non-qualified stock options are exercisable at any time during each year the agreement is in effect. The non-qualified stock options were issued to the strategic advisor in 2002. No options were issued to the strategic advisor under the agreement in 2001.

10. STOCKHOLDER'S EQUITY

On May 14, 2001, the Company sold 118,750 shares of common stock to an accredited investor. The first 25,000 shares were sold for \$100,000 and the remaining 93,750 shares were sold for \$300,000.

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On June 19, 2001, the Company issued 10,000 shares of common stock for payment of services. The total fees that were set aside in exchange for the stock were equal to \$30,000.

11. 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.

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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 and 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 services 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, future events or otherwise.

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Results of Operations

Revenues: Revenues for the three months ended June 30, 2001 were \$212,048 compared to none for the prior year comparable quarter, an increase of \$212,048. Revenues for the six months ended June 30, 2001 were \$367,458 compared to \$782 for the six months ended June 30, 2000, an increase of \$366,676. The increase in revenues was principally attributable to the completion of performance testing by certain customers and the conversion of the test units into purchases.

Cost of Revenues: Cost of revenues for the three months ended June 30, 2001 was \$122,905, or 57.9% of revenues. Cost of revenues for the six months ended June 30, 2001 was \$202,211, or 55.0% of revenues.

Research and Development: Research and development expenses were \$61,600 or 29% of revenues, for the three months ended June 30, 2001, as compared to none for the three months ended June 30, 2000. Research and development expenses were \$128,774, or 35.0% of revenues, as compared to \$500, or 64.0% of revenues, for the six months ended June 30, 2001 and June 30, 2000, respectively. The increase is due in part to additional research and development activity after the acquisition of Performance Control, L.L.C.

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Selling, General, Administrative and Manufacturing: Selling, general, administrative and manufacturing expenses increased to \$350,060 or 164.8% of revenues, for the three months ended June 30, 2001, from \$16,495 for the three months ended June 30, 2000, and increased to \$671,235, or 182.7% of revenues, for the six months ended June 30, 2001 from \$42,361, or 5,417% of revenues, for the six months ended June 30, 2000. The increase in expenses was primarily due to the to an increase in personnel required to adequately have sufficient sales and manufacturing help.

The Company incurred a net loss of \$394,352 during the three months ended June 30, 2001, compared to a net loss of \$23,079 during the three months ended June 30, 2000. The Company incurred a net loss of \$779,352 during the six months ended June 30, 2001, compared to a net loss of \$55,247 during the six months ended June 30, 2000.

Financial Condition, Liquidity, and Capital Resources

Since inception, the Company has financed its operations primarily through the sale of equity securities and using bank borrowings. As of June 30, 2001, the Company has received a total of approximately \$2,250,000 from public and private offerings of its equity securities and received approximately \$310,387 under a bank line of credit. As of June 30, 2001, the Company had cash and cash equivalents of \$84,511.

Cash used in operating activities for the six months ended June 30, 2001, was \$866,410. Cash used in operating activities for the six months ended June 30, 2000 was \$298,137. In addition, the Company borrowed \$300,000 from a stockholder. Cash used in operating activities for the six months ended June 30, 2001 reflected a net loss of \$779,352 for the six months ended June 30, 2000, cash used in operating activities reflected a net loss of \$55,447.

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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, 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 Company's anticipated cash needs for the next 6 months. Since capital resources are insufficient to satisfy the Company's liquidity requirements, management intends to seek to sell additional equity securities or debt securities or obtain debt financing. The Company 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.

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 and six months ended June 30, 2000, which is included with this filing, were not reviewed by an independent accountant.

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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 through June 30, 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

On May 14, 2001, the Company sold 118,750 shares of common stock to an accredited investor. The first 25,000 shares were sold for \$100,000 and the remaining 93,750 shares were sold for \$300,000.

On June 19, 2001, the Company issued 10,000 shares of common stock for payment of services. The total fees that were set aside in exchange for the stock were equal to \$30,000.

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

On July 1, 2001, the Company executed a three-year lease for office

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space in New Hyde Park, New York. The annual payments under this lease are approximately \$61,000. The space is used by the Company to service the New York metropolitan area, which contains the largest concentration of elevators in the United States.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits. The following documents are filed as exhibits to this report on Form 10-QSB:

Exhibit No. -----	Document -----
3.1	Certificate of Incorporation. Previously filed as an exhibit to the Company's Form 10-SB filed on October 20, 2000. Here incorporated by reference.
3.2	Bylaws. Previously filed as an exhibit to the Company's Form 10-SB filed on October 20, 2000. Here incorporated by reference.

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter covered by this Form 10-QSB.

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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
(Registrant)

Date: September 6, 2002

By: /s/ Raymond J. Skiptunis

President, Chief Executive Officer and
Chief Financial Officer

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EXHIBIT INDEX

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